

SCOTTS MIRACLE-GRO CO
Form 10-Q
May 06, 2009

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 28, 2009

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 1-11593
THE SCOTTS MIRACLE-GRO COMPANY
(Exact Name of Registrant as Specified in Its Charter)

OHIO
(State or other jurisdiction of
incorporation or organization)

31-1414921
(I.R.S. Employer
Identification No.)

14111 SCOTTSLAWN ROAD,
MARYSVILLE, OHIO
(Address of principal executive offices)

43041
(Zip Code)

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

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 No

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

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

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

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

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 May 6, 2009 |
|--|----------------------------|
| Common Shares, \$0.01 stated value, no par value | 65,673,288 common shares |

THE SCOTTS MIRACLE-GRO COMPANY
INDEX

| | | PAGE NO. |
|---------------------------------------|---|-------------|
| PART I. FINANCIAL INFORMATION: | | |
| Item 1. | Financial Statements | |
| | Condensed, Consolidated Statements of Operations — Three and six months ended March 28, 2009 and March 29, 2008 | 3 |
| | Condensed, Consolidated Statements of Cash Flows — Six months ended March 28, 2009 and March 29, 2008 | 4 |
| | Condensed, Consolidated Balance Sheets — March 28, 2009, March 29, 2008 and September 30, 2008 | 5 |
| | Notes to Condensed, Consolidated Financial Statements | 6 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 23 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 30 |
| Item 4. | Controls and Procedures | 30 |
| PART II. OTHER INFORMATION: | | |
| Item 1. | Legal Proceedings | 31 |
| Item 1A. | Risk Factors | 31 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 32 |
| Item 6. | Exhibits | 32 |
| | Signatures | 33 |
| | Index to Exhibits | 34 |

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 | | SIX MONTHS ENDED | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | M A R C H 28, 2009 | M A R C H 29, 2008 | M A R C H 28, 2009 | M A R C H 29, 2008 |
| Net sales | \$ 960.1 | \$ 958.0 | \$ 1,278.1 | \$ 1,266.7 |
| Cost of sales | 599.3 | 612.6 | 831.8 | 850.0 |
| Cost of sales – product registration and recall matters | 2.5 | 22.6 | 3.8 | 22.6 |
| Gross profit | 358.3 | 322.8 | 442.5 | 394.1 |
| Operating expenses: | | | | |
| Selling, general and administrative | 215.9 | 208.4 | 369.1 | 352.7 |
| Product registration and recall matters | 5.5 | 1.2 | 11.7 | 1.2 |
| Other income, net | — | (1.0) | (2.4) | (4.2) |
| Income from operations | 136.9 | 114.2 | 64.1 | 44.4 |
| Interest expense | 15.9 | 23.5 | 32.2 | 42.5 |
| Income before income taxes | 121.0 | 90.7 | 31.9 | 1.9 |
| Income taxes | 43.6 | 32.7 | 11.5 | 0.7 |
| Net income | \$ 77.4 | \$ 58.0 | \$ 20.4 | \$ 1.2 |
| BASIC NET INCOME PER COMMON SHARE: | | | | |
| Weighted-average common shares outstanding during the period | 64.9 | 64.4 | 64.8 | 64.3 |
| Basic net income per common share | \$ 1.19 | \$ 0.90 | \$ 0.31 | \$ 0.02 |
| DILUTED NET INCOME PER COMMON SHARE: | | | | |
| Weighted-average common shares outstanding during the period plus dilutive potential common shares | 65.8 | 65.6 | 65.7 | 65.7 |
| Diluted net income per common share | \$ 1.18 | \$ 0.88 | \$ 0.31 | \$ 0.02 |
| Dividends declared per common share | \$ 0.125 | \$ 0.125 | \$ 0.250 | \$ 0.250 |

See notes to condensed, consolidated financial statements

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

| | SIX MONTHS ENDED | |
|---|-------------------|-------------------|
| | MARCH 28, 2009 | MARCH 29, 2008 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 20.4 | \$ 1.2 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Stock-based compensation expense | 8.1 | 7.2 |
| Depreciation | 23.0 | 26.4 |
| Amortization | 6.6 | 8.2 |
| Gain on sale of property, plant and equipment | (0.7) | — |
| Changes in assets and liabilities, net of acquired businesses: | | |
| Accounts receivable | (613.5) | (624.1) |
| Inventories | (263.4) | (213.5) |
| Prepaid and other current assets | (23.8) | (29.7) |
| Accounts payable | 151.5 | 160.7 |
| Accrued liabilities | 75.5 | 116.2 |
| Restructuring reserves | (0.3) | (0.7) |
| Other non-current items | 2.7 | (4.9) |
| Other, net | (5.0) | (2.7) |
| Net cash used in operating activities | (618.9) | (555.7) |
| INVESTING ACTIVITIES | | |
| Proceeds from the sale of property, plant and equipment | 0.8 | 0.6 |
| Investments in property, plant and equipment | (19.1) | (25.1) |
| Investments in intellectual property | (1.0) | — |
| Investments in acquired businesses, net of cash acquired | (9.3) | — |
| Net cash used in investing activities | (28.6) | (24.5) |
| FINANCING ACTIVITIES | | |
| Borrowings under revolving and bank lines of credit | 895.3 | 760.1 |
| Repayments under revolving and bank lines of credit | (270.5) | (168.6) |
| Dividends paid | (17.1) | (16.4) |
| Payments on seller notes | (0.8) | (1.4) |
| Excess tax benefits from share-based payment arrangements | 0.9 | 1.6 |
| Cash received from the exercise of stock options | 4.1 | 5.5 |
| Net cash provided by financing activities | 611.9 | 580.8 |
| Effect of exchange rate changes on cash | (1.0) | 8.4 |
| Net (decrease) increase in cash | (36.6) | 9.0 |
| Cash and cash equivalents at beginning of period | 84.7 | 67.9 |
| Cash and cash equivalents at end of period | \$ 48.1 | \$ 76.9 |
| Supplemental cash flow information | | |
| Interest paid, net of interest capitalized | 25.8 | 34.0 |
| Income taxes refunded | 7.6 | 6.9 |

See notes to condensed, consolidated financial statements

THE SCOTTS MIRACLE-GRO COMPANY
CONDENSED, CONSOLIDATED BALANCE SHEETS
(IN MILLIONS EXCEPT PER SHARE DATA)

| | MARCH 28, 2009 | MARCH 29, 2008 | SEPTEMBER 30, 2008 (SEE NOTE 1) |
|--|-------------------|-------------------|---|
| UNAUDITED | | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 48.1 | \$ 76.9 | \$ 84.7 |
| Accounts receivable, less allowances of \$13.6, \$15.7 and \$10.6, respectively | 637.5 | 738.9 | 259.8 |
| Accounts receivable pledged | 370.9 | 296.2 | 146.6 |
| Inventories, net | 667.6 | 625.1 | 415.9 |
| Prepaid and other current assets | 159.9 | 159.7 | 137.9 |
| Total current assets | 1,884.0 | 1,896.8 | 1,044.9 |
| Property, plant and equipment, net of accumulated depreciation of \$467.6, \$447.6 and \$460.6, respectively | | | |
| | 335.5 | 363.3 | 344.1 |
| Goodwill, net | 368.0 | 467.3 | 377.7 |
| Intangible assets, net | 361.5 | 417.9 | 367.2 |
| Other assets | 18.9 | 25.6 | 22.4 |
| Total assets | \$ 2,967.9 | \$ 3,170.9 | \$ 2,156.3 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of debt | \$ 396.0 | \$ 281.8 | \$ 150.0 |
| Accounts payable | 352.3 | 368.0 | 207.6 |
| Other current liabilities | 382.7 | 421.2 | 320.5 |
| Total current liabilities | 1,131.0 | 1,071.0 | 678.1 |
| Long-term debt | 1,196.2 | 1,445.9 | 849.5 |
| Other liabilities | 187.5 | 187.8 | 192.0 |
| Total liabilities | 2,514.7 | 2,704.7 | 1,719.6 |
| Commitments and contingencies (notes 2 and 10) | | | |
| Shareholders' equity: | | | |
| Common shares and capital in excess of \$.01 stated value per share, 65.6, 64.5 and 65.2 shares issued and outstanding, respectively | 460.8 | 476.4 | 472.4 |
| Retained earnings | 220.0 | 245.4 | 216.7 |
| Treasury shares, at cost: 3.0, 3.7 and 3.4 shares, respectively | (164.4) | (200.4) | (185.3) |
| Accumulated other comprehensive loss | (63.2) | (55.2) | (67.1) |
| Total shareholders' equity | 453.2 | 466.2 | 436.7 |

| | | | |
|--|------------|------------|------------|
| Total liabilities and shareholders' equity | \$ 2,967.9 | \$ 3,170.9 | \$ 2,156.3 |
|--|------------|------------|------------|

See notes to condensed, consolidated financial statements

NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Scotts Miracle-Gro Company (“Scotts Miracle-Gro”) and its subsidiaries (collectively, together with Scotts Miracle-Gro, the “Company”) are engaged in the manufacturing, marketing and sale of lawn and garden care 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 lawn, tree and shrub fertilization, insect control and other related services in the United States, and Smith & Hawken®, a leading brand in the outdoor living and gardening lifestyle category, with sales primarily through its own retail stores, Internet and catalog channels.

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.

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 all wholly-owned and majority-owned 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, as amended by Form 10-K/A (Amendment No. 1), for the fiscal year ended September 30, 2008.

The Condensed, Consolidated Balance Sheet at September 30, 2008 has been derived from the 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 condensed, 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.

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 performs certain functions, primarily manufacturing conversion, distribution and logistics, and selling and manufacturing support, in its role as exclusive agent for Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred by the Company on behalf of Roundup® 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 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 on a monthly basis within the fiscal year incurred in proportion to net sales. The costs deferred at March 28, 2009, March 29, 2008 and September 30, 2008 were \$8.3 million, \$11.8 million and \$4.5 million, respectively.

Smith & Hawken® promotes its products primarily through catalogs. Costs related to the production, printing and distribution of catalogs are expensed over the expected sales life of the related catalog: four weeks for consumer catalogs and 52 weeks for trade catalogs. Other advertising costs, such as Internet, radio and print, are expensed as incurred. The costs deferred at March 28, 2009, March 29, 2008 and September 30, 2008 were \$1.3 million, \$1.4 million and \$0.6 million, respectively.

STOCK-BASED COMPENSATION AWARDS

The fair value of awards is expensed ratably over the vesting period, generally three years. The Company uses a binomial model to determine the fair value of its option grants.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), goodwill and intangible assets determined to have indefinite lives are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis, scheduled for the first day of the fourth fiscal quarter, or more frequently if circumstances indicate a potential impairment. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value and classified as "Impairment, restructuring and other charges" in the Condensed, Consolidated Statements of Operations.

INCOME TAXES

Income tax expense was calculated assuming an effective tax rate of 36.0% for both the three and six months ended March 28, 2009 and March 29, 2008. 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 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 in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year. There can be no 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 represents a reconciliation from basic net income per common share to 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 (stock options, restricted stock, restricted stock units, performance shares and stock appreciation rights) 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 share because the effect would be anti-dilutive. The number of stock options excluded was 2.4 million and 2.6 million for the three-month periods, and 3.0 million and 2.0 million for the six-month periods ended March 28, 2009 and March 29, 2008, respectively.

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|--------------------------------------|----------------|------------------|----------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| | (IN MILLIONS, EXCEPT PER SHARE DATA) | | | |
| Determination of diluted weighted-average common shares outstanding: | | | | |
| Weighted-average common shares outstanding | 64.9 | 64.4 | 64.8 | 64.3 |
| Assumed conversion of dilutive potential common shares | 0.9 | 1.2 | 0.9 | 1.4 |
| Diluted weighted-average common shares outstanding | 65.8 | 65.6 | 65.7 | 65.7 |
| Basic net income per common share | \$ 1.19 | \$ 0.90 | \$ 0.31 | \$ 0.02 |
| Diluted net income per common share | \$ 1.18 | \$ 0.88 | \$ 0.31 | \$ 0.02 |

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 157 — Fair Value Measurements

On October 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The effect of the adoption of SFAS 157 was not material and required no adjustment to the Company’s financial condition or results of operations. Refer to “NOTE 12. FAIR VALUE MEASUREMENTS” for further information regarding the effect of the adoption of SFAS 157 with respect to financial assets and liabilities. In February 2008, the Financial Accounting Standards Board (the “FASB”) issued FASB Staff Position 157-1, “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13,” which removes leasing transactions accounted for under SFAS No. 13, “Accounting for Leases,” and related guidance from the scope of SFAS 157. In February 2008, the FASB also issued FASB Staff Position 157-2, “Effective Date of FASB Statement No. 157” (“FSP SFAS 157-2”), which delays the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP SFAS 157-2 states that a measurement is recurring if it happens at least annually and defines nonfinancial assets and nonfinancial liabilities as all assets and liabilities other than those meeting the definition of a financial asset or financial liability in SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115” (“SFAS 159”). The Company is completing its evaluation of the effect of FSP SFAS 157-2 and does not expect it to have a material impact on the Company’s financial condition or results of operations.

Statement of Financial Accounting Standards No. 159 — The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. The Company adopted SFAS 159 as of October 1, 2008. The Company has not elected to measure any financial assets or liabilities at fair value which were not previously required to be measured at fair value.

Statement of Financial Accounting Standards No. 161 — Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133” (“SFAS 161”). The objective of SFAS 161 is to enhance the disclosure framework in FASB Statement No. 133 and improve the transparency of financial reporting for derivative instruments and hedging activities. SFAS 161 requires entities to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. The Company adopted SFAS 161 for the fiscal quarter ended March 28, 2009. Refer to “NOTE 11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES” for the SFAS 161 disclosures.

Statement of Financial Accounting Standards No. 141(R) — Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS 141(R)”), which replaced SFAS 141. The objective of SFAS 141(R) 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. SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or the gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) 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 FASB Staff Position 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP FAS 141(R)-1”), which amends and clarifies SFAS 141(R) to address application issues of SFAS 141(R) arising from contingencies in a business combination. SFAS 141(R) and FSP FAS 141(R)-1 will be effective for the Company’s financial statements for the fiscal year beginning October 1, 2009.

Statement of Financial Accounting Standards No. 160 — Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51” (“SFAS 160”). The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 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 of SFAS 160 are to be applied prospectively as of the beginning of the fiscal year in which SFAS 160 is adopted, except for the presentation and disclosure requirements, which are to be applied retrospectively for all periods presented. SFAS 160 will be effective for the Company’s financial statements for the fiscal year beginning October 1, 2009. The Company is in the process of evaluating the impact that the adoption of SFAS 160 may have on its financial statements and related disclosures.

FASB Staff Position 142-3 — Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FASB Staff Position 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”), 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 under SFAS 142. The new guidance applies to: (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under FSP FAS 142-3, 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. FSP FAS 142-3 will require certain additional disclosures beginning October 1, 2009 and prospective application to useful life estimates for intangible assets acquired after September 30, 2009. The Company is in the process of evaluating the impact that the adoption of FSP FAS 142-3 may have on its financial statements and related disclosures.

FASB Staff Position 132(R)-1 — Employers' Disclosures About Postretirement Benefit Plan Assets

In December 2008, the FASB issued FASB Staff Position 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1"), to provide guidance on employers' disclosures about assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires employers to disclose information about fair value measurements of plan assets similar to SFAS 157. 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 disclosures required by FSP FAS 132(R)-1 will be effective for the Company's financial statements for the fiscal year beginning October 1, 2009. The Company is in the process of evaluating the impact that the adoption of FSP FAS 132(R)-1 may have on its financial statements and related disclosures.

NOTE 2. PRODUCT REGISTRATION AND RECALL MATTERS

In April 2008, the Company learned that a former associate apparently deliberately circumvented the Company's policies and U.S. Environmental Protection Agency ("U.S. EPA") regulations under the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended ("FIFRA"), by failing to obtain valid registrations for products and/or causing invalid product registration forms to be submitted to regulators. Since that time, the Company has been cooperating with the U.S. EPA in its civil investigation into pesticide product registration issues involving the Company and with the U.S. EPA and the U.S. Department of Justice (the "U.S. DOJ") in a related criminal investigation. 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"), has been reviewing all of the Company's U.S. pesticide product registration records, some of which are historical in nature and no longer support sales of the Company's products. The U.S. EPA investigation and QAI review process identified several issues affecting registrations which resulted in the temporary suspension of sales and shipments of the products affected. In addition, as the QAI review process or the Company's internal review has identified FIFRA registration issues or potential FIFRA registration issues (some of which appear unrelated to the former associate), the Company has endeavored to stop selling or distributing the affected products until the issues could be resolved with the U.S. EPA.

QAI has completed a review of substantially all of the Company's registrations, advertising and related promotional support of the Company's registered pesticide products. While the Company does not expect the results of the QAI review process to significantly affect its fiscal year 2009 sales, the registration review process has not concluded, and the Company continues to cooperate with the U.S. EPA and U.S. DOJ in their related investigations.

On September 26, 2008, the Company, doing business as Scotts LawnService®, was named as a defendant in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to certain pesticide products. In the suit, Mark Baumkel, on behalf of himself and the purported classes, seeks an unspecified amount of damages, plus costs and attorneys' fees, for alleged claims involving breach of contract, unjust enrichment and violation of the Michigan consumer protection act. Given the preliminary stages of the proceedings, no accruals have been recorded, and the Company intends to vigorously contest the plaintiff's assertions.

In fiscal 2008, the Company conducted a voluntary recall of most of its wild bird food products due to a formulation issue. The 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. This voluntary recall was completed prior to the end of fiscal 2008, and the Company does not expect any material impact to its fiscal 2009 financial condition, results of operations or cash flows as a result of such recall.

As a result of these registration and recall matters, the Company has reversed sales associated with estimated returns of affected products, recorded an impairment estimate for affected inventory and recorded other registration and recall-related costs. The impact of these adjustments was pre-tax charges of \$8.0 million and \$30.8 million for the three-month periods, and \$15.6 million and \$30.8 million for the six-month periods, ended March 28, 2009 and March 29, 2008, respectively. Although the Company has begun to reduce its need for third-party professional services related to the recall and registration matters, the Company nevertheless expects to incur \$10 to \$15 million in additional charges, exclusive of potential fines, penalties and/or judgments, related to the recalls and known registration issues, including those associated with more aggressively addressing impacted inventory as permitted by the U.S. EPA. While the Company believes that the FIFRA compliance review process is substantially complete, the U.S. EPA and U.S. DOJ investigations and the review process continue and may result in future state, federal or

private rights of action 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 and the compliance review process are complete, the Company cannot fully quantify the extent of additional issues. At this time, management cannot reasonably determine the scope or magnitude of possible liabilities that could result from known or potential additional product registration issues, and no reserves for these potential liabilities have been established as of March 28, 2009. However, it is possible that such liabilities, including fines, penalties and/or judgments, 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 results of operations during the three and six months ended March 28, 2009 and March 29, 2008 and accrued liabilities and inventory reserves as of March 28, 2009:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|--------------------|-------------------|-------------------|-------------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| | (IN MILLIONS) | | | |
| Net sales — product recalls | \$ — | \$ (19.0) | \$ (0.3) | \$ (19.0) |
| Cost of sales — product recalls | — | (12.0) | (0.2) | (12.0) |
| Cost of sales — inventory impairment and other | 2.5 | 22.6 | 3.8 | 22.6 |
| Gross profit | (2.5) | (29.6) | (3.9) | (29.6) |
| Selling, general and administrative | 5.5 | 1.2 | 11.7 | 1.2 |
| Loss from operations | (8.0) | (30.8) | (15.6) | (30.8) |
| Income tax benefit | 2.9 | 11.1 | 5.6 | 11.1 |
| Net loss | \$ (5.1) | \$ (19.7) | \$ (10.0) | \$ (19.7) |

| | ADDITIONAL | | RESERVES | |
|--|---|--|------------------|-------------------------------------|
| | RESERVES AT SEPTEMBER 30, 2008 | COSTS AND CHANGES IN ESTIMATE | RESERVES USED | RESERVES AT MARCH 28, 2009 |
| | (IN MILLIONS) | | | |
| Sales returns — product recalls | \$ 0.2 | \$ 0.3 | \$ (0.5) | \$ — |
| Cost of sales returns — product recalls | (0.1) | (0.2) | 0.3 | — |
| Inventory impairment | 5.9 | 2.2 | (2.4) | 5.7 |
| Other incremental costs of sales | 3.2 | 1.6 | (2.1) | 2.7 |
| Other general and administrative costs | 4.3 | 11.7 | (12.8) | 3.2 |
| Accrued liabilities and inventory reserves | \$ 13.5 | \$ 15.6 | \$ (17.5) | \$ 11.6 |

NOTE 3. DETAIL OF INVENTORIES, NET

Inventories, net of provisions for slow moving, obsolete or impaired inventory of \$28.5 million, \$29.4 million and \$26.2 million, as of March 28, 2009, March 29, 2008 and September 30, 2008, respectively, consisted of:

| | MARCH 28, 2009 | MARCH 29, 2008 | SEPTEMBER 30, 2008 |
|-----------------|----------------------|----------------------|--------------------------|
| | (IN MILLIONS) | | |
| Finished goods | \$ 462.6 | \$ 470.0 | \$ 277.3 |
| Work-in-process | 46.2 | 30.5 | 29.9 |
| Raw materials | 158.8 | 124.6 | 108.7 |
| | \$ 667.6 | \$ 625.1 | \$ 415.9 |

NOTE 4. 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 \$15.2 million and \$17.6 million for the three-month periods, and \$30.8 million and \$30.1 million for the six-month periods, ended March 28, 2009 and March 29, 2008, respectively.

The elements of the net commission earned under the Marketing Agreement and included in “Net sales” are as follows:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|--------------------|----------------|------------------|----------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| | (IN MILLIONS) | | (IN MILLIONS) | |
| Gross commission | \$ 18.0 | \$ 17.1 | \$ 18.0 | \$ 17.1 |
| Contribution expenses | (5.0) | (5.0) | (10.0) | (10.0) |
| Amortization of marketing fee | (0.2) | (0.2) | (0.4) | (0.4) |
| Net commission income | 12.8 | 11.9 | 7.6 | 6.7 |
| Reimbursements associated with Marketing Agreement | 15.2 | 17.6 | 30.8 | 30.1 |
| Total net sales associated with Marketing Agreement | \$ 28.0 | \$ 29.5 | \$ 38.4 | \$ 36.8 |

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 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.

NOTE 5. DEBT

The components of long-term debt are as follows:

| MARCH 28, 2009 | MARCH 29, 2008 | SEPTEMBER 30, 2008 |
|----------------|----------------|--------------------|
| (IN MILLIONS) | | |

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

| | | | |
|---|------------|------------|----------|
| Credit Facilities: | | | |
| Revolving loans | \$ 757.9 | \$ 894.1 | \$ 375.8 |
| Term loans | 533.4 | 557.2 | 540.4 |
| Master Accounts Receivable Purchase Agreement | 275.0 | 241.9 | 62.1 |
| Notes due to sellers | 12.1 | 13.6 | 12.8 |
| Foreign bank borrowings and term loans | 6.6 | 12.0 | 0.7 |
| Other | 7.2 | 8.9 | 7.7 |
| | 1,592.2 | 1,727.7 | 999.5 |
| Less current portions | 396.0 | 281.8 | 150.0 |
| | \$ 1,196.2 | \$ 1,445.9 | \$ 849.5 |

Scotts Miracle-Gro and certain of its subsidiaries have entered into the following loan facilities totaling up to \$2.15 billion in the aggregate: (a) a senior secured five-year term loan 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 the loan 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 sterling, Australian dollars and Canadian dollars. Amortization payments on the term loan portion of the credit facilities began on September 30, 2007 and will continue quarterly through 2012. As of March 28, 2009, the cumulative total amortization payments on the term loan were \$26.6 million, reducing the balance of our term loans and effectively reducing the size of the credit facilities.

As of March 28, 2009, there was \$795.2 million of availability under the revolving loan facility, 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 March 28, 2009, the Company had letters of credit in the amount of \$36.9 million outstanding.

At March 28, 2009, 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 key terms of these swaps are as follows:

| NOTIONAL AMOUNT (IN MILLIONS) | EFFECTIVE DATE (a) | EXPIRATION DATE | FIXED RATE |
|----------------------------------|-----------------------|--------------------|---------------|
| \$200 (b) | 3/31/2007 | 3/31/2009 | 4.90% |
| 200 (b) | 3/30/2007 | 3/30/2010 | 4.87% |
| 200 (b) | 2/14/2007 | 2/14/2012 | 5.20% |
| 50 (b) | 2/14/2012 | 2/14/2016 | 3.78% |
| 150 (c) | 11/16/2009 | 5/16/2016 | 3.26% |
| 50 (d) | 2/16/2010 | 5/16/2016 | 3.05% |

- (a) The effective date refers to the date on which interest payments are first hedged by the applicable swap contract.
- (b) Interest payments made between the effective date and expiration date are hedged by the swap contracts.
- (c) 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.
- (d) 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.

Master Accounts Receivable Purchase Agreement

On April 11, 2007, the Company entered into a one-year Master Accounts Receivable Purchase Agreement (the “2007 MARP Agreement”). On April 9, 2008, the Company terminated the 2007 MARP Agreement and entered into a Master Accounts Receivable Purchase Agreement (the “2008 MARP Agreement”), which expired on April 8, 2009. The terms of the 2008 MARP Agreement were substantially the same as the 2007 MARP Agreement. The 2008 MARP Agreement provided an interest rate that was equal to the 7-day LIBOR rate plus 85 basis points. 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.

On May 1, 2009, the Company entered into a Master Accounts Receivable Purchase Agreement (the “2009 MARP Agreement”), with a 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 provides an interest rate that is equal to the 7-day LIBOR rate

plus 225 basis points. The 2009 MARP Agreement provides 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 caption "Accounts receivable pledged" on the accompanying Condensed, Consolidated Balance Sheets reflecting the amounts of \$370.9 million, \$296.2 million and \$146.6 million as of March 28, 2009, March 29, 2008 and September 30, 2008, respectively, represents the pool of receivables that have been designated as "sold" and serve as collateral for short-term debt in the amount of \$275.0 million, \$241.9 million and \$62.1 million, as of those dates, respectively.

The Company was in compliance with the terms of all borrowing agreements at March 28, 2009.

NOTE 6. COMPREHENSIVE INCOME

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

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | MARCH 28, 2009 (IN MILLIONS) | MARCH 29, 2008 (IN MILLIONS) | MARCH 28, 2009 (IN MILLIONS) | MARCH 29, 2008 (IN MILLIONS) |
| Net income | \$ 77.4 | \$ 58.0 | \$ 20.4 | \$ 1.2 |
| Other comprehensive income (expense): | | | | |
| Change in valuation of derivative instruments | 4.4 | (12.3) | (14.2) | (17.4) |
| Change in pension and other postretirement liabilities | 1.7 | — | 8.1 | — |
| Foreign currency translation adjustments | 0.6 | 1.6 | 10.0 | 4.2 |
| Comprehensive income (loss) | \$ 84.1 | \$ 47.3 | \$ 24.3 | \$ (12.0) |

NOTE 7. 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:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | MARCH 28, 2009 (IN MILLIONS) | MARCH 29, 2008 (IN MILLIONS) | MARCH 28, 2009 (IN MILLIONS) | MARCH 29, 2008 (IN MILLIONS) |
| Frozen defined benefit plans | \$ 0.9 | \$ 0.1 | \$ 1.8 | \$ 0.3 |
| International benefit plans | 1.9 | 1.2 | 3.7 | 2.4 |
| Retiree medical plan | 0.5 | 0.6 | 1.0 | 1.2 |

NOTE 8. STOCK-BASED COMPENSATION AWARDS

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

| | SIX MONTHS ENDED | |
|---|------------------|----------------|
| | MARCH 28, 2009 | MARCH 29, 2008 |
| Options | 696,100 | 884,700 |
| Performance shares | — | 40,000 |
| Restricted stock | 240,400 | 149,900 |
| Restricted stock units (including deferred stock units) | 218,641 | 29,995 |
| Total share-based awards | 1,155,141 | 1,104,595 |
| Aggregate fair value at grant dates (in millions) | \$ 16.0 | \$ 18.5 |

Total share-based compensation and the tax benefit recognized in compensation expense were as follows for the periods indicated (in millions):

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--------------------------|--------------------|----------------|------------------|----------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| Share-based compensation | \$ 4.4 | \$ 3.7 | \$ 8.1 | \$ 7.2 |

| | | | | |
|------------------------|-----|-----|-----|-----|
| Tax benefit recognized | 1.6 | 1.3 | 2.9 | 2.6 |
|------------------------|-----|-----|-----|-----|

14

NOTE 9. INCOME TAXES

Consistent with the requirements promulgated under FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," the balance of unrecognized tax benefits and the amount of related interest and penalties were as follows:

| | MARCH 28, 2009 | SEPTEMBER 30, 2008 |
|--|-------------------|-----------------------|
| | (IN MILLIONS) | |
| Unrecognized tax benefits | \$ 7.2 | \$ 7.2 |
| Portion that, if recognized, would impact the effective tax rate | 6.8 | 6.5 |
| Accrued penalties on unrecognized tax benefits | 0.7 | 0.6 |
| Accrued interest on unrecognized tax benefits | 1.2 | 1.2 |

The Company 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 2005. The Company is currently under examination by certain foreign and U.S. state and local tax authorities. With regard to the foreign audits, the tax periods under investigation are limited to fiscal years 2004 through 2007. With regard to the U.S. state and local audits, the tax periods under investigation are limited to fiscal years 2001 through 2007. In addition to the aforementioned audits, certain other tax deficiency issues and refund claims for previous years remain unresolved.

The Company currently anticipates that few of its open and active audits will be resolved in the next 12 months. The Company is unable to make a reasonable 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 have a material adverse effect on the Company's financial condition, results of operations or cash flows.

NOTE 10. 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 Investigation

The Company's products that contain pesticides are subject to FIFRA. In April 2008, the Company learned that a former associate apparently deliberately circumvented the Company's policies and U.S. EPA regulations under 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 the U.S. EPA in its civil investigation into pesticide product registration issues involving the Company and with the U.S. EPA and the U.S. DOJ in a related

criminal investigation. 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, QAI, has been reviewing all of the Company's U.S. pesticide product registration records, some of which are historical in nature and no longer support sales of the Company's products. The U.S. EPA investigation and QAI review process identified several issues affecting registrations which resulted in the temporary suspension of sales and shipments of the products affected. In addition, as the QAI review process or the Company's internal review has identified FIFRA registration issues or potential FIFRA registration issues (some of which appear unrelated to the former associate), the Company has endeavored to stop selling or distributing the affected products until the issues could be resolved with the U.S. EPA.

QAI has completed a review of substantially all of the Company's registrations, advertising and related promotional support of the Company's registered pesticide products. While the Company does not expect the results of the QAI review process to significantly affect its fiscal year 2009 sales, the registration review process has not concluded, and the Company continues to cooperate with the U.S. EPA and U.S. DOJ in their related investigations.

On September 26, 2008, the Company, doing business as Scotts LawnService®, was named as a defendant in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to certain pesticide products. In the suit, Mark Baumkel, on behalf of himself and the purported classes, seeks an unspecified amount of damages, plus costs and attorneys' fees, for alleged claims involving breach of contract, unjust enrichment and violation of the Michigan consumer protection act. Given the preliminary stages of the proceedings, no accruals have been recorded, and the Company intends to vigorously contest the plaintiff's assertions.

The U.S. EPA and related U.S. DOJ investigations or the compliance review process may result in future state or federal action or private rights of action 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 and compliance review process are complete, the Company cannot fully quantify the extent of additional issues. As of March 28, 2009, no reserves have been established with respect to potential fines, penalties and/or judgments at the state and/or federal level, as the scope and magnitude of such potential liabilities are not currently estimable. However, it is possible that such fines, penalties and/or judgments could be material and have an adverse effect on the Company's financial condition, results of operations or cash flows.

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 treatment capabilities at its Marysville, Ohio facility, seeking corrective action under the federal Resource Conservation and Recovery Act. 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, the Company is actively engaged in restoring the site to eliminate exposure to waste materials from the discontinued on-site disposal areas.

At March 28, 2009, \$3.3 million was accrued for other regulatory matters in the "Other liabilities" line in the Condensed, Consolidated Balance Sheets. 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.

U.S. Horticultural Supply, Inc. (F/K/A E.C. Geiger, Inc.)

On November 5, 2004, U.S. Horticultural Supply, Inc. ("Geiger") filed suit against the Company in the U.S. District Court for the Eastern District of Pennsylvania. The complaint alleged that the Company conspired with another distributor, Griffin Greenhouse Supplies, Inc., to restrain trade in the horticultural products market, in violation of Section 1 of the Sherman Antitrust Act. Geiger's damages expert quantified Geiger's alleged damages at approximately \$3.3 million, which could have been trebled under antitrust laws. Geiger also sought recovery of attorneys' fees and costs. On January 13, 2009, the U.S. District Court granted the Company's motion for summary judgment and entered judgment for the Company. Geiger has appealed the ruling to the U.S. Court of Appeals for the Third Circuit.

The Company continues to pursue the collection of funds owed to the Company by Geiger as confirmed by the Company's April 25, 2005 judgment against Geiger.

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 loss, if any, associated with these cases. 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 11. 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, which are accounted for under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended and interpreted. 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. SFAS 133 requires all derivative instruments to be recognized as either assets or liabilities at fair value in the statement of financial position. In accordance with SFAS 133, the Company designates commodity hedges as cash flow hedges of forecasted purchases of commodities and interest rate swaps as cash flow hedges of interest expense on variable rate borrowings. Any ineffective portion of a change in the fair value of a qualifying instrument is immediately recognized in earnings. There were no amounts recorded in earnings related to ineffectiveness of derivative hedges for the fiscal quarter ended March 28, 2009.

Foreign Currency Swap Agreements

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 U.S. dollars. At March 28, 2009, there were no outstanding foreign currency swap contracts.

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. Since the interest rate swaps have been designated as hedging instruments, their 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. Unrealized gains or losses resulting from adjusting these swaps to fair value are recorded as elements of accumulated other comprehensive loss 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 March 28, 2009, the Company had outstanding interest rate swaps with major financial institutions that effectively converted a portion of the Company's variable-rate debt to a fixed rate. Refer to "NOTE 5. DEBT" for the terms of the swaps outstanding at March 28, 2009. Included in the accumulated other comprehensive loss balance at March 28, 2009 is a pre-tax loss of \$11.9 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's outstanding hedging arrangements at March 28, 2009, which are designed to fix the price of a portion of its urea needs, settled April 30, 2009. 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 accumulated other comprehensive loss component of shareholders' equity. Realized gains or losses remain as a component of accumulated other comprehensive loss ("OCI") 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 accumulated other comprehensive loss balance at March 28, 2009 is a pre-tax loss of \$8.7 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. To date, the fuel derivatives used by the Company have not qualified for hedge accounting treatment under SFAS 133 and 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.

As of March 28, 2009, the Company had the following outstanding commodity contracts that were entered into to hedge forecasted purchases:

| COMMODITY | VOLUME |
|-----------|-------------------|
| Urea | 8,000 tons |
| Diesel | 4,452,000 gallons |
| Gasoline | 714,000 gallons |

Fair Values of Derivative Instruments

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

| | ASSETS / (LIABILITIES) | | | |
|--|---------------------------|------------|---------------------------|------------|
| | MARCH 28, 2009 | | MARCH 29, 2008 | |
| | BALANCE SHEET LOCATION | FAIR VALUE | BALANCE SHEET LOCATION | FAIR VALUE |
| DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS UNDER SFAS 133 | | | | |
| Interest rate swap agreements | Other assets | \$ — | Other assets | \$ 1.0 |
| | Other liabilities | (36.0) | Other liabilities | (31.6) |
| Commodity hedging instruments | Other current liabilities | (2.6) | Other current liabilities | (0.6) |
| Total derivatives designated as hedging instruments under SFAS 133 | | \$ (38.6) | | \$ (31.2) |

DERIVATIVES NOT DESIGNATED
AS HEDGING
INSTRUMENTS UNDER SFAS 133

| | | | | | |
|--|---------------------------|----|--------|---------------------------|--------|
| (1) | | | | | |
| Commodity hedging instruments | Prepaid and other assets | \$ | – | Prepaid and other assets | \$ 1.1 |
| | Other current liabilities | | (0.6) | Other current liabilities | 0.6 |
| Total derivatives not designated as hedging instruments under SFAS 133 | | | | | |
| (1) | | \$ | (0.6) | \$ | 1.7 |
| Total derivatives | | \$ | (39.2) | \$ | (29.5) |

- (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 12. 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 accumulated other comprehensive loss and the Condensed, Consolidated Statements of Operations for the three- and six-month periods ended March 28, 2009 and March 29, 2008 was as follows:

| | AMOUNT OF GAIN / (LOSS) RECOGNIZED IN OCI (IN MILLIONS) | | | |
|---|--|----------------------|----------------------|----------------------|
| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| DERIVATIVES IN SFAS 133 CASH FLOW HEDGING RELATIONSHIPS | | | | |
| Interest rate swap agreements | \$ (5.0) | \$ (10.3) | \$ (17.6) | \$ (16.1) |
| Commodity hedging instruments | 1.0 | (1.2) | (7.0) | 0.5 |
| Total | \$ (4.0) | \$ (11.5) | \$ (24.6) | \$ (15.6) |

| | LOCATION OF GAIN / (LOSS) RECLASSIFIED FROM | AMOUNT OF GAIN / (LOSS) RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (IN MILLIONS) | | | |
|---|--|---|----------------------|----------------------|----------------------|
| | | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
| | | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| DERIVATIVES IN SFAS 133 CASH FLOW HEDGING RELATIONSHIPS | ACCUMULATED OCI INTO INCOME | | | | |
| Interest rate swap agreements | Interest expense | \$ (5.1) | \$ (0.7) | \$ (7.5) | \$ (0.3) |
| Commodity hedging instruments | Cost of sales | (3.1) | 1.1 | (3.0) | 1.2 |
| Total | | \$ (8.2) | \$ 0.4 | \$ (10.5) | \$ 0.9 |

| | LOCATION OF GAIN / (LOSS) RECOGNIZED IN INCOME | AMOUNT OF GAIN / (LOSS) RECOGNIZED IN INCOME (IN MILLIONS) | | | |
|--|---|--|----------------|------------------|----------------|
| | | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
| | | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS UNDER SFAS 133 | | | | | |
| Foreign currency swap agreements | Interest expense | \$ - | \$ - | \$ (6.4) | \$ 1.0 |
| Commodity hedging instruments | Cost of sales | (0.6) | 1.7 | (0.6) | 1.7 |
| Total | | \$ (0.6) | \$ 1.7 | \$ (7.0) | \$ 2.7 |

NOTE 12. FAIR VALUE MEASUREMENTS

As disclosed in "NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," the Company adopted SFAS 157 effective October 1, 2008 with respect to the fair value measurement and disclosure of financial assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 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. SFAS 157 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, 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 swaps. 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 noncurrent assets and other noncurrent liabilities in our Condensed, Consolidated Balance Sheets.

For further information on the Company's derivative instruments, refer to "NOTE 11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES."

Other

Other financial assets and liabilities consist of investment securities in non-qualified retirement plan assets. These securities are valued using observable market prices in active markets. These investment securities, and the related liabilities, are classified within Level 1 of the valuation hierarchy and are included within other noncurrent assets and other noncurrent liabilities in our Condensed, Consolidated Balance Sheets.

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at March 28, 2009 (in millions):

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Observable Inputs (Level 2) | Other Inputs | Unobservable Inputs (Level 3) | Total |
|-------------------------------|--|-------|--|-----------------|-------------------------------------|--------|
| Assets | | | | | | |
| Derivatives | \$ | – | \$ | – | \$ | – |
| Other | | 4.4 | | – | | 4.4 |
| Total | \$ | 4.4 | \$ | – | \$ | 4.4 |
| Liabilities | | | | | | |
| Derivatives | | | | | | |
| Interest rate swap agreements | \$ | – | \$ | (36.0) | \$ | (36.0) |
| Commodity hedging instruments | | – | | (3.2) | | (3.2) |
| Other | | (4.4) | | – | | (4.4) |
| Total | \$ | (4.4) | \$ | (39.2) | \$ | (43.6) |

NOTE 13. ACQUISITIONS

On October 1, 2008, the Company completed its acquisition of Humax Horticulture Limited ("Humax"), a privately-owned growing media company in the United Kingdom.

Preliminary purchase accounting allocations have been recorded for Humax, including the allocation of the purchase price to assets acquired and liabilities assumed, based on estimated fair values at the date of acquisition. The Company

expects to finalize accounting for the acquisition prior to the end of fiscal year 2009.

Pro forma net sales, net income and net income per common share for the three and six months ended March 29, 2008 would not have been significantly different had the acquisition of Humax occurred as of October 1, 2007.

NOTE 14. SEGMENT INFORMATION

The Company's operations are divided into the following reportable 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.

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 and pesticide products. Products are marketed to mass merchandisers, home centers, large hardware chains, warehouse clubs, distributors, garden centers and grocers in the United States, Canada and Europe.

The Global Professional segment is focused on a full line of horticultural products including controlled-release and water-soluble fertilizers and plant protection products, 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. Our consumer businesses in Australia and Latin America are also part of the Global Professional segment.

The Scotts LawnService® segment provides lawn fertilization, disease and insect control and other related services such as core aeration and tree and shrub fertilization primarily to residential consumers through company-owned branches and franchises in the United States. In our larger branches, an exterior barrier pest control service is also offered.

The Corporate & Other segment consists of the Smith & Hawken® business and corporate general and administrative expenses.

The following table presents segment financial information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). Pursuant to SFAS 131, the presentation of the segment financial information is consistent with the basis used by management (i.e., certain costs not allocated to business segments for internal management reporting purposes are not allocated for purposes of this presentation).

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|-----------------------|-------------------|---------------------|-------------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| | (IN MILLIONS) | | (IN MILLIONS) | |
| Net sales: | | | | |
| Global Consumer | \$ 833.7 | \$ 820.5 | \$ 1,016.0 | \$ 987.4 |
| Global Professional | 74.5 | 99.5 | 140.0 | 161.9 |
| Scotts LawnService® | 32.8 | 32.4 | 71.6 | 70.7 |
| Corporate & Other | 19.3 | 24.8 | 51.2 | 66.1 |
| Segment total | 960.3 | 977.2 | 1,278.8 | 1,286.1 |
| Roundup® amortization | (0.2) | (0.2) | (0.4) | (0.4) |
| Product registration and recall matters-returns | — | (19.0) | (0.3) | (19.0) |
| Consolidated | \$ 960.1 | \$ 958.0 | \$ 1,278.1 | \$ 1,266.7 |

| | | | | | | | | |
|---|----|--------|----|--------|----|--------|----|--------|
| Operating income (loss): | | | | | | | | |
| Global Consumer | \$ | 199.3 | \$ | 179.2 | \$ | 163.7 | \$ | 141.2 |
| Global Professional | | 8.0 | | 16.3 | | 21.9 | | 22.7 |
| Scotts LawnService® | | (16.1) | | (18.5) | | (23.9) | | (30.0) |
| Corporate & Other | | (43.2) | | (27.9) | | (75.4) | | (50.5) |
| Segment total | | 148.0 | | 149.1 | | 86.3 | | 83.4 |
| Roundup® amortization | | (0.2) | | (0.2) | | (0.4) | | (0.4) |
| Other amortization | | (2.9) | | (3.9) | | (6.2) | | (7.8) |
| Product registration and recall matters | | (8.0) | | (30.8) | | (15.6) | | (30.8) |
| Consolidated | \$ | 136.9 | \$ | 114.2 | \$ | 64.1 | \$ | 44.4 |

| | MARCH 28, 2009 | MARCH 29, 2008 | SEPTEMBER 30, 2008 |
|----------------------|-------------------|-------------------|-----------------------|
| | (IN MILLIONS) | | |
| Total assets: | | | |
| Global Consumer | \$ 2,289.1 | \$ 2,414.5 | \$ 1,483.8 |
| Global Professional | 299.0 | 350.5 | 289.9 |
| Scotts LawnService® | 175.0 | 180.5 | 186.5 |
| Corporate & Other | 204.8 | 225.4 | 196.1 |
| Consolidated | \$ 2,967.9 | \$ 3,170.9 | \$ 2,156.3 |

Segment operating income (loss) represents earnings before amortization of intangible assets, interest and taxes, since this is the measure of profitability used by management. Accordingly, the Corporate & Other operating loss for the three and six months ended March 28, 2009 and March 29, 2008 includes corporate general and administrative expenses and certain other income/expense items not allocated to the business segments.

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, deferred tax assets and Smith & Hawken® assets.

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

OVERVIEW

Management's Discussion and Analysis ("MD&A") is organized in the following sections:

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

EXECUTIVE SUMMARY

The Scotts Miracle-Gro Company ("Scotts Miracle-Gro") and its subsidiaries (collectively, together with Scotts Miracle-Gro, the "Company"), "we" or "us" are dedicated to delivering strong, consistent financial results and outstanding shareholder returns by providing products of superior quality and value in order to enhance consumers' outdoor living environments. We are a leading manufacturer and marketer of consumer branded products for lawn and garden care and professional horticulture in North America and Europe. We are Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® non-selective herbicide products within the United States and other contractually specified countries. We have a presence in similar consumer branded and professional horticulture products in Australia, the Far East, Latin America and South America. In the United States, we operate Scotts LawnService®, the second largest residential lawn care service business, and Smith & Hawken®, a leading brand in the outdoor living and garden lifestyle category. Our operations are divided into the following reportable segments: Global Consumer, Global Professional, Scotts LawnService® and Corporate & Other. The Corporate & Other segment consists of the Smith & Hawken® business and corporate general and administrative expenses.

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

Our sales are susceptible to global weather conditions. For instance, periods of wet weather can adversely impact sales of certain products, while increasing demand for other products. We believe that our diversified product line provides some mitigation to this risk. We also believe that our broad geographic diversification further reduces this risk.

| | Percent Net Sales by Quarter | | |
|---------------|------------------------------|------|------|
| | 2008 | 2007 | 2006 |
| First Quarter | 10.4% | 9.5% | 9.3% |

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

| | | | |
|----------------|-------|-------|-------|
| Second Quarter | 32.1% | 34.6% | 33.6% |
| Third Quarter | 39.3% | 38.2% | 38.9% |
| Fourth Quarter | 18.2% | 17.7% | 18.2% |

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

Management focuses on a variety of key indicators and operating metrics to monitor the health and performance of our business. These metrics include consumer purchases (point-of-sale data), market share, net sales (including unit volume, pricing, product mix and foreign exchange movements), organic sales growth (net sales growth excluding the impact of foreign exchange movements and product recalls), gross profit margins, income from operations, net income and earnings per share. To the extent applicable, these measures are evaluated with and without impairment, restructuring and other charges, which management believes are not indicative of the ongoing earnings capabilities of our businesses. We also focus on measures to optimize cash flow and return on invested capital, including the management of working capital and capital expenditures.

Product Registration and Recall Matters

In April 2008, we learned that a former associate apparently deliberately circumvented our 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, we have been cooperating with the U.S. EPA in its civil investigation into pesticide product registration issues involving the Company and with the U.S. EPA and the U.S. Department of Justice (the “U.S. DOJ”) in a related criminal investigation. In late April of 2008, in connection with the U.S. EPA’s investigation, we conducted a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, we agreed with the U.S. EPA on a Compliance Review Plan for conducting a comprehensive, independent review of our product registration records. Pursuant to the Compliance Review Plan, an independent third-party firm, Quality Associates Incorporated (“QAI”), has been reviewing all of our U.S. pesticide product registration records, some of which are historical in nature and no longer support sales of our products. The U.S. EPA investigation and QAI review process identified several issues affecting registrations which resulted in the temporary suspension of sales and shipments of the products affected. In addition, as the QAI review process or our internal review has identified FIFRA registration issues or potential FIFRA registration issues (some of which appear unrelated to the former associate), we have endeavored to stop selling or distributing the affected products until the issues could be resolved with the U.S. EPA.

QAI has completed a review of substantially all of our registrations, advertising and related promotional support of our registered pesticide products. While we do not expect the results of the QAI review process to significantly affect our fiscal year 2009 sales, the registration review process has not concluded, and we continue to cooperate with the U.S. EPA and U.S. DOJ in their related investigations.

While we believe that the FIFRA compliance review process is substantially complete, the U.S. EPA and U.S. DOJ investigations and the review process continue and may result in future state, federal or private rights of action 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 and the compliance review process are complete, we cannot fully quantify the extent of additional issues. At this time, we cannot reasonably determine the scope or magnitude of possible liabilities that could result from known or potential additional product registration issues, and no reserves for these potential liabilities have been established as of March 28, 2009. However, it is possible that such liabilities, including fines, penalties and/or judgments, could be material and have an adverse effect on our financial condition, results of operations or cash flows.

On September 26, 2008, the Company, doing business as Scotts LawnService®, was named as a defendant in a purported class action filed in the U.S. District Court for the Eastern District of Michigan relating to certain pesticide products. In the suit, Mark Baumkel, on behalf of himself and the purported classes, seeks an unspecified amount of damages, plus costs and attorneys’ fees, for alleged claims involving breach of contract, unjust enrichment and violation of the Michigan consumer protection act. Given the preliminary stages of the proceedings, no accruals have been recorded, and we intend to vigorously contest the plaintiff’s assertions.

In fiscal 2008, we conducted a voluntary recall of most of our wild bird food products due to a formulation issue. The 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. This voluntary recall was completed prior to the end of fiscal 2008, and we do not expect any material impact to our fiscal 2009 financial condition, results of operations or cash flows as a result of such recall.

As a result of these registration and recall matters, we have reversed sales associated with estimated returns of affected products, recorded an impairment estimate for affected inventory and recorded other registration and recall-related costs. The impact of these adjustments was pre-tax charges of \$8.0 million and \$30.8 million for the three-month periods, and \$15.6 million and \$30.8 million for the six-month periods, ended March 28, 2009 and March 29, 2008, respectively. Although we have begun to reduce our need for third-party professional services related to the recall and registration matters, we nevertheless expect to incur \$10 to \$15 million in additional charges, exclusive of potential fines, penalties, and/or judgments, related to the recalls and known registration issues, including those associated with more aggressively addressing impacted inventory as permitted by the U.S. EPA.

We are committed to providing our customers and consumers with products of superior quality and value to enhance their lawns, gardens and overall outdoor living environments. We believe consumers have come to trust our brands based on the superior quality and value they deliver, and that trust is highly valued. We are also committed to conducting business with the highest degree of ethical standards and in adherence to the law. While we are disappointed in these events, we believe we have made significant progress in addressing the issues and restoring customer and consumer confidence in our products.

RESULTS OF OPERATIONS

The following table sets forth the components of income and expense as a percentage of net sales for the three- and six-month periods ended March 28, 2009 and March 29, 2008:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|----------------------------------|-------------------|----------------------------------|-------------------|
| | MARCH 28, 2009 (UNAUDITED) | MARCH 29, 2008 | MARCH 28, 2009 (UNAUDITED) | MARCH 29, 2008 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 62.4 | 63.9 | 65.1 | 67.1 |
| Cost of sales – product registration and recall matters | 0.3 | 2.4 | 0.3 | 1.8 |
| Gross profit | 37.3 | 33.7 | 34.6 | 31.1 |
| Operating expenses: | | | | |
| Selling, general and administrative | 22.4 | 21.8 | 28.9 | 27.8 |
| Selling, general and administrative – product registration and recall matters | 0.6 | 0.1 | 0.9 | 0.1 |
| Other income, net | — | (0.1) | (0.2) | (0.3) |
| Income from operations | 14.3 | 11.9 | 5.0 | 3.5 |
| Interest expense | 1.7 | 2.4 | 2.5 | 3.4 |
| Income before income taxes | 12.6 | 9.5 | 2.5 | 0.1 |
| Income taxes | 4.6 | 3.4 | 0.9 | 0.0 |
| Net income | 8.0% | 6.1% | 1.6% | 0.1% |

Net sales for the three months ended March 28, 2009 were \$960.1 million, essentially flat compared to net sales of \$958 million for the three months ended March 29, 2008. Net sales for the first six months of fiscal 2009 grew 0.9% versus the comparable period of fiscal 2008. Foreign exchange movements decreased sales growth for the second quarter and six months ended March 28, 2009 by 4.9% and 5.0%, respectively. Additionally, product returns related to recall matters in 2008 had the impact of decreasing net sales, thereby increasing sales growth for the second quarter and six months ended March 28, 2009 by 2.1% and 1.6%, respectively. Organic net sales growth, which excludes the impact of foreign exchange movements and product recalls, was 3.0% and 4.3% for the second quarter and first six months of 2009, respectively. In the Global Consumer segment, organic net sales grew by 5.5% and 7.0% for the second quarter and first six months, respectively, primarily due to an increase in sales in North America. Global Professional organic net sales declined by 10.6% for the second quarter, and were essentially flat year-to-date compared to the same period in fiscal 2008. Organic net sales growth for the Scotts LawnService® segment was 1.2% and 1.3% for the three and six months ended March 28, 2009, respectively. Smith & Hawken® organic net sales decreased by 22.1% and 22.4% for the second quarter and first six months of fiscal 2009, respectively.

In recent years, consolidated net sales for the first six months have typically comprised 42% to 45% of our total fiscal year consolidated net sales. However, there can be no assurance that a similar sales trend will apply to fiscal 2009. On a consolidated basis, we anticipate fiscal 2009 organic net sales to increase by 5% to 7% compared to fiscal 2008.

As a percentage of net sales, gross profit was 37.3% for the second quarter of fiscal 2009 compared to 33.7% for the second quarter of fiscal 2008. For the first six months of fiscal 2009, our gross profit percentage increased to 34.6% from 31.1% in the comparable period of fiscal 2008. Excluding product registration and recall matters, gross profit for the second quarter and first six months of fiscal 2009 increased 150 and 190 basis points, respectively. The fiscal 2009 second quarter and year-to-date gross profit rate increases were driven by cost productivity improvements and increased selling prices net of increased commodity costs. Excluding the impact of product registration and recall matters, for fiscal 2009 we anticipate the gross profit rate as a percentage of net sales to increase nearly 200 basis points compared to fiscal 2008, consistent with trends from the first half of the year.

Selling, General and Administrative Expenses

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|------------------------------|-------------------|------------------------------|-------------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| | (IN MILLIONS) (UNAUDITED) | | (IN MILLIONS) (UNAUDITED) | |
| Advertising | \$ 46.1 | \$ 49.7 | \$ 60.3 | \$ 64.5 |
| Other selling, general and administrative | 166.9 | 154.8 | 302.6 | 280.4 |
| Amortization of intangibles | 2.9 | 3.9 | 6.2 | 7.8 |
| | \$ 215.9 | \$ 208.4 | \$ 369.1 | \$ 352.7 |

Selling, general and administrative (“SG&A”) expenses increased \$7.5 million, or 3.6%, to \$215.9 million for the second quarter and \$16.4 million, or 4.6%, to \$369.1 million for the first six months of fiscal 2009. Excluding the impact of foreign exchange rates, SG&A expenses for the second quarter and first six months of fiscal 2009 increased 7.5% and 8.7%, respectively. Lower advertising expense year-to-date was largely attributable to increased media efficiencies in the Global Consumer business. We expect full-year advertising expense to reflect increased spend in the North America Consumer segment, offset by lower media spending in the International Consumer segment, primarily due to media efficiencies. The increase in other SG&A for the second quarter and year-to-date was primarily driven by increased estimates for full-year variable compensation and retention costs, investments in research and development and technology, and increased pension costs. We continue to expect full-year growth of SG&A expenses in the mid- to high-single digits, with the largest incremental driver being variable compensation, which is linked to our results.

We recorded \$5.5 million and \$11.7 million of SG&A-related product registration and recall costs during the second quarter and first six months of fiscal 2009, respectively, which primarily related to third-party compliance review, legal and consulting fees. For both the quarter and six months ended March 29, 2008, we recorded \$1.2 million of SG&A-related product registration and recall costs.

Interest expense for the second quarter and first six months of fiscal 2009 was \$15.9 million and \$32.2 million, respectively, compared to \$23.5 million and \$42.5 million for the second quarter and first six months of fiscal 2008. The decrease was primarily due to a decline in our borrowing rates, as well as the favorable impact of foreign exchange rates and a reduction in average debt outstanding. Weighted-average interest rates decreased by 88 basis points during the first six months of fiscal 2009 as compared to the same period of fiscal 2008. Average borrowings also decreased by \$160.7 million.

Income tax expense was calculated assuming an effective tax rate of 36.0% for the first half of both fiscal 2009 and fiscal 2008. 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 in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Diluted average common shares used in the diluted net income per common share calculation were 65.8 million for the second quarter of fiscal 2009 compared to 65.6 million for the same period a year ago. Diluted average common shares used in the diluted net income per common share calculation were 65.7 million for the six months ended both March 28, 2009 and March 29, 2008. Diluted average common shares included 0.9 million equivalent shares for the

second quarter and year-to-date periods in fiscal 2009 to reflect the effect of the assumed conversion of dilutive stock options, restricted stock and restricted stock unit awards. For the second quarter and first six months of fiscal 2008, diluted average common shares included 1.2 million and 1.4 million equivalent shares, respectively.

SEGMENT RESULTS

Our operations are divided into the following segments: Global Consumer, Global Professional, Scotts LawnService® and Corporate & Other. The Corporate & Other segment consists of Smith & Hawken® and corporate general and administrative expenses. Segment performance is evaluated based on several factors, including income from operations before amortization, product registration and recall costs, and impairment, restructuring and other charges, which are not generally accepted accounting principles measures. Management uses this measure of operating profit to gauge segment performance because we believe this measure is the most indicative of performance trends and the overall earnings potential of each segment.

The following table sets forth net sales by segment:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|------------------------------|-------------------|------------------------------|-------------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| | (IN MILLIONS) (UNAUDITED) | | (IN MILLIONS) (UNAUDITED) | |
| Global Consumer | \$ 833.7 | \$ 820.5 | \$ 1,016.0 | \$ 987.4 |
| Global Professional | 74.5 | 99.5 | 140.0 | 161.9 |
| Scotts LawnService® | 32.8 | 32.4 | 71.6 | 70.7 |
| Corporate & other | 19.3 | 24.8 | 51.2 | 66.1 |
| Segment total | 960.3 | 977.2 | 1,278.8 | 1,286.1 |
| Roundup® amortization | (0.2) | (0.2) | (0.4) | (0.4) |
| Product registrations and recall matters - returns | — | (19.0) | (0.3) | (19.0) |
| Consolidated | \$ 960.1 | \$ 958.0 | \$ 1,278.1 | \$ 1,266.7 |

The following table sets forth operating income (loss) by segment:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|------------------------------|-------------------|------------------------------|-------------------|
| | MARCH 28, 2009 | MARCH 29, 2008 | MARCH 28, 2009 | MARCH 29, 2008 |
| | (IN MILLIONS) (UNAUDITED) | | (IN MILLIONS) (UNAUDITED) | |
| Global Consumer | \$ 199.3 | \$ 179.2 | \$ 163.7 | \$ 141.2 |
| Global Professional | 8.0 | 16.3 | 21.9 | 22.7 |
| Scotts LawnService® | (16.1) | (18.5) | (23.9) | (30.0) |
| Corporate & other | (43.2) | (27.9) | (75.4) | (50.5) |
| Segment total | 148.0 | 149.1 | 86.3 | 83.4 |
| Roundup® amortization | (0.2) | (0.2) | (0.4) | (0.4) |
| Other amortization | (2.9) | (3.9) | (6.2) | (7.8) |
| Product registration and recall matters | (8.0) | (30.8) | (15.6) | (30.8) |
| Consolidated | \$ 136.9 | \$ 114.2 | \$ 64.1 | \$ 44.4 |

Global Consumer

Global Consumer segment net sales were \$833.7 million for the second quarter and \$1.02 billion for the first six months of fiscal 2009, an increase of 1.6% and 2.9% from the second quarter and first six months of fiscal 2008, respectively. Organic net sales growth for the second quarter and first six months of fiscal 2009 was 5.5% and 7.0%, respectively, including the favorable impact of price increases of 8.9% and 8.2%. Foreign exchange movements decreased net sales by 3.9% and 4.1% for the second quarter and first six months of fiscal 2009, respectively.

Organic net sales in North America increased 8.2% and 9.6% for the second quarter and first six months of fiscal 2009, respectively. Organic net sales growth includes the favorable impact of higher selling prices, which increased North American sales by 9.1% and 8.6% for the second quarter and first six months of fiscal 2009, respectively. Sales of our products to consumers at retail (point-of-sales) for our largest U.S. customers increased by 18.0% and 10.9% for the quarter and year-to-date, respectively, primarily driven by sales in lawn fertilizers, growing media and plant foods. Organic net sales in Europe decreased by 7.1% and 3.6% for the second quarter and first six months of fiscal 2009, respectively, primarily driven by delayed purchasing by our retailers. All European regions, except for Germany and Central Europe, were unfavorably impacted by the delayed purchasing. Pricing actions in Europe increased net sales by 8.0% and 6.6% for the quarter and year-to-date, partially offsetting the decline in volumes.

Global Consumer segment operating income increased by \$20.1 million and \$22.5 million in the second quarter and first six months of fiscal 2009, respectively. Excluding foreign exchange movements, segment operating income

increased by \$25.7 million and \$26.0 million in the second quarter and first six months of fiscal 2009, respectively. The increase in operating income was driven by the increase in net sales accompanied by improvement in gross margin rates of 170 basis points for both the second quarter and first six months of fiscal 2009. The increase in gross margin rates was the result of cost productivity projects, as well as the net impact of pricing in excess of commodity cost increases. The improvement in net sales and gross margin rates were partially offset by increases in SG&A spending, primarily related to higher research and development costs and increased variable compensation.

Global Professional

Global Professional segment net sales were \$74.5 million for the second quarter and \$140.0 million for the first six months of fiscal 2009, a decrease of 25.1% and 13.5% from the second quarter and first six months of fiscal 2008, respectively. Organic net sales, which excludes the effect of exchange rates, decreased by 10.6% for the second quarter and were essentially flat for the first six months of fiscal 2009. Pricing actions increased net sales by 11.3% and 16.1% for the second quarter and first six months of fiscal 2009, respectively. The decrease in net sales for the second quarter was driven primarily by volume declines in North America resulting from a decline in category demand and a reduction in grower and distributor inventory.

Global Professional segment operating income decreased \$8.3 million in the second quarter of fiscal 2009, or \$6.1 million excluding the impact of foreign exchange rates. The decrease in operating income was primarily driven by declines in gross margins. Operating income decreased by \$0.8 million for the first six months of fiscal 2009, and increased by \$3.2 million excluding the impact of foreign exchanges rates. The increased operating income for the first six months of fiscal year 2009 was driven by improved year-to-date gross margins, partially offset by an increase in SG&A spending.

Scotts LawnService®

Compared to the same periods in the prior fiscal year, Scotts LawnService® revenues increased 1.2% to \$32.8 million in the second quarter of fiscal 2009 and increased 1.3% to \$71.6 million in the first six months of fiscal 2009. The Scotts LawnService® segment operating loss decreased by \$2.4 million and \$6.1 million in the second quarter and first six months of fiscal 2009, respectively. The decreases were primarily driven by productivity improvements as well as a decline in SG&A spending.

Corporate & Other

Net sales for the Corporate & Other segment, which pertain primarily to Smith & Hawken®, decreased \$5.5 million for the second quarter of fiscal 2009 and \$14.9 million year-to-date. Smith & Hawken® sales decreased across all channels due to an extremely challenging retail environment. We continue to evaluate options for the Smith & Hawken® business.

The operating loss for Corporate & Other increased by \$15.3 million for the second quarter and \$24.9 million for the first six months of fiscal 2009. The increases in operating loss were driven by increased variable compensation and retention costs, higher information technology spending, increased regulatory and compliance costs, pension costs, and an increase in the operating loss for Smith & Hawken®.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash used in operating activities amounted to \$618.9 million and \$555.7 million for the six months ended March 28, 2009 and March 29, 2008, respectively. The use of cash in the first six months of our fiscal year is due to the seasonal nature of our operations. We build inventories in preparation for the spring selling season and accounts receivable increase significantly due to heavy March shipments. The increase in the use of cash for operating activities during the first half of fiscal 2009 compared to the first half of fiscal 2008 was due primarily to higher inventory builds in fiscal 2009, partially attributable to approximately \$40 million of inventory “on hold” related to the product registration and recall matters, increased input costs and new private label products.

Investing Activities

Cash used in investing activities was \$28.6 million and \$24.5 million for the six months ended March 28, 2009 and March 29, 2008, respectively. We had acquisition activity in the first half of fiscal 2009 totaling \$9.3 million. There was no acquisition activity in the first half of fiscal 2008. Capital spending decreased from \$25.1 million in the first half of fiscal 2008 to \$20.1 million in the first half of fiscal 2009.

Financing Activities

Financing activities provided cash of \$611.9 million and \$580.8 million for the six months ended March 28, 2009 and March 29, 2008, respectively. The cash provided by financing activities reflects borrowing activity primarily to support seasonal investment in working capital.

Credit Agreements

Our primary sources of liquidity are cash generated by operations and borrowings under our credit agreements. Scotts Miracle-Gro and certain of its subsidiaries have entered into the following loan 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. Borrowings may be made in various currencies including U.S. dollars, Euros, British pounds, Australian dollars and Canadian dollars. Under our current structure, we may request an additional \$200 million in revolving credit and/or term credit commitments, subject to approval from our lenders. As of March 28, 2009, there was \$795.2 million of availability under the revolving loan facility, including letters of credit. Refer to “NOTE 5. DEBT” to the accompanying condensed, consolidated financial statements for additional information pertaining to our borrowing arrangements.

At March 28, 2009, we had outstanding interest rate swaps with major financial institutions that effectively converted a portion of our variable-rate debt denominated in U.S. dollars to a fixed rate. The key terms of these swaps are shown in the table below.

| NOTIONAL AMOUNT (IN MILLIONS) | EFFECTIVE DATE (a) | EXPIRATION DATE | FIXED RATE |
|----------------------------------|-----------------------|--------------------|---------------|
| \$200(b) | 3/31/2007 | 3/31/2009 | 4.90% |
| 200(b) | 3/30/2007 | 3/30/2010 | 4.87% |
| 200(b) | 2/14/2007 | 2/14/2012 | 5.20% |
| 50(b) | 2/14/2012 | 2/14/2016 | 3.78% |
| 150(c) | 11/16/2009 | 5/16/2016 | 3.26% |
| 50(d) | 2/16/2010 | 5/16/2016 | 3.05% |

- (a) The effective date refers to the date on which interest payments are first hedged by the applicable swap contract.
- (b) Interest payments made between the effective date and expiration date are hedged by the swap contract.
- (c) 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.
- (d) 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.

On April 11, 2007, we entered into a one-year Master Accounts Receivable Purchase Agreement (the “2007 MARP Agreement”). On April 9, 2008, we terminated the 2007 MARP Agreement and entered into a Master Accounts Receivable Purchase Agreement (the “2008 MARP Agreement”), which expired on April 8, 2009. The terms of the 2008 MARP Agreement were substantially the same as the 2007 MARP Agreement. The 2008 MARP Agreement provided an interest rate that was equal to the 7-day LIBOR rate plus 85 basis points. 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. Borrowings under the 2008 MARP Agreement at March 28, 2009 were \$275.0 million.

On May 1, 2009, we entered into a Master Accounts Receivable Purchase Agreement (the “2009 MARP Agreement”), with a stated termination date of May 1, 2010, or such later date as may be mutually agreed by us and our lender. The 2009 MARP Agreement provides an interest rate that is equal to the 7-day LIBOR rate plus 225 basis points. The 2009 MARP Agreement provides 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.

As of March 28, 2009, we were in compliance with all debt covenants. Our credit facilities contain, among other obligations, an affirmative covenant regarding our leverage ratio, calculated as indebtedness relative to our earnings before taxes, depreciation and amortization. Under the terms of the credit facilities, the permissible leverage ratio was 4.25 as of March 28, 2009, which is scheduled to decrease to 3.75 on September 30, 2009. Management continues to monitor our compliance with the leverage ratio and other covenants contained in the credit facilities and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio throughout fiscal 2009. However, an unanticipated charge to earnings, an increase in debt or other factors could materially affect our ability to remain in compliance with the financial or other covenants of our credit facilities, potentially causing us to have to seek an amendment or waiver from our lending group. While we believe we have good relationships with our banking group, given the adverse conditions currently present in the global credit markets, we can provide no assurance that such a request would be likely to result in a modified or replacement credit facility on reasonable terms, if at all.

Judicial and Administrative Proceedings

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

Liquidity

In our opinion, cash flows from operations and capital resources will be sufficient to meet debt service and working capital needs during fiscal 2009, and thereafter for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facilities in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control.

REGULATORY MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. Apart from the proceedings surrounding the FIFRA compliance matters, which are discussed separately, we are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving these environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material adverse effect on our financial position, results of operations or cash flows. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in Scotts Miracle-Gro's Annual Report on Form 10-K, as amended by Form 10-K/A (Amendment No. 1), for the fiscal year ended September 30, 2008, under "ITEM 1. BUSINESS — Regulatory Considerations," "ITEM 1. BUSINESS — FIFRA Compliance, the Corresponding Governmental Investigation and Related Matters," "ITEM 1. BUSINESS — Other Regulatory Matters" and "ITEM 3. LEGAL PROCEEDINGS."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preceding discussion and analysis of our consolidated results of operations and financial condition should be read in conjunction with our condensed, consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Scotts Miracle-Gro's Annual Report on Form 10-K, as amended by Form 10-K/A (Amendment No. 1), for the fiscal year ended September 30, 2008 includes additional information about us, our operations, our financial condition, our critical accounting policies and accounting estimates, and should be read in conjunction with this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed significantly from those disclosed in Scotts Miracle-Gro's Annual Report on Form 10-K, as amended by Form 10-K/A (Amendment No. 1), for the fiscal year ended September 30, 2008.

ITEM 4. CONTROLS AND PROCEDURES

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

(A) information required to be disclosed by Scotts Miracle-Gro in this Quarterly Report on Form 10-Q and the other reports that Scotts Miracle-Gro files or submits under the Exchange Act has been accumulated and communicated to Scotts Miracle-Gro's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;

(B) information required to be disclosed by Scotts Miracle-Gro in this Quarterly Report on Form 10-Q and the other reports that Scotts Miracle-Gro files or submits under the Exchange Act has been recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

(C) Scotts Miracle-Gro's disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

In addition, there were no changes in Scotts Miracle-Gro's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Scotts Miracle-Gro's fiscal quarter ended March 28, 2009 that have materially affected, or are reasonably likely to materially affect, Scotts Miracle-Gro's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than as discussed in "NOTE 10. CONTINGENCIES" to the accompanying condensed, consolidated financial statements, pending material legal proceedings have not changed significantly since those disclosed in Scotts Miracle-Gro's Annual Report on Form 10-K, as amended by Form 10-K/A (Amendment No. 1), for the fiscal year ended September 30, 2008.

ITEM IA. RISK FACTORS

Cautionary Statement on Forward-Looking Statements

We have made and will make "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this Quarterly Report on Form 10-Q and in other contexts relating to future growth and profitability targets and strategies designed to increase total shareholder value. Forward-looking statements also include, but are not limited to, information regarding our future economic and financial condition, the plans and objectives of our management and our assumptions regarding our performance and these plans and objectives.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the "safe harbor" provisions of that Act.

Some forward-looking statements that we make in this Quarterly Report on Form 10-Q and in other contexts represent challenging goals for the Company, and the achievement of these goals is subject to a variety of risks and assumptions and numerous factors beyond our control. Important factors that could cause actual results to differ materially from the forward-looking statements we make are included in Part I, "ITEM 1A. RISK FACTORS" in Scotts Miracle-Gro's Annual Report on Form 10-K, as amended by Form 10-K/A (Amendment No. 1), for the fiscal year ended September 30, 2008. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in

their entirety by those cautionary statements.

31

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

(c) Issuer Purchases of Equity Securities

The following table shows the purchases of common shares of Scotts Miracle-Gro (“Common Shares”) made by or on behalf of Scotts Miracle-Gro or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each fiscal month in the three months ended March 28, 2009:

| Period | Total Number of Common Shares Purchased(1) | Average Price Paid per Common Share | Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Common Shares That May Yet Be Purchased Under the Plans or Programs |
|--|--|-------------------------------------|---|---|
| December 28, 2008 through January 24, 2009 | 486 | \$ 29.92 | 0 | Not applicable |
| January 25 through February 21, 2009 | 1,721 | \$ 31.03 | 0 | Not applicable |
| February 22 through March 28, 2009 | 21 | \$ 35.98 | 0 | Not applicable |
| Total | 2,228 | \$ 30.84 | 0 | Not applicable |

(1) Amounts in this column represent Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the “ERP”). The ERP is an unfunded, non-qualified deferred compensation plan which, among other things, provides eligible employees the opportunity to defer compensation above specified statutory limits applicable to The Scotts Company LLC Retirement Savings Plan and with respect to any Executive Management Incentive Pay, Performance Award (each as defined in the ERP) or other bonus awarded to such eligible employees. Pursuant to the terms of the ERP, each eligible employee has the right to elect an investment fund, including a fund consisting of Common Shares (the “Scotts Miracle-Gro Common Stock Fund”), against which amounts allocated to such employee’s accounts under the ERP will be benchmarked (all ERP accounts are bookkeeping accounts only and do not represent a claim against specific assets of the Company). Amounts allocated to employee accounts under the ERP represent deferred compensation obligations of the Company. The Company established the rabbi trust in order to assist the Company in discharging such deferred compensation obligations. When an eligible employee elects to benchmark some or all of the amounts allocated to such employee’s accounts against the Scotts Miracle-Gro Common Stock Fund, the trustee of the rabbi trust purchases the number of Common Shares equivalent to the amount so benchmarked. All Common Shares purchased by the trustee are purchased on the open market and are held in the rabbi trust until such time as they are distributed pursuant to the terms of the ERP. All assets of the rabbi trust, including any Common Shares purchased by the trustee, remain, at all times, assets of the Company, subject to the claims of its creditors. The terms of the ERP do not provide for a specified limit on the number of Common Shares that may be purchased by the trustee of the rabbi trust.

None of the Common Shares purchased during the three months ended March 28, 2009 were purchased pursuant to a publicly announced plan or program.

ITEM 6. EXHIBITS

See Index to Exhibits at page 34 for a list of the exhibits included herewith.

SIGNATURES

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

THE SCOTTS MIRACLE-GRO
COMPANY

Date: May 6, 2009

/s/ DAVID C.
EVANS
David C. Evans
Executive Vice President and Chief
Financial Officer
(Principal Financial and Principal
Accounting Officer)
(Duly Authorized Officer)

THE SCOTTS MIRACLE-GRO COMPANY
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED MARCH 28, 2009

INDEX TO EXHIBITS

EXHIBIT

| NO. | DESCRIPTION | LOCATION |
|------|--|---|
| 10.1 | Specimen form of Deferred Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants of Deferred Stock Units which may be made under The Scotts Miracle-Gro Company Amended and Restated 2006 Long-Term Incentive Plan (post-January 22, 2009 version) | * |
| 10.2 | Summary of Compensation for Nonemployee Directors of The Scotts Miracle-Gro Company, effective as of January 23, 2009 | * |
| 10.3 | Employment Agreement, effective as of October 1, 2007, between The Scotts Company LLC and Barry Sanders (executed by Mr. Sanders on November 16, 2007 and on behalf of The Scotts Company LLC on November 19, 2007) | Incorporated herein by reference to the Annual Report on Form 10-K of The Scotts Miracle-Gro Company (the "Registrant") for the fiscal year ended September 30, 2007 (File No. 1-11593) [Exhibit 10(m)] |
| 10.4 | First Amendment to Employment Agreement, effective as of January 14, 2009, by and between The Scotts Company LLC and Barry Sanders | Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 20, 2009 (File No. 1-11593) [Exhibit 10.2] |
| 10.5 | Master Accounts Receivable Purchase Agreement, dated as of May 1, 2009, by and among The Scotts Company LLC as the Company, The Scotts Miracle-Gro Company as the Parent and Calyon New York Branch as the Bank | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed May 6, 2009 (File No. 1-11593) [Exhibit 10.1] |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer) | * |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer) | * |
| 32 | Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer) | * |

* Filed herewith

