

SCOTTS MIRACLE-GRO CO

Form 10-Q

August 10, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2016

OR

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

For the transition period from to

Commission File Number: 001-11593

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

OHIO	31-1414921
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14111 SCOTTSLAWN ROAD, MARYSVILLE, OHIO	43041
(Address of principal executive offices)	(Zip Code)
(937) 644-0011	
(Registrant's telephone number, including area code)	

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

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

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

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

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

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Operations

(In millions, except per common share data)

(Unaudited)

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

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

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Cash received from the exercise of stock options	9.9	16.5
Net cash provided by financing activities	152.8	186.2
Effect of exchange rate changes on cash	(3.3)	(4.8)
Net increase in cash and cash equivalents	5.8	(9.4)
Cash and cash equivalents at beginning of period	71.4	89.3
Cash and cash equivalents at end of period	\$77.2	\$ 79.9

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$(48.1)	\$(39.3)
Call premium on 6.625% Senior Notes	(6.6)	—
Income taxes paid	(52.3)	(53.7)

See Notes to Condensed Consolidated Financial Statements.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Balance Sheets

(In millions, except stated value per share)

(Unaudited)

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

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Scotts Miracle-Gro Company (“Scotts Miracle-Gro” or “Parent”) and its subsidiaries (collectively, together with Scotts Miracle-Gro, the “Company”) are engaged in the manufacturing, marketing and sale of consumer branded products for lawn and garden care. The Company’s primary customers include home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, and indoor gardening and hydroponic stores. The Company’s products are sold primarily in North America and the European Union.

Prior to April 13, 2016, the Company operated the Scotts LawnService® business (the “SLS Business”), which provides residential and commercial lawn care, tree and shrub care and pest control services in the United States. On April 13, 2016, pursuant to the terms of the Contribution and Distribution Agreement (the “Contribution Agreement”) between the Company and TruGreen Holding Corporation (“TruGreen Holdings”), the Company completed the contribution of the SLS Business to a newly formed subsidiary of TruGreen Holdings (the “Joint Venture”) in exchange for a minority equity interest of approximately 30% in the Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. See “NOTE 2. DISCONTINUED OPERATIONS” for further discussion. Prior to being reported as discontinued operations, the SLS Business was included as its own reportable segment. Refer to “NOTE 15. SEGMENT INFORMATION” for discussion of the Company’s new reportable segments identified effective in the second quarter of fiscal 2016.

Due to the nature of the consumer lawn and garden business, the majority of the Company’s sales to customers occur in the Company’s second and third fiscal quarters. On a combined basis, net sales for the second and third quarters of the last three fiscal years represented in excess of 75% of the Company’s annual net sales.

The Company follows a 13-week quarterly accounting cycle pursuant to which the first three fiscal quarters end on a Saturday and the fiscal year always ends on September 30. This fiscal calendar convention requires the Company to cycle forward the first three fiscal quarter ends every six years. Fiscal 2016 is the most recent year impacted by this process and, as a result, the first quarter of fiscal 2016 had six additional days and the fourth quarter of fiscal 2016 will have five less days compared to the corresponding quarters of fiscal 2015. In addition, the third quarter of fiscal 2016 began six days later than the third quarter of fiscal 2015 and these six days occurred during the Company’s peak selling season. The Company’s third quarter of fiscal 2016 ended on July 2, 2016 while the Company’s third quarter of fiscal 2015 ended on June 27, 2015.

Organization and Basis of Presentation

The Company’s unaudited condensed consolidated financial statements for the three and nine months ended July 2, 2016 and June 27, 2015 are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. AeroGrow International, Inc. (“AeroGrow”) and Gavita Holdings B.V., and its subsidiaries (collectively, “Gavita”), in which the Company has controlling interests, are consolidated, with the equity owned by other shareholders shown as noncontrolling interest in the Condensed Consolidated Balance Sheets, and the other shareholders’ portion of net earnings and other comprehensive income shown as net income (loss) or comprehensive income attributable to noncontrolling interest in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss), respectively. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, this report should be read in conjunction with Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (the “2015 Annual Report”), which includes a complete set

of footnote disclosures, including the Company's significant accounting policies.

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

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Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes and related disclosures. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

Revenue Recognition

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

Under the terms of the Amended and Restated Exclusive Agency and Marketing Agreement (the "Marketing Agreement") pursuant to which the Company has served, since its 1998 fiscal year, as the exclusive agent to the Monsanto Company ("Monsanto") for the marketing and distribution of consumer Roundup[®] herbicide products, the Company performs certain functions, primarily manufacturing conversion services (in North America), distribution and logistics, and selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup[®] business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line in the Condensed Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

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

Loans Receivable

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

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

Long-lived Assets

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

Statements of Cash Flows

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

investment and are classified as investing activities in the Condensed Consolidated Statements of Cash Flows.

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RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition from Contracts with Customers

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

Debt Issuance Costs

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

Business Combinations

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

Income Taxes

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

Leases

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

Stock Compensation

In March 2016, the FASB issued an accounting standard update that simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax

withholding requirements, as well as classification in the statement of cash flows. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2017. The Company is currently evaluating the impact of this standard on its consolidated results of operations, financial position and cash flows.

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NOTE 2. DISCONTINUED OPERATIONS

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

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

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

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

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

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

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NOTE 3. ACQUISITIONS AND INVESTMENTS

Fiscal 2016

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

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

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

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

In the second quarter of fiscal 2016, the Company entered into definitive agreements with Bonnie and its sole shareholder, AFC, providing for the Company's participation in the Bonnie Business. The Company's participation includes a Term Loan Agreement from the Company to AFC, with Bonnie as guarantor, in the amount of \$72.0 million with a fixed coupon rate of 6.95% (the "Term Loan") as well as a Services Agreement pursuant to which the Company will provide marketing, research and development and certain ancillary services to the Bonnie Business for a commission fee based on the profits of the Bonnie Business and the reimbursement of certain costs. These

agreements also include options beginning in fiscal 2020 that provide for either (i) the Company to increase its economic interest in the Bonnie Business or (ii) AFC and Bonnie to repurchase the Company's economic interest in the Bonnie Business. During the three and nine months ended July 2, 2016, the Company recognized commission fees of \$3.1 million and recognized cost reimbursements of \$0.4 million and \$0.6 million, respectively.

Fiscal 2015

On March 30, 2015, the Company acquired the assets of General Hydroponics, Inc. ("General Hydroponics") and Bio-Organic Solutions, Inc. ("Vermicrop") for \$120.0 million and \$15.0 million, respectively. This transaction provided the Company's Other segment with an additional entry into the indoor and urban gardening market, which is a part of the Company's long-term growth strategy. General Hydroponics and Vermicrop are leading producers of liquid plant food products, growing media, and

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accessories for the hydroponics markets. The General Hydroponics purchase price included non-cash investing activity of \$1.0 million representing the deferral of a portion of the purchase price into fiscal 2016, of which \$0.5 million was paid in the second quarter of fiscal 2016. The Vermicrop purchase price included \$5.0 million of contingent consideration, which was paid during the third quarter of fiscal 2016. The Vermicrop purchase price and contingent consideration was paid in common shares of Scotts Miracle-Gro (“Common Shares”) based on the average share price at the time of payment. The valuation of the acquired assets was determined during the third quarter of fiscal 2015 and included (i) \$14.2 million of inventory and accounts receivable, (ii) \$5.7 million in fixed assets, (iii) \$65.0 million of finite-lived identifiable intangible assets, and (iv) \$53.9 million of tax-deductible goodwill.

Identifiable intangible assets included tradenames, customer relationships and non-compete arrangements with useful lives ranging between 5 and 26 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for General Hydroponics and Vermicrop included within the Other segment for the three and nine months ended July 2, 2016 were \$20.0 million and \$48.2 million, respectively.

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

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

NOTE 4. INVESTMENT IN UNCONSOLIDATED AFFILIATE

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

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

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

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NOTE 5. IMPAIRMENT, RESTRUCTURING AND OTHER

Activity described herein is classified within the “Impairment, restructuring and other” and the “Income from discontinued operations, net of tax” lines in the Condensed Consolidated Statements of Operations.

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

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

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

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

Included in the restructuring reserves as of July 2, 2016 is \$1.9 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the restructuring plan retire or through the passage of time. The remaining amounts reserved will continue to be paid out over the course of the next twelve months.

Fiscal 2016

In the first quarter of fiscal 2016, the Company announced a series of initiatives called Project Focus designed to maximize the value of its non-core assets and focus on emerging categories of the lawn and garden industry in its core U.S. business. On April 13, 2016, as part of this project, the Company completed the contribution of the SLS Business to the Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. Refer to “NOTE 2: DISCONTINUED OPERATIONS” for more information. During the three and nine months ended July 2, 2016, the Company recognized zero and \$9.0 million for the resolution of a prior SLS Business litigation matter, as well as zero and \$4.4 million, respectively, in transaction related costs associated with the divestiture of the SLS Business within the “Income from discontinued operations, net of tax” line in the Condensed Consolidated Statements of Operations. In addition, during the three and nine months ended July 2, 2016, the Company recognized costs of \$(0.3) million and \$2.3 million, respectively, related to other transaction activity within the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations.

During the third quarter of fiscal 2015, the Company’s U.S. Consumer segment began experiencing an increase in certain consumer complaints related to the reformulated Bonus® S fertilizer product sold in the southeastern United States during fiscal 2015 indicating customers were experiencing damage to their lawns after application. During the three and nine months ended July 2, 2016, the Company recognized \$0.5 million and \$6.9 million, respectively, in costs related to resolving these consumer complaints and the recognition of costs the Company expects to incur for current and expected consumer claims. Costs incurred to date since the inception of this matter, excluding insurance reimbursement recoveries, are \$74.3 million. The Company has received reimbursement payments of \$60.8 million through the third quarter of fiscal 2016, including \$5.9 million and \$40.9 million received during the three and nine months ended July 2, 2016, respectively. The Company recorded offsetting insurance reimbursement recoveries upon resolution of the insurer’s review of claim documentation in the amount of \$4.9 million in the fourth quarter of fiscal 2015, \$50.0 million in the second quarter of fiscal 2016 and \$5.9 million in the third quarter of fiscal 2016.

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Fiscal 2015

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

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

NOTE 6. INVENTORIES

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

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

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

NOTE 7. MARKETING AGREEMENT

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

In consideration for the rights granted to the Company under the Marketing Agreement in 1998, the Company paid a marketing fee of \$32 million to Monsanto. The Company deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. The economic useful life over which the marketing fee is being amortized is twenty years, with a remaining unamortized amount of \$1.8 million and remaining amortization period of less than three years as of July 2, 2016.

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

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

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

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

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

Revises the procedures of the Marketing Agreement relating to a potential sale of the consumer Roundup® business to (1) require Monsanto to negotiate exclusively with the Company with respect to any potential Roundup® sale for 60 days after the Company receives notice from Monsanto regarding a potential Roundup® sale and (2) provide the Company with a right of first offer and a right of last look in connection with a potential Roundup® sale to a third party. In addition, if the Company makes a bid in connection with a Roundup® sale, the then-applicable termination fee would serve as a credit against the purchase price and the Monsanto board of directors would not be permitted to discount the value of the Company's bid compared to a competing bid as a result of the termination fee discount.

Requires the Company to (1) provide notice to Monsanto of certain proposals and processes that may result in a sale of the Company and (2) conduct non-exclusive negotiations with Monsanto with respect to such a sale.

Increases the minimum termination fee payable under the Marketing Agreement to the greater of (1) \$200.0 million or (2) four times (A) the average of the program earnings before interest or income taxes for the three trailing program years prior to the year of termination, minus (B) the 2015 program earnings before interest or income taxes.

Amends Monsanto's termination rights and provides additional rights to the Company in the event of a termination, as follows:

delays the effectiveness of a notice of termination given by Monsanto as a result of a change of control with respect to Monsanto or a sale of the consumer Roundup® business to a third party from (1) the end of the later of 12 months or the next program year to (2) the end of the fifth full program year after Monsanto gives such notice;

eliminates Monsanto's termination rights for a regional performance default, a change of significant ownership of the Company or an uncured or incurable egregious injury (as each is defined in the Marketing Agreement); and

eliminates Monsanto's termination rights in connection with a change in control of the Company or Scotts Miracle-Gro as long as the Company has determined, in its reasonable commercial opinion, that the acquirer can and will fully perform the duties and obligations of the Company under the Marketing Agreement.

Expands the Company's termination rights to include termination for a brand decline event (as defined in the Marketing Agreement Amendment) occurring before program year 2023.

Expands the Company's assignment rights to allow the Company to transfer its rights, interests and obligations under the Marketing Agreement with respect to (1) the North America territories and (2) one or more other included markets for up to three other assignments.

Amends the commission structure by (1) eliminating the commission threshold for program years 2016, 2017 and 2018, (2) setting the commission threshold for the subsequent program years at \$40 million and (3) establishing the commission payable by Monsanto to the Company for each program year at an amount equal to 50% of the program earnings before interest and income taxes for such program year.

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

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

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

Technology Agreement

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as intangible assets and the related economic useful life of such assets is indefinite. The identifiable intangible assets include the Marketing Agreement Amendment and the Brand Extension Agreement with allocated fair value of \$188.3 million and \$111.7 million, respectively. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. Under the terms of the Marketing Agreement, the Company performs certain functions, primarily manufacturing conversion services (in North America), distribution and logistics, and selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in the “Cost of sales” line and the reimbursement of these costs in the “Net sales” line in the Condensed Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
	(In millions)			
Gross commission	\$37.4	\$ 42.2	\$92.3	\$ 74.8
Contribution expenses	(5.0)	(5.0)	(15.0)	(15.0)
Amortization of marketing fee	(0.2)	(0.2)	(0.6)	(0.6)
Net commission	32.2	37.0	76.7	59.2
Reimbursements associated with Marketing Agreement	18.4	16.2	55.2	51.7
Total net sales associated with Marketing Agreement	\$50.6	\$ 53.2	\$131.9	\$ 110.9

NOTE 8. DEBT

The components of long-term debt are as follows:

	JULY 2, 2016	JUNE 27, 2015	SEPTEMBER 30, 2015
	(In millions)		
Credit Facilities:			
Revolving loans	\$404.9	\$ 525.6	\$ 816.3
Term loans	292.5	—	—
Senior Notes – 6.625%	—	200.0	200.0
Senior Notes – 6.000%	400.0	—	—
Master Accounts Receivable Purchase Agreement	348.0	301.1	122.3
Other	67.4	22.2	19.0
	1,512.8	1,048.9	1,157.6
Less current portions	382.5	314.0	132.6
Long-term debt	\$1,130.3	\$ 734.9	\$ 1,025.0

Credit Facilities

On December 20, 2013, the Company entered into the third amended and restated credit agreement, providing the Company and certain of its subsidiaries with a five-year senior secured revolving loan facility in the aggregate principal amount of up to \$1.7 billion (the “former credit facility”). On October 29, 2015, the Company entered into the fourth amended and restated credit agreement (the “new credit agreement”), providing the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of \$1.9 billion, comprised

of a revolving credit facility of \$1.6 billion and a term loan in the original principal amount of \$300.0 million (the “new credit facilities”). The new credit agreement also provides the Company with the right to seek additional committed credit under the agreement in an aggregate amount of up to \$500.0 million plus an unlimited additional amount, subject to certain specified financial and other conditions. Under the new credit agreement, the

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Company has the ability to obtain letters of credit up to \$100.0 million. The new credit agreement replaces the former credit facility, and will terminate on October 29, 2020. Borrowings on the revolving credit facility may be made in various currencies, including U.S. dollars, euro, British pounds, Australian dollars and Canadian dollars. The terms of the new credit agreement include customary representations and warranties, affirmative and negative covenants, financial covenants, and events of default. The proceeds of borrowings on the new credit facilities may be used: (i) to finance working capital requirements and other general corporate purposes of the Company and its subsidiaries; and (ii) to refinance the amounts outstanding under the former credit facility.

Under the terms of the new credit agreement, loans bear interest, at the Company's election, at a rate per annum equal to either the ABR or Adjusted LIBO Rate (both as defined in the new credit agreement) plus the applicable margin. The new credit facilities are guaranteed by substantially all of the Company's domestic subsidiaries, and are secured by (i) a perfected first priority security interest in all of the accounts receivable, inventory and equipment of the Company and the Company's domestic subsidiaries that are guarantors and (ii) the pledge of all of the capital stock of the Company's domestic subsidiaries that are guarantors.

At July 2, 2016, the Company had letters of credit outstanding in the aggregate principal amount of \$26.8 million, and \$1.1 billion of availability under the new credit agreement, subject to the Company's continued compliance with the covenants discussed below. The weighted average interest rates on average borrowings under the new credit agreement and the former credit facility were 3.9% and 4.1% for the nine months ended July 2, 2016 and June 27, 2015, respectively.

The new credit agreement contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio on the last day of each quarter calculated as average total indebtedness, divided by the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the new credit agreement ("Adjusted EBITDA"). The maximum leverage ratio was 4.50 as of July 2, 2016. The Company's leverage ratio was 2.96 at July 2, 2016. The new credit agreement also includes an affirmative covenant regarding its interest coverage ratio. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the new credit agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended July 2, 2016. The Company's interest coverage ratio was 8.22 for the twelve months ended July 2, 2016. The new credit agreement allows the Company to make unlimited restricted payments (as defined in the new credit agreement), including increased or one-time dividend payments and Common Share repurchases, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth in the new credit agreement for such fiscal year (\$175.0 million for 2016 and 2017 and \$200.0 million for 2018 and each fiscal year thereafter).

Senior Notes - 6.625%

On December 15, 2015, Scotts Miracle-Gro redeemed all \$200.0 million aggregate principal amount of its outstanding 6.625% senior notes due 2020 (the "6.625% Senior Notes") paying a redemption price of \$213.2 million, comprised of \$6.6 million of accrued and unpaid interest, \$6.6 million of call premium and \$200.0 million for outstanding principal amount. The \$6.6 million call premium charge was recognized within the "Costs related to refinancing" line on the Condensed Consolidated Statement of Operations in the first quarter of fiscal 2016. Additionally, the Company had \$2.2 million in unamortized bond discount and issuance costs associated with the 6.625% Senior Notes that were written off and recognized in the "Costs related to refinancing" line on the Condensed Consolidated Statement of Operations in the first quarter of fiscal 2016.

Senior Notes - 6.000%

On October 13, 2015, Scotts Miracle-Gro issued \$400.0 million aggregate principal amount of 6.000% senior notes due 2023 (the "6.000% Senior Notes"). The net proceeds of the offering were used to repay outstanding borrowings under the former credit facility. The 6.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 6.000% Senior Notes have interest payment dates of April 15 and October 15 of each year. The 6.000% Senior Notes may be redeemed, in whole or in part, on or after October 15, 2018 at applicable redemption premiums. The 6.000% Senior Notes contain customary covenants and events of default and mature on October 15, 2023. Substantially all of Scotts Miracle-Gro's

domestic subsidiaries serve as guarantors of the 6.000% Senior Notes.

Master Accounts Receivable Purchase Agreement

The Company maintains a Master Accounts Receivable Purchase Agreement (“MARP Agreement”), which provides for the discretionary sale by the Company, and the discretionary purchase (outside of the commitment period specified in the MARP Agreement) by the participating banks, on a revolving basis, of accounts receivable generated by sales to three specified account debtors in an aggregate amount not to exceed \$400.0 million. The MARP Agreement is subject to renewal by mutual agreement at least annually.

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On March 23, 2016, Scotts Miracle-Gro and Scotts LLC entered into a Waiver and First Amendment to the MARP Agreement that amends the MARP Agreement in the following significant respects: (1) includes subsidiaries and affiliates of the approved debtors in the definition of approved debtors; (2) requires Scotts LLC to repurchase all receivables (including any defaulted receivables) from the banks on each settlement date; and (3) provides the administrative agent and the banks with full recourse to Scotts LLC in case of non-payment of any purchased receivable on the maturity date thereof, regardless of the reason for such non-payment. Under the terms of the amended MARP Agreement, the banks have the opportunity to purchase those accounts receivable offered by the Company at a discount (from the agreed base value thereof) effectively equal to the one-week LIBO rate plus 0.95%. The Company accounts for the sale of receivables under the MARP Agreement (as amended) as short-term debt and continues to carry the receivables on its Condensed Consolidated Balance Sheet, primarily as a result of the Company's requirement to repurchase receivables sold. There were \$348.0 million and \$301.1 million in borrowings or receivables pledged as collateral under the MARP Agreement as of July 2, 2016 and June 27, 2015, respectively. The carrying value of the receivables pledged as collateral was \$435.1 million as of July 2, 2016 and \$376.4 million as of June 27, 2015. As of July 2, 2016, there was \$26.7 million of availability under the MARP Agreement.

Other

In connection with the acquisition of a controlling interest in Gavita, the Company recorded a loan with interest payable based on the annual profits of Gavita from the noncontrolling ownership group. The loan has been recorded at fair value, with changes in fair value recognized in the "Other income (loss), net" line in the Condensed Consolidated Statements of Operations. The preliminary valuation of the loan was \$37.7 million at July 2, 2016.

Interest Rate Swap Agreements

The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of \$650.0 million at July 2, 2016 and \$1,300.0 million at June 27, 2015 and September 30, 2015. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below. The notional amount, effective date, expiration date and rate of each of these swap agreements are shown in the table below.

Notional Amount (in millions)	Effective Date (a)	Expiration Date	Fixed Rate
\$50 ^(d)	12/6/2012	9/6/2017	2.96%
200	2/7/2014	11/7/2017	1.28%
150 ^(b)	2/7/2017	5/7/2019	2.12%
50 ^(b)	2/7/2017	5/7/2019	2.25%
200 ^(c)	12/20/2016	6/20/2019	2.12%

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

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

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

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

Estimated Fair Values

The methods and assumptions used to estimate the fair values of the Company's debt instruments are described below:
Credit Facilities

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

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6.000% Senior Notes

The fair value of the 6.000% Senior Notes can be determined based on the trading of the 6.000% Senior Notes in the open market. The difference between the carrying value and the fair value of the 6.000% Senior Notes represents the premium or discount on that date. Based on the trading value on or around July 2, 2016, the fair value of the 6.000% Senior Notes was approximately \$424.0 million. The fair value measurement for the 6.000% Senior Notes was classified in Level 1 of the fair value hierarchy.

Accounts Receivable Pledged

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

Weighted Average Interest Rate

The weighted average interest rates on the Company's debt were 4.3% and 4.2% for the nine months ended July 2, 2016 and June 27, 2015, respectively. The increase in the weighted average interest rate is due to the higher proportion of long-term fixed-rate borrowing in the Company's debt mix in fiscal 2016.

NOTE 9. RETIREMENT AND RETIREE MEDICAL PLANS

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

	THREE MONTHS ENDED					
	JULY 2, 2016			JUNE 27, 2015		
	U.S.	International	U.S.	U.S.	International	U.S.
	Pension	Pension	Medical	Pension	Pension	Medical
	(In millions)					
Service cost	\$—	\$ 0.3	\$ 0.1	\$—	\$ 0.3	\$ 0.1
Interest cost	1.1	1.7	0.3	1.0	1.9	0.3
Expected return on plan assets	(1.2)	(2.0)	—	(1.3)	(2.3)	—
Net amortization	0.4	0.4	(0.3)	0.8	0.5	—
Net periodic benefit cost	\$0.3	\$ 0.4	\$ 0.1	\$0.5	\$ 0.4	\$ 0.4
	NINE MONTHS ENDED					
	JULY 2, 2016			JUNE 27, 2015		
	U.S.	International	U.S.	U.S.	International	U.S.
	Pension	Pension	Medical	Pension	Pension	Medical
	(In millions)					
Service cost	\$—	\$ 0.9	\$ 0.3	\$—	\$ 1.0	\$ 0.3
Interest cost	3.3	5.1	0.8	3.0	5.7	1.0
Expected return on plan assets	(3.7)	(6.0)	—	(4.0)	(7.0)	—
Net amortization	1.3	1.2	(0.8)	2.5	1.4	—
Net periodic benefit cost	\$0.9	\$ 1.2	\$ 0.3	\$1.5	\$ 1.1	\$ 1.3

NOTE 10. EQUITY

On August 11, 2014, the Company announced that the Scotts Miracle-Gro Board of Directors approved a share repurchase authorization effective November 1, 2014, which will expire on September 30, 2019, to repurchase up to \$500.0 million of Common Shares. On August 3, 2016, the Company announced that the Scotts Miracle-Gro Board of Directors approved a \$500.0 million increase to the current share repurchase authorization. The amended authorization allows for repurchases of Common Shares of \$1.0 billion through September 30, 2019. During the three and nine months ended July 2, 2016, Scotts Miracle-Gro repurchased 0.5 million and 1.2 million of its Common Shares for \$38.4 million and \$81.2 million, respectively. From the inception of this share repurchase program in the fourth quarter of fiscal 2014 through July 2, 2016, Scotts Miracle-Gro has repurchased approximately 1.4 million Common Shares for \$96.0 million.

On August 3, 2016, the Company announced that the Scotts Miracle-Gro Board of Directors approved an increase in the quarterly cash dividend from \$0.47 to \$0.50 per Common Share.

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The following table provides a summary of the changes in total equity, shareholders' equity attributable to controlling interest, and equity attributable to noncontrolling interests for the nine months ended July 2, 2016 and June 27, 2015 (in millions):

	Common Shares and Capital in Excess of Stated Value	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Shareholders' Equity - Controlling Interest	Non-controlling Interest	Total Equity
Balance at September 30, 2014	\$ 395.3	\$ 636.9	\$(392.3)	\$ (86.2)	\$ 553.7	\$ 13.5	\$ 567.2
Net income (loss)	—	183.4	—	—	183.4	(0.1)	183.3
Other comprehensive loss	—	—	—	(5.3)	(5.3)	—	(5.3)
Share-based compensation	15.7	—	—	—	15.7	—	15.7
Dividends declared (\$1.3500 per share)	—	(83.2)	—	—	(83.2)	—	(83.2)
Treasury share purchases	—	—	(14.8)	—	(14.8)	—	(14.8)
Treasury share issuances	(7.1)	—	37.6	—	30.5	—	30.5
Balance at June 27, 2015	\$ 403.9	\$ 737.1	\$(369.5)	\$ (91.5)	\$ 680.0	\$ 13.4	\$ 693.4
Balance at September 30, 2015	\$ 400.4	\$ 684.2	\$(357.1)	\$ (106.8)	\$ 620.7	\$ 12.4	\$ 633.1
Net income (loss)	—	341.9	—	—	341.9	(0.2)	341.7
Other comprehensive loss	—	—	—	(10.7)	(10.7)	—	(10.7)
Share-based compensation	13.9	—	—	—	13.9	—	13.9
Dividends declared (\$1.4100 per share)	—	(87.5)	—	—	(87.5)	—	(87.5)
Treasury share purchases	—	—	(81.2)	—	(81.2)	—	(81.2)
Treasury share issuances	(13.2)	—	29.0	—	15.8	—	15.8
Investment in noncontrolling interest	—	—	—	—	—	7.1	7.1
Balance at July 2, 2016	\$ 401.1	\$ 938.6	\$(409.3)	\$ (117.5)	\$ 812.9	\$ 19.3	\$ 832.2

Share-Based Awards

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

	NINE MONTHS ENDED JULY 2, 2016	JUNE 27, 2015
Employees		
Stock options	444,890	40,690
Restricted stock units	74,422	78,463
Performance units	56,315	78,352
Board of Directors		
Deferred stock units	28,103	28,553
Total share-based awards	603,730	26,058
Aggregate fair value at grant dates (in millions)	\$ 16.4	\$ 16.9

Total share-based compensation was as follows for each of the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2016	JUNE 27, 2015	JULY 2016	JUNE 27, 2015
	(In millions)			
Share-based compensation	\$ 2.4	\$ 2.1	\$ 13.7	\$ 11.4
Tax benefit recognized	0.9	0.8	5.2	4.3

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NOTE 11. INCOME TAXES

The effective tax rate related to continuing operations for the nine months ended July 2, 2016 was 35.5%, compared to 35.0% for the nine months ended June 27, 2015. The effective tax rate used for interim reporting purposes is based on management's best estimate of factors impacting the effective tax rate for the full fiscal year. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Scotts Miracle-Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Subject to the following exceptions, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2013. The Company is currently under examination by the Internal Revenue Service and certain foreign and U.S. state and local tax authorities. The U.S. federal examination is limited to fiscal years 2011 and 2012. With respect to foreign jurisdictions, a German audit is currently ongoing covering fiscal years 2009 through 2012. In regard to the multiple U.S. state and local audits, the tax periods under examination are limited to fiscal years 2008 through 2014. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

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

NOTE 12. CONTINGENCIES

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

Regulatory Matters

At July 2, 2016, \$4.1 million was accrued in the "Other liabilities" line in the Condensed Consolidated Balance Sheets for environmental actions, the majority of which are for site remediation. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

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

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In connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008, the Company has been named as a defendant in four putative class actions filed on and after June 27, 2012, which have now been consolidated in the United States District Court for the Southern District of California as *In re Morning Song Bird Food Litigation*, Lead Case No. 3:12-cv-01592-JAH-RBB. The plaintiffs allege various statutory and common law claims associated with the Company's sale of wild bird food products and a plea agreement entered into in previously pending government proceedings associated with such sales. The plaintiffs allege, among other things, a purported class action on behalf of all persons and entities in the United States who purchased certain bird food products. The plaintiffs assert hundreds of millions of dollars in monetary damages (actual, compensatory, consequential, and restitution), punitive and treble damages; injunctive and declaratory relief; pre-judgment and post-judgment interest; and costs and attorneys' fees. The Company disputes the plaintiffs' assertions and intends to vigorously defend the consolidated action. At this point in the proceedings, it is not currently possible to reasonably estimate a probable loss, if any, associated with the action and, accordingly, no reserves have been recorded in the Company's condensed consolidated financial statements with respect to the action. There can be no assurance that this action, whether as a result of an adverse outcome or as a result of significant defense costs, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

NOTE 13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Exchange Rate Risk Management

The Company uses currency forward contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At July 2, 2016, the notional amount of outstanding currency forward contracts was \$163.3 million, with a fair value of \$0.5 million. At June 27, 2015, the notional amount of outstanding currency forward contracts was \$65.2 million, with a fair value of \$1.2 million. At September 30, 2015, the notional amount of outstanding currency forward contracts was \$52.3 million, with a negative fair value of \$0.7 million. The fair value of currency forward contracts is determined using forward rates in commonly quoted intervals for the full term of the contracts. The outstanding contracts will mature over the next fiscal year.

Interest Rate Risk Management

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. Since the interest rate swap agreements have been designated as hedging instruments, unrealized gains or losses resulting from adjusting these swaps to fair value are recorded as elements of accumulated other comprehensive income (loss) ("AOCI") within the Condensed Consolidated Balance Sheets except for any ineffective portion of the change in fair value, which is immediately recorded in interest expense. The fair value of the swap agreements is determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date.

The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of \$650.0 million at July 2, 2016 and \$1,300.0 million at June 27, 2015 and September 30, 2015. Refer to "NOTE 8. DEBT" for the terms of the swap agreements outstanding at July 2, 2016. Included in the AOCI balance at July 2, 2016 was a loss of \$2.6 million related to interest rate swap agreements that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

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Commodity Price Risk Management

The Company enters into hedging arrangements designed to fix the price of a portion of its projected future urea requirements. The contracts are designated as hedges of the Company's exposure to future cash flow fluctuations associated with the cost of urea. The objective of the hedges is to mitigate the earnings and cash flow volatility attributable to the risk of changing prices. Since the contracts have been designated as hedging instruments, unrealized gains or losses resulting from adjusting these contracts to fair value are recorded as elements of AOCI within the Condensed Consolidated Balance Sheets. Realized gains or losses remain as a component of AOCI until the related inventory is sold. Upon sale of the underlying inventory, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at July 2, 2016 was a loss of \$0.5 million related to urea derivatives that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

The Company also uses derivatives to partially mitigate the effect of fluctuating diesel costs on operating results. These financial instruments are carried at fair value within the Condensed Consolidated Balance Sheets. Changes in the fair value of derivative contracts that qualify for hedge accounting are recorded in AOCI except for any ineffective portion of the change in fair value, which is immediately recorded in earnings. The effective portion of the change in fair value remains as a component of AOCI until the related fuel is consumed, at which time the accumulated gain or loss on the derivative contract is reclassified to cost of sales. Changes in the fair value of derivatives that do not qualify for hedge accounting are recorded as an element of cost of sales. At July 2, 2016, there were no amounts included within AOCI.

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

COMMODITY	JULY 2, 2016	JUNE 27, 2015	SEPTEMBER 30, 2015
Urea	34,500 tons	34,500 tons	52,500 tons
Diesel	5,670,000 gallons	3,738,000 gallons	5,250,000 gallons
Heating Oil	1,386,000 gallons	3,318,000 gallons	2,772,000 gallons

Fair Values of Derivative Instruments

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

DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS	BALANCE SHEET LOCATION	ASSETS / (LIABILITIES)		
		JULY 2, 2016	JUNE 27, 2015	SEPTEMBER 30, 2015
		FAIR VALUE		
		(In millions)		
Interest rate swap agreements	Other assets	\$—	\$ 0.1	\$ —
	Other current liabilities	(4.3)	(8.8)	(8.8)
	Other liabilities	(4.4)	(0.7)	(4.6)
Commodity hedging instruments	Other current liabilities	(0.8)	—	(1.3)
Total derivatives designated as hedging instruments		\$(9.5)	\$(9.4)	\$(14.7)
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS	BALANCE SHEET LOCATION			
Currency forward contracts	Prepaid and other current assets	\$1.2	\$ 1.2	\$ —
	Other current liabilities	(0.8)	—	(0.7)
Commodity hedging instruments	Prepaid and other current assets	0.2	—	—
	Other current liabilities	(0.1)	(2.2)	(3.2)
Total derivatives not designated as hedging instruments		0.5	(1.0)	(3.9)
Total derivatives		\$(9.0)	\$(10.4)	\$(18.6)

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

DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS		AMOUNT OF GAIN / (LOSS) RECOGNIZED IN AOCI					
		THREE MONTHS ENDED JULY 21, 2016		NINE MONTHS ENDED JULY 21, 2015			
Interest rate swap agreements		\$ (1.0)	\$ 0.2	\$ (1.9)	\$ (4.3)		
Commodity hedging instruments		(0.2)	0.3	(0.9)	(0.1)		
Total		\$ (1.2)	\$ 0.5	\$ (2.8)	\$ (4.4)		
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS		RECLASSIFIED FROM AOCI INTO STATEMENT OF OPERATIONS		AMOUNT OF GAIN / (LOSS)			
				THREE MONTHS ENDED JULY 21, 2016		NINE MONTHS ENDED JULY 21, 2015	
Interest rate swap agreements	Interest expense	\$ (1.5)	\$ (2.2)	\$ (4.7)	\$ (5.7)		
Commodity hedging instruments	Cost of sales	(0.2)	(0.1)	(0.6)	0.1		
Total		\$ (1.7)	\$ (2.3)	\$ (5.3)	\$ (5.6)		
DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		RECOGNIZED IN STATEMENT OF OPERATIONS		AMOUNT OF GAIN / (LOSS)			
				THREE MONTHS ENDED JULY 21, 2016		NINE MONTHS ENDED JULY 21, 2015	
Currency forward contracts	Other income, net	\$ 0.7	\$ 1.0	\$ (0.4)	\$ 6.3		
Commodity hedging instruments	Cost of sales	1.8	0.9	(2.5)	(7.9)		
Total		\$ 2.5	\$ 1.9	\$ (2.9)	\$ (1.6)		

NOTE 14. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Derivatives

Derivatives consist of currency, interest rate and commodity derivative instruments. Currency forward contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. Interest rate swap agreements are valued based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. Commodity contracts are measured using observable commodity exchange prices in active markets.

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

Cash Equivalents

Cash equivalents consist of highly liquid financial instruments with original maturities of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.

Other

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

Long-Term Debt

Long-term debt consists of a loan provided to the noncontrolling ownership group of Gavita. The estimated fair value of the loan was determined using an income-based approach, which includes market participant expectations of cash flows over the remaining useful life discounted to present value using an appropriate discount rate. The estimate requires subjective assumptions to be made, including those related to future business results and discount rates. The fair value measurement is based on significant inputs unobservable in the market and thus represents a Level 3 measurement.

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at July 2, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Inputs	Unobservable Inputs (Level 3)	Total
(In millions)					
Assets					
Cash equivalents	\$ 14.6	\$ —		\$ —	\$ 14.6
Derivatives					
Currency forward contracts	—	1.2		—	1.2
Commodity hedging instruments	—	0.2		—	0.2
Other	11.1	—		—	11.1
Total	\$ 25.7	\$ 1.4		\$ —	\$ 27.1
Liabilities					
Derivatives					
Interest rate swap agreements	\$ —	\$ (8.7	)	\$ —	\$ (8.7)
Currency forward contracts	—	(0.8	)	—	(0.8)
Commodity hedging instruments	—	(0.9)	—	(0.9)
Long-term debt	—	—		(37.7) (37.7)
Total	\$ —	\$ (10.4)	\$ (37.7) \$(48.1)

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The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at June 27, 2015:

	Quoted Prices in				Total
	Active Markets for Identical (Level 1)	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Unobservable Inputs (Level 3)	
(In millions)					
Assets					
Cash equivalents	\$ 14.3	\$ —		\$ —	\$ 14.3
Derivatives					
Interest rate swap agreements	—	0.1		—	0.1
Currency forward contracts	—	1.2		—	1.2
Other	10.4	—		—	10.4
Total	\$ 24.7	\$ 1.3		\$ —	\$ 26.0
Liabilities					
Derivatives					
Interest rate swap agreements	\$ —	\$ (9.5	)	\$ —	\$ (9.5)
Commodity hedging instruments	—	(2.2	)	—	(2.2)
Total	\$ —	\$ (11.7	)	\$ —	\$ (11.7)

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at September 30, 2015:

	Quoted Prices in Active Markets for Identical (Level 1)				Total
	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Unobservable Inputs (Level 3)		
(In millions)					
Assets					
Cash equivalents	\$ 28.6	\$ —		\$ —	\$ 28.6
Other	8.9	—		—	8.9
Total	\$ 37.5	\$ —		\$ —	\$ 37.5
Liabilities					
Derivatives					
Interest rate swap agreements	\$ —	\$ (13.4	)	\$ —	\$ (13.4)
Currency forward contracts	—	(0.7	)	—	(0.7)
Commodity hedging instruments	—	(4.5	)	—	(4.5)
Total	\$ —	\$ (18.6	)	\$ —	\$ (18.6)

NOTE 15. SEGMENT INFORMATION

The Company divides its business into three reportable segments: U.S. Consumer, Europe Consumer and Other. These segments differ from those used in prior periods due to the change in internal organization structure associated with Project Focus, which is a series of initiatives announced in the first quarter of fiscal 2016 designed to maximize the value of the Company's non-core assets and focus on emerging categories of the lawn and garden industry in its core U.S. business. On April 13, 2016, as part of this project, the Company completed the contribution of the SLS Business to a newly formed subsidiary of TruGreen Holdings in exchange for a minority equity interest of approximately 30%

in the Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. The prior period amounts have been reclassified to conform with the new segments. This division of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company.

U.S. Consumer consists of the Company's consumer lawn and garden business located in the geographic United States. Europe Consumer consists of the Company's consumer lawn and garden business located in geographic Europe. Other consists of the Company's consumer lawn and garden businesses in geographies other than the U.S. and Europe, the Company's indoor, urban and hydroponics gardening business, and revenues and expenses associated with the Company's supply agreements with

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Israel Chemicals, Ltd. Corporate consists of general and administrative expenses and certain other income/expense items not allocated to the business segments.

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

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, JUNE 27, 2016		JULY 2, JUNE 27, 2015	
	2016	2015	2016	2015
	(In millions)			
Net sales:				
U.S. Consumer	\$756.7	\$871.2	\$1,909.6	\$1,861.6
Europe Consumer	96.2	110.3	236.9	260.9
Other	141.2	129.8	287.3	230.1
Consolidated	\$994.1	\$1,111.3	\$2,433.8	\$2,352.6
Income from continuing operations before income taxes:				
U.S. Consumer	\$205.8	\$237.9	\$487.6	\$429.9
Europe Consumer	11.8	15.0	24.2	23.9
Other	11.9	16.7	17.0	14.2
Segment total	229.5	269.6	528.8	468.0
Corporate	(13.8)	(22.1)	(73.9)	(76.0)
Intangible asset amortization	(4.4)	(4.4)	(12.6)	(10.9)
Impairment, restructuring and other	(11.4)	(51.7)	29.1	(65.0)
Equity in income of unconsolidated affiliates	13.5	—	13.5	—
Costs related to refinancing	—	—	(8.8)	—
Interest expense	(16.9)	(14.3)	(52.3)	(39.0)
Consolidated	\$196.5	\$177.1	\$423.8	\$277.1

JULY 2, JUNE 27, SEPTEMBER 30,
2016 2015 2015
(In millions)

Total assets:			
U.S. Consumer	\$2,121.1	\$1,979.6	\$ 1,622.5
Europe Consumer	264.6	279.2	217.9
Other	570.9	401.9	324.1
Corporate	303.1	134.2	142.4
Assets held for sale	—	223.2	220.3
Consolidated	\$3,259.7	\$3,018.1	\$ 2,527.2

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

The 6.000% Senior Notes were issued on October 13, 2015 and are guaranteed by certain of the Company's domestic subsidiaries and, therefore, the Company reports condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. On January 15, 2014 and December 15, 2015, Scotts Miracle-Gro redeemed, respectively, all of its outstanding \$200.0 million aggregate principal amount of 7.25% Senior Notes and \$200.0 million aggregate principal amount of 6.625% Senior Notes, each of which were previously guaranteed by certain of its domestic subsidiaries. The guarantees are "full and unconditional," as those terms are used in Regulation S-X Rule 3-10, except that a subsidiary's guarantee will be released in certain customary circumstances, such as (1) upon any sale or other disposition of all or substantially all of the assets of the subsidiary (including by way of merger or consolidation) to any person other than Scotts Miracle-Gro or any "restricted subsidiary" under the indenture governing the 6.00% Senior Notes; (2) if the subsidiary merges with and into Scotts Miracle-Gro, with Scotts Miracle-Gro surviving such merger; (3) if the subsidiary is designated an "unrestricted subsidiary" in accordance with the indenture governing the 6.000% Senior Notes or otherwise ceases to be a "restricted subsidiary" (including by way of liquidation or dissolution) in a transaction permitted by such indenture; (4) upon legal or covenant defeasance; (5) at the election of Scotts Miracle-Gro following the subsidiary's release as a guarantor under the new credit agreement, except a release by or as a result of the repayment of the new credit agreement; or (6) if the subsidiary ceases to be a "restricted subsidiary" and the subsidiary is not otherwise required to provide a guarantee of the 6.000% Senior Notes pursuant to the indenture governing the 6.000% Senior Notes. SLS Holdings, Inc. was added as a guarantor effective in the three month period ending July 2, 2016, and HGCI, Inc. and GenSource, Inc. were added as guarantors effective in the three month period ending January 2, 2016, and have been classified as Guarantors for all periods presented. SLS Holdings, Inc., HGCI, Inc. and GenSource, Inc. did not have any activity for the nine months ended June 27, 2015.

The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee at July 2, 2016 the 6.000% Senior Notes on a joint and several basis: Gutwein & Co., Inc.; Hyponex Corporation; Miracle-Gro Lawn Products, Inc.; OMS Investments, Inc.; Rod McLellan Company; Sanford Scientific, Inc.; Scotts Temecula Operations, LLC; Scotts Manufacturing Company; Scotts Products Co.; Scotts Professional Products Co.; Scotts-Sierra Investments LLC; SMG Growing Media, Inc.; Swiss Farms Products, Inc.; SMGM LLC; The Scotts Company LLC; The Hawthorne Gardening Company; Hawthorne Hydroponics LLC; HGCI, Inc.; GenSource, Inc.; and SLS Holdings, Inc. (collectively, the "Guarantors"). Effective in the three month period ending July 2, 2016, the SLS Business was contributed to the Joint Venture and the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities as held for sale within the financial information of the Guarantors. Subsequent to their contribution to the Joint Venture, EG Systems, Inc. and SLS Franchise Systems LLC are no longer guarantors of the 6.000% Senior Notes.

The following information presents Condensed Consolidating Statements of Operations for the three and nine months ended July 2, 2016 and June 27, 2015, Condensed Consolidating Statements of Comprehensive Income (Loss) for the three and nine months ended July 2, 2016 and June 27, 2015, Condensed Consolidating Statements of Cash Flows for the nine months ended July 2, 2016 and June 27, 2015, and Condensed Consolidating Balance Sheets as of July 2, 2016, June 27, 2015 and September 30, 2015. The condensed consolidating financial information presents, in separate columns, financial information for: Scotts Miracle-Gro on a Parent-only basis, carrying its investment in subsidiaries under the equity method; Guarantors on a combined basis, carrying their investments in subsidiaries which do not guarantee the debt (collectively, the "Non-Guarantors") under the equity method; Non-Guarantors on a combined basis; and eliminating entries. The eliminating entries primarily reflect intercompany transactions, such as interest expense, accounts receivable and payable, short and long-term debt, and the elimination of equity investments, return on investments and income in subsidiaries. Because the Parent is obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors or Non-Guarantors under the credit facility (and was obligated to pay the unpaid principal amount and interest on all amounts borrowed by the Guarantors and Non-Guarantors under the previous senior secured five-year revolving loan facility), the borrowings and related interest expense for the loans outstanding of the Guarantors and Non-Guarantors are also presented in the accompanying Parent-only financial information, and are then eliminated. Included in the Parent Condensed Consolidating Statement of Cash Flows for

the nine months ended July 2, 2016 are \$758.4 million of dividends paid by the Guarantors and Non-Guarantors to the Parent representing return of investments and as such are classified within cash flows used in investing activities. Included in the Parent Condensed Consolidating Statement of Cash Flows for the nine months ended June 27, 2015 are \$226.6 million of dividends paid by the Guarantors and Non-Guarantors to the Parent representing return on investments and as such are classified within cash flows from operating activities.

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended July 2, 2016
(In millions)
(Unaudited)

	Parent	Subsidiary Non-Guarantors	Non-Guarantors	Eliminations/Consolidations	Consolidated
Net sales	\$—	\$ 786.2	\$ 207.9	\$ —	\$ 994.1
Cost of sales	—	485.8	150.5	—	636.3
Cost of sales—impairment, restructuring and other	—	0.4	—	—	0.4
Gross profit	—	300.0	57.4	—	357.4
Operating expenses:					
Selling, general and administrative	—	108.5	43.0	0.4	151.9
Impairment, restructuring and other	—	(5.8)	—	—	(5.8)
Other (income) loss, net	(0.2)	(5.8)	0.4	—	(5.6)
Income (loss) from operations	0.2	203.1	14.0	(0.4)	216.9
Equity (income) loss in subsidiaries	(219.6)	(5.9)	—	225.5	—
Other non-operating (income) loss	(6.1)	—	(5.7)	11.8	—
Equity in (income) loss of unconsolidated affiliates	—	3.5	—	—	3.5
Interest expense	15.7	11.8	1.2	(11.8)	16.9
Income (loss) from continuing operations before income taxes	210.2	193.7	18.5	(225.9)	196.5
Income tax (benefit) expense from continuing operations	(3.2)	66.2	6.5	—	69.5
Income (loss) from continuing operations	213.4	127.5	12.0	(225.9)	127.0
Income (loss) from discontinued operations, net of tax	—	85.7	—	—	85.7
Net income (loss)	\$213.4	\$ 213.2	\$ 12.0	\$ (225.9)	\$ 212.7
Net (income) loss attributable to noncontrolling interest	—	—	—	0.4	0.4
Net income (loss) attributable to controlling interest	\$213.4	\$ 213.2	\$ 12.0	\$ (225.5)	\$ 213.1

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the nine months ended July 2, 2016
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
Net sales	\$—	\$ 1,985.5	\$ 448.3	\$ —	\$ 2,433.8
Cost of sales	—	1,215.7	316.9	—	1,532.6
Cost of sales—impairment, restructuring and other	—	5.5	—	—	5.5
Gross profit	—	764.3	131.4	—	895.7
Operating expenses:					
Selling, general and administrative	—	355.9	109.1	1.1	466.1
Impairment, restructuring and other	—	(52.1)	0.4	—	(51.7)
Other (income) loss, net	(0.2)	(7.0)	0.1	—	(7.1)
Income (loss) from operations	0.2	467.5	21.8	(1.1)	488.4
Equity (income) loss in subsidiaries	(368.4)	(11.4)	—	379.8	—
Other non-operating (income) loss	(19.4)	—	(17.8)	37.2	—
Equity in (income) loss of unconsolidated affiliates	—	3.5	—	—	3.5
Costs related to refinancing	8.8	—	—	—	8.8
Interest expense	49.9	36.4	3.2	(37.2)	52.3
Income (loss) from continuing operations before income taxes	329.3	439.0	36.4	(380.9)	423.8
Income tax (benefit) expense from continuing operations	(13.9)	151.2	13.0	—	150.3
Income (loss) from continuing operations	343.2	287.8	23.4	(380.9)	273.5
Income (loss) from discontinued operations, net of tax	—	68.2	—	—	68.2
Net income (loss)	\$343.2	\$ 356.0	\$ 23.4	\$ (380.9)	\$ 341.7
Net (income) loss attributable to noncontrolling interest	—	—	—	0.2	0.2
Net income (loss) attributable to controlling interest	\$343.2	\$ 356.0	\$ 23.4	\$ (380.7)	\$ 341.9

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Statement of Comprehensive Income (Loss)

for the three months ended July 2, 2016

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
Net income (loss)	\$213.4	\$ 213.2	\$ 12.0	\$ (225.9)	\$ 212.7
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	(12.3)	—	(12.3)	12.3	(12.3)
Net change in derivatives	0.5	0.1	—	(0.1)	0.5
Net change in pension and other post-retirement benefits	0.9	0.4	0.5	(0.9)	0.9
Total other comprehensive income (loss)	(10.9)	0.5	(11.8)	11.3	(10.9)
Comprehensive income (loss)	\$202.5	\$ 213.7	\$ 0.2	\$ (214.6)	\$ 201.8

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Statement of Comprehensive Income (Loss)

for the nine months ended July 2, 2016

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
Net income (loss)	\$343.2	\$ 356.0	\$ 23.4	\$ (380.9)	\$ 341.7
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	(14.8)	—	(14.8)	14.8	(14.8)
Net change in derivatives	2.5	(0.2)	—	0.2	2.5
Net change in pension and other post-retirement benefits	1.6	0.8	0.8	(1.6)	1.6
Total other comprehensive income (loss)	(10.7)	0.6	(14.0)	13.4	(10.7)
Comprehensive income (loss)	\$332.5	\$ 356.6	\$ 9.4	\$ (367.5)	\$ 331.0

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the nine months ended July 2, 2016
(In millions)
(Unaudited)

	Parent	Subsidiary Non-Guarantors	Non-Guarantors	Eliminations/Consolidations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES ^(a)	\$(33.4)	\$ 18.6	\$ (43.2)	\$ 29.1	\$ (28.9)
INVESTING ACTIVITIES					
Proceeds from sale of long-lived assets	—	2.4	—	—	2.4
Investments in property, plant and equipment	—	(29.4)	(6.3)	—	(35.7)
Investments in loans receivable	—	(90.0)	—	—	(90.0)
Net distributions from unconsolidated affiliates	—	194.1	—	—	194.1
Cash contributed to Joint Venture	—	(24.2)	—	—	(24.2)
Investments in acquired businesses, net of cash acquired	—	—	(161.4)	—	(161.4)
Return of investments from affiliates	758.4	—	—	(758.4)	—
Investing cash flows from (to) affiliates	(760.4)	(29.1)	—	789.5	—
Net cash provided by (used in) investing activities	(2.0)	23.8	(167.7)	31.1	(114.8)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit and term loans	—	1,669.3	213.3	—	1,882.6
Repayments under revolving and bank lines of credit and term loans	—	(1,652.6)	(110.3)	—	(1,762.9)
Proceeds from issuance of 6.000% Senior Notes	400.0	—	—	—	400.0
Repayment of 6.625% Senior Notes	(200.0)	—	—	—	(200.0)
Financing and issuance fees	(11.2)	—	—	—	(11.2)
Dividends paid	(86.4)	(747.4)	(11.0)	758.4	(86.4)
Purchase of Common Shares	(81.2)	—	—	—	(81.2)
Payments on seller notes	—	(1.8)	(0.5)	—	(2.3)
Excess tax benefits from share-based payment arrangements	4.3	—	—	—	4.3
Cash received from the exercise of stock options	9.9	—	—	—	9.9
Financing cash flows from (to) affiliates	—	689.0	129.6	(818.6)	—
Net cash provided by (used in) financing activities	35.4	(43.5)	221.1	(60.2)	152.8
Effect of exchange rate changes on cash	—	—	(3.3)	—	(3.3)
Net increase (decrease) in cash and cash equivalents	—	(1.1)	6.9	—	5.8
Cash and cash equivalents at beginning of period	—	8.2	63.2	—	71.4
Cash and cash equivalents at end of period	\$—	\$ 7.1	\$ 70.1	\$ —	\$ 77.2

^(a) Cash received by the Parent from the Guarantors and Non-Guarantors in the form of dividends in the amount of \$758.4 million represent return of investments and are included in cash flows used in investing activities.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Balance Sheet

As of July 2, 2016

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$ 7.1	\$ 70.1	\$ —	\$ 77.2
Accounts receivable, net	—	157.8	201.9	—	359.7
Accounts receivable pledged	—	435.1	—	—	435.1
Inventories	—	354.3	115.6	—	469.9
Prepaid and other current assets	0.2	96.2	42.8	—	139.2
Total current assets	0.2	1,050.5	430.4	—	1,481.1
Investment in unconsolidated affiliate	—	94.4	—	—	94.4
Property, plant and equipment, net	—	375.5	74.1	—	449.6
Goodwill	—	260.4	74.0	11.6	346.0
Intangible assets, net	—	599.2	140.8	10.6	750.6
Other assets	20.9	115.0	15.3	(13.2)	) 138.0
Equity investment in subsidiaries	833.3	—	—	(833.3)) —
Intercompany assets	1,071.5	—	—	(1,071.5)) —
Total assets	\$1,925.9	\$ 2,495.0	\$ 734.6	\$ (1,895.8)	) \$ 3,259.7
LIABILITIES AND EQUITY					
Current liabilities:					
Current portion of debt	\$15.0	\$ 364.0	\$ 18.5	\$ (15.0)	) \$ 382.5
Accounts payable	—	176.9	72.6	—	249.5
Other current liabilities	11.3	241.6	106.3	—	359.2
Total current liabilities	26.3	782.5	197.4	(15.0)	) 991.2
Long-term debt	1,082.4	501.2	191.5	(644.8)	) 1,130.3
Other liabilities	4.3	277.9	30.6	(6.8)	) 306.0
Equity investment in subsidiaries	—	149.7	—	(149.7)) —
Intercompany liabilities	—	197.1	204.9	(402.0)) —
Total liabilities	1,113.0	1,908.4	624.4	(1,218.3)	) 2,427.5
Total shareholders' equity - controlling interest	812.9	586.6	110.2	(696.8)	) 812.9
Noncontrolling interest	—	—	—	19.3	19.3
Total equity	812.9	586.6	110.2	(677.5)) 832.2
Total liabilities and equity	\$1,925.9	\$ 2,495.0	\$ 734.6	\$ (1,895.8)) \$ 3,259.7

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended June 27, 2015
(In millions)
(Unaudited)

	Parent	Subsidiary Non-Guarantors	Non-Guarantors	Eliminations/Consolidations	Consolidated
Net sales	\$—	\$ 894.5	\$ 216.8	\$ —	\$ 1,111.3
Cost of sales	—	568.9	153.2	—	722.1
Cost of sales—impairment, restructuring and other	—	0.3	3.1	—	3.4
Gross profit	—	325.3	60.5	—	385.8
Operating expenses:					
Selling, general and administrative	—	109.4	45.5	0.4	155.3
Impairment, restructuring and other	—	37.7	3.2	—	40.9
Other (income) loss, net	—	(1.1)	(0.7)	—	(1.8)
Income (loss) from operations	—	179.3	12.5	(0.4)	191.4
Equity (income) loss in subsidiaries	(138.2)	(5.7)	—	143.9	—
Other non-operating (income) loss	(8.5)	—	(5.7)	14.2	—
Interest expense	15.3	12.4	0.8	(14.2)	14.3
Income (loss) from continuing operations before income taxes	131.4	172.6	17.4	(144.3)	177.1
Income tax (benefit) expense from continuing operations	(2.4)	58.4	6.0	—	62.0
Income (loss) from continuing operations	133.8	114.2	11.4	(144.3)	115.1
Income (loss) from discontinued operations, net of tax	—	17.9	—	—	17.9
Net income (loss)	\$133.8	\$ 132.1	\$ 11.4	\$ (144.3)	\$ 133.0
Net (income) loss attributable to noncontrolling interest	—	—	—	0.4	0.4
Net income (loss) attributable to controlling interest	\$133.8	\$ 132.1	\$ 11.4	\$ (143.9)	\$ 133.4

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the nine months ended June 27, 2015
(In millions)
(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
Net sales	\$—	\$ 1,894.6	\$ 458.0	\$ —	\$ 2,352.6
Cost of sales	—	1,206.8	325.0	—	1,531.8
Cost of sales—impairment, restructuring and other	—	0.3	3.3	—	3.6
Gross profit	—	687.5	129.7	—	817.2
Operating expenses:					
Selling, general and administrative	—	335.9	112.3	1.3	449.5
Impairment, restructuring and other	—	47.6	6.4	—	54.0
Other (income) loss, net	—	(2.1)	(0.3)	—	(2.4)
Income (loss) from operations	—	306.1	11.3	(1.3)	316.1
Equity income (loss) in subsidiaries	(197.9)	(8.3)	—	206.2	—
Other non-operating income (loss)	(22.5)	—	(16.9)	39.4	—
Interest expense	42.8	34.1	1.5	(39.4)	39.0
Income (loss) from continuing operations before income taxes	177.6	280.3	26.7	(207.5)	277.1
Income tax (benefit) expense from continuing operations	(7.1)	94.7	9.4	—	97.0
Income (loss) from continuing operations	184.7	185.6	17.3	(207.5)	180.1
Income (loss) from discontinued operations, net of tax	—	3.2	—	—	3.2
Net income (loss)	\$ 184.7	\$ 188.8	\$ 17.3	\$ (207.5)	\$ 183.3
Net (income) loss attributable to noncontrolling interest	—	—	—	0.1	0.1
Net income (loss) attributable to controlling interest	\$ 184.7	\$ 188.8	\$ 17.3	\$ (207.4)	\$ 183.4

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Statement of Comprehensive Income (Loss)

for the three months ended June 27, 2015

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
Net income (loss)	\$133.8	\$ 132.1	\$ 11.4	\$ (144.3)	\$ 133.0
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	2.5	—	2.5	(2.5)	2.5
Net change in derivatives	2.8	0.4	—	(0.4)	2.8
Net change in pension and other post-retirement benefits	0.8	0.5	0.3	(0.8)	0.8
Total other comprehensive income (loss)	6.1	0.9	2.8	(3.7)	6.1
Comprehensive income (loss)	\$139.9	\$ 133.0	\$ 14.2	\$ (148.0)	\$ 139.1

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Statement of Comprehensive Income (Loss)

for the nine months ended June 27, 2015

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
Net income (loss)	\$184.7	\$ 188.8	\$ 17.3	\$ (207.5)	\$ 183.3
Other comprehensive income (loss), net of tax:					
Net foreign currency translation adjustment	(8.8)	—	(8.8)	8.8	(8.8)
Net change in derivatives	1.2	(0.2)	—	0.2	1.2
Net change in pension and other post-retirement benefits	2.3	1.5	0.8	(2.3)	2.3
Total other comprehensive income (loss)	(5.3)	1.3	(8.0)	6.7	(5.3)
Comprehensive income (loss)	\$179.4	\$ 190.1	\$ 9.3	\$ (200.8)	\$ 178.0

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THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the nine months ended June 27, 2015
(In millions)
(Unaudited)

	Parent	Subsidiary Non-Guarantors	Non-Guarantors	Eliminations/Consolidations	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES ^(a)	\$206.6	\$ 68.0	\$ (11.1)	\$ (239.3)	\$ 24.2
INVESTING ACTIVITIES					
Proceeds from sale of long-lived assets	—	5.3	—	—	5.3
Investments in property, plant and equipment	—	(37.7)	(3.5)	—	(41.2)
Investments in acquired businesses, net of cash acquired	—	(169.6)	(9.5)	—	(179.1)
Investing cash flows from (to) affiliates	(128.8)	—	—	128.8	—
Net cash used in investing activities	(128.8)	(202.0)	(13.0)	128.8	(215.0)
FINANCING ACTIVITIES					
Borrowings under revolving and bank lines of credit and term loans	—	1,176.1	264.6	—	1,440.7
Repayments under revolving and bank lines of credit and term loans	—	(1,051.8)	(124.1)	—	(1,175.9)
Dividends paid	(82.4)	(226.6)	(12.7)	239.3	(82.4)
Purchase of Common Shares	(14.8)	—	—	—	(14.8)
Payments on seller notes	—	(0.8)	—	—	(0.8)
Excess tax benefits from share-based payment arrangements	2.9	—	—	—	2.9
Cash received from the exercise of stock options	16.5	—	—	—	16.5
Financing cash flows from (to) affiliates	—	221.4	(92.6)	(128.8)	—
Net cash provided by (used in) financing activities	(77.8)	118.3	35.2	110.5	186.2
Effect of exchange rate changes on cash	—	—	(4.8)	—	(4.8)
Net increase (decrease) in cash and cash equivalents	—	(15.7)	6.3	—	(9.4)
Cash and cash equivalents at beginning of period	—	23.1	66.2	—	89.3
Cash and cash equivalents at end of period	\$—	\$ 7.4	\$ 72.5	\$ —	\$ 79.9

Cash received by the Parent from its subsidiaries in the form of dividends in the amount of \$226.6 million represent return on investments and are included in cash flows from operating activities. Cash received by the Guarantors ^(a) from the Non-Guarantors in the form of dividends in the amount of \$12.7 million represent return on investments and are included in the cash flows from operating activities.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Balance Sheet

As of June 27, 2015

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$ 7.4	\$ 72.5	\$ —	\$ 79.9
Accounts receivable, net	—	191.5	215.2	—	406.7
Accounts receivable pledged	—	376.4	—	—	376.4
Inventories	—	311.9	87.9	—	399.8
Assets held for sale	—	223.2	—	—	223.2
Prepaid and other current assets	—	87.1	38.8	—	125.9
Total current assets	—	1,197.5	414.4	—	1,611.9
Property, plant and equipment, net	—	379.5	58.4	—	437.9
Goodwill	—	258.2	12.3	11.6	282.1
Intangible assets, net	—	583.9	65.6	12.1	661.6
Other assets	15.2	12.6	21.6	(24.8)	24.6
Equity investment in subsidiaries	515.9	—	—	(515.9)	—
Intercompany assets	887.1	—	—	(887.1)	—
Total assets	\$1,418.2	\$ 2,431.7	\$ 572.3	\$ (1,404.1)	\$ 3,018.1
LIABILITIES AND EQUITY					
Current liabilities:					
Current portion of debt	\$—	\$ 302.0	\$ 12.0	\$ —	\$ 314.0
Accounts payable	—	234.2	74.4	—	308.6
Marketing and license agreement obligation	—	300.0	—	—	300.0
Liabilities held for sale	—	63.4	—	—	63.4
Other current liabilities	11.9	247.4	102.9	—	362.2
Total current liabilities	11.9	1,147.0	189.3	—	1,348.2
Long-term debt	725.6	386.3	148.5	(525.5)	734.9
Other liabilities	0.7	229.0	31.7	(19.8)	241.6
Equity investment in subsidiaries	—	146.1	—	(146.1)	—
Intercompany liabilities	—	267.6	75.3	(342.9)	—
Total liabilities	738.2	2,176.0	444.8	(1,034.3)	2,324.7
Total shareholders' equity - controlling interest	680.0	255.7	127.5	(383.2)	680.0
Noncontrolling interest	—	—	—	13.4	13.4
Total equity	680.0	255.7	127.5	(369.8)	693.4
Total liabilities and equity	\$1,418.2	\$ 2,431.7	\$ 572.3	\$ (1,404.1)	\$ 3,018.1

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidating Balance Sheet

As of September 30, 2015

(In millions)

(Unaudited)

	Parent	Subsidiary Guarantors	Non- Guarantors	Eliminations/ Consolidations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$ 8.2	\$ 63.2	\$ —	\$ 71.4
Accounts receivable, net	—	63.3	94.4	—	157.7
Accounts receivable pledged	—	152.9	—	—	152.9
Inventories	—	306.9	88.9	—	395.8
Assets held for sale	—	220.3	—	—	220.3
Prepaid and other current assets	—	86.4	34.7	—	121.1
Total current assets	—	838.0	281.2	—	1,119.2
Property, plant and equipment, net	—	388.0	56.1	—	444.1
Goodwill	—	260.2	12.0	11.6	283.8
Intangible assets, net	—	608.6	34.8	11.7	655.1
Other assets	16.3	11.0	15.0	(17.3)	25.0
Equity investment in subsidiaries	461.3	—	—	(461.3)	—
Intercompany assets	1,179.4	—	—	(1,179.4)	—
Total assets	\$1,657.0	\$ 2,105.8	\$ 399.1	\$ (1,634.7)	\$ 2,527.2
LIABILITIES AND EQUITY					
Current liabilities:					
Current portion of debt	\$—	\$ 122.9	\$ 9.7	\$ —	\$ 132.6
Accounts payable	—	136.7	56.4	—	193.1
Liabilities held for sale	—	41.7	—	—	41.7
Other current liabilities	15.5	162.7	73.0	—	251.2
Total current liabilities	15.5	464.0	139.1	—	618.6
Long-term debt	1,016.3	724.9	100.1	(816.3)	1,025.0
Other liabilities	4.5	226.0	32.3	(12.3)	250.5
Equity investment in subsidiaries	—	156.2	—	(156.2)	—
Intercompany liabilities	—	296.5	47.6	(344.1)	—
Total liabilities	1,036.3	1,867.6	319.1	(1,328.9)	1,894.1
Total shareholders' equity - controlling interest	620.7	238.2	80.0	(318.2)	620.7
Noncontrolling interest	—	—	—	12.4	12.4
Total equity	620.7	238.2	80.0	(305.8)	633.1
Total liabilities and equity	\$1,657.0	\$ 2,105.8	\$ 399.1	\$ (1,634.7)	\$ 2,527.2

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

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

Executive summary

Results of operations

Segment results

Liquidity and capital resources

Regulatory matters

Critical accounting policies and estimates

This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (the "2015 Annual Report").

EXECUTIVE SUMMARY

We are dedicated to delivering strong, long-term financial results and outstanding shareholder returns by providing products of superior quality and value to enhance consumers' lawn and garden environments. We are a leading manufacturer and marketer of consumer branded products for lawn and garden care in North America and Europe. We are Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® non-selective herbicide products within the United States and other contractually specified countries. We have a presence in similar consumer branded product categories in Australia, the Far East and Latin America. In addition, as a result of our recent acquisitions of General Hydroponics, Vermicrop, Gavita and our control of AeroGrow, we are a leading producer of liquid plant food products, growing media, indoor lighting, advanced indoor garden systems and accessories for hydroponic gardening. Our operations are divided into three reportable segments: U.S. Consumer, Europe Consumer and Other. These segments differ from those used in prior years due to the change in our internal organizational structure associated with Project Focus, which is a series of initiatives announced in the first quarter of fiscal 2016 designed to maximize the value of our non-core assets and concentrate focus on emerging categories of the lawn and garden industry in our core U.S. business.

On April 13, 2016, as part of Project Focus, we completed the contribution of the Scotts LawnService® business (the "SLS Business") to a newly formed subsidiary of TruGreen Holding Corporation (the "Joint Venture") in exchange for a minority equity interest of approximately 30% in the Joint Venture. The preliminary fair value of this interest was estimated to be \$294.0 million, resulting in a pre-tax gain of \$142.6 million. As a result of this transaction, effective in our second quarter of fiscal 2016, we classified our results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. Prior to being reported as discontinued operations, the SLS Business was referred to as our former Scotts LawnService® business segment. At closing, the Joint Venture obtained debt financing and, pursuant to the terms of the Contribution and Distribution Agreement, we received a pro rata cash distribution of \$196.2 million, partially offset by an \$18.0 million investment in second lien term loan financing provided by us to the Joint Venture and closing working capital adjustments. For additional information, see "NOTE 2. DISCONTINUED OPERATIONS" of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

As a leading consumer branded lawn and garden company, our product development and marketing efforts are largely focused on providing innovative and differentiated products and continually increasing brand and product awareness to inspire consumers and to create retail demand. We have implemented this model for a number of years by focusing on research and development and investing around 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 benefit from these expenditures and anticipate a similar commitment to research and development, advertising and marketing investments in the future, with the continuing objective of driving category growth and profitably increasing market share.

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

	Percent of Net Sales by Quarter		
	2015	2014	2013
First Quarter	7.2 %	6.7 %	7.0 %
Second Quarter	36.5 %	38.0 %	36.4 %
Third Quarter	40.3 %	39.3 %	41.0 %
Fourth Quarter	16.0 %	16.0 %	15.6 %

We follow a 13-week quarterly accounting cycle pursuant to which our first three fiscal quarters end on a Saturday and our fiscal year always ends on September 30. This fiscal calendar convention requires us to cycle forward our first three fiscal quarter ends every six years. Fiscal 2016 is the most recent year impacted by this process and, as a result, our first quarter of fiscal 2016 had six additional days and our fourth quarter of fiscal 2016 will have five less days compared to the respective quarters of fiscal 2015. In addition, our third quarter of fiscal 2016 began six days later than our third quarter of fiscal 2015 and these six days occurred during our peak selling season. This calendar shift resulted in a decrease in net sales and income attributable to controlling interest from continuing operations per share of approximately \$90 million and \$0.43, respectively, for the three months ended July 2, 2016, and an increase in net sales and income from continuing operations per share of approximately \$32.0 million and \$0.17 for the nine months ended July 2, 2016.

On August 11, 2014, we announced that the Scotts Miracle-Gro Board of Directors approved a share repurchase authorization effective November 1, 2014, which will expire on September 30, 2019, to repurchase up to \$500.0 million of our Common Shares. On August 3, 2016, we announced that the Scotts Miracle-Gro Board of Directors approved a \$500.0 million increase to the current share repurchase authorization. The amended authorization allows for repurchases of Common Shares of \$1.0 billion through September 30, 2019. During the three and nine months ended July 2, 2016, Scotts Miracle-Gro repurchased 0.5 million and 1.2 million Common Shares for \$38.4 million and \$81.2 million, respectively. From the inception of this share repurchase program in the fourth quarter of fiscal 2014 through July 2, 2016, Scotts Miracle-Gro has repurchased approximately 1.4 million Common Shares for \$96.0 million.

On August 3, 2016, we announced that the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from \$0.47 to \$0.50 per Common Share.

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RESULTS OF OPERATIONS

Effective in our second quarter of fiscal 2016, we classified our results of operations for all periods presented to reflect the SLS Business as a discontinued operation. As a result, and unless specifically stated, all discussions regarding results for the three and nine months ended July 2, 2016 and June 27, 2015 reflect results from our continuing operations. The following table sets forth the components of income and expense as a percentage of net sales:

	THREE MONTHS		NINE MONTHS	
	ENDED		ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	64.0	65.0	63.0	65.1
Cost of sales—impairment, restructuring and other	—	0.3	0.2	0.2
Gross profit	36.0	34.7	36.8	34.7
Operating expenses:				
Selling, general and administrative	15.4	14.0	19.1	19.1
Impairment, restructuring and other	(0.6)	3.7	(2.1)	2.3
Other income, net	(0.6)	(0.2)	(0.3)	(0.1)
Income from operations	21.8	17.2	20.1	13.4
Equity in loss of unconsolidated affiliates	0.4	—	0.1	—
Costs related to refinancing	—	—	0.4	—
Interest expense	1.6	1.3	2.2	1.6
Income from continuing operations before income taxes	19.8	15.9	17.4	11.8
Income tax expense from continuing operations	7.0	5.5	6.2	4.1
Income from continuing operations	12.8	10.4	11.2	7.7
Income from discontinued operations, net of tax	8.6	1.6	2.8	0.1
Net income	21.4 %	12.0 %	14.0 %	7.8 %

Net Sales

Net sales for the three months ended July 2, 2016 were \$994.1 million, a decrease of 10.5% from net sales of \$1,111.3 million for the three months ended June 27, 2015. Net sales for the nine months ended July 2, 2016 were \$2,433.8 million, an increase of 3.5% from net sales of \$2,352.6 million for the nine months ended June 27, 2015. The change in net sales was attributable to:

	THREE MONTHS		NINE MONTHS	
	ENDED		ENDED	
	JULY 2, 2016	JULY 2, 2016	JULY 2, 2016	JULY 2, 2016
Volume	(11.8)%	2.3 %		
Acquisitions	1.2	2.0		
Pricing	0.8	0.1		
Foreign exchange rates	(0.7)	(0.9)		
Change in net sales	(10.5)%	3.5 %		

The decrease in net sales for the three months ended July 2, 2016 was primarily driven by: decreased sales in our U.S. Consumer and Europe Consumer segments, driven by the impact of the calendar shift whereby our third quarter of fiscal 2016 began six days later than our third quarter of fiscal 2015 and these six days occurred during our peak selling season, resulting in a decrease in net sales of approximately \$90 million, as well as the prior year exit from the U.K. Solus business resulting in a decrease in net sales of \$7.7 million; and the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies including the Canadian dollar, euro and British pound;

partially offset by increased sales volume in our Other segment, driven by increased sales of hydroponic gardening products;
the addition of net sales from acquisitions within our Other segment, primarily from Gavita and a Canadian growing media operation; and

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• a favorable impact of increased pricing in the U.S. Consumer segment.

The increase in net sales for the nine months ended July 2, 2016 was primarily driven by:

• increased sales in our U.S. Consumer segment, driven by the impact of the calendar shift whereby the nine months ended July 2, 2016 had six additional days compared to the nine months ended June 27, 2015, resulting in an increase in net sales of approximately \$32.0 million, as well as the impact of our amended Marketing Agreement for consumer Roundup®;

• increased sales volume in our Other segment, driven by increased sales of hydroponic gardening products; the addition of net sales from acquisitions within our Other segment, primarily from General Hydroponics, Vermicrop, Gavita and a Canadian growing media operation; and

• a favorable impact of increased pricing in the U.S. Consumer segment;

• partially offset by the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies including the Canadian dollar, euro and British pound; and

• the prior year exit from the U.K. Solus business resulting in a decrease in net sales of \$14.0 million in our Europe Consumer segment.

Cost of Sales

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
	(In millions)			
Materials	\$367.4	\$ 431.2	\$880.7	\$ 892.8
Distribution and warehousing	114.8	138.5	287.5	305.4
Manufacturing labor and overhead	135.7	136.2	309.2	281.9
Roundup® reimbursements	18.4	16.2	55.2	51.7
	636.3	722.1	1,532.6	1,531.8
Impairment, restructuring and other	0.4	3.4	5.5	3.6
	\$636.7	\$ 725.5	\$1,538.1	\$1,535.4

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

	THREE MONTHS ENDED	NINE MONTHS ENDED
	JULY 2, 2016	JULY 2, 2016
	(In millions)	
Volume and product mix	\$(73.8)	\$ 35.3
Roundup® reimbursements	2.2	3.5
Material costs	(6.3)	(16.2)
Foreign exchange rates	(7.9)	(21.8)
	(85.8)	0.8
Impairment, restructuring and other	(3.0)	1.9
Change in cost of sales	\$(88.8)	\$ 2.7

The decrease in cost of sales for the three months ended July 2, 2016 was primarily driven by:

• decreased sales in our U.S. Consumer and Europe Consumer segments;

• lower distribution costs within our U.S. Consumer segment due to savings from lower fuel prices and reduced costs from efficiencies in our growing media business;

•

the favorable impact of foreign exchange rates as a result of a strengthening of the U.S. dollar relative to other currencies including the Canadian dollar, euro and British pound;
lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs; and

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- a decrease in restructuring and other charges of \$3.0 million related to addressing the consumer complaints regarding our reformulated Bonus[®] S product sold during fiscal 2015; partially offset by costs related to sales from acquisitions within our Other segment of \$8.4 million, primarily from Gavita and a Canadian growing media operation; and
- an increase in net sales attributable to reimbursements under our Marketing Agreement for consumer Roundup[®] and our Services Agreement with Bonnie.

The increase in cost of sales for the nine months ended July 2, 2016 was primarily driven by:

- costs related to increased sales in our U.S. Consumer and Other segments;
 - costs related to sales from acquisitions within our Other segment of \$29.1 million, primarily from General Hydroponics, Vermicrop, Gavita and a Canadian growing media operation;
- an increase in net sales attributable to reimbursements under our Marketing Agreement for consumer Roundup[®] and our Services Agreement with Bonnie; and
- an increase in restructuring and other charges of \$1.9 million related to addressing the consumer complaints regarding our reformulated Bonus[®] S product sold during fiscal 2015; partially offset by lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs;
- lower distribution costs within our U.S. Consumer segment due to savings from lower fuel prices and reduced costs from efficiencies in our growing media business; and
- the favorable impact of foreign exchange rates as a result of a strengthening of the U.S. dollar relative to other currencies including the Canadian dollar, euro and British pound.

Gross Profit

As a percentage of net sales, our gross profit rate was 36.0% and 34.7% for the three months ended July 2, 2016 and June 27, 2015, respectively. As a percentage of net sales, our gross profit rate was 36.8% and 34.7% for the nine months ended July 2, 2016 and June 27, 2015, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	THREE MONTHS ENDED JULY 2, 2016		NINE MONTHS ENDED JULY 2, 2016	
Product mix and volume	0.3	%	0.8	%
Acquisitions	0.2		0.3	
Roundup [®] commissions and reimbursements	(0.4	)	0.4	
Material costs	0.6		0.7	
Pricing	0.6		0.1	
	1.3	%	2.3	%
Impairment, restructuring and other	—		(0.2)
Change in gross profit rate	1.3	%	2.1	%

The increase in the gross profit rate for the three months ended July 2, 2016 was primarily driven by:

- lower material costs in our U.S. Consumer segment driven by commodities primarily related to fertilizer inputs;
- a favorable impact of increased pricing in the U.S. Consumer segment; and
- lower distribution costs within our U.S. Consumer segment due to savings from lower fuel prices and reduced costs from efficiencies in our growing media business;
- partially offset by a decrease in net sales attributable to our Marketing Agreement for consumer Roundup[®]; and
- unfavorable product mix within our U.S. Consumer segment due to increased sales of mulch products and decreased sales of fertilizer products.

The increase in the gross profit rate for the nine months ended July 2, 2016 was primarily driven by:

- lower distribution costs within our U.S. Consumer segment due to savings from lower fuel prices and reduced costs from efficiencies in our growing media business;

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a lower material costs in our U.S. Consumer segment driven by commodities primarily related to fertilizer inputs;
 a favorable impact of increased pricing in the U.S. Consumer segment; and
 an increase in net sales attributable to our Marketing Agreement for consumer Roundup®;
 partially offset by unfavorable product mix within our U.S. Consumer segment due to increased sales of mulch
 products and decreased sales of fertilizer products; and
 an increase in restructuring and other charges of \$1.9 million related to addressing the consumer complaints regarding
 our reformulated Bonus® S product sold during fiscal 2015.

Selling, General and Administrative Expenses

The following table sets forth the components of selling, general and administrative (“SG&A”) expenses:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, JUNE 27, 2016 2015		JULY 2, JUNE 27, 2016 2015	
	(In millions)			
Advertising	\$43.5	\$ 45.6	\$ 115.6	\$ 115.6
Research and development	12.5	11.6	33.3	31.3
Share-based compensation	2.4	2.1	13.7	11.4
Amortization of intangibles	4.2	3.8	11.4	9.3
Other selling, general and administrative	89.3	92.2	292.1	281.9
	\$151.9	\$ 155.3	\$ 466.1	\$ 449.5

For the three months ended July 2, 2016 compared to the three months ended June 27, 2015, advertising expense decreased \$2.1 million driven by the timing of media spending in our U.S. Consumer and Europe Consumer segments. The decrease in other SG&A expenses of \$2.9 million is due to decreased selling and variable incentive compensation of \$3.3 million and the favorable impact of foreign exchange rates of \$0.8 million as the U.S. dollar has strengthened relative to other currencies including the Canadian dollar, euro and British pound, partially offset by the impact of recent acquisitions and costs related to other transaction activity of \$1.5 million.

For the nine months ended July 2, 2016 compared to the nine months ended June 27, 2015, other SG&A expenses increased \$10.2 million driven by the impact of recent acquisitions and costs related to other transaction activity of \$8.8 million and increased variable incentive compensation of \$8.3 million, partially offset by the favorable impact of foreign exchange rates of \$4.8 million as the U.S. dollar has strengthened relative to other currencies including the Canadian dollar, euro and British pound.

Impairment, Restructuring and Other (included in Operating Expenses)

In the first quarter of fiscal 2016, we announced a series of initiatives called Project Focus designed to maximize the value of our non-core assets and focus on emerging categories of the lawn and garden industry in our core U.S. business. During the three and nine months ended July 2, 2016, we recognized costs of \$(0.3) million and \$2.3 million, respectively, related to transaction activity associated with this project.

During the third quarter of fiscal 2015, our U.S. Consumer segment began experiencing an increase in certain consumer complaints related to the reformulated Bonus® S fertilizer product sold in the southeastern United States during fiscal 2015 indicating customers were experiencing damage to their lawns after application. During the three and nine months ended July 2, 2016, we recognized \$0.1 million and \$1.4 million in costs related to resolving these consumer complaints and the recognition of costs expected to be incurred for current and expected consumer claims. Costs incurred to date since the inception of this matter are \$74.3 million. We are working through the claims process with our insurers with respect to these costs, and have received reimbursement payments of \$60.8 million through the third quarter of fiscal 2016, including \$5.9 million and \$40.9 million received during the three and nine months ended July 2, 2016, respectively. We recorded offsetting insurance reimbursement recoveries upon resolution of the insurer’s review of claim documentation in the amount of \$4.9 million in the fourth quarter of fiscal 2015, \$50.0 million in the second quarter of fiscal 2016 and \$5.9 million during the third quarter of fiscal 2016.

During the three and nine months ended June 27, 2015, we recognized \$6.6 million and \$19.9 million, respectively, in restructuring costs related to termination benefits provided to U.S. and international personnel as part of our restructuring of the U.S. administrative and overhead functions, the continuation of the international profitability improvement initiative and the liquidation and exit from the U.K. Solus business.

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During the third quarter of fiscal 2015, we recognized \$37.7 million in costs related to resolving consumer complaints and the recognition of costs expected to be incurred for current and expected consumer claims related to the reformulated Bonus® S fertilizer product sold in the southeastern United States during fiscal 2015.

Other Income, net

Other income is comprised of activities outside our normal business operations, such as royalty income from the licensing of certain of our brand names, income earned from loans receivable, foreign exchange gains/losses and gains/losses from the sale of non-inventory assets. Other income was \$5.6 million and \$7.1 million for the three and nine months ended July 2, 2016, respectively, compared to \$1.8 million and \$2.4 million for the three and nine months ended June 27, 2015, respectively. The increase in other income for the three and nine months ended July 2, 2016 was due to a gain on the sale of a growing media plant that is being relocated, an increase in income on loans receivable and royalty income earned from the Joint Venture related to its use of brand names.

Equity in Loss of Unconsolidated Affiliates

As of July 2, 2016, we held a minority equity interest of approximately 30% in the Joint Venture. This interest was initially recorded at fair value on the transaction date and subsequently is accounted for using the equity method of accounting, with our proportionate share of Joint Venture earnings reflected in the Condensed Consolidated Statements of Operations. We recognized equity in losses of the Joint Venture of \$3.5 million for the three and nine months ended July 2, 2016. Included within losses of unconsolidated affiliates for the three and nine months ended July 2, 2016 is our share of impairment, restructuring and other charges of \$17.0 million. These charges included \$10.8 million for transaction costs, \$0.6 million for nonrecurring integration and separation costs and \$5.6 million for a non-cash fair value write-down adjustment on its deferred revenue.

Costs Related to Refinancing

Costs related to refinancing were \$8.8 million for the nine months ended July 2, 2016. The costs incurred were associated with the redemption of our 6.625% Senior Notes on December 15, 2015, and are comprised of \$6.6 million of call premium and \$2.2 million of unamortized bond discount and issuance costs that were written off.

Interest Expense

Interest expense was \$16.9 million for the three months ended July 2, 2016 compared to \$14.3 million for the three months ended June 27, 2015. The increase in interest expense of \$2.6 million was driven by an increase in average borrowings of \$323.1 million, which is net of a decrease of \$9.3 million due to the impact of foreign exchange rates, partially offset by a decrease in our weighted average interest rate of 15 basis points primarily due to reduced rates under our credit facility and the redemption of the 6.625% Senior Notes.

Interest expense was \$52.3 million for the nine months ended July 2, 2016 compared to \$39.0 million for the nine months ended June 27, 2015. The increase in interest expense of \$13.3 million was driven by an increase in average borrowings of \$399.8 million, which is net of a decrease of \$5.1 million due to the impact of foreign exchange rates, and an increase in our weighted average interest rate of 6 basis points primarily due to the higher proportion of long-term fixed-rate borrowing in our debt mix during fiscal 2016. The increase in average borrowings was driven by recent acquisition and investment activity, primarily related to General Hydroponics, Vermicrop, Bonnie, Gavita, the amendment of our Marketing Agreement with Monsanto and an increase in repurchases of our Common Shares.

Income Tax Expense

The effective tax rate related to continuing operations for the nine months ended July 2, 2016 was 35.5%, compared to 35.0% for the nine months ended June 27, 2015. The effective tax rate used for interim purposes was based on our best estimate of factors impacting the effective tax rate for the full fiscal year. Factors affecting the estimated effective tax rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits and the existence of elements of income and expense that may not be taxable or deductible. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year. There can be no assurances that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Income from Continuing Operations

We reported income from continuing operations of \$127.0 million, or \$2.06 per diluted share, for the three months ended July 2, 2016 compared to \$115.1 million, or \$1.85 per diluted share, for the three months ended June 27, 2015;

and \$273.5 million, or \$4.40 per diluted share, for the first nine months of fiscal 2016 compared to \$180.1 million, or \$2.90 per diluted share, for the first nine months of fiscal 2015.

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For the three months ended July 2, 2016, the increase was driven by impairment, restructuring and other recoveries during fiscal 2016 as compared to charges during fiscal 2015, improvement in gross profit rate and a decrease in SG&A expenses, partially offset by a decrease in net sales and an increase in interest expense. Diluted average common shares used in the diluted income per common share calculation were 61.9 million for the three months ended July 2, 2016 compared to 62.3 million for the three months ended June 27, 2015. The decrease in dilutive average common shares was primarily the result of Common Share repurchase activity, partially offset by the exercise and issuance of share-based compensation awards and the payment of contingent consideration in Common Shares in connection with the Vermicrop acquisition.

For the nine months ended July 2, 2016, the increase was driven by impairment, restructuring and other recoveries during fiscal 2016 as compared to charges during fiscal 2015, an increase in net sales and gross profit rate, partially offset by increases in interest expense, costs related to refinancing and SG&A. Diluted average common shares used in the diluted income per common share calculation were 62.2 million for the nine months ended July 2, 2016 compared to 62.1 million for the nine months ended June 27, 2015. The increase in dilutive average common shares was primarily the result of the exercise and issuance of share-based compensation awards and the payment of contingent consideration in Common Shares in connection with the Vermicrop acquisition, partially offset by Common Share repurchase activity.

Income from Discontinued Operations, net of tax

On April 13, 2016, the Company completed the contribution of the SLS Business to the Joint Venture in exchange for a minority equity interest of approximately 30% in the Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. The prior period amounts have been reclassified to conform. During the nine months ended July 2, 2016, we recognized \$9.0 million for the resolution of a prior SLS Business litigation matter, as well as \$4.4 million in transaction related costs associated with the divestiture of the SLS Business within the “Income from discontinued operations, net of tax” line in the Condensed Consolidated Statements of Operations.

Income from discontinued operations, net of tax, was \$85.7 million and \$17.9 million for the three months ended July 2, 2016 and June 27, 2015, respectively, and was \$68.2 million and \$3.2 million for the nine months ended July 2, 2016 and June 27, 2015, respectively. The increase is primarily driven by the after-tax gain on contribution of \$86.4 million, partially offset by a net loss from the operations of the SLS Business of \$0.7 million and \$18.2 million for the three and nine months ended July 2, 2016, respectively, as compared to net income from the operations of the SLS Business of \$17.9 million and \$3.2 million for the three and nine months ended June 27, 2015, respectively.

SEGMENT RESULTS

We divide our business into three reportable segments: U.S. Consumer, Europe Consumer and Other. These segments differ from those used in prior periods due to the change in our internal organizational structure associated with Project Focus, which is a series of initiatives announced in the first quarter of fiscal 2016 designed to maximize the value of our non-core assets and concentrate focus on emerging categories of the lawn and garden industry in our core U.S. business. On April 13, 2016, as part of this project, we completed the contribution of the SLS Business to a newly formed subsidiary of TruGreen Holdings in exchange for a minority equity interest of approximately 30% in the Joint Venture. As a result, effective in our second quarter of fiscal 2016, we classified our results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale. The prior period amounts have been reclassified to conform with the new segments. This division of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company.

U.S. Consumer consists of the Company’s consumer lawn and garden business located in the geographic United States. Europe Consumer consists of the Company’s consumer lawn and garden business located in geographic Europe. Other consists of the Company’s consumer lawn and garden business in geographies other than the U.S. and Europe, the Company’s indoor, urban and hydroponics gardening business, and revenues and expenses associated with the Company’s supply agreements with Israel Chemicals, Ltd. Corporate consists of general and administrative expenses and certain other income/expense items not allocated to the business segments.

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

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The following table sets forth net sales by segment:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
	(In millions)			
U.S. Consumer	\$756.7	\$871.2	\$1,909.6	\$1,861.6
Europe Consumer	96.2	110.3	236.9	260.9
Other	141.2	129.8	287.3	230.1
Consolidated	\$994.1	\$1,111.3	\$2,433.8	\$2,352.6

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 2, 2016	JUNE 27, 2015	JULY 2, 2016	JUNE 27, 2015
	(In millions)			
U.S. Consumer	\$205.8	\$237.9	\$487.6	\$429.9
Europe Consumer	11.8	15.0	24.2	23.9
Other	11.9	16.7	17.0	14.2
Segment Total	229.5	269.6	528.8	468.0
Corporate	(13.8)	(22.1)	(73.9)	(76.0)
Intangible asset amortization	(4.4)	(4.4)	(12.6)	(10.9)
Impairment, restructuring and other	(11.4)	(51.7)	29.1	(65.0)
Equity in income of unconsolidated affiliates	13.5	—	13.5	—
Costs related to refinancing	—	—	(8.8)	—
Interest expense	(16.9)	(14.3)	(52.3)	(39.0)
Consolidated	\$196.5	\$177.1	\$423.8	\$277.1

U.S. Consumer

U.S. Consumer segment net sales were \$756.7 million in the third quarter of fiscal 2016, a decrease of 13.1% from the third quarter of fiscal 2015 net sales of \$871.2 million; and were \$1,909.6 million for the first nine months of fiscal 2016, an increase of 2.6% from the first nine months of fiscal 2015 sales of \$1,861.6 million. For the three months ended July 2, 2016, the unfavorable impact of decreased sales volume of 14.8%, which includes the impact of the calendar shift, was partially offset by the favorable impact of increased pricing and acquisitions of 1.2% and 0.4%, respectively. Decreased sales volume, including the impact of the calendar shift, for the three months ended July 2, 2016 was driven by decreased sales of fertilizer, seed and growing media products. For the nine months ended July 2, 2016, the increase was driven by the favorable impact of volume, which includes the impact of the calendar shift, pricing and acquisitions of 2.0%, 0.4% and 0.2%, respectively. Increased sales volume, including the impact of the calendar shift, for the nine months ended July 2, 2016 was driven by increased sales of growing media and controls products, as well as the impact of the Marketing Agreement for consumer Roundup®.

U.S. Consumer segment operating income decreased by \$32.1 million, or 13.5%, in the third quarter of fiscal 2016, and increased \$57.7 million, or 13.4%, in the first nine months of fiscal 2016, as compared to the same periods in fiscal 2015. The decrease for the three months ended July 2, 2016 was primarily driven by decreased sales of fertilizer, seed and growing media products, including the impact of the calendar shift, partially offset by lower distribution costs due to savings from fuel purchases and hedging, lower material costs driven by commodities and decreased SG&A as a result of decreased compensation expense. The increase for the nine months ended July 2, 2016 was primarily driven by increased sales of growing media and controls products, including the impact of the calendar shift, the impact of the Marketing Agreement for consumer Roundup®, lower distribution costs due to savings from fuel

purchases and hedging and lower material costs driven by commodities, partially offset by increased SG&A as a result of the impact of recent acquisitions and costs related to other transaction activity and increased compensation expense.

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Europe Consumer

Europe Consumer segment net sales were \$96.2 million in the third quarter of fiscal 2016, a decrease of 12.8% from the third quarter of fiscal 2015 net sales of \$110.3 million; and were \$236.9 million for the first nine months of fiscal 2016, a decrease of 9.2% from the first nine months of fiscal 2015 sales of \$260.9 million. For the three months ended July 2, 2016, the decrease was driven by the prior year exit from the U.K. Solus business of \$7.7 million, or 7.0%, and the unfavorable impact of changes in foreign exchange rates, volume, which includes the impact of the calendar shift, and decreased pricing of 2.6%, 1.7% and 1.5%, respectively. For the nine months ended July 2, 2016, the decrease was driven by the prior year exit from the U.K. Solus business of \$14.0 million, or 5.4%, and the unfavorable impact of changes in foreign exchange rates and decreased pricing of 3.5% and 1.0%, respectively, partially offset by the favorable impact of volume of \$1.7 million, or 0.7%, which includes the impact of the calendar shift.

Europe Consumer segment operating income decreased by 21.3%, to \$11.8 million, in the third quarter of fiscal 2016, and increased by 1.3%, to \$24.2 million, in the first nine months of fiscal 2016, as compared to the same periods in fiscal 2015. For the three months ended July 2, 2016, the decrease was driven by the unfavorable impact of changes in foreign exchange rates, volume, which includes the impact of the calendar shift, and decreased pricing. The increase for the first nine months of fiscal 2016 was primarily driven by the prior year exit from the U.K. Solus business.

Other

Other segment net sales were \$141.2 million in the third quarter of fiscal 2016, an increase of 8.8% from the third quarter of fiscal 2015 net sales of \$129.8 million; and were \$287.3 million for the first nine months of fiscal 2016, an increase of 24.9%, from the first nine months of fiscal 2015 sales of \$230.1 million. For the three months ended July 2, 2016, the favorable impacts of volume and acquisitions of 5.0% and 7.9%, respectively, were partially offset by the unfavorable impacts of changes in foreign exchange rates and decreased pricing of 3.9% and 0.1%, respectively. For the nine months ended July 2, 2016, the favorable impacts of volume and acquisitions of 12.4% and 18.8%, respectively, were partially offset by the unfavorable impacts of changes in foreign exchange rates and decreased pricing of 5.5% and 0.7%, respectively. The addition of net sales from acquisitions and increased volume from our indoor and urban gardening business comprise \$15.5 million and \$55.8 million of the increase in net sales for the three and nine months ended July 2, 2016, respectively.

Other segment operating income increased to \$11.9 million in the third quarter of fiscal 2016, and increased to \$17.0 million in the first nine months of fiscal 2016, as compared to the same periods in fiscal 2015. The increases were primarily driven by net sales due to acquisitions and increased sales volume, partially offset by increased SG&A as a result of costs related to other transaction activity and increased compensation expense.

Corporate

Corporate operating loss was \$13.8 million in the third quarter of fiscal 2016 as compared to \$22.1 million in the third quarter of fiscal 2015. The decrease was primarily due to decreased variable incentive compensation, an increase in income on loans receivable and royalty income earned from the Joint Venture related to its use of brand names.

Corporate operating loss was \$73.9 million for the nine months ended July 2, 2016 as compared to \$76.0 million for the nine months ended June 27, 2015. The decrease was primarily due to an increase in income on loans receivable and royalty income earned from the Joint Venture related to its use of brand names.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash used in operating activities totaled \$28.9 million for the nine months ended July 2, 2016 as compared to cash provided by operating activities of \$24.2 million for the nine months ended June 27, 2015. Cash provided by operating activities from the SLS Business was \$38.9 million and \$30.1 million for the nine months ended July 2, 2016 and June 27, 2015, respectively.

Cash from operating activities decreased \$53.1 million for the first nine months of fiscal 2016 as compared to the first nine months of fiscal 2015, primarily driven by an increase in cash used for working capital related to increased inventory, timing of customer receipts as compared to payment of current liabilities and an increase in accounts receivable from the Joint Venture of \$30.0 million for expenses incurred pursuant to a transition services agreement and an employee leasing agreement, partially offset by insurance reimbursement recoveries of \$40.9 million related to the Bonus[®] S consumer complaint matter.

Investing Activities

Cash used in investing activities totaled \$114.8 million and \$215.0 million for the nine months ended July 2, 2016 and June 27, 2015, respectively. Cash used in investing activities related to the SLS Business was \$1.4 million and \$23.4 million for the nine months ended July 2, 2016 and June 27, 2015, respectively.

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Cash used for investments in property, plant and equipment during the first nine months of fiscal 2016 and fiscal 2015 was \$35.7 million and \$41.2 million, respectively. During the nine months ended July 2, 2016, we made an investment in Bonnie in the amount of \$72.0 million, made an investment in an unconsolidated subsidiary of \$2.0 million, provided an \$18.0 million investment in second lien term loan financing to the Joint Venture and completed the acquisitions of Gavita and a Canadian growing media operation which included cash payments of \$161.4 million. These cash outflows were partially offset by a distribution of \$196.2 million from the Joint Venture. During the nine months ended June 27, 2015, we completed the acquisitions of General Hydroponics and Vermicrop for \$120.0 million and \$15.0 million, respectively, in addition to four acquisitions of growing media operations with an aggregate estimated purchase price of \$40.7 million. Additionally, Scotts LawnService® completed the acquisition of Action Pest for \$21.7 million. These acquisitions included cash payments of \$179.1 million during the first nine months of fiscal 2015.

Financing Activities

Financing activities provided cash of \$152.8 million and \$186.2 million for the nine months ended July 2, 2016 and June 27, 2015, respectively. The decrease in cash provided by financing activities of \$33.4 million was the result of the repayment of \$200.0 million aggregate principal amount of 6.625% Senior Notes, a decrease in net borrowings under our credit facilities of \$145.1 million, payment of financing and issuance fees of \$11.2 million related to our new credit agreement and the 6.000% Senior Notes, an increase in repurchases of our Common Shares of \$66.4 million and a decrease in cash received from the exercise of stock options of \$6.6 million, partially offset by the issuance of \$400.0 million aggregate principal amount of 6.000% Senior Notes.

Cash and Cash Equivalents

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high quality, short-term liquid investments having original maturities of three months or less. The cash and cash equivalents balances of \$77.2 million and \$79.9 million as of July 2, 2016 and June 27, 2015, respectively, included \$54.7 million and \$69.3 million, respectively, held by controlled foreign corporations. Our current plans do not demonstrate a need to, nor do we have plans to, repatriate the retained earnings from these foreign corporations as the earnings are indefinitely reinvested. However, in the future, if we determine it is necessary to repatriate these funds, or we sell or liquidate any of these foreign corporations, we may be required to pay associated taxes on the repatriation, sale or liquidation.

Borrowing Agreements

Our primary sources of liquidity are cash generated by operations and borrowings under our credit facilities, which are guaranteed by substantially all of Scotts Miracle-Gro's domestic subsidiaries. On December 20, 2013, we entered into the third amended and restated credit agreement, providing us with a five-year senior secured revolving loan facility in the aggregate principal amount of up to \$1.7 billion (the "former credit facility"). On October 29, 2015, we entered into the fourth amended and restated credit agreement (the "new credit agreement"), providing us with five-year senior secured loan facilities in the aggregate principal amount of \$1.9 billion, comprised of a revolving credit facility of \$1.6 billion and a term loan in the original principal amount of \$300.0 million (the "new credit facilities"). The new credit agreement also provides us with the right to seek additional committed credit under the agreement in an aggregate amount of up to \$500.0 million plus an unlimited additional amount, subject to certain specified financial and other conditions. Under the new credit agreement, we have the ability to obtain letters of credit up to \$100.0 million. Borrowings on the revolving credit facility may be made in various currencies, including U.S. dollars, euro, British pounds, Australian dollars and Canadian dollars.

At July 2, 2016, we had letters of credit outstanding in the aggregate principal amount of \$26.8 million, and \$1.1 billion of availability under the new credit agreement, subject to our continued compliance with covenants discussed below. The weighted average interest rates on average borrowings under the new credit agreement and the former credit facility were 3.9% and 4.1% for the nine months ended July 2, 2016 and June 27, 2015, respectively.

We maintain a Master Accounts Receivable Purchase Agreement ("MARPA Agreement"), which provides for the discretionary sale by us, and the discretionary purchase (outside of the commitment period specified in the MARPA Agreement) by the participating banks, on a revolving basis, of accounts receivable generated by sales to three specified account debtors in an aggregate amount not to exceed \$400.0 million.

On March 23, 2016, we entered into a Waiver and First Amendment to the MARP Agreement that amends the MARP Agreement in the following significant respects: (1) includes subsidiaries and affiliates of the approved debtors into the definition of approved debtors; (2) requires Scotts LLC to repurchase all receivables (including any defaulted receivables) from the banks on each settlement date; and (3) provides the administrative agent and the banks with full recourse to Scotts LLC in case of non-payment of any purchased receivable on the maturity date thereof, regardless of the reason for such non-payment. Under the terms of the amended MARP Agreement, the banks have the opportunity to purchase those accounts receivable offered by us at a discount (from the agreed base value thereof) effectively equal to the one-week LIBO rate plus 0.95%. There were \$348.0 million and \$301.1 million in borrowings or receivables pledged as collateral under the MARP Agreement as of July 2, 2016 and June 27,

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2015. The carrying value of the receivables pledged as collateral was \$435.1 million as of July 2, 2016 and \$376.4 million as of June 27, 2015. As of July 2, 2016, there was \$26.7 million of availability under the MARP Agreement. On October 13, 2015, we issued \$400.0 million aggregate principal amount of 6.000% senior notes due 2023 (the “6.000% Senior Notes”). The net proceeds of the offering were used to repay outstanding borrowings under our former credit facility. The 6.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 6.000% Senior Notes have interest payment dates of April 15 and October 15 of each year, commencing April 15, 2016. The 6.000% Senior Notes may be redeemed, in whole or in part, on or after October 15, 2018 at applicable redemption premiums. The 6.000% Senior Notes contain customary covenants and events of default and mature on October 15, 2023. Substantially all of our domestic subsidiaries serve as guarantors of the 6.000% Senior Notes.

On December 15, 2015, we used a portion of our available credit facility borrowings to redeem all \$200.0 million aggregate principal amount of our outstanding 6.625% senior notes due 2020 (the “6.625% Senior Notes”), paying a redemption price of \$213.2 million, comprised of \$6.6 million of accrued and unpaid interest, \$6.6 million of call premium and \$200.0 million for outstanding principal amount.

We were in compliance with all debt covenants as of July 2, 2016. Our new credit agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio on the last day of each quarter, calculated as our net indebtedness divided by adjusted earnings before interest, taxes, depreciation and amortization. The maximum leverage ratio was 4.50 as of July 2, 2016. Our leverage ratio was 2.96 at July 2, 2016. Our new credit agreement also includes an affirmative covenant regarding our interest coverage. The minimum interest coverage ratio was 3.00 for the twelve months ended July 2, 2016. Our interest coverage ratio was 8.22 for the twelve months ended July 2, 2016. The new credit agreement allows us to make unlimited restricted payments (as defined in the new credit agreement), including increased or one-time dividend payments and Common Share repurchases, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise we may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth in the new credit agreement for such fiscal year (\$175.0 million for 2016 and 2017 and \$200.0 million for 2018 and each fiscal year thereafter). We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the new credit agreement and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2016. However, an unanticipated shortfall in earnings, an increase in net indebtedness or other factors could materially affect our ability to remain in compliance with the financial or other covenants of our new credit agreement, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of our credit facilities. While we believe we have good relationships with our lending group, we can provide no assurance that such a request would result in a modified or replacement credit agreement on reasonable terms, if at all.

Judicial and Administrative Proceedings

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

Contractual Obligations

Other than the changes to our borrowing agreements during our first quarter of fiscal 2016 and acquisition activity during the third quarter of fiscal 2016, there have been no material changes outside of the ordinary course of business in our outstanding contractual obligations since the end of fiscal 2015 and through July 2, 2016. As part of the fiscal 2016 acquisitions, we acquired operating leases with total future minimum lease payments for non-cancelable operating leases of \$2.1 million.

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REGULATORY MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving these environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established reserves, should not have a material effect on our financial condition, results of operations or cash flows. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in the 2015 Annual Report, under “ITEM 1. BUSINESS — Regulatory Considerations” and “ITEM 3. LEGAL PROCEEDINGS.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preceding discussion and analysis of our consolidated results of operations and financial condition should be read in conjunction with our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. The 2015 Annual Report includes additional information about us, our operations, our financial condition, our critical accounting policies and accounting estimates, and should be read in conjunction with this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed significantly from those disclosed in the 2015 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

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

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

In addition, there were no changes in the Registrant’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant’s fiscal quarter ended July 2, 2016 that have materially affected, or are reasonably likely to materially affect, the Registrant’s internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the pending legal proceedings disclosed in the 2015 Annual Report.

ITEM 1A. RISK FACTORS

The Company's risk factors as of July 2, 2016 have not changed materially from those described in “ITEM 1A. RISK FACTORS” in the 2015 Annual Report.

Cautionary Note Regarding Forward-Looking Statements

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

Forward-looking statements contained in this Quarterly Report on Form 10-Q are predictions only and actual results could differ materially from management’s expectations due to a variety of factors, including those described in “ITEM 1A. RISK FACTORS” in the 2015 Annual Report. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

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

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

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The terms of the new credit agreement allow the Company to make unlimited restricted payments (as defined in the new credit agreement), including increased or one-time dividend payments and Common Share repurchases, so long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth in the new credit agreement for such fiscal year (\$175.0 million for 2016 and 2017 and \$200.0 million for 2018 and each fiscal year thereafter). Our leverage ratio was 2.96 at July 2, 2016.

(a) Issuer Purchases of Equity Securities

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each fiscal month in the three months ended July 2, 2016:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
April 3 through April 30	111,350	\$ 72.04	109,876	\$ 434,478,631
May 1 through May 28	279,584	\$ 67.89	278,055	\$ 415,602,029
May 29 through July 2	171,560	\$ 68.48	169,431	\$ 403,998,621
Total	562,494	\$ 68.89	557,362	

(1) All of the Common Shares purchased during the quarter were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 5,132 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the "ERP"). The ERP is an unfunded, non-qualified deferred compensation plan which, among other things, provides eligible employees the opportunity to defer compensation above specified statutory limits applicable to The Scotts Company LLC Retirement Savings Plan and with respect to any Executive Management Incentive Pay (as defined in the ERP), Performance Award (as defined in the ERP) or other bonus awarded to such eligible employees. Pursuant to the terms of the ERP, each eligible employee has the right to elect an investment fund, including a fund consisting of Common Shares (the "Scotts Miracle-Gro Common Stock Fund"), against which amounts allocated to such employee's account under the ERP, including employer contributions, will be benchmarked (all ERP accounts are bookkeeping accounts only and do not represent a claim against specific assets of the Company). Amounts allocated to employee accounts under the ERP represent deferred compensation obligations of the Company. The Company established the rabbi trust in order to assist the Company in discharging such deferred compensation obligations. When an eligible employee elects to benchmark some or all of the amounts allocated to such employee's account against the Scotts Miracle-Gro Common Stock Fund, the trustee of the rabbi trust purchases the number of Common Shares equivalent to the amount so benchmarked. All Common Shares purchased by the trustee are purchased on the open market and are held in the rabbi trust until such time as they are distributed pursuant to the terms of the ERP. All assets of the rabbi trust, including any Common Shares purchased by the trustee, remain, at all times, assets of the Company, subject to the claims of its creditors. The terms of the ERP do not provide for a specified limit on the number of Common Shares that may be purchased by

the trustee of the rabbi trust.

(2) The average price paid per Common Share is calculated on a settlement basis and includes commissions.

(3) On August 11, 2014, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to \$500.0 million of Common Shares over a five-year period (starting November 1, 2014 through September 30, 2019). The dollar amounts in the “Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs” column reflect the remaining amounts that were available for repurchase under the \$500.0 million authorized repurchase program. On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors authorized a \$500.0 million increase to the share repurchase authorization through September 30, 2019.

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ITEM 6. EXHIBITS

See Index to Exhibits at page 59 for a list of the exhibits included herewith.

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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: August 10, 2016 /s/ THOMAS RANDAL COLEMAN
Printed Name: Thomas Randal Coleman
Title: Executive Vice President and Chief Financial Officer

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THE SCOTTS MIRACLE-GRO COMPANY
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED JULY 2, 2016

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION
4	First Supplemental Indenture, dated May 26, 2016, among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee	*
10	Amendment No. 1, dated July 29, 2016 to Fourth Amended and Restated Guarantee and Collateral Agreement, made by The Scotts Miracle-Gro Company, each domestic Subsidiary Borrower under the Fourth Amended and Restated Credit Agreement, and certain of its and their domestic subsidiaries, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent	*
21	Subsidiaries of The Scotts Miracle-Gro Company	*
31.1	Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer)	*
31.2	Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer)	*
32	Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer)	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase	*
101.LAB	XBRL Taxonomy Extension Label Linkbase	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	*

* Filed or furnished herewith