DOLE FOOD CO INC
Form 10-K
March 12, 2013
**Table of Contents**

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

(Mark One)

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

**For the fiscal year ended December 29, 2012**

**or**

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

**For the transition period from to**

**Commission File Number 1-4455**

# Dole Food Company, Inc.

*(Exact name of Registrant as specified in its charter)*

| **Delaware** | **99-0035300** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(IRS Employer Identification No.)* |

**One Dole Drive, Westlake Village, California 91362**

*(Address of principal executive offices)*

**Registrant s telephone number including area code:**

**(818) 879-6600**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $0.001 Par Value | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ¨ No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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. (Check one):

| Large accelerated filer ¨ | Accelerated filer þ | Non-accelerated filer ¨<br>(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 Act). Yes ¨ No þ

As of the end of the company s second fiscal quarter, the approximate aggregate market value of voting and non-voting stock held by non-affiliates of the registrant was $332,407,063.

The number of shares of Common Stock outstanding as of February 28, 2013 was 89,188,518.

**DOCUMENTS INCORPORATED BY REFERENCE**

**None**

**Table of Contents**

**DOLE FOOD COMPANY, INC.**

**FORM 10-K**

**Fiscal Year Ended December 29, 2012**

## TABLE OF CONTENTS


| Item Number In Form 10-K | | Page |
|---|---|---|
| | **PART I** | |
| 1. | Business | 1 |
| 1A. | Risk Factors | 13 |
| 1B. | Unresolved Staff Comments | 26 |
| 2. | Properties | 26 |
| 3. | Legal Proceedings | 29 |
| 4. | Mine Safety Disclosures | 31 |
| | **PART II** | |
| 5. | Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 32 |
| 6. | Selected Financial Data | 34 |
| 7. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 36 |
| 7A. | Quantitative and Qualitative Disclosures About Market Risk | 57 |
| 8. | Financial Statements and Supplementary Data | 60 |
| 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 135 |
| 9A. | Controls and Procedures | 135 |
| 9B. | Other Information | 135 |
| | **PART III** | |
| 10. | Directors, Executive Officers and Corporate Governance | 136 |
| 11. | Executive Compensation | 136 |
| 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 136 |
| 13. | Certain Relationships and Related Transactions, Director Independence | 136 |
| 14. | Principal Accountant Fees and Services | 136 |
| | **PART IV** | |
| 15. | Exhibits and Financial Statement Schedules | 137 |
| Signatures | | 148 |

Table of Contents

## PART I

**Item 1.** ***Business***

Dole Food Company, Inc. was founded in Hawaii in 1851 and was incorporated under the laws of Hawaii in 1894. Dole reincorporated as a Delaware corporation in July 2001. Unless the context otherwise requires, Dole Food Company, Inc. and its consolidated subsidiaries are referred to in this report as the Company, Dole and we.

On September 17, 2012, Dole entered into an acquisition agreement with ITOCHU Corporation ( ITOCHU ), pursuant to which ITOCHU will buy from Dole its worldwide packaged foods and Asia fresh produce businesses (collectively, Dole Asia ) for $1.685 billion in cash. We refer to this transaction as the sale transaction. The sale transaction is expected to close on April 1, 2013. The operations of Dole Asia consist of Dole s Packaged Foods reportable operating segment and the Asia fresh produce business, which is a component of Dole s Fresh Fruit reportable operating segment ( Asia Fresh ). The results of operations for Dole Asia have been reclassified to discontinued operations for all periods presented in this report.

The consummation of this transformative transaction for Dole will result in a major percentage of Dole s operations being sold to ITOCHU. The new Dole will have a smaller footprint as a commodity produce company with annual revenue in the $4.2 billion range with two lines of business: fresh fruit and fresh vegetables. We will remain an industry leader in the sourcing, distribution and marketing of bananas, pineapples and other tropical fruits, deciduous fruit from Chile and South Africa, packaged salads, fresh-packed vegetables and fresh berries. ITOCHU will have exclusive rights to the DOLE® trademark on packaged food products worldwide and on fresh produce in Asia, Australia and New Zealand, subject to certain exceptions for our existing businesses. Dole will be free, however, to engage in these businesses as long as we do not use the trademarks or brands being transferred or licensed to ITOCHU, except that subject to terms of the acquisition agreement, under the provisions of a two-year noncompetition arrangement, Dole will be restricted for those two years from growing, ripening, procuring, distributing or selling fresh bananas or pineapples in Asia, Australia and New Zealand (except through the companies being sold to ITOCHU), and processing, distributing or selling processed pineapple worldwide (except through the companies being sold to ITOCHU).

Dole s principal executive offices are located at One Dole Drive, Westlake Village, California 91362, telephone (818) 879-6600. Our website address is www.dole.com.

Dole s operations as of December 29, 2012, and its expected operations following the consummation of the sale transaction are described below. For detailed financial information with respect to Dole s business and its operations, see Dole s Consolidated Financial Statements and the related Notes to Consolidated Financial Statements, which are included in this report.

**Overview**

Dole is currently the world s leading producer, marketer and distributor of fresh fruit and fresh vegetables and, following the sale transaction, will remain a leading company in the industry. We are, and following the sale transaction will continue to be, one of the world s largest producers of bananas and pineapples, and an industry leader in other tropical fruits, deciduous fruit principally from Chile and South Africa, packaged salads, fresh-packed vegetables and fresh berries. Our most significant products hold the number 1 or number 2 positions in their respective markets. For the fiscal year ended December 29, 2012, Dole, as it will continue following the close of the sale transaction, generated revenues of $4.2 billion and operating income of $16.6 million. At December 29, 2012, Dole had total assets of $4.2 billion, including Dole Asia assets of $1.9 billion classified as assets-held-for-sale. The Dole Asia businesses generated revenues of $2.6 billion and net loss of $150 million, which were reported as discontinued operations, for the fiscal year ended December 29, 2012.

We provide, and will continue to provide, wholesale, retail and institutional customers with high quality food products that bear the DOLE® trademarks. The DOLE brand was introduced in 1933 and is one of the most

recognized brands for fresh and packaged produce in the United States, as evidenced by Dole s 55% unaided consumer brand awareness more than five times that of Dole s nearest competitor, according to a major global research company (Millward Brown, 2012). We utilize product quality, brand recognition, competitive pricing, food safety, nutrition education, customer service and consumer marketing programs to enhance our position within the food industry. Consumer and institutional recognition of the DOLE trademarks and related brands, and the association of these brands with high quality food products contribute, significantly to our leading positions in the markets that we serve.

Dole has built a fully-integrated operating platform as a result of which our nearly 200 products are sourced, grown, processed, marketed and distributed in more than 100 countries. Following the sale transaction, we will maintain this platform in the Americas, Europe and Africa, with approximately 180 products distributed in more than 90 countries. Our products are produced both directly on Dole-owned or leased land and in Dole-owned factories and through associated producer and independent grower arrangements under which we provide varying degrees of farming, harvesting, packing, storing, shipping and marketing services. We use, and will maintain following the sale transaction, an extensive refrigerated supply chain that features a dedicated refrigerated containerized fleet as well as our network of packaging, ripening and distribution centers, to deliver fresh Dole products to market.

**Competitive Strengths**

Our competitive strengths have contributed to our strong historical operating performance and should enable us to capitalize on future growth opportunities following the sale transaction:

*Strong Global Brand.* Consumer and institutional recognition of the DOLE trademark and related brands and the association of these brands with high quality food products contribute significantly to our leading positions in the markets that we serve. By implementing a global marketing program, we have made the distinctive red DOLE letters and sunburst a familiar symbol of freshness and quality recognized around the world.

*Market Share Leader.* Our most significant products hold the number 1 or number 2 positions in their respective markets. We maintain number 1 market share positions in North American bananas, North American iceberg lettuce, celery and cauliflower, and, prior to the sale transaction, packaged fruit products, including our FRUIT BOWLS®, FRUIT BOWLS in Gel, Fruit Parfaits and fruit in plastic jars.

*Valuable Asset Base.* We are an asset rich company, which provides significant competitive advantages to our operations and value to our investors. In addition to the DOLE trademark, we have an impressive base of tangible assets. We own 115,000 acres of farms and other land holdings, including approximately 25,000 acres of farm and other land holdings in Oahu, Hawaii. Following the sale transaction, we will continue to own approximately 107,500 acres of farm and other land holdings. We have, and following the sale transaction will maintain, a dedicated refrigerated fleet, which, at year end, included 12,500 refrigerated containers, most of which are leased, and 18 ships, 11 owned, 2 operated under long-term capital leases and 5 chartered. Four of the chartered vessels are under a charter arrangement which will terminate at the end of 2013, and have been subleased to a third party for fiscal 2013. Additionally, as part of the sale transaction, we will enter into a ship usage agreement with ITOCHU for three of our owned ships. We own and operate over 60 ripening and distribution centers in Europe and Asia, and following the sale transaction, will continue to own and operate more than 10 such facilities in Europe. We own and operate over 1.8 million square feet of state-of-the-art vegetable processing facilities, which we will continue to own and operate following the sale transaction. Over 2.7 million square feet of owned manufacturing facilities used in our packaged food business will be sold as part of the sale transaction.

*State-of-the-Art Infrastructure.* Our production, processing, transportation and distribution infrastructure is state-of-the-art, enabling us to efficiently deliver the highest quality and freshest product to our customers. The investments in our infrastructure, including farms, packing houses, manufacturing facilities and shipping assets, is expected to allow for continued growth in the near term following the

Table of Contents

sale transaction. In addition, our market-leading logistics and distribution capabilities allow us to act as a preferred provider to leading supermarkets and mass merchandisers.

*Refrigerated Supply Chain Management.* One of our strongest core competencies is our ability to produce, transport and deliver high-quality perishable products. Dole quality starts right on the farm, and that quality is preserved and protected in our farm-to-customer refrigerated supply chain. Our extensive network of cold storage at the farm, on trucks, in containers, on ships and in our distribution centers in the world s market places provides a closed-loop cold storage supply chain that enables the transport of perishable products and is the key to Dole quality and shelf life.

*Low-Cost Production Capabilities.* Dole s valuable asset base enables us to be a low cost producer in many of our major product lines, including bananas and North American fresh vegetables. Over the last several years we have undertaken various initiatives to achieve and maintain this low-cost position, including investing in automation within our manufacturing facilities as well as on our farms, and leveraging our extensive logistics infrastructure more efficiently. We intend to maintain these low-cost positions through a continued focus on operating efficiency.

*Diversity of Sourcing Locations.* We are not dependent on any one country for the sourcing of our products. The diversity of our production sources reduces our risk from exposure to natural disasters and political disruptions in any one particular country. We currently source our fresh fruits and vegetables from over 25 countries and distribute products in more than 100 countries. Following the sale transaction, we will maintain this platform in the Americas, Europe and Africa, with approximately 180 products sourced in approximately 15 countries and distributed in more than 90 countries.

*Strong Management Team.* Our management team has a demonstrated history of delivering strong operating results through disciplined execution, and following the sale transaction will retain a strong operational and corporate management team.

**Business Strategy**

Key elements of our strategy include:

*Continue to Leverage our Strong Brand and Market Leadership Position.* Following the sale transaction, we will continue as a fresh produce industry leader in the sourcing, distribution and marketing of bananas, pineapples and other tropical fruits, deciduous fruit principally from Chile and South Africa, packaged salads, fresh-packed vegetables and fresh berries, representing the number 1 or number 2 market positions for many of the fresh fruit and vegetable products we sell in North America. We intend to maintain those positions and continue to expand our leadership in new product areas, in new markets, as well as with new customers. We have a history of leveraging our strong brand to successfully enter, and in many cases become the largest player in value-added food categories.

*Supply the finest, high quality healthy and nutritious products, and lead the industry in nutrition research and education.* Through the Dole Nutrition Institute, we seek to play a leading role in nutrition education by promoting the health benefits of a plant-based diet. Given the importance of fruit and vegetable consumption in maintaining a healthy weight, nutrition education is key to addressing the global obesity epidemic. Every day new scientific research reveals ways in which fruits and vegetables help prevent and even reverse disease. Improving the eating habits of Americans has been a consistent theme of U.S federal and state policy for a number of years, including most recently, First Lady Michelle Obama s widely promoted campaign to reduce child obesity. Dole is committed to leading the way in expanding the knowledge, growing the foods and marketing the products that will enable people to lead healthier, more vital lives.

*Streamline global personnel and corporate structure by right-sizing and delivering synergies within Dole s remaining fresh fruit and vegetables businesses.* Following the sale transaction, we intend to continue to focus on profit improvement initiatives and maximizing cash flow by:

Merging back office operations through common IT systems;

Table of Contents

- Expansion of shared services; and

- Focusing capital investments to improve productivity and other operational programs.

*Maintain a flexible capital structure to allow us to invest in our core businesses and pursue growth in the commodity produce sector.* In light of the competitive fresh produce market conditions, we have and continue to assess our ongoing capital requirements and other near-term funding resources, including our Hawaii land holdings, and are actively marketing the approximately 20,600 acres of land that we are not currently farming in Hawaii on the Island of Oahu. We are seeking to sell as much of this land as we possibly can each year, expecting that it will take a few years to sell such a large quantity of farm and other land holdings. Targeted proceeds are in the $175 $200 million range and may be used to invest in:

- Increasing our percent of owned production, particularly in bananas, pineapples and selected berries;

- Updating our owned vessel fleet, which has an average age of 21 years; and

- Acquisition opportunities in the commodity produce sector.

**Business Segments**

We currently have three business segments: fresh fruit, fresh vegetables and packaged foods, and after the sale of Dole Asia, we will have two segments: fresh fruit and fresh vegetables. The fresh fruit segment currently contains several operating divisions that produce and market fresh fruit to wholesale, retail and institutional customers worldwide. The fresh vegetables segment produces and markets fresh-packed and value-added vegetables and salads, as well as berries, to wholesale, retail and institutional customers, primarily in North America and Europe. The packaged foods segment contains several operating divisions that produce and market packaged foods including fruit, juices, frozen fruit and healthy snack foods, as described further below under Discontinued Operations.

**Fresh Fruit**

Our fresh fruit business segment has four primary operating divisions: bananas, fresh pineapples, Europe and Dole Chile. We believe that we are the industry leader in growing, sourcing, shipping and distributing consistently high-quality fresh fruit. The fresh fruit business segment represented approximately 66% of 2012 continuing operations and discontinued operations revenues ( consolidated revenues ), and the portion of our fresh fruit business segment that will remain following the sale transaction represented approximately 74% of the 2012 revenues of our continuing businesses.

***Bananas***

We are one of the world s largest producers of bananas, and we grew and sold approximately 156 million boxes of bananas in 2012; our continuing businesses sold approximately 110 million boxes of Dole-sourced bananas in 2012. We sell, and following the sale transaction will continue to sell, most of our bananas under the DOLE brand. We primarily sold bananas to customers in North America, Europe and Asia in fiscal 2012, and will continue to sell bananas to customers in North America and Europe following the sale transaction. We are the number 1 brand of bananas in the U.S. (an approximate 34% market share) and Japan (an approximate 32% market share) and the number 3 provider in Europe (an approximate 7% market share), and expect to continue these positions in the U.S and Europe following the sale transaction. In Latin America, we source our bananas primarily in Honduras, Costa Rica, Ecuador, Colombia, Guatemala and Peru, growing on approximately 32,300 acres of Dole-owned farms and approximately 65,500 acres of independent producers farms. We ship our Latin American bananas to North America and Europe in our refrigerated and containerized shipping fleet. In Asia, we currently source our bananas primarily in the Philippines. Banana sales, other than banana sales by our European subsidiaries, accounted for approximately 37% of our continuing fresh fruit business segment revenues in 2012.

We have continued to expand our focus on higher margin, niche bananas. While the traditional green bananas still comprise the majority of our banana sales, we have successfully introduced niche bananas (e.g.,

Table of Contents

organic). We also have improved the profitability of our banana business by focusing on profitable customer relationships and markets.

While bananas are sold year round, there is a seasonal aspect to the banana business. Banana prices and volumes are typically higher in the first and second calendar quarters before the increased competition from summer fruits.

Over 90% of our total retail banana volume in North America is sold under contract. The contracts are typically one year in duration and help to insulate us from fluctuations in the banana spot market. Our principal competitors in the international banana business are Chiquita Brands International, Inc., Fresh Del Monte Produce Inc. and Fyffes plc.

***Fresh Pineapples***

In fiscal 2012, we were the number 2 global marketer of fresh pineapples, growing and selling 33 million boxes; our continuing fresh fruit business grew and sold 22 million boxes. Following the sale transaction, we will source our pineapples primarily from Dole-operated farms and independent growers in Latin America and Hawaii. We also currently source pineapples in the Philippines and Thailand, which operations are a part of Dole Asia. Our primary competitor in fresh pineapples is Fresh Del Monte Produce Inc. Pineapple sales, other than pineapple sales by our European subsidiaries, accounted for approximately 6% of our continuing fresh fruit business segment s revenues in 2012.

***Europe***

Dole performs four activities in Europe, which we will continue after the sale transaction. Our European business distributes DOLE and non-DOLE branded fresh produce in Europe, including bananas and pineapples. This business operates seven ripening and distribution centers in four countries. We provide distribution services dedicated to certain retail chains from a distribution center in Sweden. We produce value-added pre-cut lettuce in two facilities in Sweden and Finland. We also source and export DOLE and non-DOLE branded deciduous and citrus fruit from South Africa serving a worldwide customer structure.

We have a 40% interest in a French company, Compagnie Financière de Participations ( CF ), the leading African provider of bananas and pineapples out of plantations in Cameroon, Ghana and the Ivory Coast. During the fourth quarter of 2008, CF acquired our JP Fresh and Dole France subsidiaries which operate banana ripening and distribution facilities in the United Kingdom and France, respectively. In the fourth quarter of 2011, CF acquired Dole s Spanish subsidiary, also a banana ripening and distribution company.

In fiscal 2012, Dole s European business accounted for approximately 40% of our continuing fresh fruit business segment s revenues. Our principal competitors in this business are Chiquita Brands International, Inc., Fresh Del Monte Produce Inc., Fyffes plc and Total Produce Plc.

***Dole Chile***

We began our Chilean operations in 1982 and we are, and following the sale transaction will continue to be, the largest exporter of Chilean fruit. We export deciduous fruits, which include grapes, apples, pears, stone fruit (e.g., peaches, plums, and cherries) and kiwifruit from approximately 600 leased acres and approximately 14,000 contracted acres in Chile, 1,200 contracted acres in Argentina, and 800 contracted acres in Peru. Products are grown and harvested by independent farmers under seasonal contracts; Dole packs and cools the fruit as required. The weather and geographic features of the southern hemisphere are similar to those of the Western United States, with opposite seasons. Accordingly, the harvest is counter-seasonal to that in the northern hemisphere, offsetting the seasonality in our other non-tropical fresh fruit. We primarily export this fruit to North America,

Table of Contents

Latin America and Europe. This business accounted for approximately 10% of our continuing fresh fruit business segment s revenues in 2012.

**Fresh Vegetables**

Our fresh vegetables business segment produces and markets fresh-packed and value-added vegetables as well as fresh berries. We source fresh vegetables and berries from Dole-owned, leased and contracted farms. Under arrangements with independent growers, we purchase fresh produce at the time of harvest and are generally responsible for harvesting, packing and shipping the product to our central cooling and distribution facilities. Our value-added products are produced in state-of-the-art processing facilities in Yuma, Arizona, Soledad, California, Springfield, Ohio and Bessemer City, North Carolina. The fresh vegetables business segment accounted for approximately 16% of 2012 consolidated revenues, and the fresh vegetable business segment represented approximately 26% of the 2012 consolidated revenues from our continuing businesses.

***Fresh-packed Vegetables***

We source, harvest, cool, distribute and market more than 20 different types of fresh and fresh-cut vegetables, including iceberg lettuce, red and green leaf lettuce, romaine lettuce, butter lettuce, celery, cauliflower, broccoli, carrots, brussels sprouts, green onions, asparagus, snow peas, artichokes and radishes. Products are grown by independent farmers under seasonal contracts, with harvesting primarily provided by us. Many of our fresh-packed vegetables are packed in the field, reducing handling and increasing product quality. Following the sale transaction, we will sell our fresh-packed vegetables products primarily in North America and, to a lesser extent, in Western Europe. Based on our estimates, we are the largest supplier of iceberg lettuce and celery, and the third largest producer of cauliflower in the U.S. Our primary competitors in this category include: Tanimura & Antle, Duda Farm Fresh Foods, Ocean Mist Farms, and the Nunes Company, Inc. Fresh-packed vegetables revenues accounted for 21% of our fresh vegetables business segment s revenues in 2012.

***Fresh Berries***

During the fourth quarter of 2011, we strengthened our presence in fresh berries with the acquisition of SunnyRidge Farms ( SunnyRidge ), one of the top blueberry companies in the United States. SunnyRidge is a grower and distributor of fresh berries to the wholesale and food service markets in North America. In addition to our owned berry farms, we package and distribute blueberries, blackberries, raspberries and strawberries for various independent growers located in North America and Latin America.

Our berry products include strawberries, blueberries, blackberries and raspberries that are sourced throughout North and Latin America, which allows us to take advantage of the various growing seasons to maximize freshness and availability. Berries are grown and harvested from Dole-owned farms and through our independent grower network. Following the sale transaction, we will sell our berries primarily in North America and, to a lesser extent, in Western Europe. Based on our estimates, we are the second largest supplier of strawberries and blueberries in the U.S. Our primary competitors in this category include Driscoll Strawberry Associates, Inc., Naturipe Farms LLC, and Well-Pict Berries, Inc. Revenues from fresh berries accounted for 24% of our fresh vegetables business segment s revenues in 2012.

***Value-Added***

Our value-added vegetable products include packaged salads and packaged fresh-cut vegetables. We estimate our U.S. unit market share of the packaged salads category was approximately 32% at the end of the 2012 fiscal year. Our growth and market strength has benefitted greatly from our continued focus on quality and innovation in our products and processes. Our products are grown for us under seasonal contracts by growers with whom we have long-standing relationships. Inside our plants, our fresh vegetable ingredients are washed through the use of sanitizing agents, such as chlorinated water. They are packaged and delivered to our customers

Table of Contents

using our strict cold chain standards. We meet or exceed all industry standards, including HACCP (Hazard Analysis and Critical Control Points). Our primary competitors in packaged salads include Chiquita Brands International, Inc. (which markets Fresh Express), Ready Pac Produce, Inc. and Taylor Fresh Foods, Inc. In 2012, value-added products accounted for 55% of the revenues for this segment.

***Other Equity-Method Investments***

In addition to our 40% equity interest in CF, described above, we have a 30% ownership interest in a U.S. company, Healthy Foods, LLC ( Healthy Foods ). Healthy Foods produces the yonanas® frozen treat maker.

**Discontinued Operations**

***The Sale Transaction***

As a result of the sale transaction, ITOCHU Corporation will buy our worldwide packaged foods business and Asia fresh produce business.

***Packaged Foods***

The packaged foods segment produces canned pineapple, canned pineapple juice, fruit juice concentrate, fruit in plastic cups, jars and pouches, fruit parfaits, healthy snack foods and frozen fruit. Most of our significant packaged food products hold the number 1 branded market position in North America. In 2012, Dole remained the market leader in the plastic fruit cup category with six of the top twelve items in the category. Fruit for the packaged food products is sourced primarily in the Philippines, Thailand, the United States and China and packed primarily in four Asian canneries, two in Thailand and two in the Philippines. FRUIT BOWLS and other non-canned products accounted for approximately 56% of the segment s 2012 revenues. To keep up with demand for our products, we have made substantial investments in our Asian canneries, significantly increasing our FRUIT BOWLS capacity in the past five years.

Dole s FRUIT BOWLS products, introduced in 1998, have achieved significant market share, as evidenced by their 50% dollar market share in the United States during 2012, as reported by IRI. In late 2010, we introduced FRUIT BOWLS in 100% juice, the only non-refrigerated fruit bowl in 100% juice. In the frozen fruit category, Dole has grown its revenue at a compounded annual growth rate of 5.6% over the past six years. Dole is the branded category leader in frozen fruit. During 2011, Dole introduced two new concepts in the frozen fruit category: Fruit Smoothie SHAKERS® and a three ounce, frozen fruit single serve cup.

During the first quarter of 2012, Dole acquired Mrs. May s Naturals Inc. ( Mrs. May s ), a company committed to providing consumers with wholesome snacks for a healthier lifestyle. A family-run business founded in 2002, Mrs. May s was created to bring consumers natural, wholesome snack alternatives to junk food, with product offerings like fruit and nut based clusters, bars and freeze-dried fruit. Mrs. May s products have continued to be packaged under the Mrs. May s label.

The packaged foods segment accounted for approximately 18% of Dole s consolidated revenues in fiscal 2012.

***Asia Fresh***

The Asia fresh produce business has three primary components: bananas, Asian ripening and distribution and fresh pineapples.

*Bananas*. We believe that the Asia fresh produce business is one of Asia s largest producers of bananas. It produces bananas and papaya from leased land in the Philippines and also sources these products through associated producers or independent growing arrangements in the Philippines. A plastic extruding plant and a

Table of Contents

box forming plant, both owned by the Asia fresh business, are located near the banana plantations. Bananas are also grown on leased land in Australia. The Asia fresh business also sources products from Japanese farmers through independent growing arrangements. The Asia fresh business sells most of its bananas under the DOLE brand. Traditional green bananas comprise the majority of the banana sales of this business, but it also sells niche bananas (e.g., organic).

*Ripening and Distribution*. The Asia fresh produce business operates banana ripening and distribution centers in Hong Kong, South Korea, Taiwan, The People s Republic of China, the Philippines and New Zealand.

*Fresh Pineapples*. The Asia fresh produce business sources pineapples primarily from Dole-operated farms and independent growers in the Philippines and Thailand. It produces and sells several different varieties, including the sweet yellow pineapple. The Asia fresh produce business markets a substantial portion of this fruit under the DOLE TROPICAL GOLD® label. Other varieties of pineapples are also used in packaged products.

The Asia fresh produce business accounted for approximately 19% of our consolidated revenues for fiscal 2012.

***Fresh-Cut Flowers***

During the second quarter of 2008, Dole approved and committed to a formal plan to divest its fresh-cut flowers business. During the first quarter of 2009, the operations and the majority of the related assets of this business were sold. During 2010, Dole sold a building and a farm located in Colombia. During 2011, Dole sold a warehouse in Miami and also sold a farm in Colombia. During the fourth quarter of 2012, Dole sold a farm in Colombia. The gains associated with these disposals are recorded in gain on disposal of discontinued operations. Refer to Note 9 in the Consolidated Financial Statements for additional information.

**Global Logistics**

We currently have significant product sourcing and related operations in Chile, China, Costa Rica, Ecuador, Honduras, the Philippines, South Africa, Spain, Thailand and the United States, and following the sale transaction, we will no longer continue to have such operations in the Philippines, Thailand and China. Significant volumes of Dole s products are currently marketed worldwide, and following the sale transaction will continue to be marketed in Canada, Western Europe and the United States, with lesser volumes marketed in other countries in Europe and Central and South America.

The produce that we distribute internationally is transported primarily by 18 owned, leased or chartered ocean-going vessels. We ship our tropical fruit in owned or chartered refrigerated vessels. All of our tropical fruit shipments into the North American and core European markets are delivered using pallets or containers. This increases efficiency and minimizes damage to the product from handling. Most of the vessels are equipped with controlled atmosphere technology, to ensure product quality. Backhauling services, transporting our own and third-party cargo primarily from North America and Europe to Latin America, reduce net transportation costs. We use vessels that are both owned or operated under long-term leases, as well as vessels chartered under contracts that typically last one year. Additionally, following the sale transaction, we will enter into a ship usage agreement for three of our owned ships with ITOCHU.

**Customers**

Our top 10 customers in 2012 accounted for approximately 34% of, and no individual customer accounted for more than 10%, of total continuing operations revenues. Our customer base is highly diversified, both geographically and in terms of product mix. Each of our segments largest customers accounted for no more than approximately 20% of that segment s revenues in 2012. The largest customers of our continuing businesses in 2012 were leading global and regional mass merchandisers and supermarkets in North America and Europe.

Table of Contents

**Sales and Marketing**

We sell and distribute our fruit and vegetable products through a network of fresh produce operations in North America, Europe, Asia and Latin America, and following the sale transaction, will continue these operations in North America, Europe and Latin America. Some of these operations involve the sourcing, distribution and marketing of fresh fruits and vegetables while others involve only distribution and marketing. We have regional sales organizations dedicated to servicing major retail and wholesale customers. We also use the services of brokers in certain regions, including for some sales of packaged fruit products and packaged salads. Retail customers include large chain stores with which Dole enters into product and service contracts, typically for a one- or two-year term. Wholesale customers include large distributors in regions including North America and Europe. We use consumer advertising, marketing and trade spending to promote new items, bolster our exceptional brand awareness and promote nutrition knowledge.

**Competition**

The markets are intensely competitive, and generally have a small number of global producers, filled out with independent growers, packers and middlemen. Our large, international competitors in our continuing businesses are Chiquita, Fresh Del Monte Produce and Fyffes. In some product lines, we compete with smaller national producers. In fresh vegetables, a limited number of grower-shippers in the United States and Mexico supply a significant portion of the United States market, with numerous smaller independent distributors also competing. We also face competition from grower cooperatives and foreign government sponsored producers. Competition in the various markets in which we operate is affected by reliability of supply, product quality, brand recognition and perception, price and the ability to satisfy changing consumer preferences through innovative product offerings.

**Employees**

Following the sale transaction, Dole is expected to have approximately 15,600 full-time permanent employees and 9,400 full-time seasonal or temporary employees, worldwide. At December 29, 2012, we had approximately 34,800 full-time permanent employees and 40,000 full-time seasonal or temporary employees, worldwide. Approximately 45% of our employees that will remain with Dole following the sale transaction, and 34% of our employees as of December 29, 2012, work under collective bargaining agreements, some of which are in the process of being renegotiated. Some other bargaining agreements are scheduled to expire during 2013, subject to automatic renewal unless a notice of non-extension is given by the union or us. We have not received any notice that a union intends not to extend a collective bargaining agreement. We believe our relations with our employees are generally good.

**Trademark Licenses**

***The Sale Transaction***

Upon consummation of the sale transaction, we will enter into a trademark rights agreement with ITOCHU. Under the agreement, we will grant the subsidiaries being sold certain perpetual, irrevocable and royalty-free exclusive and non-exclusive licenses of trademarks, trade names and trade dress rights that we will retain following the consummation of the sale transaction and that are used in the businesses to be sold, including exclusive rights to the DOLE brand in connection with packaged products, as defined, worldwide and fresh products, as defined, in Asia, Australia and New Zealand. The agreement also provides that we will retain certain perpetual, irrevocable and royalty-free non-exclusive licenses of trademarks, trade names and trade dress rights that will be assets of the companies to be sold and that we use in our businesses other than the businesses to be sold. The exclusive licenses granted by us under this agreement cover the use of the retained trademarks, trade names and trade dress rights with specified fresh produce in Asia, Australia and New Zealand and with specified packaged products throughout the world. We will also grant to the subsidiaries to be sold certain non-exclusive licenses to certain retained trademarks, trade names and trade dress rights for use with specified packaged products that are not part of the worldwide

Table of Contents

packaged foods business and that are being retained by us and specified fresh produce that is sold by the Asia fresh business in certain countries outside of Asia, Australia and New Zealand, subject to certain limited exceptions. We will retain under this agreement certain non-exclusive rights to use the trademarks, trade names and trade dress rights that will be assets of the subsidiaries to be sold with certain fresh produce and packaged products that are currently sold or distributed by businesses or affiliates of ours other than the businesses to be sold. We and ITOCHU agreed that our respective use of the trademarks that will be the subject of this agreement will be in compliance with specified brand equity principles established by us.

Dole will be free, however, to engage in the packaged foods business worldwide and in the fresh produce business in Asia, Australia and New Zealand, as long as we do not use the trademarks or brands being transferred or licensed to ITOCHU, except that subject to terms of the acquisition agreement, under the provisions of a two-year noncompetition arrangement, Dole will be restricted for those two years from growing, ripening, procuring, distributing or selling fresh bananas or pineapples in Asia, Australia and New Zealand (except through the companies being sold to ITOCHU), and processing, distributing or selling processed pineapple worldwide (except through the companies being sold to ITOCHU). In addition, for a period of two years following the consummation of the sale transaction, we have agreed that we will not encourage any employee of the companies being sold to ITOCHU to terminate his or her employment with such company or solicit or hire any such employee.

In connection with the sale of the majority of our juice business to Tropicana Products, Inc. in May 1995, we received cash payments up front and granted Tropicana a license, requiring no additional future royalty payments, to use certain DOLE trademarks on certain beverage products. We produce and market DOLE canned pineapple juice and pineapple juice blend beverages, which were not part of the 1995 sale, but are part of the sale transaction. We have a number of additional license arrangements worldwide, none of which is material to Dole and its subsidiaries, taken as a whole.

**Research and Development**

Our research and development programs concentrate on sustaining the productivity of our agricultural lands, food safety, nutrition science, product quality, value-added product development, and packaging design. Agricultural research is directed toward sustaining and improving product yields and product quality by examining and improving agricultural practices in all phases of production (such as development of specifically adapted plant varieties, land preparation, fertilization, cultural practices, pest and disease control, post-harvesting, handling, packing and shipping procedures), and includes on-site technical services and the implementation and monitoring of recommended agricultural practices. Research efforts are also directed towards integrated pest management and biological pest control. We develop specialized machinery for various phases of agricultural production and packaging that reduce labor costs, increase efficiency and improve product quality. Following the sale transaction, we will continue to conduct agricultural research at field facilities primarily in California, Hawaii and Latin America. Our research at the Dole Nutrition Research Lab in Kannapolis, North Carolina, investigates both basic science as well as the next frontier in phytochemical research. We also sponsor research related to environmental improvements and the protection of worker and community health. The aggregate amounts we spent on research and development in each of the last three years have not been material in any of such years.

**Food Safety**

Dole is undertaking strong measures to improve food safety. We spearheaded the industry-wide Leafy Greens Marketing Agreements in California and Arizona. We developed and adopted enhanced Good Agricultural Practices, which include raw material testing in the fields, expanded buffer zones and increased water testing. We also use radio-frequency identification ( RFID ) tags to track leafy greens as they move from fields to trucks and through processing.

Dole salad plants are sanitized and inspected daily. We wash our leafy greens three times in chlorinated water. All of Dole s U.S. salad plants are SQF 2000, Level 2 certified.

Table of Contents

**Corporate Responsibility and Sustainability**

Dole embraces the values of Corporate Responsibility & Sustainability ( CR&S ), and we seek to advance these values through our own operations and activities as well as through emphasizing the importance of these values to our independent suppliers. Our CR&S strategy is based on a holistic approach, assessing the social, environmental and economic dimensions related directly or indirectly to our operations and activities.

From a social perspective, Dole promotes and maintains a continuous dialogue and collaboration with different stakeholders, including employees, workers representatives, suppliers, clients, communities, governmental and non-governmental organizations and other civil society organizations. Directly, or through the support of local foundations, we implement programs aimed at providing medical services, promoting education, empowering communities and women in particular, protecting workers health and safety, freedom of association, and other labor rights.

The environmental dimension includes Dole s continued focus on improving our Good Agricultural Practices aimed at reducing the use of agrochemicals. In addition, as per our environmental policy, Dole will not use, anywhere, any product banned for reasons of unacceptable health or environmental risk by the United States Environmental Protection Agency or the European Union. Other specific areas of focus include precision agriculture, organic farming, the conservation of natural resources by implementing waste and water recycling programs as well as precise irrigation systems, avoiding soil erosion and protecting biodiversity. Dole seeks to reduce its environmental footprint, which includes identifying, monitoring and, when feasible, measuring its components to determine the baseline and establish reduction goals.

From an economic viewpoint, we believe that our CR&S strategy allows us to:

- Avoid higher costs, particularly those related to the use of inputs produced with fossil fuel derivatives;
- Anticipate new and upcoming legal and/or market-driven requirements;
- Anticipate the operational risk linked to changes in climatic conditions and to increased water scarcity as well as soil depletion; and
- Reduce the exposure to social risk through the implementation of socially and environmentally friendly practices.

Our current CR&S strategy is adapted to better reflect the challenges of the food industry. Today, the existing challenges have led us to identify our four main pillars of CR&S which are:

- Carbon Footprint and Energy Use;
- Water Management;
- Soil Conservation; and
- Packaging and Waste Management.

Addressing these pillars has a direct impact on all three dimensions: social, environmental and economic. By undertaking practices and projects consistent with these four pillars, Dole seeks to address the challenges of our operations and industry in a pro-active and responsible manner.

**Environmental and Regulatory Matters**

Our agricultural operations are subject to a broad range of evolving environmental laws and regulations in each country in which we operate. In the United States, these laws and regulations include the Food Quality Protection Act of 1996, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act,

the Federal Insecticide, Fungicide and Rodenticide Act and the Comprehensive Environmental Response, Compensation and Liability Act.

Compliance with these foreign and domestic laws and related regulations is an ongoing process that is not expected to have a material effect on our capital expenditures, earnings or competitive position. Environmental concerns are, however, inherent in most major agricultural operations, including those conducted by us, and there can be no assurance that the cost of compliance with environmental laws and regulations will not be material. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies thereunder, including those driven by concerns about climate change, and further restrictions on the use of agricultural chemicals, could result in increased compliance costs.

Our food operations are also subject to regulations enforced by, among others, the U.S. Food and Drug Administration and state, local and foreign counterparts and to inspection by the U.S. Department of Agriculture and other federal, state, local and foreign environmental, health and safety authorities. The U.S. Food and Drug Administration enforces statutory standards regarding the labeling and safety of the food products we sell, establishes ingredients and manufacturing procedures for certain foods, establishes standards of identity for foods and determines the safety of food substances in the United States. Similar functions are performed by state, local and foreign governmental entities with respect to food products produced or distributed in their respective jurisdictions.

In the United States, portions of our fresh fruit and vegetable farm properties are irrigated by surface water supplied by local government agencies using facilities financed by federal or state agencies, as well as from underground sources. Water received through federal facilities is subject to acreage limitations under the 1982 Reclamation Reform Act. Worldwide, the quantity and quality of water supplies varies depending on weather conditions and government regulations. We believe that under normal conditions these water supplies are adequate for current production needs.

**Legal Proceedings**

See Item 3, Legal Proceedings, in this Form 10-K.

**Trade Issues**

Our foreign operations are subject to risks of expropriation, civil disturbances, political unrest, increases in taxes and other restrictive governmental policies, such as import quotas. Loss of one or more of our foreign operations could have a material adverse effect on our operating results. We strive to maintain good working relationships in each country in which we operate. Because our operations are a significant factor in the economies of some countries, our activities are subject to intense public and governmental scrutiny and may be affected by changes in the status of the host economies, the makeup of the government or public opinion in a particular country.

Under the World Trade Organization Geneva Agreement on Trade in Bananas reached in 2009, a new EU tariff only import regime for bananas went into force on all banana imports to the EU market from Latin America. Under terms of the agreement, there will be a gradual tariff reduction from 148 euros per metric ton in 2010 to a final tariff of 114 euros per metric ton on January 1, 2017 or January 1, 2019 (the 2019 date applies if no further trade agreements are reached in the ongoing Doha Development Agenda global trade discussions). Bananas from African, Caribbean, and Pacific countries may be imported to the EU duty-free.

In addition, the EU has negotiated several free trade areas agreements ( FTA ) that will allow for an even lower import tariff on specified volumes of banana exports from certain countries. An EU-Colombia-Peru FTA was signed on June 26, 2012 and an EU-Central America (i.e., Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) FTA was signed on June 29, 2012. The EU and Peru have fully ratified their respective

FTA, but Colombia is still pursuing its internal ratification process. On February 28, 2013, the European Council approved provisional entry into force of the FTA for Peru; the EU-Colombia-Peru FTA is expected to be fully ratified by Colombia and come into force within the next few months. The ratification of the EU-Central American FTA is also ongoing and is similarly expected to come into force sometime during 2013. Ecuador has not yet negotiated an FTA with the EU on bananas and may not benefit, like the other Latin American countries party to an FTA, unless a similar FTA can be negotiated with the EU. Dole continues to monitor these developments but cannot yet anticipate the specific dates when these FTAs will come into force or if Ecuador will be successful in negotiating similar trade terms with the EU for Ecuadorian bananas.

**Seasonality**

Our sales volumes remain relatively stable throughout the year. We experience seasonal earnings characteristics, predominantly in the fresh fruit segment, because fresh fruit prices traditionally are lower in the second half of the year, when summer fruits are in the markets. Our packaged foods segment experiences peak demand during some well-known holidays and observances, but the impact is less than in the fresh-fruit segment and will no longer apply to Dole following the sale transaction.

**Item 1A.** ***Risk Factors***

## RISK FACTORS

In addition to the various risks described elsewhere in this Form 10-K, you should carefully consider the following risk factors. The risks described below apply to our business as currently conducted, including the worldwide packaged foods business and the Asia fresh business (until the sale transaction closes (expected April 1, 2013), these risks will continue to apply to us) and, as identified below, to our remaining business as it will be conducted after the consummation of the sale transaction. When the sale transaction is consummated, we will have two lines of business, fresh fruit and fresh vegetables, and our operations will no longer include our worldwide packaged foods business or our Asia fresh business. Our fresh vegetables line of business will not be impacted by the sale transaction. However, as a result of the sale of our Asia fresh business, our fresh fruit business line will be smaller than at present. ITOCHU will have exclusive rights to the DOLE® trademark on packaged food products worldwide and on fresh produce in Asia, Australia and New Zealand, subject to certain exceptions for our existing businesses. Dole will be free, however, to engage in these businesses as long as we do not use the trademarks or brands being transferred or licensed to ITOCHU, except that subject to terms of the acquisition agreement, under the provisions of a two-year noncompetition arrangement, Dole will be restricted for those two years from growing, ripening, procuring, distributing or selling fresh bananas or pineapples in Asia, Australia and New Zealand (except through the companies being sold to ITOCHU), and processing, distributing or selling processed pineapple worldwide (except through the companies being sold to ITOCHU).

The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known or that we have assessed in our risk assessment process or that we currently believe to be less significant may also adversely affect us.

**Adverse weather conditions, natural disasters, crop disease, pests and other natural conditions can impose significant costs and losses on our business.**

Fresh produce is vulnerable to adverse weather conditions, including windstorms, floods, drought and temperature extremes, which are quite common but difficult to predict and may be influenced by global climate change. Unfavorable growing conditions can reduce both crop size and crop quality. This risk is particularly true with respect to regions or countries from which we source a significant percentage of our products. In extreme cases, entire harvests may be lost in some geographic areas. These factors can increase costs, decrease revenues

**Table of Contents**

and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.

Fresh produce is also vulnerable to crop disease and to pests, which may vary in severity and effect, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions. For example, black sigatoka is a fungal disease that affects banana cultivation in most areas where they are grown commercially. The costs to control this disease and other infestations vary depending on the severity of the damage and the extent of the plantings affected. Moreover, there can be no assurance that available technologies to control such infestations will continue to be effective. These infestations can increase costs, decrease revenues and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.

These risks will be different after the consummation of the sale transaction, as we no longer will be subject to such risks relating to the businesses being sold. As a result of these same facts, however, the remaining businesses will be less diversified geographically, and adverse weather conditions and other similar facts affecting those areas where our remaining businesses concentrate their production could therefore have a greater relative impact on our businesses after consummation of the sale transaction.

**Our business is highly competitive and we cannot assure you that we will maintain our current market share.**

Many companies compete in our different businesses. However, only a few well-established companies operate on both a national and a regional basis with one or several branded product lines. We face strong competition from these and other companies in all our product lines.

Important factors with respect to our competitors include the following:

- Some of our competitors may have greater operating flexibility and, in certain cases, this may permit them to respond better or more quickly to changes in the industry or to introduce new products and packaging more quickly and with greater marketing support.

- Many of our product lines compete with imports, private label products and fresh alternatives. This risk will no longer be operative with respect to the businesses being sold when the sale transaction is consummated.

- We cannot predict the pricing or promotional actions of our competitors or whether those actions will have a negative effect on us.

There can be no assurance that we will continue to compete effectively with our present and future competitors. See Item 1 Business.

**Our earnings are sensitive to fluctuations in market prices and demand for our products.**

Excess supply often causes severe price competition in our businesses. Growing conditions in various parts of the world, particularly weather conditions such as windstorms, floods, droughts and freezes, as well as diseases and pests, are primary factors affecting market prices because of their influence on the supply and quality of product.

Fresh produce is highly perishable and generally must be brought to market and sold soon after harvest. Some items, such as lettuce, must be sold more quickly, while other items can be held in cold storage for longer periods of time. The selling price received for each type of produce depends on all of these factors, including the availability and quality of the produce item in the market, and the availability and quality of competing types of produce.

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. To the extent that consumer preferences

Table of Contents

evolve away from products that we produce for health or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products. However, even if market prices are unfavorable, produce items which are ready to be, or have been, harvested must be brought to market promptly. A decrease in the selling price received for our products due to the factors described above could have a material adverse effect on our business, results of operations and financial condition.

When the sale transaction is consummated, we no longer will be subject to these risks to the extent they relate to the businesses being sold, but our remaining risks in relation to these factors will be less diversified geographically and by product line, and could therefore have a greater relative impact on our businesses remaining after consummation of the sale transaction.

**Our earnings are subject to seasonal variability.**

| | | |
|---|---|---|
| Inventories | (308.3) | (354.1) |
| Prepaid and other assets | (1.4) | (6.5) |
| Accounts payable | 100.8 | 42.6 |
| Other current liabilities | (104.8) | (85.6) |
| Restructuring reserves | (11.6) | (10.2) |
| Other non-current items | 4.3 | 1.4 |
| Other, net | (1.1 | |

)

(2.2
)
Net cash used in operating activities
(209.8
)

(338.6
)

INVESTING ACTIVITIES

Proceeds from sale of long-lived assets
0.1

0.1

Investments in property, plant and equipment
(16.1
)

(16.1
)
Investments in unconsolidated affiliates
(0.1
)

(0.8
)
Investments in acquired businesses, net of cash acquired
(77.9
)

—

Net cash used in investing activities
(94.0
)

(16.8
)

FINANCING ACTIVITIES

Borrowings under revolving and bank lines of credit and term loans
459.0

924.3

Repayments under revolving and bank lines of credit and term loans
(282.3
)

(751.2
)
Proceeds from issuance of 5.250% Senior Notes
250.0

—

Proceeds from issuance of 6.000% Senior Notes
—

400.0

Repayment of 6.625% Senior Notes
—

(200.0
)
Financing and issuance fees
(3.5
)

(10.5
)
Dividends paid
(30.0
)

(28.9
)
Purchase of Common Shares
(43.6
)

—

Payments on seller notes
(6.5
)

(0.8
)
Excess tax benefits from share-based payment arrangements
0.8

0.1

Cash received from the exercise of stock options
1.3

1.2

Net cash provided by financing activities
345.2

334.2

Effect of exchange rate changes on cash
(2.8
)

(1.2
)
Net increase (decrease) in cash and cash equivalents
38.6

(22.4
)
Cash and cash equivalents at beginning of period
50.1

71.4

Cash and cash equivalents at end of period
$
88.7

$
49.0

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Balance Sheets
(In millions, except stated value per share)
(Unaudited)

| | DECEMBER 31, 2016 | JANUARY 2, 2016 | SEPTEMBER 30, 2016 |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 88.7 | $ 49.0 | $ 50.1 |
| Accounts receivable, less allowances of $5.8, $5.8 and $7.2, respectively | 229.4 | 192.9 | 196.4 |
| Accounts receivable pledged | — | — | 174.7 |
| Inventories | 756.3 | 749.7 | 448.2 |
| Assets held for sale | — | 196.9 | — |
| Prepaid and other current assets | 130.7 | 128.8 | 122.3 |
| Total current assets | 1,205.1 | 1,317.3 | 991.7 |
| Investment in unconsolidated affiliates | 83.9 | — | 101.0 |
| Property, plant and equipment, net of accumulated depreciation of $626.0 $604.7 and $633.3, respectively | 462.0 | 440.5 | 470.8 |
| Goodwill | 398.6 | 284.3 | 373.2 |
| Intangible assets, net | 793.0 | 650.0 | 750.9 |
| Other assets | 117.8 | 28.8 | 115.2 |
| Total assets | $ 3,060.4 | $ 2,720.9 | $ 2,802.8 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Current portion of debt | $ 41.8 | $ 27.5 | $ 185.0 |
| Accounts payable | 255.7 | 231.2 | 165.9 |
| Liabilities held for sale | — | 32.1 | — |
| Other current liabilities | 145.4 | 160.2 | 242.2 |
| Total current liabilities | 442.9 | 451.0 | 593.1 |
| Long-term debt | 1,677.2 | 1,493.7 | 1,125.1 |
| Other liabilities | 348.1 | 249.5 | 350.3 |
| Total liabilities | 2,468.2 | 2,194.2 | 2,068.5 |
| Contingencies (Note 12) | | | |
| Equity: | | | |
| Common shares and capital in excess of $.01 stated value per share; 59.9, 61.5 and 60.3 shares issued and outstanding, respectively | 402.4 | 402.3 | 401.7 |
| Retained earnings | 786.4 | 573.7 | 881.8 |
| Treasury shares, at cost; 8.3, 6.6 and 7.8 shares, respectively | (491.9) | (355.2) | (451.4) |
| Accumulated other comprehensive loss | (117.1) | (107.0) | (116.9) |
| Total equity—controlling interest | 579.8 | 513.8 | 715.2 |
| Noncontrolling interest | 12.4 | 12.9 | 19.1 |
| Total equity | 592.2 | 526.7 | 734.3 |
| Total liabilities and equity | $ 3,060.4 | $ 2,720.9 | $ 2,802.8 |

See Notes to Condensed Consolidated Financial Statements.

6

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 provided 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 “TruGreen Joint Venture”) in exchange for a minority equity interest of 30% in the TruGreen 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” and “NOTE 4. INVESTMENT IN UNCONSOLIDATED AFFILIATES” for further discussion. 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.

Organization and Basis of Presentation

The Company’s unaudited condensed consolidated financial statements for the three months ended December 31, 2016 and January 2, 2016 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, 2016 (the “2016 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, 2016 has been derived from the Company’s audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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.



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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 recorded 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 $2.7 million and zero for the three months ended December 31, 2016 and January 2, 2016, respectively.

Long-Lived Assets

The Company had non-cash investing activities of $2.7 million during the three months ended December 31, 2016 and January 2, 2016, representing unpaid liabilities incurred during each period to acquire property, plant and equipment.

Statements of Cash Flows

Supplemental cash flow information was as follows for each of the periods presented:

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Interest paid | $ (17.3 ) | $ (13.2 ) |
| Call premium on 6.625% Senior Notes | — | (6.6 ) |
| Income taxes paid | (0.9 ) | (2.1 ) |

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.

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.

Inventory

In July 2015, the FASB issued an accounting standard update that requires inventory to be measured "at the lower of cost and net realizable value," thereby simplifying the current guidance that requires inventory to be measured at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The provisions are effective for the Company's financial statements for the fiscal year beginning October 1, 2017. and are not expected to have a significant impact on the Company's consolidated financial position,

results of operations or cash flows.



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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; however debt issuance costs relating to revolving credit facilities will remain in other assets. The Company adopted this guidance on a retrospective basis effective October 1, 2016. As a result, debt issuance costs totaling $6.5 million and $6.0 million have been presented as a component of the carrying amount of long-term debt in the Condensed Consolidated Balance Sheets as of January 2, 2016 and September 30, 2016, respectively. These amounts were previously reported within other assets.

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 Company adopted this guidance on a prospective basis effective October 1, 2016. The adoption of this guidance did not impact 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. At December 31, 2016, January 2, 2016 and September 30, 2016, net current deferred tax assets classified with prepaid and other current assets were $63.2 million, $78.5 million and $62.1 million, respectively.

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.

Share-Based 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.

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 TruGreen Joint Venture in exchange for a minority equity interest of 30% in the TruGreen 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 recorded a gain on the contribution of $131.2 million, partially offset by the provision for deferred income taxes of $51.9 million, during fiscal 2016 within results from discontinued operations.

During the three months ended December 31, 2016 and January 2, 2016, the Company recognized $0.6 million and $3.0 million, respectively, in transaction related costs associated with the divestiture of the SLS Business. In addition, during the three months ended December 31, 2016, the Company recorded an adjustment to the gain on the

contribution of $0.3 million related to a post closing working capital adjustment.

Table of Contents

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

| | THREE MONTHS ENDED DECEMBER 31, 2016 | JANUARY 2, 2016 |
|---|---|---|
| | (In millions) | |
| Net sales | $ — | $ 51.2 |
| Operating costs | — | 51.5 |
| Impairment, restructuring and other | 0.6 | 3.0 |
| Other income, net | — | (0.8 ) |
| Adjustment to gain on contribution of SLS Business | 0.3 | — |
| Loss from discontinued operations before income taxes | (0.9 ) | (2.5 ) |
| Income tax benefit from discontinued operations | (0.3 ) | (1.0 ) |
| Loss from discontinued operations, net of tax | $ (0.6 ) | $ (1.5 ) |

The following table summarizes the major classes of assets and liabilities of the SLS Business held for sale as of January 2, 2016:

| | JANUARY 2, 2016 |
|---|---|
| | (In millions) |
| Accounts receivable, net | $ 13.5 |
| Inventories | 9.5 |
| Prepaid and other assets | 4.6 |
| Property, plant and equipment, net | 8.7 |
| Goodwill and intangible assets, net | 156.7 |
| Other assets | 3.9 |
| Assets held for sale | $ 196.9 |
| | |
| Current portion of debt | $ 1.3 |
| Accounts payable | 2.3 |
| Other current liabilities | 23.1 |
| Long-term debt | 3.4 |
| Other liabilities | 2.0 |
| Liabilities held for sale | $ 32.1 |

The Condensed Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash used in operating activities related to the SLS Business was $9.3 million for the three months ended December 31, 2016 due to the payment of a previously accrued SLS Business litigation matter. Cash provided by operating activities related to the SLS Business was $5.1 million for the three months ended January 2, 2016. Cash used in investing activities related to the SLS Business was zero for the three months ended December 31, 2016 and January 2, 2016.

NOTE 3. ACQUISITIONS AND INVESTMENTS

Fiscal 2017

On October 3, 2016, the Company, through its wholly-owned subsidiary The Hawthorne Gardening Company, completed the acquisition of American Agritech, L.L.C., d/b/a Botanicare ("Botanicare"), an Arizona-based leading producer of plant nutrients, plant supplements and growing systems used for hydroponic gardening, for $92.6 million. The purchase price includes contingent consideration, a non-cash investing activity, with a maximum payout and estimated fair value of $15.5 million, the payment of which will depend on the performance of the business through calendar year 2016. The preliminary valuation of the acquired assets included (i) $1.2 million of cash, prepaid and other current assets, (ii) $8.4 million of inventory and accounts receivable, (iii) $1.4 million in fixed assets, (iv) $2.3

million of accounts payable and other current liabilities, (v) $53.0 million of finite-lived

identifiable intangible assets, and (vi) $30.9 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 Botanicare included within the Other segment for the three months ended December 31, 2016 were $9.9 million.

During the three months ended December 31, 2016, the Company's U.S. Consumer segment completed two acquisitions of companies whose products support the Company's focus on the emerging areas of water positive landscapes and internet-enabled technology. The valuation of the acquired assets for the transactions included finite-lived identifiable intangible assets and goodwill of $3.2 million.

Fiscal 2016

On May 26, 2016, the Company, through its wholly-owned 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 included 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 valuation of the acquired assets included (i) $6.4 million of cash, prepaid and other current assets, (ii) $38.3 million of inventory and accounts receivable, (iii) $1.5 million in fixed assets, (iv) $18.7 million of accounts payable and other current liabilities, (v) $5.5 million of short term debt, (vi) $102.6 million of finite-lived identifiable intangible assets, (vii) $82.7 million of non-deductible goodwill, and (viii) $25.7 million of deferred tax liabilities. 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. 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 distributions by Gavita. The loan represented a non-cash financing activity and is recorded at fair value in the "Long-term debt" line in the Condensed Consolidated Balance Sheets. The initial valuation of the loan was $37.7 million. The fair value measurement was classified in Level 3 of the fair value hierarchy. Net sales for Gavita included within the Other segment for the three months ended December 31, 2016 were $26.6 million.

In the third quarter of fiscal 2016, the Company completed an acquisition within the Other segment to expand its Canadian growing media operations for $33.9 million. The purchase price included contingent consideration with an estimated fair value of $10.8 million, of which $6.5 million was paid during the three months ended December 31, 2016. The payment of of the remaining amount will depend on the performance of the business in fiscal 2017. The valuation of the acquired assets included (i) $4.7 million of inventory and accounts receivable, (ii) $18.6 million in fixed assets, (iii) $11.4 million of finite-lived identifiable intangible assets, (iv) $1.4 million of deferred tax liabilities, (v) an investment in an unconsolidated joint venture of $0.7 million, and (vi) $2.1 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 months ended December 31, 2016 were $3.7 million.

In the second quarter of fiscal 2016, the Company entered into definitive agreements with Bonnie Plants, Inc. ("Bonnie") and its sole shareholder, Alabama Farmers Cooperative, Inc. ("AFC"), providing for the Company's participation in Bonnie's business of planting, growing, developing, manufacturing, distributing, marketing, and selling live plants, plant food, fertilizer and potting soil (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 Marketing, R&D and Ancillary Services Agreement (the “Services Agreement”) pursuant to which the Company provides marketing, research and development and certain ancillary services to Bonnie for a commission fee based on the profits of the Bonnie Business and the reimbursement of certain costs. During the three months ended December 31, 2016, the Company recognized cost reimbursements of $1.0 million.

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. The Company’s option to increase its economic interest in the Bonnie Business (the “Bonnie Option”) is required to be accounted for as a derivative instrument and is recorded at fair value in the “Other assets” line in the Condensed Consolidated

Balance Sheets, with changes in fair value recognized in the “Other income (loss), net” line in the Condensed Consolidated Statement of Operations. The estimated fair value of the Bonnie Option was determined using a simulation approach, whereby the total value of the loan receivable and optional exchange for additional equity was estimated considering a distribution of possible future cash flows discounted to present value using an appropriate discount rate. The estimated fair value of the Bonnie Option was $10.9 million as of December 31, 2016, and the fair value measurement was classified in Level 3 of the fair value hierarchy.

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 AFFILIATES

As of December 31, 2016, the Company held a minority equity interest of 30% in the TruGreen Joint Venture. This interest had an initial fair value of $294.0 million and subsequently is accounted for using the equity method of accounting, with the Company’s proportionate share of the TruGreen 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 TruGreen 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 TruGreen Joint Venture.

In connection with the closing of the transactions contemplated by the Contribution Agreement on April 13, 2016, the TruGreen Joint Venture obtained debt financing and made an excess distribution of $196.2 million to the Company, and the Company invested $18.0 million in second lien term loan financing to the TruGreen Joint Venture. The Company was reimbursed $19.0 million during the three months ended December 31, 2016, has accounts receivable of $17.2 million at December 31, 2016 for expenses incurred pursuant to a short-term transition services agreement and an employee leasing agreement and has an indemnification asset of $9.1 million at December 31, 2016 for future payments on claims associated with insurance programs. The Company received distributions from unconsolidated affiliates intended to cover required tax payments of $2.2 million during the three months ended December 31, 2016.

The following table presents summarized financial information for the TruGreen Joint Venture for the three months ended December 31, 2016:

| | THREE MONTHS ENDED DECEMBER 31, 2016 (in millions) |
|---|---|
| Net sales | $ 252.2 |
| Gross margin | 61.1 |
| Depreciation and amortization | 20.2 |
| Interest expense | 16.9 |
| Selling, general, administrative and other | 41.4 |
| Restructuring and other charges | 26.6 |
| Net loss | $ (44.0 ) |

Net loss does not include income taxes, which are recognized and paid by the partners of the TruGreen Joint Venture. The income taxes associated with the Company’s share of net loss have been recorded in the “Income tax benefit from continuing operations” line in the Condensed Consolidated Statement of Operations. The Company recognized equity in loss of unconsolidated affiliates of $13.2 million for the three months ended December 31, 2016. Included within loss of unconsolidated affiliates for the three months ended December 31, 2016 is the Company’s $9.6 million share of restructuring and other charges incurred by the TruGreen Joint Venture. These charges included $7.9 million for nonrecurring integration and separation costs and $1.7 million for a non-cash fair value write-down adjustment on deferred revenue and advertising as part of the transaction accounting.

12

Table of Contents

NOTE 5. IMPAIRMENT, RESTRUCTURING AND OTHER

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

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Cost of sales—impairment, restructuring and other: | | |
| Restructuring and other charges | $ — | $ 5.0 |
| Operating expenses: | | |
| Restructuring and other charges | 1.4 | 1.3 |
| Impairment, restructuring and other charges from continuing operations | $ 1.4 | $ 6.3 |
| Restructuring and other charges from discontinued operations | 0.6 | 3.0 |
| Total impairment, restructuring and other charges | $ 2.0 | $ 9.3 |

The following table summarizes the activity related to liabilities associated with restructuring and other, excluding insurance reimbursement recoveries, during the three months ended December 31, 2016 (in millions):

| | |
|---|---|
| Amounts reserved for restructuring and other at September 30, 2016 | $20.8 |
| Restructuring and other charges from continuing operations | 1.4 |
| Restructuring and other charges from discontinued operations | 0.6 |
| Payments and other | (13.6 ) |
| Amounts reserved for restructuring and other at December 31, 2016 | $9.2 |

Included in the restructuring reserves, as of December 31, 2016, is $1.5 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.

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 TruGreen 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 months ended December 31, 2016 and January 2, 2016, the Company recognized $0.6 million and $3.0 million, respectively, in transaction related costs associated with the divestiture of the SLS Business within the “Loss from discontinued operations, net of tax” line in the Condensed Consolidated Statements of Operations. In addition, during the three months ended December 31, 2016 and January 2, 2016, the Company’s Corporate function recognized costs of $1.4 million and $0.9 million, respectively, related to other transaction activity within the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. Costs incurred to date since the inception of the current initiatives are $3.4 million for the U.S. Consumer segment related to termination benefits, $2.0 million for the Europe Consumer segment related to termination benefits and $6.0 million for Corporate related to transaction activity.

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 months ended December 31, 2016 and January 2, 2016, the Company recognized zero and $5.4 million, respectively, in costs related to resolving these consumer complaints and the recognition of costs the Company expected to incur for consumer claims. Costs incurred to date since the inception of this matter were $73.8 million,

partially offset by insurance reimbursement recoveries of $60.8 million. As of December 31, 2016 and January 2, 2016, insurance reimbursements in the amount of zero and $40.0 million, respectively, were recognized as an accrued liability on the Condensed Consolidated Balance Sheets pending the resolution of the insurer's review of claim documentation.

Table of Contents

NOTE 6. INVENTORIES

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

| | DECEMBER 31, 2016 | JANUARY 2, 2016 | SEPTEMBER 30, 2016 |
|---|---|---|---|
| | (In millions) | | |
| Finished goods | $502.6 | $ 522.7 | $ 248.7 |
| Work-in-process | 70.1 | 60.8 | 56.9 |
| Raw materials | 183.6 | 166.2 | 142.6 |
| Total inventories | $756.3 | $ 749.7 | $ 448.2 |

Adjustments to reflect inventories at net realizable values were $10.6 million at December 31, 2016, $23.0 million at January 2, 2016 and $10.8 million at September 30, 2016.

NOTE 7. MARKETING AGREEMENT

The Scotts Company LLC ("Scotts LLC") and the Monsanto Company ("Monsanto") are parties to 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 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 $1.4 million and remaining amortization period of less than two years as of December 31, 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:

- 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, 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.

Table of Contents

- 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 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



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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 | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Gross commission | $ 1.4 | $ — |
| Contribution expenses | (5.0 ) | (5.0 ) |
| Amortization of marketing fee | (0.2 ) | (0.2 ) |
| Net commission | (3.8 ) | (5.2 ) |
| Reimbursements associated with Marketing Agreement | 16.6 | 14.0 |
| Total net sales associated with Marketing Agreement | $ 12.8 | $ 8.8 |

NOTE 8. DEBT
The components of long-term debt are as follows:

| | DECEMBER 31, 2016 | JANUARY 2, 2016 | SEPTEMBER 30, 2016 |
|---|---|---|---|
| | (In millions) | | |
| Credit Facilities: | | | |
| Revolving loans | $728.5 | $ 806.5 | $ 417.4 |
| Term loans | 285.0 | 300.0 | 288.8 |
| Senior Notes – 5.250% | 250.0 | — | — |
| Senior Notes – 6.000% | 400.0 | 400.0 | 400.0 |
| Master Accounts Receivable Purchase Agreement | — | — | 138.6 |
| Other | 64.7 | 21.2 | 71.3 |
| Total debt | 1,728.2 | 1,527.7 | 1,316.1 |
| Less current portions | 41.8 | 27.5 | 185.0 |
| Less unamortized debt issuance costs | 9.2 | 6.5 | 6.0 |
| Long-term debt | $1,677.2 | $ 1,493.7 | $ 1,125.1 |

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 "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 "credit facilities"). The 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 credit agreement, the Company has the ability to obtain letters of credit up to $100.0 million. The 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 credit agreement include customary representations and warranties, affirmative and negative covenants, financial covenants and events of default. The proceeds of borrowings on the 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.

16

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Under the terms of the 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 credit agreement) plus the applicable margin. The 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 December 31, 2016, the Company had letters of credit outstanding in the aggregate principal amount of $25.9 million, and $0.8 billion of availability under the credit agreement, subject to the Company's continued compliance with the covenants discussed below. The weighted average interest rates on average borrowings under the credit agreement and the former credit facility were 3.7% and 4.4% for the three months ended December 31, 2016 and January 2, 2016, respectively.

The 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 credit agreement ("Adjusted EBITDA"). The maximum leverage ratio was 4.50 as of December 31, 2016. The Company's leverage ratio was 3.10 at December 31, 2016. The 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 credit agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended December 31, 2016. The Company's interest coverage ratio was 8.25 for the twelve months ended December 31, 2016. The credit agreement allows the Company to make unlimited restricted payments (as defined in the 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 credit agreement for such fiscal year ($175.0 million for fiscal 2017 and $200.0 million for fiscal 2018 and each fiscal year thereafter).

Senior Notes - 5.250%

On December 15, 2016, Scotts Miracle-Gro issued $250.0 million aggregate principal amount of 5.250% senior notes due 2026 (the "5.250% Senior Notes"). The net proceeds of the offering were used to repay outstanding borrowings under the credit facilities. The 5.250% 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 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year, commencing June 15, 2017. The 5.250% Senior Notes may be redeemed, in whole or in part, on or after December 15, 2021 at applicable redemption premiums. The 5.250% Senior Notes contain customary covenants and events of default and mature on December 15, 2026. Substantially all of Scotts Miracle-Gro's domestic subsidiaries serve as guarantors of the 5.250% Senior Notes.

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

On September 25, 2015, the Company entered into an amended and restated master accounts receivable purchase agreement (the "MARP Agreement"). The MARP Agreement provided for the discretionary sale by the Company, and the discretionary purchase by the participating banks, on a revolving basis, of accounts receivable generated by sales to three specified debtors in an aggregate amount not to exceed $400.0 million. The MARP Agreement terminated effective October 14, 2016 in accordance

Table of Contents

with its terms upon the Company's repayment of its outstanding obligations thereunder using $133.5 million borrowed under the credit agreement. The Company expects available borrowings under the credit agreement will be sufficient to meet the Company's funding needs on an ongoing basis. Additionally, the Company continues to consider alternative receivables-based funding sources, as the credit agreement allows for the periodic sale, discounting, factoring or securitization of accounts receivable up to a maximum at any one time outstanding of $500.0 million.

Other

In connection with the acquisition of a controlling interest in Gavita, the Company recorded a loan to the noncontrolling ownership group of Gavita. The fair value of the loan was $36.4 million at December 31, 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 $1,150.0 million at December 31, 2016, $1,300.0 million at January 2, 2016 and $650.0 million at September 30, 2016. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below, respectively.

The notional amount, effective date, expiration date and rate of each of these swap agreements outstanding at December 31, 2016 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% |
| 300 [e] | 11/21/2016 | 6/20/2018 | 0.83% |
| 200 [e] | 11/7/2016 | 8/7/2018 | 0.84% |
| 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.

(e) Notional amount adjusts in accordance with a specified seasonal schedule. This represents the maximum notional amount at any point in time.

Table of Contents

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 credit facilities was classified in Level 2 of the fair value hierarchy.

5.250% Senior Notes

The fair value of the 5.250% Senior Notes was determined based on the trading of the 5.250% Senior Notes in the open market. The difference between the carrying value and the fair value of the 5.250% Senior Notes represents the premium or discount on that date. Based on the trading value on or around December 31, 2016, the fair value of the 5.250% Senior Notes was approximately $250.3 million. The fair value measurement for the 5.250% Senior Notes was classified in Level 1 of the fair value hierarchy.

6.000% Senior Notes

The fair value of the 6.000% Senior Notes was 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 December 31, 2016, the fair value of the 6.000% Senior Notes was approximately $426.0 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 fluctuated 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 5.0% for the three months ended December 31, 2016 and January 2, 2016, respectively. The decrease in the weighted average interest rate is due to reduced rates under the credit facility and the redemption of the 6.625% Senior Notes.

NOTE 9. RETIREMENT AND RETIREE MEDICAL PLANS

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

| | THREE MONTHS ENDED | | | | | |
|---|---|---|---|---|---|---|
| | DECEMBER 31, 2016 | | | JANUARY 2, 2016 | | |
| | U.S. Pension | International Pension | U.S. Medical | U.S. Pension | International Pension | U.S. Medical |
| | (In millions) | | | | | |
| Service cost | $— | $ 0.3 | $ 0.1 | $— | $ 0.3 | $ 0.1 |
| Interest cost | 0.7 | 1.0 | 0.2 | 1.1 | 1.7 | 0.3 |
| Expected return on plan assets | (1.2 ) | (2.0 ) | — | (1.2 ) | (2.0 ) | — |
| Net amortization | 0.4 | 0.5 | (0.2 ) | 0.4 | 0.4 | (0.3 ) |
| Net periodic benefit (income) cost | $(0.1) | $ (0.2 ) | $ 0.1 | $0.3 | $ 0.4 | $ 0.1 |

Table of Contents

NOTE 10. EQUITY

In August 2014, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to $500.0 million of Common Shares over a five-year period (effective November 1, 2014 through September 30, 2019). On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors authorized a $500.0 million increase to the share repurchase authorization ending on September 30, 2019. The amended authorization allows for repurchases of Common Shares of $1.0 billion through September 30, 2019. The authorization provides the Company with flexibility to purchase Common Shares from time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter into from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization, which expires September 30, 2019, may be suspended or discontinued at any time, and there can be no guarantee as to the timing or amount of any repurchases. During the three months ended December 31, 2016, Scotts Miracle-Gro repurchased 0.5 million Common Shares for $43.4 million. From the inception of this share repurchase program in the fourth quarter of fiscal 2014 through December 31, 2016, Scotts Miracle-Gro repurchased approximately 2.6 million Common Shares for $189.1 million.

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 three months ended December 31, 2016 and January 2, 2016 (in millions):

| | Common Shares and Capital in Excess of Stated Value | Retained Earnings | Treasury Shares | Accumulated Other Comprehensive Loss | Total Equity - Controlling Interest | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at September 30, 2015 | $400.4 | $684.2 | $(357.1) | $ (106.8) | $ 620.7 | $ 12.4 | $633.1 |
| Net income (loss) | — | (81.3) | — | — | (81.3) | 0.5 | (80.8) |
| Other comprehensive loss | — | — | — | (0.2) | (0.2) | — | (0.2) |
| Share-based compensation | 2.2 | — | — | — | 2.2 | — | 2.2 |
| Dividends declared ($0.47 per share) | — | (29.2) | — | — | (29.2) | — | (29.2) |
| Treasury share issuances | (0.3) | — | 1.9 | — | 1.6 | — | 1.6 |
| Balance at January 2, 2016 | $402.3 | $573.7 | $(355.2) | $ (107.0) | $ 513.8 | $ 12.9 | $526.7 |
| | | | | | | | |
| Balance at September 30, 2016 | $401.7 | $881.8 | $(451.4) | $ (116.9) | $ 715.2 | $ 19.1 | $734.3 |
| Net income (loss) | — | (65.3) | — | — | (65.3) | 0.4 | (64.9) |
| Other comprehensive loss | — | — | — | (0.2) | (0.2) | — | (0.2) |
| Share-based compensation | 3.2 | — | — | — | 3.2 | — | 3.2 |
| Dividends declared ($0.50 per share) | — | (30.1) | — | — | (30.1) | — | (30.1) |
| Treasury share purchases | — | — | (43.4) | — | (43.4) | — | (43.4) |
| Treasury share issuances | (1.5) | — | 2.9 | — | 1.4 | — | 1.4 |
| Adjustment to noncontrolling interest due to ownership change | (1.0) | — | — | — | (1.0) | 1.0 | — |
| Distribution declared by AeroGrow | — | — | — | — | — | (8.1) | (8.1) |
| Balance at December 31, 2016 | $402.4 | $786.4 | $(491.9) | $ (117.1) | $ 579.8 | $ 12.4 | $592.2 |

On November 29, 2016, the Company's wholly-owned subsidiary SMG Growing Media, Inc. fully exercised its outstanding warrants to acquire additional shares of common stock of AeroGrow for an aggregate warrant exercise price of $47.8 million in exchange for the issuance of 21.6 million shares of common stock of AeroGrow, which increased the Company's percentage ownership of AeroGrow's outstanding shares of common stock (on a fully diluted basis) from 45% to 80%. The financial results of AeroGrow have been consolidated into the Company's consolidated

financial statements since the fourth quarter of fiscal 2014, when the Company obtained control of AeroGrow's operations through increased involvement, influence and a working capital loan provided to AeroGrow. Following the exercise of the warrants, the Board of Directors of AeroGrow declared a $41 million distribution ($1.21 per share) payable on January 3, 2017 to shareholders of record on December 20, 2016. At December 31, 2016, the Company recorded a distribution payable of $8.1 million in the "Other liabilities" line in the Condensed Consolidated Balance Sheets representing the distribution payable to the noncontrolling interest holders of AeroGrow.

20

Table of Contents

Share-Based Awards

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| Employees | | |
| Restricted stock units | 1,230 | 1,503 |
| Performance units | 1,505 | — |
| Board of Directors | | |
| Deferred stock units | 1,261 | 1,304 |
| Total share-based awards | 3,996 | 2,807 |
| | | |
| Aggregate fair value at grant dates (in millions) | $ 0.3 | $ 0.2 |

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Share-based compensation | $ 2.3 | $ 2.2 |
| Tax benefit recognized | 0.9 | 0.8 |

Subsequent to December 31, 2016, Scotts Miracle-Gro awarded performance share units, restricted stock units and deferred stock units representing 0.6 million Common Shares to employees and members of the Board of Directors with an estimated fair value of $57.1 million on the date of the grant.

NOTE 11. INCOME TAXES

The effective tax rate related to continuing operations for the three months ended December 31, 2016 was 35.5%, compared to 35.4% for the three months ended January 2, 2016. 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. Final Treasury Regulations under Internal Revenue Code §987 were enacted on December 7, 2016, governing the methodology to be used in calculating deferred translation gain or loss for certain entities treated as U.S. branches for U.S. tax purposes. The Company has determined that the impact of adopting these regulations is immaterial to the Company's deferred tax balances and financial statements.

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 2015. 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.

Table of Contents

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 December 31, 2016, $4.9 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.

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 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 December 31, 2016, the notional amount of outstanding currency forward contracts was $238.1 million, with a fair value of $2.9 million. At January 2, 2016, the notional amount of outstanding currency forward contracts was $58.7 million, with a negative fair value of $0.8 million. At September 30, 2016, the notional amount of outstanding currency forward contracts was $165.8 million, with a fair value of $0.4 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 $1,150.0 million at December 31, 2016, $1,300.0 million at January 2, 2016 and $650.0 million at September 30, 2016. Refer to "NOTE 8. DEBT" for the terms of the swap agreements outstanding at December 31, 2016. Included in the AOCI balance at December 31, 2016 was a loss of $1.6 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.

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 December 31, 2016 was a gain of $0.7 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 December 31, 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 | DECEMBER 31, 2016 | JANUARY 2, 2016 | SEPTEMBER 30, 2016 |
|---|---|---|---|
| Urea | 19,500 tons | 30,000 tons | 40,500 tons |
| Diesel | 5,292,000 gallons | 5,796,000 gallons | 6,384,000 gallons |
| Heating Oil | 1,680,000 gallons | 2,520,000 gallons | 1,722,000 gallons |

Fair Values of Derivative Instruments

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

| DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS | BALANCE SHEET LOCATION | ASSETS / (LIABILITIES) DECEMBER 31, 2016 | JANUARY 2, 2016 | SEPTEMBER 30, 2016 |
|---|---|---|---|---|
| | | FAIR VALUE (In millions) | | |
| Interest rate swap agreements | Prepaid and other current assets | $0.1 | $ — | $ — |
| | Other assets | 1.0 | 0.1 | — |
| | Other current liabilities | (2.8 ) | (7.4 ) | (3.3 ) |
| | Other liabilities | (1.0 ) | (2.5 ) | (3.1 ) |
| Commodity hedging instruments | Prepaid and other current assets | 1.1 | — | — |
| | Other current liabilities | — | (1.4 ) | (0.3 ) |
| Total derivatives designated as hedging instruments | | $(1.6) | $ (11.2 ) | $ (6.7 ) |
| **DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS** | **BALANCE SHEET LOCATION** | | | |
| Currency forward contracts | Prepaid and other current assets | $2.9 | $ — | $ 1.2 |
| | Other current liabilities | — | (0.8 ) | (0.8 ) |
| Commodity hedging instruments | Prepaid and other current assets | 1.2 | — | — |
| | Other current liabilities | — | (5.7 ) | (0.1 ) |
| Total derivatives not designated as hedging instruments | | 4.1 | (6.5 ) | 0.3 |
| Total derivatives | | $2.5 | $ (17.7 ) | $ (6.4 ) |

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

| DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS | AMOUNT OF GAIN / (LOSS) RECOGNIZED IN AOCI THREE MONTHS ENDED DECEMBER 31, 2016 | JANUARY 2, 2016 |
|---|---|---|
| | (In millions) | |
| Interest rate swap agreements | $ 2.1 | $ 1.7 |
| Commodity hedging instruments | 0.9 | (0.4 ) |
| Total | $ 3.0 | $ 1.3 |

| DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS | RECLASSIFIED FROM AOCI INTO STATEMENT OF OPERATIONS | AMOUNT OF GAIN / (LOSS) THREE MONTHS ENDED DECEMBER 31, 2016 | JANUARY 2, 2016 |
|---|---|---|---|
| | | (In millions) | |
| Interest rate swap agreements | Interest expense | $ (0.3 ) | $ (1.0 ) |
| Commodity hedging instruments | Cost of sales | (0.1 ) | 0.2 |
| Total | | $ (0.4 ) | $ (0.8 ) |

24

Table of Contents

| DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS | RECOGNIZED IN STATEMENT OF OPERATIONS | AMOUNT OF GAIN / (LOSS) THREE MONTHS ENDED | |
|---|---|---|---|
| | | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | | (In millions) | |
| Currency forward contracts | Other income, net | $ 9.2 | $ (0.8 ) |
| Commodity hedging instruments | Cost of sales | 0.9 | (3.3 ) |
| Total | | $ 10.1 | $ (4.1 ) |

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.

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 and the Bonnie Option. Investment securities in non-qualified retirement plan assets are valued using observable market prices in active markets and are classified within Level 1 of the valuation hierarchy. The fair value of the Bonnie Option is determined using a simulation approach, whereby the total value of the loan receivable and optional exchange for additional equity was estimated considering a distribution of possible future cash flows discounted to present value using an appropriate discount rate, and is classified in Level 3 of the fair value hierarchy.

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.



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Table of Contents

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis at December 31, 2016:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| | (In millions) | | | |
| Assets | | | | |
| Cash equivalents | $10.5 | $ — | $ — | $10.5 |
| Derivatives | | | | |
| Interest rate swap agreements | — | 1.1 | — | 1.1 |
| Currency forward contracts | — | 2.9 | — | 2.9 |
| Commodity hedging instruments | — | 2.3 | — | 2.3 |
| Other | 13.4 | — | 10.9 | 24.3 |
| Total | $23.9 | $ 6.3 | $ 10.9 | $41.1 |
| Liabilities | | | | |
| Derivatives | | | | |
| Interest rate swap agreements | $— | $ (3.8) | $ — | $(3.8) |
| Long-term debt | — | — | (36.4) | (36.4) |
| Total | $— | $ (3.8) | $ (36.4) | $(40.2) |

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

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| | (In millions) | | | |
| Assets | | | | |
| Cash equivalents | $20.2 | $ — | $ — | $20.2 |
| Derivatives | | | | |
| Interest rate swap agreements | — | 0.1 | — | 0.1 |
| Other | 10.4 | — | — | 10.4 |
| Total | $30.6 | $ 0.1 | $ — | $30.7 |
| Liabilities | | | | |
| Derivatives | | | | |
| Interest rate swap agreements | $— | $ (9.9) | $ — | $(9.9) |
| Currency forward contracts | — | (0.8) | — | (0.8) |
| Commodity hedging instruments | — | (7.1) | — | (7.1) |
| Total | $— | $ (17.8) | $ — | $(17.8) |

Table of Contents

The following table presents the Company’s financial assets and liabilities measured at fair value on a recurring basis at September 30, 2016:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| | (In millions) | | | |
| Assets | | | | |
| Cash equivalents | $11.5 | $ — | $ — | $11.5 |
| Derivatives | | | | |
| Currency forward contracts | — | 1.2 | — | 1.2 |
| Other | 11.8 | — | 10.9 | 22.7 |
| Total | $23.3 | $ 1.2 | $ 10.9 | $35.4 |
| Liabilities | | | | |
| Derivatives | | | | |
| Interest rate swap agreements | $— | $ (6.4 ) | $ — | $(6.4 ) |
| Currency forward contracts | — | (0.8 ) | — | (0.8 ) |
| Commodity hedging instruments | — | (0.4 ) | — | (0.4 ) |
| Long-term debt | — | — | (38.3 ) | (38.3 ) |
| Total | $— | $ (7.6 ) | $ (38.3 ) | $(45.9) |

NOTE 15. SEGMENT INFORMATION

The Company divides its business into three reportable segments: U.S. Consumer, Europe Consumer and Other. 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 hydroponic 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. This division of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company. Segment performance is evaluated based on several factors, including segment income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges. Senior management uses this measure of operating profit (loss) to evaluate segment performance because the Company believes this measure is indicative of performance trends and the overall earnings potential of each segment.

Table of Contents

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Net sales: | | |
| U.S. Consumer | $125.5 | $ 113.2 |
| Europe Consumer | 24.4 | 25.7 |
| Other | 96.9 | 55.6 |
| Consolidated | $246.8 | $ 194.5 |
| Segment income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges: | | |
| U.S. Consumer | $(38.0 ) | $ (54.2 ) |
| Europe Consumer | (8.4 ) | (9.2 ) |
| Other | 5.6 | 0.5 |
| Segment total | (40.8 ) | (62.9 ) |
| Corporate | (22.8 ) | (24.4 ) |
| Intangible asset amortization | (5.9 ) | (3.9 ) |
| Impairment, restructuring and other | (11.0 ) | (6.5 ) |
| Equity in loss of unconsolidated affiliates | (3.6 ) | — |
| Costs related to refinancing | — | (8.8 ) |
| Interest expense | (15.6 ) | (16.3 ) |
| Consolidated loss from continuing operations before income taxes | $(99.7 ) | $ (122.8 ) |

| | DECEMBER 31, 2016 | JANUARY 2, 2016 | SEPTEMBER 30, 2016 |
|---|---|---|---|
| | (In millions) | | |
| Total assets: | | | |
| U.S. Consumer | $1,927.2 | $ 1,791.5 | $ 1,770.7 |
| Europe Consumer | 187.0 | 226.9 | 192.1 |
| Other | 686.9 | 320.0 | 568.1 |
| Corporate | 259.3 | 185.6 | 271.9 |
| Assets held for sale | — | 196.9 | — |
| Consolidated | $3,060.4 | $ 2,720.9 | $ 2,802.8 |

28

NOTE 16. FINANCIAL INFORMATION FOR SUBSIDIARY GUARANTORS AND NON-GUARANTORS
The 6.000% and 5.250% Senior Notes were issued on October 13, 2015 and December 15, 2016, respectively, 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 December 15, 2015, Scotts Miracle-Gro redeemed all of its outstanding $200.0 million aggregate principal amount of 6.625% Senior Notes, which were previously guaranteed by certain of its domestic subsidiaries. The guarantees are "full and unconditional," as those terms are used in Regulation S-X Rule 3-10, except that a subsidiary's guarantee will be 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 indentures governing the 6.000% and 5.250% 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 indentures governing the 6.000% and 5.250% 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% and 5.250% Senior Notes pursuant to the indentures governing the 6.000% and 5.250% 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.
The following 100% directly or indirectly owned subsidiaries fully and unconditionally guarantee at December 31, 2016 the 6.000% and 5.250% 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 TruGreen 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 TruGreen Joint Venture, EG Systems, LLC (formerly known as 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 months ended December 31, 2016 and January 2, 2016, Condensed Consolidating Statements of Comprehensive Income (Loss) for the three months ended December 31, 2016 and January 2, 2016, Condensed Consolidating Statements of Cash Flows for the three months ended December 31, 2016 and January 2, 2016, and Condensed Consolidating Balance Sheets as of December 31, 2016, January 2, 2016 and September 30, 2016. 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 three months ended December 31, 2016 are $222.6 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 three months ended January 2, 2016 are $242.2 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.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Operations
for the three months ended December 31, 2016
(In millions)
(Unaudited)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $— | $ 145.5 | $ 101.3 | $ — | $ 246.8 |
| Cost of sales | — | 126.4 | 76.2 | — | 202.6 |
| Gross profit | — | 19.1 | 25.1 | — | 44.2 |
| Operating expenses: | | | | | |
| Selling, general and administrative | — | 85.7 | 33.1 | 0.3 | 119.1 |
| Impairment, restructuring and other | — | 1.4 | — | — | 1.4 |
| Other (income) loss, net | (0.2 ) | (5.3 ) | 0.1 | — | (5.4 ) |
| Income (loss) from operations | 0.2 | (62.7 ) | (8.1 ) | (0.3 ) | (70.9 ) |
| Equity (income) loss in subsidiaries | 58.4 | 1.4 | — | (59.8 ) | — |
| Other non-operating (income) loss | (4.3 ) | — | (5.9 ) | 10.2 | — |
| Equity in (income) loss of unconsolidated affiliates | — | 13.2 | — | — | 13.2 |
| Interest expense | 14.7 | 9.9 | 1.2 | (10.2 ) | 15.6 |
| Income (loss) from continuing operations before income taxes | (68.6 ) | (87.2 ) | (3.4 ) | 59.5 | (99.7 ) |
| Income tax (benefit) expense from continuing operations | (3.6 ) | (30.6 ) | (1.2 ) | — | (35.4 ) |
| Income (loss) from continuing operations | (65.0 ) | (56.6 ) | (2.2 ) | 59.5 | (64.3 ) |
| Income (loss) from discontinued operations, net of tax | — | (0.6 ) | — | — | (0.6 ) |
| Net income (loss) | $(65.0) | $ (57.2 ) | $ (2.2 ) | $ 59.5 | $ (64.9 ) |
| Net (income) loss attributable to noncontrolling interest | — | — | — | (0.4 ) | (0.4 ) |
| Net income (loss) attributable to controlling interest | $(65.0) | $ (57.2 ) | $ (2.2 ) | $ 59.1 | $ (65.3 ) |

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Comprehensive Income (Loss)
for the three months ended December 31, 2016
(In millions)
(Unaudited)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| Net income (loss) | $(65.0) | $ (57.2) | $ (2.2) | $ 59.5 | $ (64.9) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Net foreign currency translation adjustment | (4.0) | — | (4.0) | 4.0 | (4.0) |
| Net change in derivatives | 3.4 | 1.0 | — | (1.0) | 3.4 |
| Net change in pension and other post retirement benefits | 0.4 | 0.1 | 0.3 | (0.4) | 0.4 |
| Total other comprehensive income (loss) | (0.2) | 1.1 | (3.7) | 2.6 | (0.2) |
| Comprehensive income (loss) | $(65.2) | $ (56.1) | $ (5.9) | $ 62.1 | $ (65.1) |

31

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Cash Flows
for the three months ended December 31, 2016
(In millions)
(Unaudited)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | $(13.8) | $ (172.4 ) | $ (23.6 ) | $ — | $ (209.8 ) |
| INVESTING ACTIVITIES [a] | | | | | |
| Proceeds from sale of long-lived assets | — | 0.1 | — | — | 0.1 |
| Investments in property, plant and equipment | — | (13.0 ) | (3.1 ) | — | (16.1 ) |
| Distributions from (investments in) unconsolidated affiliates | — | — | (0.1 ) | — | (0.1 ) |
| Investments in acquired businesses, net of cash acquired | — | (1.5 ) | (76.4 ) | — | (77.9 ) |
| Return of investments from affiliates | 222.6 | — | — | (222.6 ) | — |
| Investing cash flows from (to) affiliates | (383.8 ) | (189.2 ) | — | 573.0 | — |
| Net cash provided by (used in) investing activities | (161.2 ) | (203.6 ) | (79.6 ) | 350.4 | (94.0 ) |
| FINANCING ACTIVITIES | | | | | |
| Borrowings under revolving and bank lines of credit and term loans | — | 404.3 | 54.7 | — | 459.0 |
| Repayments under revolving and bank lines of credit and term loans | — | (187.2 ) | (95.1 ) | — | (282.3 ) |
| Proceeds from issuance of 5.250% Senior Notes | 250.0 | — | — | — | 250.0 |
| Financing and issuance fees | (3.5 ) | — | — | — | (3.5 ) |
| Dividends paid | (30.0 ) | (222.6 ) | — | 222.6 | (30.0 ) |
| Purchase of Common Shares | (43.6 ) | — | — | — | (43.6 ) |
| Payments on seller notes | — | — | (6.5 ) | — | (6.5 ) |
| Excess tax benefits from share-based payment arrangements | 0.8 | — | — | — | 0.8 |
| Cash received from the exercise of stock options | 1.3 | — | — | — | 1.3 |
| Financing cash flows from (to) affiliates | — | 383.8 | 189.2 | (573.0 ) | — |
| Net cash provided by (used in) financing activities | 175.0 | 378.3 | 142.3 | (350.4 ) | 345.2 |
| Effect of exchange rate changes on cash | — | — | (2.8 ) | — | (2.8 ) |
| Net increase (decrease) in cash and cash equivalents | — | 2.3 | 36.3 | — | 38.6 |
| Cash and cash equivalents at beginning of period | — | 2.7 | 47.4 | — | 50.1 |
| Cash and cash equivalents at end of period | $— | $ 5.0 | $ 83.7 | $ — | $ 88.7 |

(a) Cash received by the Parent from the Guarantors and Non-Guarantors in the form of dividends in the amount of $222.6 million represent return of investments and are included in cash flows from investing activities.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of December 31, 2016
(In millions)
(Unaudited)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $— | $ 5.0 | $ 83.7 | $ — | $ 88.7 |
| Accounts receivable, net | — | 137.2 | 92.2 | — | 229.4 |
| Inventories | — | 604.2 | 152.1 | — | 756.3 |
| Prepaid and other current assets | 0.2 | 120.7 | 42.2 | (32.4) | 130.7 |
| Total current assets | 0.2 | 867.1 | 370.2 | (32.4) | 1,205.1 |
| Investment in unconsolidated affiliates | — | 83.2 | 0.7 | — | 83.9 |
| Property, plant and equipment, net | — | 386.1 | 75.9 | — | 462.0 |
| Goodwill | — | 260.4 | 126.6 | 11.6 | 398.6 |
| Intangible assets, net | — | 597.0 | 186.1 | 9.9 | 793.0 |
| Other assets | 12.2 | 105.3 | 1.3 | (1.0) | 117.8 |
| Equity investment in subsidiaries | 753.7 | — | — | (753.7) | — |
| Intercompany assets | 1,479.7 | — | — | (1,479.7) | — |
| Total assets | $2,245.8 | $ 2,299.1 | $ 760.8 | $ (2,245.3) | $ 3,060.4 |
| | | | | | |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of debt | $15.0 | $ 15.6 | $ 26.2 | $ (15.0) | $ 41.8 |
| Accounts payable | — | 199.9 | 55.8 | — | 255.7 |
| Other current liabilities | 10.8 | 40.6 | 126.4 | (32.4) | 145.4 |
| Total current liabilities | 25.8 | 256.1 | 208.4 | (47.4) | 442.9 |
| Long-term debt | 1,639.2 | 931.4 | 105.0 | (998.4) | 1,677.2 |
| Other liabilities | 1.0 | 269.8 | 73.3 | 4.0 | 348.1 |
| Equity investment in subsidiaries | — | 57.2 | — | (57.2) | — |
| Intercompany liabilities | — | 247.7 | 201.3 | (449.0) | — |
| Total liabilities | 1,666.0 | 1,762.2 | 588.0 | (1,548.0) | 2,468.2 |
| Total equity—controlling interest | 579.8 | 536.9 | 172.8 | (709.7) | 579.8 |
| Noncontrolling interest | — | — | — | 12.4 | 12.4 |
| Total equity | 579.8 | 536.9 | 172.8 | (697.3) | 592.2 |
| Total liabilities and equity | $2,245.8 | $ 2,299.1 | $ 760.8 | $ (2,245.3) | $ 3,060.4 |

Table of Contents

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

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $— | $ 130.3 | $ 64.2 | $ — | $ 194.5 |
| Cost of sales | — | 124.8 | 48.0 | — | 172.8 |
| Cost of sales—impairment, restructuring and other | — | 5.0 | — | — | 5.0 |
| Gross profit | — | 0.5 | 16.2 | — | 16.7 |
| Operating expenses: | | | | | |
| Selling, general and administrative | — | 84.2 | 28.7 | 0.4 | 113.3 |
| Impairment, restructuring and other | — | 1.2 | 0.1 | — | 1.3 |
| Other (income) loss, net | — | (0.9) | 0.7 | — | (0.2) |
| Income (loss) from operations | — | (84.0) | (13.3) | (0.4) | (97.7) |
| Equity income (loss) in subsidiaries | 68.0 | 2.6 | — | (70.6) | — |
| Other non-operating income (loss) | (4.6) | — | (6.0) | 10.6 | — |
| Costs related to refinancing | 8.8 | — | — | — | 8.8 |
| Interest expense | 16.0 | 10.0 | 0.9 | (10.6) | 16.3 |
| Income (loss) from continuing operations before income taxes | (88.2) | (96.6) | (8.2) | 70.2 | (122.8) |
| Income tax (benefit) expense from continuing operations | (7.2) | (33.3) | (3.0) | — | (43.5) |
| Income (loss) from continuing operations | (81.0) | (63.3) | (5.2) | 70.2 | (79.3) |
| Income (loss) from discontinued operations, net of tax | — | (1.5) | — | — | (1.5) |
| Net income (loss) | $(81.0) | $ (64.8) | $ (5.2) | $ 70.2 | $ (80.8) |
| Net (income) loss attributable to noncontrolling interest | — | — | — | (0.5) | (0.5) |
| Net income (loss) attributable to controlling interest | $(81.0) | $ (64.8) | $ (5.2) | $ 69.7 | $ (81.3) |

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Statement of Comprehensive Income (Loss)
for the three months ended January 2, 2016
(In millions)
(Unaudited)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| Net income (loss) | $(81.0) | $ (64.8 ) | $ (5.2 ) | $ 70.2 | $ (80.8 ) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Net foreign currency translation adjustment | (2.8 ) | — | (2.8 ) | 2.8 | (2.8 ) |
| Net change in derivatives | 2.1 | (0.6 ) | — | 0.6 | 2.1 |
| Net change in pension and other post-retirement benefits | 0.5 | 0.3 | 0.2 | (0.5 ) | 0.5 |
| Total other comprehensive income (loss) | (0.2 ) | (0.3 ) | (2.6 ) | 2.9 | (0.2 ) |
| Comprehensive income (loss) | $(81.2) | $ (65.1 ) | $ (7.8 ) | $ 73.1 | $ (81.0 ) |

Table of Contents

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

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES [a] | $233.1 | $ (271.9 ) | $ (57.6 ) | $ (242.2 ) | $ (338.6 ) |
| INVESTING ACTIVITIES | | | | | |
| Proceeds from sale of long-lived assets | — | 0.1 | — | — | 0.1 |
| Investments in property, plant and equipment | — | (13.4 ) | (2.7 ) | — | (16.1 ) |
| Investing cash flows from (to) affiliates | (395.0 ) | — | — | 395.0 | — |
| Distributions from (investments in) unconsolidated affiliates | — | (0.8 ) | — | — | (0.8 ) |
| Net cash provided by (used in) investing activities | (395.0 ) | (14.1 ) | (2.7 ) | 395.0 | (16.8 ) |
| FINANCING ACTIVITIES | | | | | |
| Borrowings under revolving and bank lines of credit and term loans | — | 873.1 | 51.2 | — | 924.3 |
| Repayments under revolving and bank lines of credit and term loans | — | (741.5 ) | (9.7 ) | — | (751.2 ) |
| 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 | (10.5 ) | — | — | — | (10.5 ) |
| Dividends paid | (28.9 ) | (242.2 ) | — | 242.2 | (28.9 ) |
| Payments on seller notes | — | (0.8 ) | — | — | (0.8 ) |
| Excess tax benefits from share-based payment arrangements | 0.1 | — | — | — | 0.1 |
| Cash received from the exercise of stock options | 1.2 | — | — | — | 1.2 |
| Financing cash flows from (to) affiliates | — | 393.5 | 1.5 | (395.0 ) | — |
| Net cash provided by (used in) financing activities | 161.9 | 282.1 | 43.0 | (152.8 ) | 334.2 |
| Effect of exchange rate changes on cash | — | — | (1.2 ) | — | (1.2 ) |
| Net increase (decrease) in cash and cash equivalents | — | (3.9 ) | (18.5 ) | — | (22.4 ) |
| Cash and cash equivalents at beginning of period | — | 8.2 | 63.2 | — | 71.4 |
| Cash and cash equivalents at end of period | $— | $ 4.3 | $ 44.7 | $ — | $ 49.0 |

(a) Cash received by the Parent from its subsidiaries in the form of dividends in the amount of $242.2 million represent return on investments and are included in cash flows from operating activities.

36

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of January 2, 2016
(In millions)
(Unaudited)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $— | $ 4.3 | $ 44.7 | $ — | $ 49.0 |
| Accounts receivable, net | — | 105.4 | 87.5 | — | 192.9 |
| Inventories | — | 618.7 | 131.0 | — | 749.7 |
| Assets held for sale | — | 196.9 | — | — | 196.9 |
| Prepaid and other current assets | — | 91.1 | 37.7 | — | 128.8 |
| Total current assets | — | 1,016.4 | 300.9 | — | 1,317.3 |
| Property, plant and equipment, net | — | 387.3 | 53.2 | — | 440.5 |
| Goodwill | — | 260.9 | 11.8 | 11.6 | 284.3 |
| Intangible assets, net | — | 605.5 | 33.2 | 11.3 | 650.0 |
| Other assets | 15.8 | 13.5 | 14.8 | (15.3) | 28.8 |
| Equity investment in subsidiaries | 396.7 | — | — | (396.7) | — |
| Intercompany assets | 1,619.4 | — | — | (1,619.4) | — |
| Total assets | $2,031.9 | $ 2,283.6 | $ 413.9 | $ (2,008.5) | $ 2,720.9 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of debt | $15.0 | $ 17.0 | $ 10.5 | $ (15.0) | $ 27.5 |
| Accounts payable | — | 176.8 | 54.4 | — | 231.2 |
| Liabilities held for sale | — | 32.1 | — | — | 32.1 |
| Other current liabilities | 15.6 | 82.7 | 61.9 | — | 160.2 |
| Total current liabilities | 30.6 | 308.6 | 126.8 | (15.0) | 451.0 |
| Long-term debt | 1,485.0 | 962.7 | 137.5 | (1,091.5) | 1,493.7 |
| Other liabilities | 2.4 | 226.7 | 30.6 | (10.2) | 249.5 |
| Equity investment in subsidiaries | — | 183.1 | — | (183.1) | — |
| Intercompany liabilities | — | 449.3 | 45.4 | (494.7) | — |
| Total liabilities | 1,518.0 | 2,130.4 | 340.3 | (1,794.5) | 2,194.2 |
| Total equity—controlling interest | 513.9 | 153.2 | 73.6 | (226.9) | 513.8 |
| Noncontrolling interest | — | — | — | 12.9 | 12.9 |
| Total equity | 513.9 | 153.2 | 73.6 | (214.0) | 526.7 |
| Total liabilities and equity | $2,031.9 | $ 2,283.6 | $ 413.9 | $ (2,008.5) | $ 2,720.9 |

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidating Balance Sheet
As of September 30, 2016
(In millions)
(Unaudited)

| | Parent | Subsidiary Guarantors | Non-Guarantors | Eliminations/ Consolidations | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $— | $ 2.7 | $ 47.4 | $ — | $ 50.1 |
| Accounts receivable, net | — | 92.4 | 104.0 | — | 196.4 |
| Accounts receivable pledged | — | 174.7 | — | — | 174.7 |
| Inventories | — | 327.8 | 120.4 | — | 448.2 |
| Prepaid and other current assets | 0.1 | 82.8 | 39.4 | — | 122.3 |
| Total current assets | 0.1 | 680.4 | 311.2 | — | 991.7 |
| Investment in unconsolidated affiliates | — | 100.3 | 0.7 | — | 101.0 |
| Property, plant and equipment, net | — | 392.1 | 78.7 | — | 470.8 |
| Goodwill | — | 260.4 | 101.2 | 11.6 | 373.2 |
| Intangible assets, net | — | 596.4 | 144.3 | 10.2 | 750.9 |
| Other assets | 13.2 | 103.8 | 0.7 | (2.5 ) | 115.2 |
| Equity investment in subsidiaries | 808.8 | — | — | (808.8 ) | — |
| Intercompany assets | 1,013.0 | — | — | (1,013.0 ) | — |
| Total assets | $1,835.1 | $ 2,133.4 | $ 636.8 | $ (1,802.5 ) | $ 2,802.8 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of debt | $15.0 | $ 154.2 | $ 30.8 | $ (15.0 ) | $ 185.0 |
| Accounts payable | — | 108.8 | 57.1 | — | 165.9 |
| Other current liabilities | 16.6 | 143.6 | 82.0 | — | 242.2 |
| Total current liabilities | 31.6 | 406.6 | 169.9 | (15.0 ) | 593.1 |
| Long-term debt | 1,085.1 | 575.7 | 117.2 | (652.9 ) | 1,125.1 |
| Other liabilities | 3.2 | 268.7 | 76.0 | 2.4 | 350.3 |
| Equity investment in subsidiaries | — | 161.0 | — | (161.0 ) | — |
| Intercompany liabilities | — | 147.2 | 187.1 | (334.3 ) | — |
| Total liabilities | 1,119.9 | 1,559.2 | 550.2 | (1,160.8 ) | 2,068.5 |
| Total equity—controlling interest | 715.2 | 574.2 | 86.6 | (660.8 ) | 715.2 |
| Noncontrolling interest | — | — | — | 19.1 | 19.1 |
| Total equity | 715.2 | 574.2 | 86.6 | (641.7 ) | 734.3 |
| Total liabilities and equity | $1,835.1 | $ 2,133.4 | $ 636.8 | $ (1,802.5 ) | $ 2,802.8 |

38

Table of Contents

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, 2016 (the “2016 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 branded consumer lawn and garden products in North America and Europe. We are the exclusive agent of the Monsanto Company (“Monsanto”) 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, with our recent acquisitions of General Hydroponics, Vermicrop, Gavita, Botanicare and our control of AeroGrow, we are a leading producer of liquid plant food products, growing media, advanced indoor garden and lighting systems and accessories for hydroponic gardening. Our operations are divided into three reportable segments: U.S. Consumer, Europe Consumer and Other.

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. On April 13, 2016, as part of this project, pursuant to the terms of the Contribution and Distribution Agreement (the “Contribution Agreement”) between the Company and TruGreen Holding Corporation (“TruGreen Holdings”), we completed the contribution of the Scotts LawnService® business (the “SLS Business”) to a newly formed subsidiary of TruGreen Holdings (the “TruGreen Joint Venture”) in exchange for a minority equity interest of 30% in the TruGreen Joint Venture. The fair value of this interest was estimated to be $294.0 million, resulting in a pre-tax gain of $131.2 million during fiscal 2016. 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 a discontinued operation, the SLS Business was referred to as our former Scotts LawnService® business segment. 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. We now participate in the residential and commercial lawn care, tree and shrub care and pest control services segment in the United States and Canada through our interest in the TruGreen Joint Venture.

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 approximately 4-5% 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.

Our net sales in any one year are susceptible to weather conditions in the markets in which our products are sold and our services are offered. For instance, periods of abnormally wet or dry weather can adversely impact the sale of certain products, while increasing demand for other products, or delay the timing of our provision of certain services. We believe that our diversified product line and our broad geographic diversification reduce this risk, although to a lesser extent in a year in which unfavorable weather is geographically widespread and extends across a significant portion of the lawn and garden season. We also believe that weather conditions in any one year, positive or negative, do not materially impact longer-term category growth trends.



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Table of Contents

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 from Continuing Operations by Quarter | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| First Quarter | 6.9 % | 6.2 % | 5.6 % |
| Second Quarter | 43.8 % | 39.3 % | 40.8 % |
| Third Quarter | 35.1 % | 40.7 % | 39.7 % |
| Fourth Quarter | 14.2 % | 13.8 % | 13.9 % |

In August 2014, the Scotts Miracle-Gro 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). On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors authorized a $500.0 million increase to the share repurchase authorization ending on September 30, 2019. The amended authorization allows for repurchases of Common Shares of $1.0 billion through September 30, 2019. During the three months ended December 31, 2016, Scotts Miracle-Gro repurchased 0.5 million Common Shares for $43.4 million. From the inception of this share repurchase program in the fourth quarter of fiscal 2014 through December 31, 2016, Scotts Miracle-Gro repurchased approximately 2.6 million Common Shares for $189.1 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.

Subsequent to December 31, 2016, Scotts Miracle-Gro awarded performance share units, restricted stock units and deferred stock units representing 0.6 million Common Shares to employees and members of the Board of Directors with an estimated fair value of $57.1 million on the date of the grant.

Table of Contents

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 months ended December 31, 2016 and January 2, 2016 reflect results from our continuing operations. The following table sets forth the components of income and expense as a percentage of net sales:

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| Net sales | 100.0 % | 100.0 % |
| Cost of sales | 82.1 | 88.8 |
| Cost of sales—impairment, restructuring and other | — | 2.6 |
| Gross profit | 17.9 | 8.6 |
| Operating expenses: | | |
| Selling, general and administrative | 48.3 | 58.3 |
| Impairment, restructuring and other | 0.6 | 0.7 |
| Other income, net | (2.2 ) | (0.1 ) |
| Loss from operations | (28.7 ) | (50.2 ) |
| Equity in loss of unconsolidated affiliates | 5.3 | — |
| Costs related to refinancing | — | 4.5 |
| Interest expense | 6.3 | 8.4 |
| Loss from continuing operations before income taxes | (40.4 ) | (63.1 ) |
| Income tax benefit from continuing operations | (14.3 ) | (22.4 ) |
| Loss from continuing operations | (26.1 ) | (40.8 ) |
| Loss from discontinued operations, net of tax | (0.2 ) | (0.8 ) |
| Net loss | (26.3 )% | (41.5 )% |

The sum of the components may not equal due to rounding.

Net Sales

Net sales for the three months ended December 31, 2016 were $246.8 million, an increase of 26.9% from net sales of $194.5 million for the three months ended January 2, 2016. The change in net sales was attributable to the following:

| | THREE MONTHS ENDED DECEMBER 31, 2016 |
|---|---|
| Acquisitions | 21.2 % |
| Volume | 7.0 |
| Pricing | (0.3 ) |
| Foreign exchange rates | (1.0 ) |
| Change in net sales | 26.9 % |

The increase in net sales for the three months ended December 31, 2016 was primarily driven by:

- the addition of net sales from acquisitions within our Other segment, primarily from Gavita, Botanicare and a Canadian growing media operation; and
- increased sales volume in our U.S. Consumer segment, driven by increased sales of grass seed and Roundup® For Lawns products, and in our Other segment, driven by increased sales of hydroponic gardening products;
- partially offset by an unfavorable impact of decreased pricing in our Europe Consumer segment; and
- the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies including euro and British pound.

41

Table of Contents

Cost of Sales

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Materials | $ 100.5 | $ 81.1 |
| Distribution and warehousing | 44.9 | 46.2 |
| Manufacturing labor and overhead | 40.6 | 31.5 |
| Roundup® reimbursements | 16.6 | 14.0 |
| | 202.6 | 172.8 |
| Impairment, restructuring and other | — | 5.0 |
| | $ 202.6 | $ 177.8 |

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

| | THREE MONTHS ENDED DECEMBER 31, 2016 |
|---|---|
| | (In millions) |
| Volume and product mix | $ 30.1 |
| Roundup® reimbursements | 2.6 |
| Material costs | (1.1 ) |
| Foreign exchange rates | (1.9 ) |
| | 29.8 |
| Impairment, restructuring and other | (5.0 ) |
| Change in cost of sales | $ 24.8 |

The increase in cost of sales for the three months ended December 31, 2016 was primarily driven by:

- costs related to sales from acquisitions within our Other segment of $30.3 million, primarily from Gavita, Botanicare and a Canadian growing media operation;
- costs related to increased sales in our U.S. Consumer and Other segments; and
- an increase in net sales attributable to reimbursements under our Marketing Agreement for consumer Roundup®;
- partially offset by lower distribution costs within our U.S. Consumer segment due to a $4.2 million favorable change in mark-to-market adjustments associated with our fuel hedges;
- lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs and resin;
- the favorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies including euro and British pound; and
- a decrease in other charges of $5.0 million related to costs incurred during the three months ended January 2, 2016 to address consumer complaints regarding our reformulated Bonus® S product sold during fiscal 2015.

Table of Contents

Gross Profit

As a percentage of net sales, our gross profit rate was 17.9% and 8.6% for the three months ended December 31, 2016 and January 2, 2016, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

| | THREE MONTHS ENDED DECEMBER 31, 2016 |
|---|---|
| Volume and product mix | 4.3 % |
| Acquisitions | 1.8 |
| Material costs | 0.5 |
| Roundup® commissions and reimbursements | 0.4 |
| Pricing | (0.3 ) |
| | 6.7 % |
| Impairment, restructuring and other | 2.6 |
| Change in gross profit rate | 9.3 % |

The increase in the gross profit rate for the three months ended December 31, 2016 was primarily driven by:

- lower distribution costs within our U.S. Consumer segment due to a $4.2 million favorable change in mark-to-market adjustments associated with our fuel hedges;
- favorable product mix and increased net sales volume driving improved leverage of fixed costs such as warehousing;
- a favorable net impact from acquisitions within our Other segment, primarily from Gavita, Botanicare and a Canadian growing media operation;
- lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs and resin;
- an increase in net sales attributable to our Marketing Agreement for consumer Roundup®; and
- a decrease in other charges of $5.0 million related to costs incurred during the three months ended January 2, 2016 to address consumer complaints regarding our reformulated Bonus® S product sold during fiscal 2015;
- partially offset by an unfavorable impact of decreased pricing in our Europe Consumer segment.

Selling, General and Administrative Expenses

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Advertising | $ 10.6 | $ 10.8 |
| Research and development | 11.0 | 11.0 |
| Share-based compensation | 2.3 | 2.2 |
| Amortization of intangibles | 5.7 | 3.5 |
| Other selling, general and administrative | 89.5 | 85.8 |
| | $ 119.1 | $ 113.3 |

SG&A increased $5.8 million during the three months ended December 31, 2016 compared to the three months ended January 2, 2016. Advertising expense decreased $0.2 million, or 1.9%, during the three months ended December 31, 2016 compared to the three months ended January 2, 2016, driven by the timing of media spending. Amortization expense increased $2.2 million, or 62.9%, during the three months ended December 31, 2016 compared to the three months ended January 2, 2016, due to the impact of recent acquisitions. The increase in other SG&A expenses of $3.7 million was due to the impact of recent acquisitions of $6.1 million, partially offset by lower variable incentive compensation expense and the favorable impact of foreign exchange rates as the U.S. dollar has strengthened relative

to other currencies including euro and British pound.

Table of Contents

Impairment, Restructuring and Other

The following table sets forth the components of impairment, restructuring and other charges recorded within the "Cost of sales—impairment, restructuring and other," "Impairment, restructuring and other" and "Income from discontinued operations, net of tax" lines in the Condensed Consolidated Statements of Operations:

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| Cost of sales—impairment, restructuring and other: | | |
| Restructuring and other charges | $ — | $ 5.0 |
| Operating expenses: | | |
| Restructuring and other charges | 1.4 | 1.3 |
| Impairment, restructuring and other charges from continuing operations | $ 1.4 | $ 6.3 |
| Restructuring and other charges from discontinued operations | 0.6 | 3.0 |
| Total impairment, restructuring and other charges | $ 2.0 | $ 9.3 |

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. On April 13, 2016, as part of this project, we completed the contribution of the SLS Business to the TruGreen 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. Refer to "NOTE 2. DISCONTINUED OPERATIONS" for more information. During the three months ended December 31, 2016 and January 2, 2016, we recognized $0.6 million and $3.0 million, respectively, in transaction related costs associated with the divestiture of the SLS Business within the "Loss from discontinued operations, net of tax" line in the Condensed Consolidated Statements of Operations. In addition, during the three months ended December 31, 2016 and January 2, 2016, our Corporate function recognized costs of $1.4 million and $0.9 million, respectively, related to other transaction activity within the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations. Costs incurred to date since the inception of the current initiatives are $3.4 million for our U.S. Consumer segment related to termination benefits, $2.0 million for our Europe Consumer segment related to termination benefits and $6.0 million for Corporate related to transaction activity.

During the third quarter of fiscal 2015, our U.S. Consumer segment began experiencing an increase in certain consumer complaints related to our 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 months ended December 31, 2016 and January 2, 2016, we recognized zero and $5.4 million, respectively, in costs related to resolving these consumer complaints and the recognition of costs we expected to incur for consumer claims. For the three months ended January 2, 2016, $0.4 million of these costs were recorded within the "Impairment, restructuring and other" line and $5.0 million were recorded within the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations. Costs incurred to date since the inception of this matter were $73.8 million, partially offset by insurance reimbursement recoveries of $60.8 million. As of December 31, 2016 and January 2, 2016, insurance reimbursements in the amount of zero and $40.0 million, respectively, were recognized as an accrued liability on the Condensed Consolidated Balance Sheets pending the resolution of the insurer's review of claim documentation.

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, net, was $5.4 million for the three months ended December 31, 2016 compared to $0.2 million for the three months ended January 2, 2016. The increase in other income for the three months ended December 31, 2016 was due to an increase in income on loans receivable and

royalty income earned from the TruGreen Joint Venture related to its use of our brand names.

Loss from Operations

Loss from operations was $70.9 million for the three months ended December 31, 2016 compared to $97.7 million for the three months ended January 2, 2016, a decrease of $26.8 million, or 27.4%. The improvement was driven by an increase in net sales, gross profit rate and other income, as well as lower impairment, restructuring and other charges, partially offset by an increase in SG&A.

Table of Contents

Equity in Loss of Unconsolidated Affiliates

We hold a minority equity interest of 30% in the TruGreen Joint Venture. This interest is accounted for using the equity method of accounting, with our proportionate share of TruGreen Joint Venture earnings reflected in the Condensed Consolidated Statements of Operations. Equity in loss of unconsolidated affiliates was $13.2 million for the three months ended December 31, 2016. Included within loss of unconsolidated affiliates for the three months ended December 31, 2016 is our $9.6 million share of restructuring and other charges incurred by the TruGreen Joint Venture. These charges included $7.9 million for nonrecurring integration and separation costs and $1.7 million for a non-cash fair value write-down adjustment on deferred revenue and advertising as part of the transaction accounting.

Costs Related to Refinancing

Costs related to refinancing were $8.8 million for the three months ended January 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 $15.6 million for the three months ended December 31, 2016 compared to $16.3 million for the three months ended January 2, 2016. The decrease in interest expense of $0.7 million was driven by a decrease in our weighted average interest rate of 71 basis points primarily due to reduced rates under our credit facility and the redemption of the 6.625% Senior Notes, partially offset by an increase in average borrowings of $146.1 million, which is net of a decrease of $14.6 million due to the impact of foreign exchange rates. The increase in average borrowings was driven by recent acquisition and investment activity, primarily related to Botanicare, Gavita, Bonnie, a Canadian growing media operation and an increase in repurchases of our Common Shares.

Income Tax Benefit

The effective tax rate related to continuing operations for the three months ended December 31, 2016 was 35.5%, compared to 35.4% for the three months ended January 2, 2016. The effective tax rate used for interim purposes was based on our best estimate of factors impacting the effective tax rate for the full fiscal year. Factors affecting the estimated effective tax rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits and the existence of elements of income and expense that may not be taxable or deductible. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year end as facts and circumstances change during the course of the fiscal year. There can be no assurances that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Loss from Continuing Operations

Loss from continuing operations was $64.3 million, or $1.08 per diluted share, for the three months ended December 31, 2016 compared to $79.3 million, or $1.30 per diluted share, for the three months ended January 2, 2016. We anticipated a net loss in our first quarter due to the seasonal nature of our business, in which sales are heavily weighted to the spring and summer selling periods during our second and third fiscal quarters. The improvement was driven by an increase in net sales, gross profit rate and other income, as well as lower impairment, restructuring and other charges, and lower interest expense and cost related to refinancing, partially offset by higher equity in loss of unconsolidated affiliates and an increase in SG&A.

Diluted average common shares used in the diluted income per common share calculation were 60.1 million for the three months ended December 31, 2016 compared to 61.5 million for the three months ended January 2, 2016. The decrease was primarily the result of Common Share repurchase activity, partially offset by the exercise and issuance of share-based compensation awards.

Loss from Discontinued Operations, net of tax

Loss from discontinued operations, net of tax, was $0.6 million and $1.5 million for the three months ended December 31, 2016 and January 2, 2016, respectively. During the three months ended December 31, 2016 and January 2, 2016, we recognized $0.6 million and $3.0 million, respectively, in transaction related costs associated with the divestiture of the SLS Business.

Table of Contents

SEGMENT RESULTS

We divide our business into three reportable segments: U.S. Consumer, Europe Consumer and Other. 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 hydroponic 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. This division of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company.

Segment performance is evaluated based on several factors, including segment income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges. Senior management uses this measure of operating profit (loss) to evaluate segment performance because the Company believes this measure is indicative of performance trends and the overall earnings potential of each segment.

The following table sets forth net sales by segment:

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| U.S. Consumer | $ 125.5 | $ 113.2 |
| Europe Consumer | 24.4 | 25.7 |
| Other | 96.9 | 55.6 |
| Consolidated | $ 246.8 | $ 194.5 |

The following table sets forth segment income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges:

| | THREE MONTHS ENDED | |
|---|---|---|
| | DECEMBER 31, 2016 | JANUARY 2, 2016 |
| | (In millions) | |
| U.S. Consumer | $ (38.0) | $ (54.2) |
| Europe Consumer | (8.4) | (9.2) |
| Other | 5.6 | 0.5 |
| Segment total | (40.8) | (62.9) |
| Corporate | (22.8) | (24.4) |
| Intangible asset amortization | (5.9) | (3.9) |
| Impairment, restructuring and other | (11.0) | (6.5) |
| Equity in loss of unconsolidated affiliates | (3.6) | — |
| Costs related to refinancing | — | (8.8) |
| Interest expense | (15.6) | (16.3) |
| Consolidated loss from continuing operations before income taxes | $ (99.7) | $ (122.8) |

U.S. Consumer

U.S. Consumer segment net sales were $125.5 million in the first quarter of fiscal 2017, an increase of 10.9% from the first quarter of fiscal 2016 net sales of $113.2 million. For the three months ended December 31, 2016, the increase was driven by the favorable impacts of volume, acquisitions and pricing of 9.3%, 0.9% and 0.6%, respectively. Increased sales volume for the three months ended December 31, 2016 was driven by increased sales of grass seed and Roundup® For Lawns products as well as the impact of the Marketing Agreement for consumer Roundup®.

U.S. Consumer segment operating loss decreased by $16.2 million, or 29.9%, in the first quarter of fiscal 2017 as compared to the first quarter of fiscal 2016. The improvement for the three months ended December 31, 2016 was

primarily due to increased net sales, lower distribution costs due to a favorable change in mark-to-market adjustments associated with our fuel hedges, favorable product mix and improved leverage of fixed costs such as warehousing, lower material costs driven by commodities and lower SG&A.

Europe Consumer

Europe Consumer segment net sales were $24.4 million in the first quarter of fiscal 2017, a decrease of 5.1% from the first quarter of fiscal 2016 net sales of $25.7 million. For the three months ended December 31, 2016, the decrease was driven by the prior year exit from the U.K. Solus business of $0.9 million, or 3.6%, and the unfavorable impacts of changes in foreign exchange rates and decreased pricing of 7.5% and 4.9%, respectively, partially offset by the favorable impact of volume of 11.1%.

Europe Consumer segment operating loss decreased by 8.7%, to $8.4 million, in the first quarter of fiscal 2017 as compared to the first quarter of fiscal 2016. The improvement for the three months ended December 31, 2016 was primarily driven by lower SG&A resulting from decreased selling and variable incentive compensation expense and the favorable impacts of changes in foreign exchange rates.

Other

Other segment net sales were $96.9 million in the first quarter of fiscal 2017, an increase of 74.3% from the first quarter of fiscal 2016 net sales of $55.6 million. For the three months ended December 31, 2016, the favorable impacts of acquisitions and volume of 72.4% and 2.3%, respectively, were partially offset by the unfavorable impacts of decreased pricing and changes in foreign exchange rates of 0.4% and 0.2%, respectively.

Other segment operating income increased to $5.6 million in the first quarter of fiscal 2017 as compared to $0.5 million in the first quarter of fiscal 2016. The increase for the three months ended December 31, 2016 was primarily driven by increased net sales and gross profit, partially offset by higher SG&A from acquired businesses and costs related to transaction activity.

Corporate

Corporate operating loss was $22.8 million in the first quarter of fiscal 2017 as compared to $24.4 million in the first quarter of fiscal 2016. The decrease was primarily due to lower variable incentive compensation expense and an increase in income on loans receivable and royalty income earned from the TruGreen Joint Venture related to its use of our brand names.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash used in operating activities totaled $209.8 million for the three months ended December 31, 2016 as compared to $338.6 million for the three months ended January 2, 2016. Cash used in operating activities related to the SLS Business was $9.3 million for the three months ended December 31, 2016 due to the payment of a previously accrued SLS Business litigation matter. Cash provided by operating activities related to the SLS Business was $5.1 million for the three months ended January 2, 2016.

Cash used in operating activities decreased $128.8 million for the first three months of fiscal 2017 as compared to the first three months of fiscal 2016, primarily driven by a decrease in cash used for working capital as well as a decrease in the seasonal net loss. The decrease in cash used for working capital was due to less growth in inventory driven by increased sales and Company wide efforts to improve inventory management and reduce inventory levels, as well as increased accounts payable as a result of timing of payments to vendors.

Investing Activities

Cash used in investing activities totaled $94.0 million and $16.8 million for the three months ended December 31, 2016 and January 2, 2016, respectively. Cash used in investing activities related to the SLS Business was zero for the three months ended December 31, 2016 and January 2, 2016.

Cash used for investments in property, plant and equipment during the first three months of fiscal 2017 and fiscal 2016 was $16.1 million. During the three months ended December 31, 2016, we also completed the acquisition of Botanicare and two other small acquisitions which included cash payments of $77.9 million.

Financing Activities

Financing activities provided cash of $345.2 million and $334.2 million for the three months ended December 31, 2016 and January 2, 2016, respectively. The increase in cash provided by financing activities of $11.0 million was the result of the issuance of $250.0 million aggregate principal amount of 5.250% Senior Notes during the first three months of fiscal 2017 as compared to a net issuance of $200.0 million aggregate principal amount of Senior Notes during the first three months of fiscal 2016, an increase in net borrowings under our credit facilities of $3.6 million,

and a decrease in financing and issuance fees paid of $7.0 million, partially offset by an increase in repurchases of our Common Shares of $43.6 million and an increase in payments on seller notes of $5.7 million.

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 $88.7 million, $49.0 million and $50.1 million as of December 31, 2016, January 2, 2016 and September 30, 2016, respectively, included $31.0 million, $39.6 million and $39.9 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 "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 "credit facilities"). The 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 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 December 31, 2016, we had letters of credit outstanding in the aggregate principal amount of $25.9 million, and $0.8 billion of availability under the credit agreement, subject to our continued compliance with the covenants discussed below. The weighted average interest rates on average borrowings under the credit agreement and the former credit facility were 3.7% and 4.4% for the three months ended December 31, 2016 and January 2, 2016, respectively.

We maintained a Master Accounts Receivable Purchase Agreement (as amended, "MARP Agreement"), which provided for the discretionary sale by us, and the discretionary purchase by the participating banks, on a revolving basis, of accounts receivable generated by sales to three specified debtors in an aggregate amount not to exceed $400.0 million. The MARP Agreement terminated effective October 14, 2016 in accordance with its terms upon our repayment of its outstanding obligations thereunder using $133.5 million borrowed under the credit agreement. We expect available borrowings under the credit agreement will be sufficient to meet our funding needs on an ongoing basis. Additionally, we continue to consider alternative receivables-based funding sources, as our credit agreement allows for the periodic sale, discounting, factoring or securitization of accounts receivable up to a maximum at any one time outstanding of $500 million. There were no borrowings or receivables pledged as collateral under the MARP Agreement as of December 31, 2016 and January 2, 2016.

On December 15, 2016, we issued $250.0 million aggregate principal amount of 5.250% senior notes due 2026 (the "5.250% Senior Notes"). The net proceeds of the offering were used to repay outstanding borrowings under our credit facilities. The 5.250% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year, commencing June 15, 2017. The 5.250% Senior Notes may be redeemed, in whole or in part, on or after December 15, 2021 at applicable redemption premiums. The 5.250% Senior Notes contain customary covenants and events of default and mature on December 15, 2026. Substantially all of our domestic subsidiaries serve as guarantors of the 5.250% 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. 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, we 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.

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.

We were in compliance with all debt covenants as of December 31, 2016. Our 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 December 31, 2016. Our leverage ratio was 3.10 at December 31, 2016. Our credit agreement also includes an affirmative covenant regarding our interest coverage. The minimum interest coverage ratio was 3.00 for the twelve months ended December 31, 2016. Our interest coverage ratio was 8.25 for the twelve months ended December 31, 2016. The credit agreement allows us to make unlimited restricted payments (as defined in the 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 credit agreement for such fiscal year ($175.0 million for fiscal 2017 and $200.0 million for fiscal 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 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 2017. 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 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 and acquisition activity during our first quarter of fiscal 2017, there have been no material changes outside of the ordinary course of business in our outstanding contractual obligations since the end of fiscal 2016 and through December 31, 2016. As part of the fiscal 2017 acquisitions, we acquired operating leases with total future minimum leases payments for non-cancelable operating leases of $3.6 million.

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 2016 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 2016 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 2016 Annual Report.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

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

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

In addition, there were no changes in the Registrant’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant’s fiscal quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Registrant’s internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the pending legal proceedings disclosed in the 2016 Annual Report.
ITEM 1A. RISK FACTORS

The Company's risk factors as of December 31, 2016 have not changed materially from those described in “ITEM IA. RISK FACTORS” in the 2016 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,” “fore “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 2016 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.

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 credit agreement allow the Company to make unlimited restricted payments (as defined in the 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 credit agreement for such fiscal year ($175.0 million for fiscal 2017 and $200.0 million for fiscal 2018 and each fiscal year thereafter). Our leverage ratio was 3.10 at December 31, 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 of the three fiscal months in the quarter ended December 31, 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) |
|---|---|---|---|---|
| October 1 through October 29 | 141,438 | $ 86.77 | 140,238 | $ 842,176,002 |
| October 30 through November 26 | 166,655 | $ 88.00 | 166,655 | $ 827,510,162 |
| November 27 through December 31 | 179,838 | $ 94.00 | 175,936 | $ 810,976,073 |
| Total | 487,931 | $ 89.85 | 482,829 | |

(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 5,102 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 million of Common Shares over a five-year period (effective November 1, 2014 through September 30, 2019). On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors increased the then outstanding authorization by an additional $500 million. The amended authorization allows for repurchases of Common Shares of $1.0 billion 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 original$500 million and incremental $500 million authorized repurchase programs.

Table of Contents

ITEM 6. EXHIBITS

See Index to Exhibits at page 55 for a list of the exhibits included herewith.

53

Table of Contents

SIGNATURES

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

| | THE SCOTTS MIRACLE-GRO COMPANY |
|---|---|
| Date: February 9, 2017 | /s/ THOMAS RANDAL COLEMAN<br>Printed Name: Thomas Randal Coleman<br>Title: Executive Vice President and Chief Financial Officer |

54

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2016

INDEX TO EXHIBITS

| EXHIBIT NO. | DESCRIPTION | LOCATION |
|---|---|---|
| 4.1 | Indenture, dated as of December 15, 2016, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed December 16, 2016 [Exhibit 4.1] |
| 4.2 | Form of 5.250% Senior Notes due 2026 (included in Exhibit 4.1) | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed December 16, 2016 [Exhibit 4.2] |
| 4.3 | Registration Rights Agreement, dated as of December 15, 2016, by and among The Scotts Miracle-Gro Company, the guarantors named therein and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers named therein | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed December 16, 2016 [Exhibit 4.3] |
| 10.1 | Purchase Agreement, dated December 12, 2016, among The Scotts Miracle-Gro Company, the subsidiary guarantors named therein and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers named therein | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed December 16, 2016 [Exhibit 10.1] |
| 10.2 | The Scotts Miracle-Gro Company Long-Term Incentive Plan (Effective as of January 27, 2017) | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed January 30, 2017 [Exhibit 10.1] |
| 10.3 | Form of Project Focus Performance Unit Award Agreement under The Scotts Miracle-Gro Company Long-Term Incentive Plan (Effective as of January 30, 2017) | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed January 30, 2017 [Exhibit 10.2] |
| 10.4 | Form of Standard Performance Unit Award Agreement under The Scotts Miracle-Gro Company Long-Term Incentive Plan (Effective as of January 30, 2017) | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed January 30, 2017 [Exhibit 10.3] |
| 10.5 | Form of Standard Restricted Stock Unit Award Agreement under The Scotts Miracle-Gro Company Long-Term Incentive Plan (Effective as of January 30, 2017) | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed January 30, 2017 [Exhibit 10.4] |
| 10.6 | | |

| | | |
|---|---|---|
| | Form of Standard Non-Qualified Stock Option Award Agreement under The Scotts Miracle-Gro Company Long-Term Incentive Plan (Effective as of January 30, 2017) | Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed January 30, 2017 [Exhibit 10.5] |
| 21 | Subsidiaries of The Scotts Miracle-Gro Company | * |

Table of Contents

| | | |
|---|---|---|
| 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