

FARRELL W JAMES  
Form 4  
June 05, 2006

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2005  
Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
FARRELL W JAMES

(Last) (First) (Middle)

C/O THE ALLSTATE CORPORATION, 2775 SANDERS ROAD

(Street)

NORTHBROOK, IL 60062-6127

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
ALLSTATE CORP [ALL]

3. Date of Earliest Transaction (Month/Day/Year)  
06/01/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock	06/01/2006		A <sup>(1)</sup>	181 A \$ 55.2	3,936	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

Edgar Filing: FARRELL W JAMES - Form 4

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)
Non-Employee Director Stock Option (right to buy)	\$ 55.2	06/01/2006		A	4,000	06/01/2007 <sup>(2)</sup> 06/01/2016	Common Stock

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
FARRELL W JAMES C/O THE ALLSTATE CORPORATION 2775 SANDERS ROAD NORTHBROOK, IL 60062-6127	X			

Signatures

W JAMES  
FARRELL  
Date: 06/05/2006  
\*\*Signature of Reporting Person

Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Stock acquired pursuant to election to receive stock in lieu of cash compensation under The Allstate Corporation 2006 Equity Compensation Plan for Non-Employee Directors.
- (2) Grant to reporting person of option to purchase 4,000 shares of common stock exercisable in three increments, each for one-third of the total number of said shares, such installments to vest on June 1, 2007, June 1, 2008 and June 1, 2009, respectively.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. in Rule 12b-2 of the Exchange Act). Yes o No ý

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 4, 2015
Common Shares, \$0.01 stated value, no par value	61,264,420 Common Shares



Table of ContentsTHE SCOTTS MIRACLE-GRO COMPANY  
INDEX

PAGE NO.

PART I. FINANCIAL INFORMATION:

<u>Item 1.</u>	<u>Financial Statements</u>	
	Condensed Consolidated Statements of Operations — Three and nine months ended June 27, 2015 and June 28, 2014	<u>2</u>
	Condensed Consolidated Statements of Comprehensive Income (Loss) — Three and nine months ended June 27, 2015 and June 28, 2014	<u>4</u>
	Condensed Consolidated Statements of Cash Flows — Nine months ended June 27, 2015 and June 28, 2014	<u>5</u>
	Condensed Consolidated Balance Sheets — June 27, 2015, June 28, 2014 and September 30, 2014	<u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>49</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>49</u>

PART II. OTHER INFORMATION:

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>50</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>50</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>52</u>
	<u>Signatures</u>	<u>53</u>
	<u>Index to Exhibits</u>	<u>54</u>

2

Table of Contents

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	
	JUNE 27, 2015	JUNE 28, 2014	JUNE 27, 2015	JUNE 28, 2014
Net sales	\$1,214.8	\$1,116.4	\$2,533.3	\$2,387.0
Cost of sales	762.2	693.1	1,617.9	1,496.0
Cost of sales—impairment, restructuring and other	3.4	—	3.6	—
Gross profit	449.2	423.3	911.8	891.0
Operating expenses:				
Selling, general and administrative	193.8	189.0	540.4	525.6
Impairment, restructuring and other	40.9	39.2	55.4	45.6
Other income, net	(3.2)	(5.8)	(5.0)	(8.5)
Income from operations	217.7	200.9	321.0	328.3
Costs related to refinancing	—	—	—	10.7
Interest expense	14.3	12.8	39.0	38.7
Income from continuing operations before income taxes	203.4	188.1	282.0	278.9
Income tax expense from continuing operations	70.4	67.4	98.7	98.3
Income from continuing operations	133.0	120.7	183.3	180.6
Income from discontinued operations, net of tax	—	1.0	—	1.1
Net income	\$133.0	\$121.7	\$183.3	\$181.7
Net loss attributable to noncontrolling interest	0.4	—	0.1	—
Net income attributable to controlling interest	\$133.4	\$121.7	\$183.4	\$181.7
Basic income per common share:				
Income from continuing operations	\$2.18	\$1.97	\$3.01	\$2.93
Income from discontinued operations	—	0.02	—	0.02
Basic income per common share	\$2.18	\$1.99	\$3.01	\$2.95
Weighted-average common shares outstanding during the period	61.3	61.3	61.0	61.7
Diluted income per common share:				
Income from continuing operations	\$2.14	\$1.93	\$2.95	\$2.88
Income from discontinued operations	—	0.02	—	0.02
Diluted income per common share	\$2.14	\$1.95	\$2.95	\$2.90
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.3	62.4	62.1	62.8
Dividends declared per common share	\$0.450	\$0.438	\$1.350	\$1.313
See notes to condensed consolidated financial statements.				

Table of Contents

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 27, 2015	JUNE 28, 2014	JUNE 27, 2015	JUNE 28, 2014
Net income	\$133.0	\$121.7	\$183.3	\$181.7
Other comprehensive (loss) income, net of tax:				
Net foreign currency translation adjustment	2.5	4.2	(8.8	) 0.1
Net unrealized gain (loss) on derivative instruments, net of tax of \$0.3, \$2.4, \$2.7, and \$4.2 respectively	0.5	(3.9	) (4.4	) (6.8
Reclassification of net unrealized loss on derivatives to net income, net of tax of \$1.4, \$2.0, \$3.5, and \$6.3, respectively	2.3	3.2	5.6	10.2
Net unrealized loss in pension and other post-retirement benefits, net of tax of \$0.0, \$0.0, \$0.0 and \$0.2, respectively	—	—	—	(0.3
Reclassification of net pension and post-retirement benefit loss to net income, net of tax of \$0.5, \$0.5, \$1.4, and \$1.4, respectively	0.8	0.8	2.3	2.3
Total other comprehensive (loss) income	6.1	4.3	(5.3	) 5.5
Comprehensive income	\$139.1	\$126.0	\$178.0	\$187.2
See notes to condensed consolidated financial statements.				

Table of Contents

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

	NINE MONTHS ENDED	
	JUNE 27, 2015	JUNE 28, 2014
<b>OPERATING ACTIVITIES</b>		
Net income	\$183.3	\$181.7
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Impairment, restructuring and other	4.3	33.7
Costs related to refinancing	—	3.5
Share-based compensation expense	11.4	8.7
Depreciation	38.2	37.8
Amortization	12.3	10.2
Loss (gain) on sale of assets	0.6	(1.3)
Equity in net loss of unconsolidated affiliates	—	(1.8)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(475.6)	(433.7)
Inventories	(21.1)	(63.3)
Prepaid and other assets	(15.7)	(15.0)
Accounts payable	125.8	145.8
Other current liabilities	114.4	147.1
Restructuring reserves	37.0	2.6
Other non-current items	3.2	(22.8)
Other, net	6.1	1.1
Net cash provided by operating activities	24.2	34.3
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of long-lived assets	5.3	0.2
Proceeds from sale of business, net of transaction costs	—	7.2
Investments in property, plant and equipment	(41.2)	(68.5)
Investments in acquired businesses, net of cash acquired	(179.1)	(60.0)
Net cash used in investing activities	(215.0)	(121.1)
<b>FINANCING ACTIVITIES</b>		
Borrowings under revolving and bank lines of credit	1,440.7	1,740.5
Repayments under revolving and bank lines of credit	(1,175.9)	(1,282.4)
Repayment of 7.25% Senior Notes	—	(200.0)
Financing and issuance fees	—	(6.1)
Dividends paid	(82.4)	(81.3)
Purchase of common shares	(14.8)	(89.5)
Payments on seller notes	(0.8)	(0.8)
Excess tax benefits from share-based payment arrangements	2.9	5.4
Cash received from the exercise of stock options	16.5	14.3
Net cash provided by financing activities	186.2	100.1
Effect of exchange rate changes on cash	(4.8)	4.1

Explanation of Responses:

Edgar Filing: FARRELL W JAMES - Form 4

Net (decrease) increase in cash and cash equivalents	(9.4	) 17.4
Cash and cash equivalents, beginning of period	89.3	129.8
Cash and cash equivalents, end of period	\$79.9	\$147.2

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$(39.3	) \$(42.4	)
Call premium on 7.25% Senior Notes	—	(7.3	)
Income taxes (paid) refunded	(53.7	) (14.5	)

See notes to condensed consolidated financial statements.

5

---



Table of Contents

## THE SCOTTS MIRACLE-GRO COMPANY

## Condensed Consolidated Balance Sheets

(In millions, except stated value per share)

(Unaudited)

	JUNE 27, 2015	JUNE 28, 2014	SEPTEMBER 30, 2014
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$79.9	\$147.2	\$ 89.3
Accounts receivable, less allowances of \$10.0, \$11.4 and \$7.5, respectively	436.5	512.3	224.0
Accounts receivable pledged	376.4	237.8	113.7
Inventories	415.8	387.8	385.1
Prepaid and other current assets	131.6	125.9	122.9
Total current assets	1,440.2	1,411.0	935.0
Property, plant and equipment, net of accumulated depreciation of \$625.7, \$606.4 and \$597.2, respectively	447.9	443.4	437.0
Goodwill	430.6	333.3	350.9
Intangible assets, net	671.2	281.3	302.7
Other assets	28.2	37.4	32.7
Total assets	\$3,018.1	\$2,506.4	\$ 2,058.3
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Current portion of debt	\$316.4	\$200.5	\$ 91.9
Accounts payable	315.7	279.3	193.3
Marketing and license agreement obligation	300.0	—	—
Other current liabilities	410.8	428.6	259.5
Total current liabilities	1,342.9	908.4	544.7
Long term debt	738.4	628.7	692.4
Other liabilities	243.4	214.1	254.0
Total liabilities	2,324.7	1,751.2	1,491.1
Contingencies (note 11)			
Shareholders' equity:			
Common shares and capital in excess of \$.01 stated value per share; 61.3, 61.2 and 60.7 shares issued and outstanding, respectively	403.9	390.5	395.3
Retained earnings	737.1	803.0	636.9
Treasury shares, at cost; 6.9, 7.0 and 7.4 shares, respectively	(369.5)	) (366.0	) (392.3
Accumulated other comprehensive loss	(91.5)	) (72.3	) (86.2
Total shareholders' equity - controlling interest	680.0	755.2	553.7
Noncontrolling interest	13.4	—	13.5
Total equity	693.4	755.2	567.2
Total liabilities and shareholders' equity	\$3,018.1	\$2,506.4	\$ 2,058.3
See notes to condensed consolidated financial statements.			

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Organization and Basis of Presentation

The Company’s unaudited condensed consolidated financial statements for the three and nine months ended June 27, 2015 and June 28, 2014 are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. AeroGrow International, Inc. (“AeroGrow”), in which the Company has controlling interest, is consolidated with the equity owned by other shareholders shown as noncontrolling interest in the consolidated balance sheets, and the other shareholders’ portion of net earnings and other comprehensive income is shown as net earnings or comprehensive income attributable to noncontrolling interest in the consolidated statement of operations and consolidated statements of comprehensive income (loss), respectively. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

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

The Company’s Condensed Consolidated Balance Sheet at September 30, 2014 has been derived from the Company’s audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Use of Estimates

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

Long-lived Assets

The Company had noncash investing activities of \$1.6 million and \$1.5 million representing unpaid liabilities incurred during the nine months ended June 27, 2015 and June 28, 2014, respectively, to acquire property, plant and equipment.

RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The provisions are effective for the Company’s financial statements for the fiscal year

beginning October 1, 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.

7

---

Table of Contents

## Discontinued Operations Reporting

In April 2014, the FASB issued an accounting standard update that amends the accounting guidance related to discontinued operations. This amendment defines discontinued operations as a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This amendment also introduces new disclosures for disposals that do not meet the criteria of discontinued operations. The provisions are effective for fiscal years beginning after December 15, 2014 and apply to new disposals and new classifications of disposal groups as held for sale after the effective date. The adoption of the amended guidance impacts presentation and disclosure of future divestitures and did not have a significant impact on the Company's consolidated financial position, results of operations or cash flows as of June 27, 2015.

## Going Concern

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

## 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 for fiscal years beginning after December 15, 2015 and require retrospective application. 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.

## Cloud Computing Arrangements

In April 2015, the FASB issued an accounting standard update that clarifies how customers in cloud computing arrangements should determine whether the arrangement includes a software license, and requires acquired software licenses to be accounted for as licenses of intangible assets. The provisions are effective for fiscal years beginning after December 15, 2015 and are not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

## NOTE 2. DISCONTINUED OPERATIONS

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

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 27, 2015	JUNE 28, 2014	JUNE 27, 2015	JUNE 28, 2014
	(In millions)			
Net sales	\$—	\$—	\$—	\$18.0
Operating (income) costs	—	(0.3 )	—	17.3
Gain on sale of assets	—	(1.2 )	—	(1.4 )
Income from discontinued operations before income taxes	—	1.5	—	2.1
Income tax expense from discontinued operations	—	0.5	—	1.0
Income from discontinued operations, net of tax	\$—	\$1.0	\$—	\$1.1

Explanation of Responses:

NOTE 3. ACQUISITIONS

Fiscal 2015

On October 16, 2014, Scotts LawnService® acquired the assets of Action Pest Control, Inc. (“Action Pest”), a residential and commercial pest control provider in the Midwest, for \$21.7 million. Action Pest provides residential and commercial pest control services to homeowners and businesses throughout Indiana, Kentucky, and Illinois. This transaction provides Scotts

8

---

Table of Contents

LawnService® an entry into the pest control market. Included in the purchase price of \$21.7 million is non-cash investing activity of \$4.0 million representing the deferral of a portion of the purchase price into subsequent fiscal periods. During the third quarter of fiscal 2015, the valuation of certain acquired assets was updated based on further analysis, which resulted in an increase in finite-lived identifiable intangible assets of \$0.1 million and an increase in tax deductible goodwill of \$0.5 million. The adjusted valuation of acquired assets included finite-lived identifiable intangible assets of \$6.1 million and tax deductible goodwill of \$14.1 million. Identifiable intangible assets included tradename, customer relationships and non-compete agreements with useful lives ranging between 1 to 12 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. Net sales for Action Pest included in the Scotts LawnService® segment for the three and nine months ended June 27, 2015 were \$3.4 million and \$7.9 million, respectively.

During the nine months ended June 27, 2015, the Company completed four acquisitions of growing media operations within the Global Consumer segment for an aggregate estimated purchase price of \$40.7 million. These acquisitions expand the Company's growing media operations and distribution capabilities within its Global Consumer segment. During the third quarter of fiscal 2015, the valuation of certain acquired assets was updated based on further analysis, which resulted in a decrease in the valuation of finite-lived identifiable intangible assets of \$4.3 million, an increase in fixed assets of \$1.0 million, an increase in inventory and accounts receivable of \$0.2 million, and an increase in tax deductible goodwill of \$3.8 million. The adjusted valuation of acquired assets for the transactions included (i) \$10.1 million in finite-lived identifiable intangible assets, (ii) \$11.9 million in fixed assets, (iii) \$9.3 million in tax deductible goodwill, and (iv) \$10.2 million of inventory and accounts receivable. Identifiable intangible assets include tradenames and customer relationships with useful lives ranging between 7 to 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. Net sales for these acquired businesses included in the Global Consumer segment for the three and nine months ended June 27, 2015 were \$13.7 million and \$15.9 million.

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 provides the Company's Global Consumer segment with an additional entry in the indoor and urban gardening market, which is a part of the Global Consumer segment's long-term growth strategy. Based in California, General Hydroponics and Vermicrop are leading producers of liquid plant food products, growing media, and accessories for the hydroponics markets. The General Hydroponics purchase price includes non-cash investing activity of \$1.0 million representing the deferral of a portion of the purchase price into fiscal 2016. Included in the Vermicrop purchase price is \$5.0 million of contingent consideration, the payment of which will depend on the performance of the business through calendar year 2015. Additionally, the Vermicrop purchase price was paid in common shares of Scotts Miracle-Gro ("Common Shares") based on the average share price at the time of payment. The preliminary valuation of acquired assets was determined during the third quarter of 2015 and included (i) \$14.4 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) \$53.0 million of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete arrangements with useful lives ranging between 5 to 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 rate of return. Net sales for General Hydroponics and Vermicrop included within the Global Consumer segment for the three months ended June 27, 2015 were \$16.8 million.

## Fiscal 2014

During the three months ended September 30, 2014, the Company obtained control of the operations of AeroGrow through its increased involvement, influence, and working capital loan of \$4.5 million provided in July 2014. AeroGrow is a developer, marketer, direct-seller, and wholesaler of advanced indoor garden systems designed for consumer use in gardening, cooking, healthy eating, and home and office décor markets. AeroGrow operates primarily

in the United States and Canada, as well as Australia and select countries in Europe and Asia. The preliminary valuation of acquired assets included finite-lived identifiable intangible assets of \$13.7 million, and goodwill of \$11.6 million. Identifiable intangible assets included tradename and customer relationships with useful lives ranging between 9 to 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. Net sales for AeroGrow included in the Global Consumer segment for the three and nine months ended June 27, 2015 were \$1.7 million and \$16.0 million, respectively.

The Company completed an acquisition of the assets of the U.K. based Solus Garden and Leisure Limited (“Solus”) in the fourth quarter of fiscal 2014 within its Global Consumer segment for \$7.4 million, \$1.1 million of which was paid in cash and \$6.3 million of which was paid through the forgiveness of outstanding accounts receivable owed by Solus to the Company. Solus is a supplier of garden and leisure products and offers a diverse mix of brands. Net sales for Solus included in the Global Consumer segment for the three and nine months ended June 27, 2015 were \$8.4 million and \$16.3 million, respectively.

Table of Contents

On September 30, 2014, Scotts Miracle-Gro's wholly-owned subsidiary, Scotts Canada Ltd., acquired Fafard & Brothers Ltd. ("Fafard") for \$59.8 million. Fafard is a Canadian based producer of peat moss and growing media products for the consumer and professional markets, including peat-based and bark-based mixes, composts and premium soils. The acquisition of Fafard increases the Company's presence within Canada as Fafard serves customers primarily across Ontario, Quebec and New Brunswick. During the third quarter of fiscal 2015, the valuation of certain acquired assets was updated based on further analysis. The adjusted valuation of acquired assets included working capital of \$17.6 million, property, plant, and equipment of \$23.4 million, finite-lived identifiable intangible assets of \$12.6 million, and tax deductible goodwill of \$7.9 million. Working capital included accounts receivable of \$4.7 million, inventory of \$17.7 million, and accounts payable of \$4.8 million. Identifiable intangible assets included tradename, customer relationships, non-compete agreements, and peat harvesting rights with useful lives ranging between 1 to 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate rate of return. Included in the purchase price of Fafard is \$7.1 million of contingent consideration, the payment of which will depend on the performance of the business through fiscal 2016. Net sales for Fafard included in the Global Consumer segment for the three and nine months ended June 27, 2015 were \$20.0 million and \$32.0 million, respectively.

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

**NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER**

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

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 27, 2015	JUNE 28, 2014	JUNE 27, 2015	JUNE 28, 2014
	(In millions)			
Restructuring and other	\$44.3	\$5.5	\$59.0	\$11.9
Goodwill and intangible asset impairments	—	33.7	—	33.7
Total impairment, restructuring and other	\$44.3	\$39.2	\$59.0	\$45.6

The following table summarizes the activity related to liabilities associated with the restructuring and other charges during the nine months ended June 27, 2015 (in millions):

Amounts reserved for restructuring and other charges at September 30, 2014	\$16.0
Restructuring and other charges	59.0
Payments and other	(22.0)
Amounts reserved for restructuring and other charges at June 27, 2015	\$53.0

Included in the restructuring reserves as of June 27, 2015 is \$5.3 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 2015**

During the three and nine months ended June 27, 2015, the Company recognized \$6.6 million and \$21.3 million, respectively, in restructuring costs related to termination benefits provided to U.S. and international personnel as part of the continuation of the fiscal 2014 restructuring initiative to eliminate management layers and streamline decision making, and the liquidation and exit of the U.K. Solus business. The restructuring charges include \$0.0 million 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. Included within the restructuring charges for the nine months ended June 27, 2015 were



\$1.3 million for the Scotts LawnService® segment, \$13.4 million for the Global Consumer segment, and \$6.6 million for Corporate & Other. Costs incurred to date since the inception of the fiscal 2014 initiative are \$22.9 million for Global Consumer, \$1.7 million for Scotts LawnService®, and \$9.2 million for Corporate & Other. The Company expects to complete its fiscal 2014 restructuring initiative by the end of fiscal 2015.

During the third quarter of fiscal 2015, the Company's Global Consumer segment began experiencing an increase in consumer complaints related to the new Bonus S lawn fertilizer product used in the southeastern United States indicating customers were

Table of Contents

experiencing damage to their lawns after application. During the third quarter of fiscal 2015, the Company recognized \$37.7 million in costs related to resolving consumer complaints and the recognition of costs the Company expects to be incurred for current and expected consumer claims. The Company has contacted its insurers and is working through the claims process. Upon the receipt of reimbursement of these costs by its insurance carriers, the Company will record an offsetting insurance reimbursement recovery. During the third quarter of fiscal 2015, the Company has paid \$5.7 million to its third party administrator to pay for lawn repairs.

## Fiscal 2014

During the three and nine months ended June 28, 2014, as a result of an impairment review, the Company recognized an impairment charge for a non-recurring fair value adjustment of \$33.7 million within the Global Consumer segment related to the Ortho® brand. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho® business.

During the three and nine months ended June 28, 2014, the Company recognized \$5.8 million and \$9.7 million, respectively, in restructuring costs related to termination benefits provided to U.S. personnel as part of the Company's restructuring of its U.S. administrative and overhead functions. In addition, for the nine months ended June 28, 2014, the Company recognized \$2.0 million in additional ongoing monitoring and remediation costs for the Company's turfgrass biotechnology program. The Company also recognized \$(0.3) million and \$0.2 million of international restructuring and other adjustments during the three and nine months ended June 28, 2014, respectively. The restructuring costs related to termination benefits provided to international employees as part of the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment.

## NOTE 5. INVENTORIES

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

	JUNE 27, 2015	JUNE 28, 2014	SEPTEMBER 30, 2014
	(In millions)		
Finished goods	\$261.5	\$257.3	\$ 217.5
Work-in-process	39.3	36.4	46.2
Raw materials	115.0	94.1	121.4
Total inventories	\$415.8	\$387.8	\$ 385.1

Adjustments to reflect inventories at net realizable values were \$20.9 million at June 27, 2015, \$21.0 million at June 28, 2014 and \$18.4 million at September 30, 2014.

## NOTE 6. MARKETING AGREEMENT

The Company is Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® herbicide products (with additional rights to new products containing glyphosate or other similar non-selective herbicides) in the consumer lawn and garden market. Under the terms of the marketing agreement the Company entered into with Monsanto (the "Marketing Agreement"), the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the Company's duties as agent. The annual gross commission under the Marketing Agreement is calculated as a percentage of the actual earnings before interest and income taxes of the consumer Roundup® business in the markets covered by the Marketing Agreement and is based on the achievement of two earnings thresholds, as defined in the Marketing Agreement. The Marketing Agreement also requires the Company to make annual payments of \$20 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. Commencing on May 15, 2015, the territory was expanded to cover additional countries as outlined below.



Table of Contents

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 has deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. The economic useful life over which the marketing fee is being amortized is 20 years, with a remaining unamortized amount of \$2.6 million and remaining amortization period of less than four years as of June 27, 2015.

On May 15, 2015, the Company amended the Marketing Agreement (the "Agency Agreement Amendment") and entered into 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 will pay Monsanto \$300 million no later than August 15, 2015. A \$300 million "Marketing and license agreement obligation" has been reflected in "Total current liabilities" in the Condensed Consolidated Balance Sheet as of June 27, 2015 and represents a non-cash investing activity for the nine months ended June 27, 2015. The Company expects to pay the \$300 million in August 2015 using availability of borrowings under its credit facility. Among other things, the Agency Agreement Amendment amends the Marketing Agreement in the following significant respects:

Expands the markets in which the Company may serve as Monsanto's exclusive agent in the residential 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 within the prior included markets. As amended, the term of the Marketing Agreement will now continue indefinitely for all included markets, 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 Roundup® sale 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.

Under certain circumstances, requires the Company to provide notice and a non-exclusive negotiation period to Monsanto of proposals and processes that may result in a sale of the Company.

Increases the minimum termination fee payable under the Marketing Agreement to the greater of (i) \$200 million or (ii) four times (A) the average of the program earnings for the three trailing program years prior to the year of termination, minus (B) the 2015 program earnings.

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

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

eliminating 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 are defined in the Agency Agreement); and

eliminating 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 Agency Agreement) occurring before program year 2023.

Amends the Company's assignment rights to allow the Company to transfer its rights, interests and obligations under the Marketing Agreement with respect to the North America territories and with respect to up to three other assignees of one or more other included markets.



Table of Contents

Amends the commission structure by eliminating the commission threshold for fiscal years 2016, 2017 and 2018; thereby increasing the amount of commission income the Company could earn. In addition, the amendment fixes the commission threshold to 50% of earnings.

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 markets. The application of the Roundup® brand to these additional products is subject to a product review and approval process developed between the parties and includes customary representations, warranties, covenants and indemnities regularly associated with transactions of this nature. 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 20 years, which will automatically renew for additional successive 20 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 an annual review of Monsanto's developing products and technologies. The Commercialization and Technology Agreement has a term of 30 years (subject to early termination upon a termination event under the Marketing Agreement or the Brand Extension Agreement).

The Company has recorded the \$300 million consideration as intangible assets and the related economic useful life of the assets is indefinite. The identifiable indefinite-lived intangible assets include the Agency Agreement Amendment and the Brand Extension Agreement with allocated fair value of \$188 million and \$112 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, distribution and logistics, and selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in "Cost of sales" and the reimbursement of these costs in "Net sales," with no effect on gross profit dollars or net income.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 27, 2015	JUNE 28, 2014	JUNE 27, 2015	JUNE 28, 2014
	(In millions)			
Gross commission	\$42.2	\$34.4	\$74.8	\$67.5
Contribution expenses	(5.0)	) (5.0)	) (15.0)	) (15.0)
Amortization of marketing fee	(0.2)	) (0.2)	) (0.6)	) (0.6)
Net commission income	37.0	29.2	59.2	51.9
Reimbursements associated with Marketing Agreement	16.2	15.5	51.7	49.3
Total net sales associated with Marketing Agreement	\$53.2	\$44.7	\$110.9	\$101.2

Table of Contents

## NOTE 7. DEBT

The components of long-term debt are as follows:

	JUNE 27, 2015 (In millions)	JUNE 28, 2014	SEPTEMBER 30, 2014
Credit facility – Revolving loans	\$525.6	\$425.1	\$481.8
Senior Notes – 6.625%	200.0	200.0	200.0
Master Accounts Receivable Purchase Agreement	301.1	190.3	84.0
Other	28.1	13.8	18.5
	1,054.8	829.2	784.3
Less current portions	316.4	200.5	91.9
Total long term debt	\$738.4	\$628.7	\$692.4

## Credit Facilities

On December 20, 2013, the Company entered into a third amended and restated senior secured credit agreement (“credit facility”), providing the Company and certain of its subsidiaries with a five-year senior secured revolving loan facility in the aggregate principal amount of up to \$1.7 billion. The credit facility also provides the Company with the right to seek to increase the credit facility by an aggregate amount of up to \$450.0 million, subject to certain specified conditions, including approval from lenders.

The terms of the credit facility include customary representations and warranties, affirmative and negative covenants, financial covenants and events of default. The proceeds of borrowings on the credit facility may be used: (i) to finance working capital requirements and other general corporate purposes of the Company and its subsidiaries; and (ii) to refinance the amounts outstanding under the previous credit agreement. The Company may use the credit facility for the issuance of up to \$75 million of letters of credit and for borrowings under swing line loans of up to \$100 million. The credit facility will terminate on December 20, 2018.

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

As of June 27, 2015, there was \$1,151.5 million of availability under the credit facility, including availability for letters of credit. As of June 27, 2015, the Company had letters of credit in the aggregate face amount of \$22.9 million outstanding under the credit facility.

The credit facility contains, among other obligations, an affirmative covenant regarding the Company’s leverage ratio, calculated as average total indebtedness, divided by the Company’s earnings before interest, taxes, depreciation and amortization (“EBITDA”), as adjusted pursuant to the terms of the credit facility (“Adjusted EBITDA”). Under the terms of the credit facility, the maximum leverage ratio was 4.00 as of June 27, 2015. The Company’s leverage ratio was 2.87 at June 27, 2015. The credit facility also includes an affirmative covenant regarding its interest coverage ratio. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the credit facility, and excludes costs related to refinancings. Under the terms of the credit facility, the minimum interest coverage ratio was 3.50 for the twelve months ended June 27, 2015. The Company’s interest coverage ratio was 9.12 for the twelve months ended June 27, 2015. The Company may make restricted payments (as defined in the third amended and restated credit agreement); provided that if after giving effect to any such restricted payment the leverage ratio is not greater than 3.00. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth for such fiscal year (\$150.0 million for 2015 and \$175.0 million for 2016 and in each fiscal year thereafter).

Senior Notes - 7.25%

On January 15, 2014, the Company redeemed all of its outstanding \$200.0 million aggregate principal amount of 7.25% senior notes due 2018 (the "7.25% Senior Notes") paying a redemption price of \$214.5 million, which included \$7.25 million of accrued and unpaid interest, \$7.25 million of call premium, and \$200.0 million for outstanding principal amount. The \$7.25 million call premium charge was recognized within the "Costs related to refinancing" line on the Condensed Consolidated Statement of Operations in the Company's second quarter of fiscal 2014. Additionally, the Company had \$3.5 million in unamortized bond

14

---



Table of Contents

discount and issuance costs associated with the 7.25% Senior Notes that were written-off and recognized in the “Costs related to refinancing” line on the Condensed Consolidated Statement of Operations in the Company's second quarter of fiscal 2014.

**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 \$1,300.0 million at June 27, 2015, June 28, 2014, and September 30, 2014. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below. The notional amount, effective date, expiration date and rate of each of these swap agreements are shown in the table below.

Notional Amount (in millions)	Effective Date (a)	Expiration Date	Fixed Rate
\$50	2/14/2012	2/14/2016	3.78%
150	(b) 2/7/2012	5/7/2016	2.42%
150	(c) 11/16/2009	5/16/2016	3.26%
50	(b) 2/16/2010	5/16/2016	3.05%
100	(b) 2/21/2012	5/23/2016	2.40%
150	(c) 12/20/2011	6/20/2016	2.61%
50	(d) 12/6/2012	9/6/2017	2.96%
200	2/7/2014	11/7/2017	1.28%
150	(b) 2/7/2017	5/7/2019	2.12%
50	(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.

**Master Accounts Receivable Purchase Agreement**

The Company accounts for the sale of receivables under the Master Accounts Receivable Purchase Agreement (“MARPA Agreement”) as short-term debt and continues to carry the receivables on its Consolidated Balance Sheet, primarily as a result of the Company's right to repurchase receivables sold. Refer to “NOTE 10. DEBT” in the 2014 Annual Report for more information regarding the MARPA Agreement. There were \$301.1 million and \$190.3 million in borrowings under the MARPA Agreement as of June 27, 2015 and June 28, 2014, respectively. The carrying value of the receivables pledged as collateral was \$376.4 million as of June 27, 2015 and \$237.8 million as of June 28, 2014. As of June 27, 2015, there was \$57.1 million of availability under the MARPA Agreement.

Table of Contents

## Estimated Fair Values

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

## Credit Facility

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

## 6.625% Senior Notes

The fair value of Scotts Miracle-Gro's 6.625% senior notes due 2020 (the "6.625% Senior Notes") can be determined based on the trading of the 6.625% Senior Notes in the open market. The difference between the carrying value and the fair value of the 6.625% Senior Notes represents the premium or discount on that date. Based on the trading value on or around June 27, 2015, June 28, 2014 and September 30, 2014, the fair value of the 6.625% Senior Notes was approximately \$209.5 million, \$216.8 million and \$212.5 million, respectively. The fair value measurement for the 6.625% Senior Notes was classified in Level 1 of the fair value hierarchy.

## Accounts Receivable Pledged

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

## Weighted Average Interest Rate

The weighted average interest rates on the Company's debt were 4.2% and 5.0% for the nine months ended June 27, 2015 and June 28, 2014, respectively. The decline in the weighted average interest rate is due to the reduced rates under the credit facility and the redemption of the 7.25% Senior Notes.

## NOTE 8. RETIREMENT AND RETIREE MEDICAL PLANS

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

	THREE MONTHS ENDED					
	JUNE 27, 2015			JUNE 28, 2014		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	\$—	\$ 0.3	\$ 0.1	\$—	\$ 0.5	\$ 0.1
Interest cost	1.0	1.9	0.3	1.1	3.3	0.3
Expected return on plan assets	(1.3 )	(2.3 )	—	(1.3 )	(3.7 )	—
Net amortization	0.8	0.5	—	0.9	0.5	—
Net periodic benefit cost	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.7	\$ 0.6	\$ 0.4
	NINE MONTHS ENDED					
	JUNE 27, 2015			JUNE 28, 2014		
	U.S. Pension	International Pension	U.S. Medical	U.S. Pension	International Pension	U.S. Medical
	(In millions)					
Service cost	\$—	\$ 1.0	\$ 0.3	\$—	\$ 1.3	\$ 0.3
Interest cost	3.0	5.7	1.0	3.3	8.4	1.0
Expected return on plan assets	(4.0 )	(7.0 )	—	(3.9 )	(9.5 )	—
Net amortization	2.5	1.4	—	2.8	1.3	—
Net periodic benefit cost	\$ 1.5	\$ 1.1	\$ 1.3	\$ 2.2	\$ 1.5	\$ 1.3

Table of Contents

## NOTE 9. SHAREHOLDERS' EQUITY

During the nine months ended June 27, 2015, Scotts Miracle-Gro repurchased 0.2 million of its Common Shares for \$14.8 million. These repurchases were made pursuant to the \$500 million share repurchase program approved by the Scotts Miracle-Gro Board of Directors in August 2014. The program allows for repurchases of Common Shares over a five-year period starting November 1, 2014 through September 30, 2019.

As of June 27, 2015 the equity attributable to noncontrolling interest was \$13.4 million compared to \$13.5 million as of September 30, 2014. The \$0.1 million change is due to the net earnings from the Company's investment in AeroGrow. On March 30, 2015, Scotts Miracle-Gro issued 0.2 million Common Shares (which represented \$8.3 million) out of its treasury shares for payment of the acquisition of Vermicrop.

## Share-Based Awards

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

	NINE MONTHS ENDED	
	JUNE 27, 2015	JUNE 28, 2014
Employees		
Stock options	440,690	—
Restricted stock units	78,463	112,311
Performance units	78,352	161,229
Board of Directors		
Deferred stock units	28,553	32,071
Total share-based awards	626,058	305,611
Aggregate fair value at grant dates (in millions)	\$ 16.9	\$ 18.2

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 27, 2015	JUNE 28, 2014	JUNE 27, 2015	JUNE 28, 2014
	(In millions)			
Share-based compensation	\$2.1	\$2.3	\$ 11.4	\$ 8.7
Tax benefit recognized	0.8	0.9	4.3	3.3

## NOTE 10. INCOME TAXES

The effective tax rate related to continuing operations for the nine months ended June 27, 2015 was 35.0%, compared to 35.2% for the nine months ended June 28, 2014. The effective tax rate used for interim reporting purposes is based on management's best estimate of factors impacting the effective tax rate for the full fiscal year. An allocation of the income tax expense has been separately determined to report the discontinued operations, net of tax. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Scotts Miracle-Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. With few exceptions, which are discussed further below, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2012. The Company is currently under examination by the Internal Revenue Service and certain foreign and U.S. state and local tax authorities. The U.S. federal examination is limited to fiscal year 2011. Regarding the foreign jurisdictions, a German audit commenced in the third quarter of 2015 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 2009 through 2013. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

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



Table of Contents

NOTE 11. CONTINGENCIES

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

Regulatory Matters

As of June 27, 2015, \$5.7 million was accrued in the "Other liabilities" line in the Consolidated Balance Sheet for environmental actions, the majority of which are for site remediation. The amounts accrued are believed to be adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

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

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



Table of Contents

## NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

## Exchange Rate Risk Management

The Company uses currency forward contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. 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 June 28, 2014, the notional amount of outstanding currency forward contracts was \$68.0 million, with a negative fair value of \$0.2 million. At September 30, 2014, the notional amount of outstanding currency forward contracts was \$149.0 million, with a negative fair value of \$0.1 million. The fair value of currency forward contracts is determined based on changes in spot rates. The outstanding contracts will mature over the next fiscal year.

## Interest Rate Risk Management

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

The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a total U.S. dollar equivalent notional amount of \$1,300.0 million at June 27, 2015, June 28, 2014, and September 30, 2014. Included in the AOCI balance at June 27, 2015 was a loss of \$5.2 million related to interest rate swap agreements that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

## Commodity Price Risk Management

The Company had outstanding hedging arrangements at June 27, 2015 designed to fix the price of a portion of its projected future urea requirements. The contracts are designated as hedges of the Company's exposure to future cash flow fluctuations associated with the cost of urea. The objective of the hedges is to mitigate the earnings and cash flow volatility attributable to the risk of changing prices. Unrealized gains or losses in the fair value of these contracts are recorded to AOCI within the Condensed Consolidated Balance Sheets. Realized gains or losses remain as a component of AOCI until the related inventory is sold. Upon sale of the underlying inventory, the gain or loss is reclassified to cost of sales. Included in the AOCI balance at June 27, 2015 was a loss of \$0.2 million related to urea derivatives that is expected to be reclassified to earnings during the next 12 months, consistent with the timing of the underlying hedged transactions.

The Company also uses derivatives to partially mitigate the effect of fluctuating diesel and gasoline costs on operating results. Any such derivatives that do not qualify for hedge accounting treatment in accordance with GAAP are recorded at fair value, with unrealized gains and losses on open contracts and realized gains or losses on settled contracts recorded as an element of cost of sales. Unrealized gains or losses in the fair value of contracts that do qualify for hedge accounting are recorded in AOCI except for any ineffective portion of the change in fair value, which is immediately recorded in earnings. For the effective portion of the change in fair value, realized gains or losses remain as a component of AOCI until the related fuel is consumed. Upon consumption of the fuel, the gain or loss is reclassified to cost of sales. At June 27, 2015 there were no amounts included within AOCI.

Edgar Filing: FARRELL W JAMES - Form 4

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

Commodity	JUNE 27, 2015	JUNE 28, 2014	SEPTEMBER 30, 2014
Urea	34,500 tons	19,000 tons	58,500 tons
Diesel	4,410,000 gallons	2,394,000 gallons	5,250,000 gallons
Gasoline	462,000 gallons	672,000 gallons	462,000 gallons
Heating Oil	3,318,000 gallons	1,428,000 gallons	4,494,000 gallons

19

---



Table of Contents

## 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)		
		JUNE 27, 2015	JUNE 28, 2014	SEPTEMBER 30, 2014
		FAIR VALUE (In millions)		
Interest rate swap agreements	Other assets	\$0.1	\$2.6	\$ 4.0
	Other current liabilities	(8.8	) (10.4	) (10.3
	Other liabilities	(0.7	) (6.6	) (5.2
Commodity hedging instruments	Prepaid and other current assets	—		