SCOTTS MIRACLE-GRO CO
Form 10-K
November 24, 2015

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 September 30, 2015
OR

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

For the transition period from to
Commission file number 1-11593

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

Ohio (State or other jurisdiction of incorporation or organization)	31-1414921 (I.R.S. Employer Identification No.)
14111 Scottslawn Road, Marysville, Ohio (Address of principal executive offices)	43041 (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without 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 þ No o

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 o 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 o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. o

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

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

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

The aggregate market value of Common Shares (the only common equity of the registrant) held by non-affiliates (for this purpose, executive officers and directors of the registrant are considered affiliates) as of March 27, 2015 (the last business day of the most recently completed second quarter) was approximately $2,955,960,511.

There were 61,512,876 Common Shares of the registrant outstanding as of November 16, 2015.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for the registrant's 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended September 30, 2015.

PART I

ITEM 1. BUSINESS

Company Description and Development of the Business

The discussion below provides a brief description of the business conducted by The Scotts Miracle-Gro Company ("Scotts Miracle-Gro" and, together with its subsidiaries, the "Company," "we" or "us"), including general developments in the Company's business during the fiscal year ended September 30, 2015 ("fiscal 2015"). For additional information on recent business developments, see "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Annual Report on Form 10-K.

We are a leading manufacturer and marketer of branded consumer lawn and garden products. Our products are marketed under some of the most recognized brand names in the industry. In North America, key brands include Scotts® and Turf Builder® lawn and grass seed products; Miracle-Gro®, Nature's Care®, Scotts®, LiquaFeed® and Osmocote®[1] gardening and landscape products; and Ortho®, Roundup®[2], Home Defense® and Tomcat® branded insect control, weed control and rodent control products. In the United Kingdom, key brands include Miracle-Gro® plant fertilizers; Roundup®[2], Weedol® and Pathclear® herbicides; EverGreen® lawn fertilizers; and Levington® gardening and landscape products. Other significant brands in Europe include Roundup®[2], KB® and Fertiligène® in France; Roundup®[2], Celaflor®, Nexa Lotte® and Substral® in Germany and Austria; and Roundup®[2], ASEF®, KB® and Substral® in Belgium, the Netherlands and Luxembourg. 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 products in Australia, the Far East and Latin America. In addition, with our recent acquisition of General Hydroponics, Inc. ("General Hydroponics") and Bio-Organic Solutions, Inc. ("Vermicrop"), and control of AeroGrow International, Inc. ("AeroGrow"), we are a leading producer of liquid plant food products, growing media, advanced indoor garden systems and accessories for hydroponic gardening. We also operate the Scotts LawnService® business, which provides residential and commercial lawn care, tree and shrub care and pest control services in the United States.

Scotts Miracle-Gro, an Ohio corporation, traces its heritage back to a company founded by O.M. Scott in Marysville, Ohio in 1868. In the mid-1900s, we became widely known for the development of quality lawn fertilizers and grass seeds that led to the creation of a new industry-consumer lawn care. In the 1990s, we significantly expanded our product offering with three powerful leading brands in the U.S. home lawn and garden industry. First, in fiscal 1995, through a merger with Stern's Miracle-Gro Products, Inc., which was founded by Horace Hagedorn and Otto Stern in Long Island, New York in 1951, we acquired the Miracle-Gro brand, the industry leader in water-soluble garden plant foods. Second and third, in 1998, we acquired the Ortho brand in the United States and obtained exclusive rights to market the consumer Roundup brand within the United States and other contractually specified countries, thereby adding industry-leading weed, pest and disease control products to our portfolio. Today, we believe that Scotts®, Turf Builder®, Miracle-Gro®, Ortho® and Roundup® are the most widely recognized brands in the consumer lawn and garden industry in the United States.

Our strategy is focused on (i) growing our core branded business, primarily in the United States, (ii) expanding our reach into new categories and geographies, and (iii) reinventing the lawn and garden experience through improved marketing outreach and consumer engagement as well as with new products and services. We believe that leverage from cost of goods as well as selling, general and administrative expenses will allow operating profits to grow at a higher rate.

Business Segments

We divide our business into the following reportable segments:

- Global Consumer
- Scotts LawnService®

This division of reportable segments is consistent with how the segments report to and are managed by our Chief Executive Officer (the chief operating decision-maker of the Company). Financial information about these segments for each of the three fiscal years ended September 30, 2015, 2014, and 2013 is presented in "NOTE 21. SEGMENT

INFORMATION” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

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[1] Osmocote® is a registered trademark of Everris International B.V., a subsidiary of Israel Chemicals Ltd.

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

Principal Products and Services

Global Consumer

In our Global Consumer segment, we manufacture, market and sell consumer lawn and garden products in the following categories:

Lawn Care: The lawn care category is designed to help consumers obtain and enjoy the lawn they want. In the United States, products within this category include lawn fertilizer products under the Scotts® and Turf Builder® brand names; grass seed products under the Scotts®, Turf Builder®, EZ Seed®, Water Smart® and PatchMaster® brand names; and lawn-related weed, pest and disease control products primarily under the Scotts® brand name, including sub-brands such as GrubEx®. A similar range of products is marketed in Europe under a variety of brands such as EverGreen®, Fertiligène®, Substral®, Miracle-Gro® Patch Magic®, Weedol®, Pathclear®, KB® and Celaflor®. The lawn care category also includes spreaders and other durables under the Scotts® brand name, including Turf Builder® EdgeGuard® spreaders, Snap® spreaders and Handy Green® II handheld spreaders. In addition, in 2015, we began to market outdoor cleaners under the Scotts® OxiClean™[3] brand name.

Gardening and Landscape: The gardening and landscape category is designed to help consumers grow and enjoy flower and vegetable gardens and beautify landscaped areas. This category also includes our recent entry into hydroponic gardening. In the United States, products within this category include a complete line of water-soluble plant foods under the Miracle-Gro® brand and sub-brands such as LiquaFeed®, continuous-release plant foods under the Miracle-Gro®, Scotts® and Osmocote® brands and sub-brands of Miracle-Gro® such as Shake 'N Feed®; potting mixes and garden soils under the Miracle-Gro®, Scotts®, Hyponex®, Earthgro® and SuperSoil® brand names; mulch and decorative groundcover products under the Scotts® brand, including the sub-brands Nature Scapes®, Earthgro® and Hyponex by Scotts®; plant-related pest and disease control products under the Ortho® brand; organic garden products under the Miracle-Gro® Organic Choice®, Nature's Care®, Scotts®, Whitney Farms® and EcoScraps® brand names; live goods and seeding solutions under the Miracle-Gro® brand and Gro-ables® sub-brand; and hydroponic gardening products under the General Hydroponics® and AeroGarden® brand names. Internationally, similar products are marketed under the Miracle-Gro®, Fertiligène®, Substral®, KB®, Celaflor®, ASEF®, Scotts®, Scotts EcoSense®, Naturen®, Miracle-Gro® Organic Choice®, and Fafard® brand names.

Controls: The controls category is designed to help consumers protect their homes from pests and maintain external home areas. In the United States, insect control products are marketed under the Ortho® brand name, including Ortho Max®, Home Defense Max® and Bug B Gon Max® sub-brands; rodent control products are marketed under the Tomcat® and Ortho® brands; selective weed control products are marketed under the Ortho® Weed B Gon® sub-brand; and non-selective weed control products are marketed under the Roundup® and Groundclear® brand names. Internationally, products within this category are marketed under the Nexa Lotte®, Fertiligène®, KB®, Home Defence®, Home Defense®, Weedol®, Pathclear® and Roundup® brands.

Since 1998, we have served as Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® products in the consumer lawn and garden market within the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. In 2015, the territories were expanded to include all countries other than Japan and those subject to a comprehensive U.S. trade embargo or certain other embargoes and trade restrictions. Under the terms of the Amended and Restated Exclusive Agency and Marketing Agreement (the "Marketing Agreement") between the Company and Monsanto, we are jointly responsible with Monsanto for developing global consumer and trade marketing programs for consumer Roundup®. We provide manufacturing conversion services (in North America), distribution and logistics, and selling and marketing support for consumer Roundup®. We also entered into a lawn and garden brand extension agreement during 2015, providing us the ability to extend the Roundup® brand into other categories of lawn and garden beyond non-selective weed control globally. Monsanto continues to own the consumer Roundup® business and provides significant oversight of the brand. In addition, Monsanto continues to own and operate the agricultural Roundup® business. For additional details regarding the Marketing Agreement, see "ITEM 1A. RISK FACTORS — In the event of termination of the Marketing Agreement for consumer Roundup® products, we would lose a substantial source of future earnings and overhead expense absorption" of this Annual Report on Form 10-K and "NOTE 6. MARKETING

AGREEMENT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

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[3] OxiClean™ is a registered trademark of Church & Dwight Co., Inc.

Scotts LawnService®

The Scotts LawnService® segment provides residential and commercial lawn care, tree and shrub care and pest control services in the United States through periodic applications of fertilizer and control products. As of September 30, 2015, Scotts LawnService® had 88 Company-operated locations as well as 94 locations operated by independent franchisees. Also, through our 2014 acquisition of Action Pest Control Inc. (“Action Pest”), we operate and provide residential pest control services in the Midwest. As of September 30, 2015, we operated seven Action Pest locations.

Acquisitions and Divestitures

On May 15, 2015, we amended our Marketing Agreement with Monsanto and entered into a lawn and garden brand extension agreement, and a commercialization and technology agreement with Monsanto. We paid Monsanto $300.0 million in consideration for these agreements on August 14, 2015, using borrowings under our credit facility. These agreements provide us with the following significant rights:

- The ability to extend the Roundup® brand into other categories of lawn and garden beyond non-selective weed control globally;
- The opportunity to introduce the consumer Roundup® brand into territories not included in the original Marketing Agreement, including China and Latin America. Only Japan and countries with U.S. trade embargoes are excluded from the Marketing Agreement;
- The opportunity to propose changes to product formulations if deemed necessary to grow and/or protect the Roundup® brand;
- A right of first offer and a right of last look in the event Monsanto were to sell the consumer Roundup® business and a credit to the purchase price in an amount equal to the then applicable termination fee in the event we make a bid in connection with such a sale;
- A “first look” related to Monsanto’s innovation pipeline. Scotts Miracle-Gro would be provided with access to new technology and products that may be commercialized in the residential lawn and garden marketplace;
- The enhancements of our rights in connection with the termination of the Marketing Agreement, including increasing the termination fee payable thereunder, eliminating certain of Monsanto’s termination rights and delaying the effectiveness of a termination in connection with a change of control of Monsanto or a sale of the consumer Roundup® business for five years after the notice of termination; and
- The expanded ability for us to transfer, and thereby monetize, our rights as marketing agent to a third party (1) with respect to (a) the North America territories and (b) one or more other included markets for up to three other assignments and (2) in connection with a change of control of Scotts Miracle-Gro.

On March 30, 2015, the Company acquired the assets of General Hydroponics and Vermicrop for $120.0 million and $15.0 million, respectively. The Vermicrop purchase price was paid in common shares of Scotts Miracle-Gro (“Common Shares”) based on the average share price at the time of payment. This transaction provides the Company's Global Consumer segment with an additional entry in the indoor and urban gardening category, which is a part of the Global Consumer segment's long-term growth strategy. General Hydroponics and Vermicrop are leading producers of liquid plant food products, growing media and accessories for hydroponic gardening.

During fiscal 2015, we completed four acquisitions of growing media operations within the Global Consumer segment for an aggregate estimated purchase price of $40.2 million. These acquisitions expand the Company's growing media operations and distribution capabilities within its Global Consumer segment.

On October 16, 2014, Scotts LawnService® completed its acquisition of the assets of Action Pest, a residential and commercial pest control provider in the Midwest, for $21.7 million. Action Pest provides residential and commercial pest control services to homeowners and businesses in the Midwest. This transaction provides the Company with an entry into the pest control business.

On September 30, 2014, our wholly-owned subsidiary, Scotts Canada Ltd., acquired Fafard & Brothers Ltd. (“Fafard”) for $59.8 million. In continuous operation since 1940 and based in Saint-Bonaventure, Quebec, Canada, Fafard is a producer of peat moss and growing media products for consumer and professional markets including peat-based and bark-based mixes, composts and premium soils. Fafard serves customers primarily across Ontario, Quebec and New Brunswick.

During the fourth quarter of the fiscal year ended September 30, 2014 (“fiscal 2014”), as a reflection of our increased control of the operations of AeroGrow gained through a working capital loan made by the Company, we consolidated AeroGrow’s financial results into that of the Company. AeroGrow is a developer, marketer, direct-seller, and wholesaler of advanced indoor garden

systems designed for consumer use in gardening, and home and office décor markets. AeroGrow operates primarily in the United States and Canada, as well as select countries in Europe, Asia and Australia.

During the fourth quarter of fiscal 2014, we also completed an acquisition of certain assets of the U.K. based Solus Garden and Leisure Limited ("Solus") within our Global Consumer segment for $7.4 million. Solus is a supplier of garden and leisure products, offering a diverse mix of brands.

On October 14, 2013, we acquired the Tomcat® consumer rodent control business from Bell Laboratories, Inc., located in Madison, Wisconsin, for $60.0 million in an all-cash transaction. The acquisition included the Tomcat® brand and other intellectual property, as well as a long-term partnership to bring innovative technologies to the consumer rodent control market. Tomcat® consumer products are sold at home centers and mass retailers, as well as grocery, drug and general merchandise stores across the United States and Canada, as well as in Europe and Australia.

In addition, over the past five years we have completed several smaller acquisitions within our controls, growing media and Scotts LawnService® businesses.

During the past five years, we have completed several divestitures including the February 28, 2011 sale of our Global Professional ("Global Pro") business to Israel Chemicals Ltd. ("ICL") for $270.0 million. In the fourth quarter of the fiscal year ended September 30, 2012 ("fiscal 2012"), we completed the wind down of our professional grass seed business. In the second quarter of fiscal 2014, we completed the sale of our wild bird food business in the United States and Canada for $4.1 million in cash and an estimated $1.0 million in future earn-out payments. We have classified our results of operations for all periods presented in this Annual Report on Form 10-K to reflect these businesses as discontinued operations during the applicable periods. See "NOTE 2. DISCONTINUED OPERATIONS" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information.

Principal Markets and Methods of Distribution

We sell our consumer products primarily to 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 through both a direct sales force and our network of brokers and distributors. In addition, during fiscal 2015, we employed approximately 2,500 full-time and seasonal in-store associates within the United States to help our retail partners merchandise their lawn and garden departments directly to consumers of our products.

The majority of shipments to customers are made via common carriers or through distributors in the United States and through a network of public warehouses and distributors in Europe. We primarily utilize third parties to manage the key distribution centers for our Global Consumer business in North America, which are strategically located across the United States and Canada. The distribution centers for our Global Consumer business internationally are located in the United Kingdom, France, Germany, Austria and Australia and are also managed by third-party logistics providers. Growing media products are generally shipped direct-to-store without passing through a distribution center.

Raw Materials

We purchase raw materials for our products from various sources. We are subject to market risk as a result of the fluctuating prices of raw materials such as urea and other fertilizer inputs, resins, diesel, gasoline, natural gas, sphagnum peat, bark and grass seed. Our objectives surrounding the procurement of these materials are to ensure continuous supply, minimize costs and improve predictability. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. When appropriate, we commit to purchase a certain percentage of our needs in advance of the season to secure pre-determined prices. We also hedge certain commodities, particularly diesel, gasoline and urea, to improve cost predictability and control. Sufficient raw materials were available during fiscal 2015.

Trademarks, Patents and Licenses

We consider our trademarks, patents and licenses to be key competitive advantages. We pursue a vigorous trademark protection strategy consisting of registration, renewal and maintenance of key trademarks and proactive monitoring and enforcement activities to protect against infringement. The Scotts®, Miracle-Gro®, Ortho®, Scotts LawnService®, Tomcat®, Hyponex®, Earthgro®, General Hydroponics® and Vermicrop® brand names and logos, as well as a number of product trademarks, including Turf Builder®, EZ Seed®, Snap®, Organic Choice®, Nature's Care®, Home Defense Max®, Nature Scapes® and Weed B Gon Max®, are registered in the United States and/or internationally and are

considered material to our business.

In addition, we actively develop and maintain an extensive portfolio of utility and design patents covering subject matters such as fertilizer, chemical and growing media compositions and processes; grass seed varieties; and mechanical dispensing devices such as applicators, spreaders and sprayers. Our utility patents provide protection generally extending to 20 years from the date

of filing, and many of our patents will continue well into the next decade. We also hold exclusive and non-exclusive patent licenses and supply arrangements, permitting the use and sale of additional patented fertilizers, pesticides and mechanical devices. Although our portfolio of patents and patent licenses is important to our success, no single patent or group of related patents is considered significant to either of our business segments or the business as a whole.

Seasonality and Backlog

Our business is highly seasonal, with more than 75% of our annual net sales occurring in our second and third fiscal quarters combined. Our annual sales are further concentrated in our 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.

We anticipate significant orders for the upcoming spring season will start to be received late in the winter and continue through the spring season. Historically, substantially all orders have been received and shipped within the same fiscal year with minimal carryover of open orders at the end of the fiscal year.

Significant Customers

We sell our consumer products primarily to 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. Our three largest customers are Home Depot, Lowe's and Walmart, which are reported within the Global Consumer segment and are the only customers that individually represent more than 10% of reported consolidated net sales. For additional details regarding significant customers, see "ITEM 1A. RISK FACTORS — Because of the concentration of our sales to a small number of retail customers, the loss of one or more of, or a significant reduction in orders from, our top customers could adversely affect our financial results" of this Annual Report on Form 10-K and "NOTE 19. CONCENTRATIONS OF CREDIT RISK" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Competitive Marketplace

The markets in which we sell our products are highly competitive. In the U.S. lawn and garden and pest control markets, our products compete against private-label as well as branded products. Primary competitors include Spectrum Brands Holdings, Inc., Bayer AG, Central Garden & Pet Company, Enforcer Products, Inc., Kellogg Garden Products, Oldcastle Retail, Inc. and Lebanon Seaboard Corporation. In addition, we face competition from regional competitors who compete primarily on the basis of price for commodity growing media products including private label brands.

Internationally, we face strong competition in the lawn and garden market, particularly in Europe. Our competitors in the European Union include Compo AcquiCo SARL, Bayer AG, Westland Horticulture Ltd and a variety of local companies including private label brands.

We have the second largest market share position in the fragmented U.S. lawn care service market. We compete against TruGreen®, which has a substantially larger share of this market than Scotts LawnService®, as well as numerous regional and local lawn care service operations and national and regional franchisors.

Research and Development

We continually invest in research and development, both in the laboratory and at the consumer level, to improve our products, manufacturing processes, packaging and delivery systems. Spending on research and development was $46.8 million, $48.4 million and $46.4 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively, including product registration costs of $13.1 million, $12.6 million and $12.4 million, respectively. In addition to the benefits of our own research and development, we actively seek ways to leverage the research and development activities of our suppliers and other business partners.

Regulatory Considerations

Local, state, federal and foreign laws and regulations affect the manufacture, sale and application of our products in several ways. For example, in the United States, all products containing pesticides must comply with the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended ("FIFRA"), and be registered with the U.S. Environmental Protection Agency (the "U.S. EPA") and similar state agencies before they can be sold or distributed. Fertilizer and growing media products are subject to state and foreign labeling regulations. In addition to

the regulations already described, federal, state and foreign agencies regulate the disposal, transport, handling and storage of waste, remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety. Our grass seed products are regulated by the Federal Seed Act and various state regulations. Most states require our Scotts LawnService® business locations and/or technicians to comply with strict licensing requirements prior to applying many of our products.

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations (such as “not for use on sod farms or golf courses”), may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients.

State, federal and foreign authorities generally require growing media facilities to obtain permits (sometimes on an annual basis) in order to harvest peat and to discharge storm water run-off or water pumped from peat deposits. The permits typically specify the condition in which the property must be left after the peat is fully harvested, with the residual use typically being natural wetland habitats combined with open water areas. We are generally required by these permits to limit our harvesting and to restore the property consistent with the intended residual use. In some locations, these facilities have been required to create water retention ponds to control the sediment content of discharged water.

For more information regarding how compliance with local, state, federal and foreign laws and regulations may affect us, see “ITEM 1A. RISK FACTORS — Compliance with environmental and other public health regulations or changes in such regulations or regulatory enforcement priorities could increase our costs of doing business or limit our ability to market all of our products” of this Annual Report on Form 10-K.

Regulatory Matters

We are subject to various environmental proceedings, the majority of which are for site remediation. At September 30, 2015, $5.6 million was accrued for such environmental matters. During fiscal 2015, fiscal 2014 and fiscal 2013, we expensed $0.6 million, $3.1 million and $0.4 million, respectively, for such environmental matters. We had no material capital expenditures during the last three fiscal years related to environmental or regulatory matters.

Employees

As of September 30, 2015, we employed approximately 7,900 employees. During peak sales and production periods, we employ approximately 8,900 employees, including seasonal and temporary labor.

Financial Information About Geographic Areas

For certain information concerning our international revenues and long-lived assets, see “NOTE 21. SEGMENT INFORMATION” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

General Information

We maintain a website at http://investor.scotts.com (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate our website into this Annual Report on Form 10-K). We file reports with the Securities and Exchange Commission (the “SEC”) and make available, free of charge, on or through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as our proxy and information statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website that contains electronic filings by Scotts Miracle-Gro and other issuers at www.sec.gov. In addition, the public may read and copy any materials Scotts Miracle-Gro files with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including the exhibits hereto and the information incorporated by reference herein, as well as our 2015 Annual Report to Shareholders (our “2015 Annual Report”), contain “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 our Common Shares or other uses of cash flows. 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 Annual Report on Form 10-K and our 2015 Annual Report are predictions only and actual results could differ materially from management’s expectations due to a variety of factors, including those described below. 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 Annual Report on Form 10-K and our 2015 Annual Report 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.

Compliance with environmental and other public health regulations or changes in such regulations or regulatory enforcement priorities could increase our costs of doing business or limit our ability to market all of our products.

Local, state, federal and foreign laws and regulations relating to environmental matters affect us in several ways. In the United States, all products containing pesticides must comply with FIFRA and be registered with the U.S. EPA and similar state agencies before they can be sold or distributed. The inability to obtain or maintain such compliance, or the cancellation of any such registration, could have an adverse effect on our business, the severity of which would depend on such matters as the products involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute active ingredients, but there can be no assurance that we will be able to avoid or reduce these risks. In the European Union (the “EU”), the European Parliament has adopted various forms of regulation which may substantially restrict or eliminate our ability to market and sell certain of our consumer pesticide products in their current form in the EU. In addition, in Canada, regulations have been adopted by several provinces that substantially restrict our ability to market and sell certain of our consumer pesticide products.

Under the Food Quality Protection Act, enacted by the U.S. Congress in 1996, food-use pesticides are evaluated to determine whether there is reasonable certainty that no harm will result from the cumulative effects of pesticide exposures. Under this Act, the U.S. EPA is evaluating the cumulative and aggregate risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, certain of which may be used on crops processed into various food products, are typically manufactured by independent third parties and continue to be evaluated by the U.S. EPA as part of this exposure risk assessment. The U.S. EPA or the third-party registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. We cannot predict the outcome or the severity of the effect of continuing evaluations.

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or

professional users apply the product or that certain products be used only on certain types of locations, may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients. Most states require our Scotts LawnService® business locations and/or technicians to comply with strict licensing requirements prior to applying many of our products. Even if we are able to comply with all such regulations and obtain all necessary registrations and licenses, we cannot provide assurance that our products, particularly pesticide products, will not cause injury to the environment or to people under all circumstances. The costs of compliance, remediation or products liability have adversely affected operating results in the past and could materially adversely affect future quarterly or annual operating results.

Our products and operations may be subject to increased regulatory and environmental scrutiny in jurisdictions in which we do business. For example, we are subject to regulations relating to our harvesting of peat for our growing media business which has come under increasing regulatory and environmental scrutiny. In the United States, state regulations frequently require us to limit our harvesting and to restore the property to an agreed-upon condition. In some locations, we have been required to create water retention ponds to control the sediment content of discharged water. In Canada and the United Kingdom, our peat extraction efforts are also the subject of regulation.

In addition to the regulations already described, local, state, federal and foreign agencies regulate the disposal, transport, handling and storage of waste, remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety.

Under certain environmental laws, we may be liable for the costs of investigation and remediation of the presence of certain regulated materials, as well as related costs of investigation and remediation of damage to natural resources, at various properties, including our current and former properties as well as offsite waste handling or disposal sites that we have used. Liability may be imposed upon us without regard to whether we knew of or caused the presence of such materials and, under certain circumstances, on a joint and several basis. There can be no assurances that the presence of such regulated materials at any such locations, or locations that we may acquire in the future, will not result in liability to us under such laws or expose us to third-party actions such as tort suits based on alleged conduct or environmental conditions.

The adequacy of our current non-FIFRA compliance-related environmental reserves and future provisions depends upon our operating in substantial compliance with applicable environmental and public health laws and regulations, as well as the assumptions that we have both identified all of the significant sites that must be remediated and that there are no significant conditions of potential contamination that are unknown to us. A significant change in the facts and circumstances surrounding these assumptions or in current enforcement policies or requirements, or a finding that we are not in substantial compliance with applicable environmental and public health laws and regulations, could have a material adverse effect on future environmental capital expenditures and other environmental expenses, as well as our financial condition, results of operations and cash flows.

Damage to our reputation could have an adverse effect on our business.

Maintaining our strong reputation with both consumers and our retail customers is a key component in our success. Product recalls, our inability to ship, sell or transport affected products and governmental investigations may harm our reputation and acceptance of our products by consumers and our retail customers, which may materially and adversely affect our business operations, decrease sales and increase costs.

In addition, perceptions that the products we produce and market are not safe could adversely affect us and contribute to the risk we will be subjected to legal action. We manufacture and market a variety of products, such as fertilizers, growing media, herbicides and pesticides. On occasion, allegations are made that some of our products have failed to perform up to expectations or have caused damage or injury to individuals or property. Based on reports of contamination at a third-party supplier's vermiculite mine, the public may perceive that some of our products manufactured in the past using vermiculite are or may be contaminated. Public perception that our products are not safe, whether justified or not, could impair our reputation, involve us in litigation, damage our brand names and have a material adverse effect on our business.

Our marketing activities may not be successful.

We invest substantial resources in advertising, consumer promotions and other marketing activities in order to maintain, extend and expand our brand image. There can be no assurances that our marketing strategies will be effective or that the amount we invest in advertising activities will result in a corresponding increase in sales of our products. If our marketing initiatives are not successful, we will have incurred significant expenses without the benefit of higher revenues.

Our success depends upon the retention and availability of key personnel and the effective succession of senior management.

Our success largely depends on the performance of our management team and other key personnel. Our future operations could be harmed if we are unable to attract and retain talented, highly qualified senior executives and other

key personnel. In addition, if we are unable to effectively provide for the succession of senior management, including our chief executive officer, our business, prospects, results of operations, financial condition and cash flows may be materially adversely affected.

Disruptions in availability or increases in the prices of raw materials or fuel could adversely affect our results of operations.

We source many of our commodities and other raw materials on a global basis. The general availability and price of those raw materials can be affected by numerous forces beyond our control, including political instability, trade restrictions and other government regulations, duties and tariffs, price controls, changes in currency exchange rates and weather.

A significant disruption in the availability of any of our key raw materials could negatively impact our business. In addition, increases in the prices of key commodities and other raw materials could adversely affect our ability to manage our cost structure. Market conditions may limit our ability to raise selling prices to offset increases in our raw material costs. Our proprietary technologies can limit our ability to locate or utilize alternative inputs for certain products. For certain inputs, new sources of supply may have to be qualified under regulatory standards, which can require additional investment and delay bringing a product to market.

We utilize hedge agreements periodically to fix the prices of a portion of our urea and fuel needs. The hedge agreements are designed to mitigate the earnings and cash flow fluctuations associated with the costs of urea and fuel. In periods of declining urea and fuel prices, utilizing hedge agreements may effectively increase our expenditures for these raw materials.

Our hedging arrangements expose us to certain counterparty risks.

In addition to commodity hedge agreements, we utilize interest rate swap agreements as a means to hedge our variable interest rate exposure on debt instruments as well as foreign currency forward contracts to manage the exchange rate risk associated with certain intercompany loans with foreign subsidiaries. Utilizing these hedge agreements exposes us to certain counterparty risks. The failure of one or more of these counterparties to fulfill their obligations under the hedge agreements, whether as a result of weakening financial stability or otherwise, could adversely affect our financial condition, results of operations or cash flows.

Economic conditions could adversely affect our business.

Uncertain global economic conditions could adversely affect our business. Negative global economic trends, such as decreased consumer and business spending, high unemployment levels, reduced rates of home ownership and housing starts, high foreclosure rates and declining consumer and business confidence, pose challenges to our business and could result in declining revenues, profitability and cash flow. Although we continue to devote significant resources to support our brands, unfavorable economic conditions may negatively affect consumer demand for our products. Consumers may reduce discretionary spending during periods of economic uncertainty, which could reduce sales volumes of our products or result in a shift in our product mix from higher margin to lower margin products.

The highly competitive nature of our markets could adversely affect our ability to maintain or grow revenues.

Each of our operating segments participates in markets that are highly competitive. Our products compete against national and regional products and private label products produced by various suppliers. Many of our competitors sell their products at prices lower than ours. Our most price sensitive customers may trade down to lower priced products during challenging economic times or if current economic conditions worsen. We compete primarily on the basis of product innovation, product quality, product performance, value, brand strength, supply chain competency, field sales support, in-store sales support, the strength of our relationships with major retailers and advertising. Some of our competitors have significant financial resources. The strong competition that we face in all of our markets may prevent us from achieving our revenue goals, which may have a material adverse effect on our financial condition, results of operations and cash flows. Our inability to continue to develop and grow brands with leading market positions, maintain our relationships with key retailers and deliver high quality products on a reliable basis at competitive prices could have a material adverse effect on us.

We may not successfully develop new product lines and products or improve existing product lines and products or maintain our effectiveness in reaching consumers through rapidly evolving communication vehicles.

Our future success depends, in part, upon our ability to improve our existing product lines and products and to develop, manufacture and market new product lines and products to meet evolving consumer needs, as well as our ability to leverage new mediums such as digital media and social networks to reach existing and potential consumers. We cannot be certain that we will be successful in the development, manufacturing and marketing of new product lines and products or product innovations which satisfy consumer needs or achieve market acceptance, or that we will develop and market new product lines and products or product innovations in a timely manner. If we fail to successfully develop, manufacture and market new product lines and products or develop product innovations, or if we fail to reach existing and potential consumers, our ability to maintain or grow our market share may be adversely affected, which in turn could materially adversely affect our business, financial condition and results of operations. In

addition, the development and introduction of new product lines and products and product innovations require substantial research, development and marketing expenditures, which we may be unable to recoup if such new products or innovations do not achieve market acceptance.

Many of the products we manufacture and market contain active ingredients that are subject to regulatory approval. The need to obtain such approval could delay the launch of new products or product innovations that contain active ingredients or otherwise prevent us from developing and manufacturing certain products and product innovations, further exacerbating the risks to our business.

Our ongoing investment in new product lines and products and technologies is inherently risky, and could disrupt our ongoing businesses.

We have invested and expect to continue to invest in new product lines, products, and technologies. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, insufficient revenues to offset liabilities assumed and expenses associated with these new investments, inadequate return of capital on our investments, and unidentified issues not discovered in our due diligence of such strategies and offerings. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not adversely affect our reputation, financial condition, and operating results.

Because of the concentration of our sales to a small number of retail customers, the loss of one or more of, or a significant reduction in orders from, our top customers could adversely affect our financial results.

Global Consumer net sales represented approximately 89.5% of our worldwide net sales in fiscal 2015. Our top three retail customers together accounted for 63% of our Global Consumer segment fiscal 2015 net sales and 54% of our outstanding accounts receivable as of September 30, 2015. The loss of, or reduction in orders from, our top three retail customers, Home Depot, Lowe's, and Walmart, or any other significant customer could have a material adverse effect on our business, financial condition, results of operations and cash flows, as could customer disputes regarding shipments, fees, merchandise condition or related matters. Our inability to collect accounts receivable from one of our major customers, or a significant deterioration in the financial condition of one of these customers, including a bankruptcy filing or a liquidation, could also have a material adverse effect on our financial condition, results of operations and cash flows.

We do not have long-term sales agreements with, or other contractual assurances as to future sales to, any of our major retail customers. In addition, continued consolidation in the retail industry has resulted in an increasingly concentrated retail base, and as a result, we are significantly dependent upon key retailers who have significant bargaining strength. To the extent such concentration continues to occur, our net sales and income from operations may be increasingly sensitive to deterioration in the financial condition of, or other adverse developments involving our relationship with, one or more of our key customers. In addition, our business may be negatively affected by changes in the policies of our retailers, such as inventory destocking, limitations on access to shelf space, price demands and other conditions.

Our reliance on third-party manufacturers could harm our business.

We rely on third-party service providers to manufacture certain of our products. This reliance generates a number of risks, including decreased control over the production process, which could lead to production delays or interruptions, and inferior product quality control. In addition, performance problems at these third-party providers could lead to cost overruns, shortages or other problems, which could increase our costs of production or result in delivery delays to our customers.

If one or more of our third-party manufacturers becomes insolvent or unwilling to continue to manufacture products of acceptable quality, at acceptable costs, in a timely manner, our ability to deliver products to our retail customers could be significantly impaired. Substitute manufacturers might not be available or, if available, might be unwilling or unable to manufacture the products we need on acceptable terms. Moreover, if customer demand for our products increases, we may be unable to secure sufficient additional capacity from our current third-party manufacturers, or others, on commercially reasonable terms, or at all.

Our reliance on a limited base of suppliers may result in disruptions to our business and adversely affect our financial results.

Although we continue to implement risk-mitigation strategies for single-source suppliers, we rely on a limited number of suppliers for certain of our raw materials, product components and other necessary supplies, including certain active ingredients used in our products. If we are unable to maintain supplier arrangements and relationships, if we are unable to contract with suppliers at the quantity and quality levels needed for our business, or if any of our key suppliers becomes insolvent or experiences other financial distress, we could experience disruptions in production, which could have a material adverse effect on our financial condition, results of operations and cash flows.

A significant interruption in the operation of our or our suppliers' facilities could impact our capacity to produce products and service our customers, which could adversely affect revenues and earnings.

Operations at our and our suppliers' facilities are subject to disruption for a variety of reasons, including fire, flooding or other natural disasters, disease outbreaks or pandemics, acts of war, terrorism, government shut-downs and work stoppages. A significant interruption in the operation of our or our suppliers' facilities could significantly impact our capacity to produce products and service our customers in a timely manner, which could have a material adverse effect on our revenues, earnings and financial position. This is especially true for those products that we manufacture at a limited number of facilities, such as our fertilizer and liquid products in both the United States and Europe.

Adverse weather conditions could adversely impact financial results.

Weather conditions in North America and Europe can have a significant impact on the timing of sales in the spring selling season and overall annual sales. An abnormally wet and/or cold spring throughout North America or Europe, abnormally dry periods or droughts, and other severe weather conditions or events could adversely affect fertilizer, pesticide and insecticide sales and, therefore, our financial condition, results of operations and cash flows.

Our indebtedness could limit our flexibility and adversely affect our financial condition.

As of September 30, 2015, we had $1,163.3 million of debt. Our inability to meet restrictive financial and non-financial covenants associated with that debt could adversely affect our financial condition.

Our ability to make payments on our indebtedness, fund planned capital expenditures and acquisitions, pay dividends and make repurchases of our Common Shares will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot ensure that our business will generate sufficient cash flow from operating activities or that future borrowings will be available to us under our credit facility in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

Our credit facility and the indenture governing our 6.625% Senior Notes due 2020 (the "6.625% Senior Notes") and our 6.000% Senior Notes due 2023 (the "6.000% Senior Notes") contain restrictive covenants and cross-default provisions. In addition, our credit facility requires us to maintain specified financial ratios. Our ability to comply with those covenants and satisfy those financial ratios can be affected by events beyond our control including prevailing economic, financial and industry conditions. A breach of any of those financial ratio covenants or other covenants could result in a default. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, and could cease making further loans and institute foreclosure proceedings against our assets. We cannot provide any assurance that the holders of such indebtedness would waive a default or that we could pay the indebtedness in full if it were accelerated.

Subject to compliance with certain covenants under our credit facility and the indentures governing the 6.625% Senior Notes and the 6.000% Senior Notes, we may incur additional debt in the future. If we incur additional debt, the risks described above could intensify.

Changes in credit ratings issued by nationally recognized statistical rating organizations could adversely affect our cost of financing and the market price of our 6.625% Senior Notes and our 6.000% Senior Notes.

Credit rating agencies rate the 6.625% Senior Notes and the 6.000% Senior Notes, and the Company based on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of the 6.625% Senior Notes, or the 6.000% Senior Notes or placing us on a watch list for possible future downgrading would likely increase our cost of financing, limit our access to the capital markets and have an adverse effect on the market price of the 6.625% Senior Notes and the 6.000% Senior Notes.

Our postretirement-related costs and funding requirements could increase as a result of volatility in the financial markets, changes in interest rates and actuarial assumptions.

We sponsor a number of defined benefit pension plans associated with our U.S. and international businesses, as well as a postretirement medical plan in the U.S. for certain retired associates and their dependents. The performance of the financial markets and changes in interest rates impact the funded status of these plans and cause volatility in our

postretirement-related costs and future funding requirements. If the financial markets do not provide the expected long-term returns on invested assets, we could be required to make significant pension contributions. Additionally, changes in interest rates and legislation enacted by governmental authorities can impact the timing and amounts of contribution requirements.

We utilize third-party actuaries to evaluate assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension and other postretirement benefit plans. In the event we determine that our assumptions should be revised, such as the discount rate, the expected long-term rate or expected return on assets, our future pension and postretirement benefit expenses could increase or decrease. The assumptions we use may differ from actual results, which could have a significant impact on our pension and postretirement liabilities and related costs and funding requirements.

Our international operations make us susceptible to the costs and risks associated with operating internationally.

We currently operate manufacturing, sales and service facilities outside of the United States, particularly in Canada, France, the United Kingdom and Germany. In fiscal 2015, sales outside of the United States accounted for 16.8% of our total net sales. Accordingly, we are subject to risks associated with operating in foreign countries, including:

- fluctuations in currency exchange rates;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations;
- historically, in certain countries, higher rates of inflation than in the United States;
- changes in the economic conditions or consumer preferences or demand for our products in these markets;
- restrictive actions by multi-national governing bodies, foreign governments or subdivisions thereof;
- changes in foreign labor laws and regulations affecting our ability to hire and retain employees;
- changes in U.S. and foreign laws regarding trade and investment;
- less robust protection of our intellectual property under foreign laws; and
- difficulty in obtaining distribution and support for our products.

In addition, our operations outside the United States are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations and potentially adverse tax consequences. The costs associated with operating our international business could adversely affect our results of operations, financial condition and cash flows in the future.

Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability and cash flows.

We are subject to income and other taxes in the United States federal jurisdiction and various local, state and foreign jurisdictions. Our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets (such as net operating losses and tax credits) and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly related to our operations in the United States, is dependent on our ability to generate future taxable income of the appropriate character in the relevant jurisdiction.

From time to time, tax proposals are introduced or considered by the U.S. Congress or the legislative bodies in local, state and foreign jurisdictions that could also affect our tax rate, the carrying value of our deferred tax assets, or our tax liabilities. Our tax liabilities are also affected by the amounts we charge for inventory, services, licenses, funding and other items in intercompany transactions. We are subject to ongoing tax audits in various jurisdictions. In connection with these audits (or future audits), tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of our audits in order to determine the appropriateness of our tax provision. As a result, the ultimate resolution of our tax audits, changes in tax laws or tax rates, and the ability to utilize our deferred tax assets could materially affect our tax provision, net income and cash flows in future periods.

Our operations may be impaired if our information technology systems fail to perform adequately or if we are the subject of a data breach or cyber attack.

We rely on information technology systems in order to conduct business, including communicating with employees and our key retail customers, ordering and managing materials from suppliers, shipping products to retail customers and analyzing and reporting results of operations. While we have taken steps to ensure the security of our information technology systems, our

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systems may nevertheless be vulnerable to computer viruses, security breaches and other disruptions from unauthorized users. If our information technology systems are damaged or cease to function properly for an extended period of time, whether as a result of a significant cyber incident or otherwise, our ability to communicate internally as well as with our retail customers could be significantly impaired, which may adversely impact our business. Additionally, an operational failure or breach of security from increasingly sophisticated cyber threats could lead to the loss or disclosure of both our and our retail customers' financial, product, and other confidential information, as well as personally identifiable information about our employees or customers, result in regulatory or other legal proceedings, and have a material adverse effect on our business and reputation.

We may not be able to adequately protect our intellectual property and other proprietary rights that are material to our business.

Our ability to compete effectively depends in part on our rights to service marks, trademarks, tradenames and other intellectual property rights we own or license, particularly our registered brand names and issued patents. We have not sought to register every one of our marks either in the United States or in every country in which such mark is used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States with respect to the registered brand names and issued patents we hold. If we are unable to protect our intellectual property, proprietary information and/or brand names, we could suffer a material adverse effect on our business, financial condition and results of operations.

Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products or services infringe their intellectual property rights. Any litigation or claims brought by or against us could result in substantial costs and diversion of our resources. A successful claim of trademark, patent or other intellectual property infringement against us, or any other successful challenge to the use of our intellectual property, could subject us to damages or prevent us from providing certain products or services, or providing certain products or services under our recognized brand names, which could have a material adverse effect on our business, financial condition and results of operations.

In the event of termination of the Marketing Agreement for consumer Roundup® products, we would lose a substantial source of future earnings and overhead expense absorption.

If we were to (i) become insolvent (ii) commit a material breach, material fraud or material misconduct under the Marketing Agreement, (iii) undergo certain events resulting in a change of control of the Company, or (iv) impermissibly assign or delegate our rights under the Marketing Agreement, Monsanto may have the right to terminate the Marketing Agreement without paying a termination fee. Monsanto may also be able to terminate the Marketing Agreement in the event of a change of control of Monsanto or a sale of the Roundup® business, but would have to pay a termination fee to the Company. In the event the Marketing Agreement terminates, we would lose all, or a substantial portion, of the significant source of earnings and overhead expense absorption the Marketing Agreement provides.

For additional information regarding the Marketing Agreement, see “NOTE 6. MARKETING AGREEMENT” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Hagedorn Partnership, L.P. beneficially owns approximately 26% of our Common Shares and can significantly influence decisions that require the approval of shareholders.

Hagedorn Partnership, L.P. beneficially owned approximately 26% of our outstanding Common Shares on a fully diluted basis as of November 16, 2015. As a result, it has sufficient voting power to significantly influence the election of directors and the approval of other actions requiring the approval of our shareholders, including the entering into of certain business combination transactions. In addition, because of the percentage of ownership and voting concentration in Hagedorn Partnership, L.P., elections of our board of directors will generally be within the control of Hagedorn Partnership, L.P. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of our Common Shares and voting control presently lies with Hagedorn Partnership, L.P. As such, it would be difficult for shareholders to propose and have approved proposals not supported by Hagedorn Partnership, L.P. Hagedorn Partnership, L.P.'s interests could differ from, or be in conflict with, the

interests of other shareholders.
While we have, over the past few years, increased the rate of cash dividends on, and engaged in repurchases of, our Common Shares, any future decisions to reduce or discontinue paying cash dividends to our shareholders or repurchasing our Common Shares pursuant to our previously announced repurchase program could cause the market price for our Common Shares to decline.
Our payment of quarterly cash dividends on and repurchase of our Common Shares pursuant to our stock purchase program are subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements,

and other factors. We have, over the past few years, increased the rate of cash dividends on, and repurchased shares of, our Common Shares. For example, in the fiscal year ended September 30, 2011 (“fiscal 2011”), we increased the amount of our quarterly cash dividend by 20% and our Board of Directors increased our then current share repurchase authorization by an additional $200 million through September 30, 2014. We increased the amount of our quarterly cash dividend again in fiscal 2012. In the fourth quarter of the fiscal year ended September 30, 2013 (“fiscal 2013”), we increased the amount of our quarterly cash dividend by an additional 35%. In the fourth quarter of fiscal 2014, we announced a special one-time cash dividend of $2 per share on the Company's Common Shares; a new share repurchase authorization, expiring by the end of fiscal 2019, to repurchase up to $500 million of the Company’s Common Shares, which replaced the then existing authorization, which expired on September 30, 2014; and a 3% increase in the Company’s recurring quarterly cash dividend to $0.45 per share. Most recently, in the fourth quarter of fiscal 2015, we increased the amount of our quarterly cash dividend by an additional 4% to $0.47 per share.
We may further increase or decrease the rate of cash dividends on, and the amount of repurchases of, our Common Shares in the future. Any reduction or discontinuance by us of the payment of quarterly cash dividends or repurchases of our Common Shares pursuant to our current share repurchase authorization program could cause the market price of our Common Shares to decline. Moreover, in the event our payment of quarterly cash dividends on or repurchases of our Common Shares are reduced or discontinued, our failure or inability to resume paying cash dividends or repurchasing Common Shares at historical levels could result in a lower market valuation of our Common Shares.
Acquisitions, other strategic alliances and investments could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.
Acquisitions are an important element of our overall corporate strategy and use of capital, and these transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or product has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include:

- Diversion of management time and focus from operating our business to acquisition integration challenges.

- Failure to successfully further develop the acquired business or product lines.

- Implementation or remediation of controls, procedures and policies at the acquired company.

- Integration of the acquired company’s accounting, human resources and other administrative systems, and coordination of product, engineering and sales and marketing functions.

- Transition of operations, users and customers onto our existing platforms.

- Reliance on the expertise of our strategic partners with respect to market development, sales, local regulatory compliance and other operational matters.

- Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition and antitrust laws which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition.

- In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries.

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- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.

- Liability for or reputational harm from activities of the acquired company before the acquisition or from our strategic partners, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities.

- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former shareholders or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments or strategic alliances could cause us to fail to realize the anticipated benefits of such acquisitions, investments or alliances, incur unanticipated liabilities, and harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or impairment of goodwill and purchased long-lived assets, and restructuring charges, any of which could harm our financial condition or results of operations and cash flows. Also, the anticipated benefits of many of our acquisitions may not materialize.

A failure to dispose of assets or businesses in a timely manner may cause the results of the Company to suffer.

The Company evaluates as necessary the potential disposition of assets and businesses that may no longer help it meet its objectives. When the Company decides to sell assets or a business, it may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of its strategic objectives. Alternatively, the Company may dispose of a business at a price or on terms that are less than it had anticipated. After reaching an agreement with a buyer or seller for the disposition of a business, the Company is subject to satisfaction of pre-closing conditions, which may prevent the Company from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside the Company's control could affect its future financial results.

We are involved in a number of legal proceedings and, while we cannot predict the outcomes of such proceedings and other contingencies with certainty, some of these outcomes could adversely affect our business, financial condition, results of operations and cash flows.

We are involved in legal proceedings and are subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the course of our business (see the discussion of Legal Proceedings in Part I, Item 3 of this Annual Report on Form 10-K). Legal proceedings, in general, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts of damages, including punitive or exemplary damages, and may remain unresolved for several years. For example, product liability claims challenging the safety of our products may also result in a decline in sales for a particular product and could damage the reputation or the value of related brands.

From time to time, the Company is also involved in legal proceedings as a plaintiff involving contract, intellectual property and other matters. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, and the costs incurred in litigation can be substantial, regardless of the outcome. Substantial unanticipated verdicts, fines and rulings do sometimes occur. As a result, we could from time to time incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations in the period in which the amounts are accrued and/or our cash flows in the period in which the amounts are paid. The outcome of some of these legal proceedings and other contingencies could require us to take, or refrain from taking, actions which could negatively affect our operations and, depending on the nature of the allegations, could negatively impact our reputation. Additionally, defending against these legal proceedings may involve significant expense and diversion of management's attention and resources.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Marysville, Ohio, where we own approximately 616 acres of land and lease approximately 114 acres of land. We lease a property in Ecully, France which serves as the headquarters of our European operations. In addition, we own and lease numerous industrial, commercial and office properties located in North America, Europe, Australia and Asia that support the management, manufacturing, distribution and research and development of our products and services. We believe our properties are suitable and adequate to serve the needs

of our business and that our leased properties are subject to appropriate lease agreements.

Global Consumer. There are 49 Company-owned properties and 84 leased properties in our Global Consumer segment. These properties are located in the following countries:

Location	Owned	Leased
United States	35	55
United Kingdom	7	7
Canada	5	6
France	2	3
Rest of world (1)	—	13
Total	49	84

(1) - Rest of world includes Australia, Austria, Belgium, China, Germany, Mexico, and Poland

We own or lease 68 manufacturing properties, three distribution properties and three research and development properties in the United States. We own or lease nine manufacturing properties in the United Kingdom, nine manufacturing properties in Canada, two manufacturing properties in France, two manufacturing properties in Australia, and one manufacturing property in China. We also lease two distribution properties and own one research and development property in the United Kingdom, lease one distribution property in Mexico, lease one research and development property in Canada, and lease one research and development property in France. Most of the manufacturing properties in our Global Consumer segment, which include growing media properties and peat harvesting properties, have production lines, warehouses, offices and field processing areas.

Scotts LawnService®. The Company-operated Scotts LawnService® locations consist of 97 leased properties located in the United States. Two of these properties are not operational.

ITEM 3. LEGAL PROCEEDINGS

As noted in the discussion in “ITEM 1. BUSINESS — Regulatory Considerations — Regulatory Matters” of this Annual Report on Form 10-K, we are involved in several pending environmental and regulatory matters. We believe that our assessment of contingencies is reasonable and that the related reserves, in the aggregate, are adequate; however, there can be no assurance that the final resolution of these matters will not have a material effect on our financial condition, results of operations or cash flows.

We have 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 our historic use of vermiculite in certain of our products. In many of these cases, the complaints are not specific about the plaintiffs’ contacts with us or our products. The cases vary, but complaints in these cases generally seek unspecified monetary damages (actual, compensatory, consequential and punitive) from multiple defendants. We believe that the claims against us are without merit and are vigorously defending against them. It is not currently possible to reasonably estimate a probable loss, if any, associated with the cases and, accordingly, no reserves have been recorded in our consolidated financial statements. We are reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and are pursuing coverage under some of these agreements and policies, although there can be no assurance of the results of these efforts. There can be no assurance that these cases, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material adverse effect on our 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, we, along with our Chief Executive Officer, have been named as defendants 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 our 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 our financial condition, results of operations or cash flows.

We are involved in other lawsuits and claims which arise in the normal course of our business. In our opinion, these claims individually and in the aggregate are not expected to result in a material effect on our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURE
Not Applicable.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT
The executive officers of Scotts Miracle-Gro, their positions and, as of November 16, 2015, their ages and years with Scotts Miracle-Gro (and its predecessors) are set forth below.

Name	Age	Position(s) Held	Years with Company
James Hagedorn	60	President, Chief Executive Officer and Chairman of the Board	28
Thomas R. Coleman	46	Executive Vice President and Chief Financial Officer	16
Michael C. Lukemire	57	Executive Vice President and Chief Operating Officer	19
Ivan C. Smith	46	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	12
Denise S. Stump	61	Executive Vice President, Global Human Resources and Chief Ethics Officer	15

Executive officers serve at the discretion of the Board of Directors of Scotts Miracle-Gro and pursuant to executive severance agreements or other arrangements.
The business experience of each of the individuals listed above during at least the past five years is as follows:
Mr. Hagedorn was named Chairman of the Board of Scotts Miracle-Gro's predecessor in January 2003; Chief Executive Officer of Scotts Miracle-Gro's predecessor in May 2001; and President of Scotts Miracle-Gro in October 2015. He also served as President of Scotts Miracle-Gro (or its predecessor) from November 2006 until October 2008 and from April 2000 until December 2005. Mr. Hagedorn serves on Scotts Miracle-Gro's Board of Directors, a position he has held with Scotts Miracle-Gro (or its predecessor) since 1995. Mr. Hagedorn is the brother of Katherine Hagedorn Littlefield, a director of Scotts Miracle-Gro.
Mr. Coleman was named Executive Vice President and Chief Financial Officer of Scotts Miracle-Gro in April 2014. Prior to this appointment, Mr. Coleman had served as Senior Vice President, Global Finance Operations and Enterprise Performance Management Analytics for The Scotts Company LLC, a wholly-owned subsidiary of Scotts Miracle-Gro, since January 2011. Previously, Mr. Coleman served as Senior Vice President, North America Finance of Scotts LLC from November 2007 until January 2011. Mr. Coleman also previously served as interim principal financial officer of Scotts Miracle-Gro between February 2013 and March 2013.
Mr. Lukemire was named Executive Vice President and Chief Operating Officer of Scotts Miracle-Gro in December 2014. Prior to this appointment, Mr. Lukemire had served as Executive Vice President, North American Operations of Scotts Miracle-Gro since April 2014. Previously, Mr. Lukemire served as Executive Vice President, Business Execution of Scotts Miracle-Gro from May 2013 until April 2014 and as President, U.S. Consumer Regions of Scotts Miracle-Gro from October 2011 until May 2013. Prior to October 2011, he had served as Regional President for the Southeast region since May 2009.
Mr. Smith was named Executive Vice President, General Counsel and Corporate Secretary of Scotts Miracle-Gro in July 2013 and Chief Compliance Officer of Scotts Miracle-Gro in October 2013. Prior to July 2013, he had served as Vice President, Global Consumer Legal and Assistant General Counsel of Scotts LLC since October 2011. Mr. Smith served as Vice President, North America Legal and Assistant General Counsel from April 2009 to September 2011 and as Vice President, Litigation of Scotts LLC from October 2007 to March 2009.
Ms. Stump was named Executive Vice President, Global Human Resources of Scotts Miracle-Gro (or its predecessor) in February 2003 and Chief Ethics Officer of Scotts Miracle-Gro in October 2013.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Common Shares trade on the New York Stock Exchange under the symbol "SMG." The quarterly high and low sale prices for the fiscal years ended September 30, 2015 and September 30, 2014 were as follows:

	Sale Prices	
	High	Low
FISCAL 2015		
First quarter	$62.88	$54.71
Second quarter	$68.99	$60.18
Third quarter	$67.40	$59.41
Fourth quarter	$66.27	$59.10
FISCAL 2014		
First quarter	$58.83	$50.51
Second quarter	$59.85	$53.21
Third quarter	$60.30	$53.97
Fourth quarter	$59.04	$50.97

On August 6, 2013, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.4375 per Common Share, which was paid in September of fiscal 2013 and December, March and June of fiscal 2014. On August 11, 2014, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.45 per Common Share, which was paid in September of fiscal 2014 and December, March and June of fiscal 2015. The Board also authorized a special one-time cash dividend of $2.00 per share on the Common Shares, which was paid on September 17, 2014. On August 3, 2015, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.47 per Common Share, which was paid in September of fiscal 2015. The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The terms of the new credit agreement allow the Company to make unlimited restricted payments (as defined in the new credit agreement), including increased or one-time dividend payments and Common Share repurchases, so long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth for such fiscal year ($175.0 million for 2016 and 2017 and $200.0 million for 2018 and in each fiscal year thereafter). Our leverage ratio was 2.63 at September 30, 2015. See "NOTE 10. DEBT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion regarding the restrictions on dividend payments.

As of November 16, 2015, there were approximately 33,000 shareholders, including holders of record and our estimate of beneficial holders.

On March 30, 2015, Scotts Miracle-Gro issued 154,737 Common Shares out of its treasury shares for payment of the acquisition of Vermicrop. The Common Shares were issued in reliance on an exemption from the registration requirements of the Securities Act, provided by Section 4(a)(2) of the Securities Act as a private offering. The issuance did not involve a public offering, and was made without general solicitation or advertising.

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 September 30, 2015:

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)]
June 28 through July 25, 2015	—	$—	—	$485,186,044
July 26 through August 22, 2015	1,702	$59.26	—	$485,186,044
August 23 through September 30, 2015	3,856	$61.21	—	$485,186,044
Total	5,558	$60.61	—	

(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 5,558 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 (starting November 1, 2014 through September 30, 2019). The dollar amounts in the "Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs" column reflect the remaining amounts that were available for repurchase under the $500 million authorized repurchase program.

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary[1]

	Year Ended September 30,				
	2015	2014	2013	2012	2011
	(In millions, except per share amounts)				
OPERATING RESULTS:					
Net sales	$3,016.5	$2,841.3	$2,773.7	$2,770.5	$2,718.1
Gross profit	1,064.9	1,031.4	978.2	956.6	1,013.8
Income from operations	294.6	314.6	310.5	241.2	301.8
Income from continuing operations	158.7	165.4	159.4	111.6	157.5
Income (loss) from discontinued operations, net of tax	—	0.8	1.7	(5.1)	10.4
Net income	158.7	166.2	161.1	106.5	167.9
Net income attributable to controlling interest	159.8	166.5	161.1	106.5	167.9
ADJUSTED OPERATING RESULTS[2]:					
Adjusted income from operations	$386.1	$365.6	$330.8	$256.5	$346.2
Adjusted income from continuing operations	218.2	206.0	172.6	123.3	187.4
Adjusted income attributable to controlling interest from continuing operations	219.3	206.3	172.6	123.3	187.4
FINANCIAL POSITION:					
Working capital[3]	$335.5	$390.3	$371.2	$566.4	$523.9
Current ratio[3]	1.5	1.7	1.7	2.3	2.1
Property, plant and equipment, net	$453.7	$437.0	$422.3	$427.4	$394.7
Total assets	2,527.2	2,058.3	1,937.2	2,074.4	2,052.2
Total debt to total book capitalization[4]	65.2%	58.6%	44.5%	56.6%	58.7%
Total debt	$1,163.3	$784.3	$570.5	$782.6	$795.0
Total shareholders' equity - controlling interest	620.7	553.7	710.5	601.9	559.8
CASH FLOWS:					
Cash flows from operating activities	$246.9	$240.9	$342.0	$153.4	$122.1
Investments in property, plant and equipment	61.7	87.6	60.1	69.4	72.7
Investment in marketing and license agreement	300.0	—	—	—	—
Investments in acquired businesses, net of cash acquired and payments on sellers notes	181.7	114.8	4.0	7.0	7.9
Total cash dividends paid	111.3	230.8	87.8	75.4	67.9
Total purchases of Common Shares	14.8	120.0	—	17.5	358.7
PER SHARE DATA:					
Earnings per common share from continuing operations:					
Basic	$2.62	$2.69	$2.58	$1.83	$2.43
Diluted	2.57	2.64	2.55	1.80	2.38
Adjusted diluted[2]	3.53	3.29	2.76	1.99	2.84
Dividends per common share[5]	1.820	3.763	1.413	1.225	1.050
Stock price at year-end	60.82	55.00	55.03	43.47	44.60
Stock price range—High	68.99	60.30	55.99	55.95	60.62
Stock price range—Low	54.71	50.51	39.64	35.49	39.99
OTHER:					
Adjusted EBITDA[6]	$471.8	$412.4	$390.5	$302.9	$393.0
Leverage ratio[6]	2.63	2.18	2.05	2.93	1.98

Interest coverage ratio[(6)]	9.34	9.41	6.59	4.90	7.47
Weighted average Common Shares outstanding	61.1	61.6	61.7	61.0	64.7
Common shares and dilutive potential common shares used in diluted EPS calculation	62.2	62.7	62.6	62.1	66.2

(1) On July 8, 2009, we announced a plan to close our Smith & Hawken business. During our first quarter of the fiscal year ended September 30, 2010 ("fiscal 2010"), all Smith & Hawken stores were closed and substantially all operational activities of Smith & Hawken were discontinued. As a result, effective in our first quarter of fiscal 2010, we classified Smith & Hawken as discontinued operations in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Smith & Hawken® is a registered trademark of Target Brands, Inc. We sold the Smith & Hawken brand and certain intellectual property rights related thereto to Target Brands, Inc. on December 30, 2009, and subsequently changed the name of the subsidiary entity formerly known as Smith & Hawken, Ltd. to Teak 2, Ltd. References in this Annual Report on Form 10-K to Smith & Hawken refer to the subsidiary entity, not the brand itself.

On February 28, 2011, we completed the sale of Global Pro to ICL. In conjunction with the transaction, Scotts LLC and ICL entered into several product supply agreements which are generally up to five years in duration, as well as various trademark and technology licensing agreements with varying durations. Our continuing cash inflows and outflows related to these agreements are not considered to be significant in relation to the overall cash flows of Global Pro. Furthermore, none of these agreements permit us to influence the operating or financial policies of Global Pro under the ownership of ICL. Therefore, Global Pro met the criteria for presentation as discontinued operations. As such, effective in the first quarter of fiscal 2011, we classified Global Pro as discontinued operations in accordance with GAAP.

In the fourth quarter of fiscal 2012, the Company completed the wind down of our professional seed business ("Pro Seed"). As a result, effective in our fourth quarter of fiscal 2012, we classified Pro Seed as discontinued operations in accordance with GAAP.

In the second quarter of fiscal 2014, we completed the sale of our wild bird food business. As a result, effective in our second quarter of fiscal 2014, we classified the wild bird food business as discontinued operations in accordance with GAAP.

The Selected Financial Data has been retrospectively updated to recast Smith & Hawken, Global Pro, Pro Seed, and the wild bird food business as discontinued operations for each period presented.

(2) The Five-Year Summary includes non-GAAP financial measures, as defined in Item 10(e) of SEC Regulation S-K, of adjusted income from operations, adjusted income from continuing operations, adjusted income attributable to controlling interest from continuing operations and adjusted diluted earnings per share from continuing operations, which exclude costs or gains related to discrete projects or transactions. Items excluded during the five-year period ended September 30, 2015 consisted of charges or credits relating to refinancings, impairments, restructurings, product registration and recall matters, discontinued operations, and other unusual items such as costs or gains related to discrete projects or transactions that are apart from and not indicative of the results of the operations of the business. The comparable GAAP measures are reported income from operations, reported income from continuing operations and reported diluted earnings per share from continuing operations. Our management believes that these non-GAAP measures are the most indicative of our earnings capabilities and that disclosure of these non-GAAP financial measures therefore provides useful information to investors or other users of the financial statements, such as lenders. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP. A reconciliation of the non-GAAP measures to the most directly comparable GAAP measures is presented in the following tables:

	Year Ended September 30,				
	2015	2014	2013	2012	2011
	(In millions, except per share data)				
Income from operations	$294.6	$314.6	$310.5	$241.2	$301.8
Impairment, restructuring and other	91.5	51.0	20.3	7.1	29.8
Product registration and recall matters	—	—	—	8.2	14.6
Adjusted income from operations	$386.1	$365.6	$330.8	$256.5	$346.2
Income from continuing operations	$158.7	$165.4	$159.4	$111.6	$157.5
Impairment, restructuring and other, net of tax	59.5	33.6	13.2	4.3	17.9
Costs related to refinancing, net of tax	—	7.0	—	—	—
Product registration and recall matters, net of tax	—	—	—	7.4	12.0
Adjusted income from continuing operations	$218.2	$206.0	$172.6	$123.3	$187.4
Loss attributable to noncontrolling interest(7)	1.1	0.3	—	—	—
Adjusted income attributable to controlling interest from continuing operations	$219.3	$206.3	$172.6	$123.3	$187.4
Diluted earnings per share from continuing operations	$2.57	$2.64	$2.55	$1.80	$2.38
Impairment, restructuring and other, net of tax	0.96	0.54	0.21	0.07	0.27
Costs related to refinancing, net of tax	—	0.11	—	—	—
Product registration and recall matters, net of tax	—	—	—	0.12	0.19
Adjusted diluted earnings per share from continuing operations	$3.53	$3.29	$2.76	$1.99	$2.84

(3) Working capital is calculated as current assets minus current liabilities. Current ratio is calculated as current assets divided by current liabilities.

(4) The total debt to total book capitalization percentage is calculated by dividing total debt by total debt plus total shareholders' equity - controlling interest.

(5) Scotts Miracle-Gro pays a quarterly dividend to the holders of its Common Shares. On August 8, 2011, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.30 per Common Share, which was first paid in the fourth quarter of fiscal 2011. On August 9, 2012, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.325 per Common Share, which was first paid in the fourth quarter of fiscal 2012. On August 6, 2013, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.4375 per Common Share, which was first paid in the fourth quarter of fiscal 2013. On August 11, 2014, Scotts Miracle-Gro announced that its Board of Directors had (i) further increased the quarterly cash dividend to $0.45 per Common Share, which was paid in the fourth quarter of fiscal 2014 and (ii) a special one-time cash dividend of $2.00 per Common Share, which was paid on September 17, 2014. On August 3, 2015, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.47 per Common Share, which was paid in the fourth quarter of fiscal 2015.

(6) We view our credit facility as material to our ability to fund operations, particularly in light of our seasonality. Please refer to "ITEM 1A. RISK FACTORS — Our indebtedness could limit our flexibility and adversely affect our financial condition" of this Annual Report on Form 10-K for a more complete discussion of the risks associated with our debt and our credit facility and the restrictive covenants therein. Our ability to generate cash flows sufficient to cover our debt service costs is essential to our ability to maintain our borrowing capacity. We believe that Adjusted EBITDA provides additional information for determining our ability to meet debt service requirements. The presentation of Adjusted EBITDA herein is intended to be consistent with the calculation of that measure as required by our borrowing agreements, and used to calculate a leverage ratio (maximum of 4.50 at September 30, 2015) and an interest coverage ratio (minimum of 3.00 for the twelve months ended September 30, 2015). Leverage ratio is calculated as average total indebtedness, as described in our credit facility, divided by Adjusted

EBITDA. Interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in our credit facility, and excludes costs related to refinancings. Our leverage ratio was 2.63 at September 30, 2015 and our interest coverage ratio was 9.34 for the twelve months ended September 30, 2015. Please refer to "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Liquidity and Capital Resources — Borrowing Agreements" of this Annual Report on Form 10-K for a discussion of our credit facility.

In accordance with the terms of our credit facility, Adjusted EBITDA is calculated as net income (loss) before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring or non-cash items affecting net income. For the fourth quarter of fiscal 2015, the Company changed its calculation of Adjusted EBITDA to reflect the measure as defined in our fourth amended credit agreement. Prior periods have not been adjusted as they reflect the presentation consistent with the calculation as required by our borrowing agreements in place at that time. The revised calculation adds adjustments for share-based compensation expense, expense on certain leases, and impairment, restructuring and other charges (including cash and non-cash charges) and no longer includes an adjustment for mark-to-market adjustments on derivatives. Our calculation of Adjusted EBITDA does not represent and should not be considered as an alternative to net income or cash flows from operating activities as determined by GAAP. We make no representation or assertion that Adjusted EBITDA is indicative of our cash flows from operating activities or results of operations. We have provided a reconciliation of Adjusted EBITDA to income from continuing operations solely for the purpose of complying with SEC regulations and not as an indication that Adjusted EBITDA is a substitute measure for income from continuing operations.
A numeric reconciliation of Adjusted EBITDA to income from continuing operations is as follows:

	Year Ended September 30,				
	2015	2014	2013	2012	2011
	(In millions, except per share data)				
Income from continuing operations	$158.7	$165.4	$159.4	$111.6	$157.5
Income tax expense from continuing operations	85.4	91.2	91.9	67.8	92.1
Income (loss) from discontinued operations, net of tax (excluding Global Pro sale)	—	0.8	1.7	(3.4)	(29.1)
Income tax expense (benefit) from discontinued operations	—	0.9	0.7	(1.2)	(16.6)
Costs related to refinancings	—	10.7	—	—	1.2
Interest expense	50.5	47.3	59.2	61.8	51.0
Interest expense from discontinued operations	—	—	—	—	1.7
Depreciation	51.4	50.6	54.9	51.5	50.3
Amortization	17.6	13.8	11.2	10.9	11.4
Gain on investment of unconsolidated affiliate[8]	—	(3.3)	—	—	—
Loss on impairment and other charges	91.5	33.7	11.2	4.7	64.3
Product registration and recall matters, non-cash portion	—	—	—	0.2	8.7
Mark-to-market adjustments on derivatives	—	1.3	0.3	(1.0)	0.5
Expense on certain leases	3.5	—	—	—	—
Share-based compensation expense	13.2	—	—	—	—
Adjusted EBITDA	$471.8	$412.4	$390.5	$302.9	$393.0

(7) Amount represents the earnings attributable to the noncontrolling interest of AeroGrow which was consolidated in the fourth quarter of fiscal 2014.

(8) Amount represents a gain on our investment in AeroGrow recognized during the fourth quarter of 2014 as a result of our consolidation of the business. Excluded from this amount is $2.4 million of earnings on AeroGrow's unconsolidated results for fiscal year 2014 recorded within “Other income, net” in the Consolidated Statements of Operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to provide an understanding of our financial condition and results of operations by focusing on changes in certain key measures from year-to-year. Management's Discussion and Analysis ("MD&A") is divided into the following sections:

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

Executive Summary

We are dedicated to delivering strong, long-term financial results and outstanding shareholder returns by providing products of superior quality and value to enhance consumers' lawn and garden environments. We are a leading manufacturer and marketer of consumer branded products for lawn and garden care in North America and Europe. We are Monsanto's exclusive agent for the marketing and distribution of consumer Roundup® non-selective herbicide products within the United States and other contractually specified countries. We have a presence in similar consumer branded products in Australia, the Far East and Latin America. In addition, with our recent acquisition of General Hydroponics and Vermicrop, and control of AeroGrow, we are a leading producer of liquid plant food products, growing media, advanced indoor garden systems and accessories for hydroponic gardening. We also operate Scotts LawnService®, the second largest lawn care service business in the United States. Our operations are divided into two reportable segments: Global Consumer and Scotts LawnService®.

In fiscal 2015 we accomplished several key initiatives and activities which included: (1) the expansion of our indoor and urban gardening category through the acquisition of General Hydroponics and Vermicrop, who are leading producers of liquid plant food products, growing media and accessories for hydroponic gardening; (2) introducing several new products including Scotts Outdoor Cleaner plus OxiClean™; (3) continued investment in our growing media operations and distribution capabilities through capital investment and recent acquisitions; (4) successfully renegotiating and amending our Marketing Agreement for consumer Roundup® with Monsanto and entering into a new lawn and garden brand extension agreement and commercialization and technology agreement; (5) increasing our quarterly dividend; and (6) continuing to streamline our executive ranks to improve efficiency.

On May 15, 2015, we amended our Marketing Agreement with Monsanto and entered into a lawn and garden brand extension agreement, and a commercialization and technology agreement with Monsanto. These agreements provide us with the following significant rights:

- The ability to extend the Roundup® brand into other categories of lawn and garden beyond non-selective weed control globally;
- The opportunity to introduce the consumer Roundup® brand into territories not included in the original Marketing Agreement, including China and Latin America. Only Japan and countries with U.S. trade embargoes are excluded from the Marketing Agreement;
- The opportunity to propose changes to product formulations if deemed necessary to grow and/or protect the Roundup® brand;
- A right of first offer and a right of last look in the event Monsanto were to sell the consumer Roundup® business and a credit to the purchase price in an amount equal to the then applicable termination fee in the event we make a bid in connection with such a sale;
- A "first look" related to Monsanto's innovation pipeline. Scotts Miracle-Gro would be provided with access to new technology and products that may be commercialized in the residential lawn and garden marketplace;
- The enhancements of our rights in connection with the termination of the Marketing Agreement, including increasing the termination fee payable thereunder, eliminating certain of Monsanto's termination rights and delaying the

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effectiveness of a termination in connection with a change of control of Monsanto or a sale of the consumer Roundup® business for five years after the notice of termination; and

- The expanded ability for us to transfer, and thereby monetize, our rights as marketing agent to a third party (1) with respect to (a) the North America territories and (b) one or more other included markets for up to three other assignments and (2) in connection with a change of control of Scotts Miracle-Gro.

We paid Monsanto $300 million in consideration for these agreements on August 14, 2015, using existing availability under our credit facility.

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 on continually increasing brand and product awareness to inspire consumers and to create retail demand. We have successfully applied this model for a number of years by focusing on research and development and investing around 5% of our annual net sales in advertising to support and promote our products and brands. We continually explore new and innovative ways to communicate with consumers. We believe that we receive a significant return on 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 wide-spread 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.

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

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

In August 2010, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to $500 million of our Common Shares over a four-year period through September 30, 2014. In May 2011, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to an additional $200 million of Common Shares, resulting in authority to repurchase up to a total of $700 million of our Common Shares through September 30, 2014. Since the inception of the share repurchase program in the fourth quarter of fiscal 2010 through its expiration on September 30, 2014, Scotts

Miracle-Gro repurchased 9.9 million Common Shares for $521.2 million to be held in treasury.

On August 11, 2014, we announced that the Scotts Miracle-Gro Board of Directors approved:

- a special one-time cash dividend of $2.00 per Common Share that was paid on September 17, 2014;
- an increase in our quarterly cash dividend from $0.4375 to $0.45 per Common Share; and

- a new share repurchase authorization effective November 1, 2014, which will expire on September 30, 2019, to repurchase up to $500 million of our Common Shares. This replaced the previous authorization which expired on September 30, 2014.

On August 3, 2015, we announced that the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from $0.45 to $0.47 per Common Share. The decision to increase the amount of cash we intend to return to our shareholders reflects our continued confidence in the business and our desire to maintain a consistent capital structure.

Results of Operations

We classified our wild bird food business as discontinued operations, for all periods presented, beginning in our second quarter of fiscal 2014. As a result, and unless specifically stated otherwise, all discussions regarding results for the fiscal years ended September 30, 2015, 2014 and 2013 reflect results from our continuing operations.

The following table sets forth the components of income and expense as a percentage of net sales:

	Year Ended September 30,					
	2015		2014		2013	
Net sales	100.0	%	100.0	%	100.0	%
Cost of sales	64.5		63.7		64.6	
Cost of sales—impairment, restructuring and other	0.2		—		0.1	
Gross profit	35.3		36.3		35.3	
Operating expenses:						
Selling, general and administrative	23.2		24.0		23.8	
Impairment, restructuring and other	2.6		1.8		0.7	
Other income, net	(0.2	)	(0.5	)	(0.4	)
Income from operations	9.7		11.0		11.2	
Costs related to refinancing	—		0.4		—	
Interest expense	1.7		1.7		2.1	
Income from continuing operations before income taxes	8.0		8.9		9.1	
Income tax expense from continuing operations	2.8		3.2		3.3	
Income from continuing operations	5.2		5.7		5.8	
Income from discontinued operations, net of tax	—		—		0.1	
Net income	5.2	%	5.7	%	5.9	%

Net Sales

Net sales for fiscal 2015 increased 6.2% to $3.02 billion from $2.84 billion in fiscal 2014. Net sales for fiscal 2014 increased 2.4% from $2.77 billion in fiscal 2013. The change in net sales was attributable to the following:

	Year Ended September 30,			
	2015		2014	
Acquisitions	4.9	%	1.4	%
Volume	4.4		(0.1	)
Foreign exchange rates	(2.7	)	0.2	
Pricing	(0.4	)	0.9	
Change in net sales	6.2	%	2.4	%

The increase in net sales for fiscal 2015 was primarily driven by:

- the addition of net sales from acquisitions within our Global Consumer segment including General Hydroponics, Vermicrop, AeroGrow, and Fafard and within our Scotts LawnService® segment from Action Pest; and
- increased sales volume in our Global Consumer segment, driven by increased sales within the United States of controls, including increased sales of Tomcat® products, as well as growing media and cleaners products;

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- which were partially offset by the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies including Canadian dollar, euro, and British pound; and
- an unfavorable impact of decreased pricing in the Global Consumer segment, primarily in the United States, related to controls products.

The increase in net sales for fiscal 2014 was primarily driven by:

- the addition of net sales from the Tomcat® acquisition within our Global Consumer segment;
- the favorable impact of increased pricing in the Global Consumer segment, primarily in the United States; and
- the favorable impact of foreign exchange rates as a result of the slight weakening of the U.S. dollar relative to other currencies including Canadian dollar, euro, and British pound;
- which were partially offset by a slight decline in sales volumes within our Global Consumer segment, driven by a decline in sales within the United States of plant fertilizers and controls products, partially offset by increased sales of mulch products in the United States and increased net sales in Europe.

Cost of Sales

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

	Year Ended September 30,		
	2015	2014	2013
	(In millions)		
Materials	$1,155.1	$1,073.5	$1,100.0
Manufacturing labor and overhead	364.8	324.3	310.0
Distribution and warehousing	361.8	349.1	321.3
Roundup® reimbursements	63.3	63.0	62.0
	1,945.0	1,809.9	1,793.3
Impairment, restructuring and other	6.6	—	2.2
	$1,951.6	$1,809.9	$1,795.5

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

	Year Ended September 30,	
	2015	2014
	(In millions)	
Material costs	$3.6	$(23.2)
Volume and product mix	184.3	35.1
Roundup® reimbursements	0.3	1.0
Foreign exchange rates	(53.1)	3.7
	135.1	16.6
Impairment, restructuring and other	6.6	(2.2)
Change in cost of sales	$141.7	$14.4

The increase in cost of sales for fiscal 2015 was primarily driven by:

- costs related to sales from acquisitions of $108.5 million for fiscal 2015 compared to $4.7 million for fiscal 2014, within our Global Consumer and Scotts LawnService® segments;
- increased sales volume and unfavorable product mix due to increased sales of growing media products in our Global Consumer segment;
- increased material costs within our Global Consumer segment for our grass seed and growing media products; and
- restructuring and liquidation costs of $6.4 million for fiscal 2015 related to the liquidation and exit from the U.K. Solus business and addressing the consumer complaints regarding our newly reformulated Bonus S® product;
- which were partially offset by the favorable impact of foreign exchange rates as a result of a strengthening of the U.S. dollar relative to other currencies including Canadian dollar, euro, and British pound.

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The increase in cost of sales for fiscal 2014 was primarily driven by:

- unfavorable product mix due to increased sales of our mulch products and higher distribution costs in our Global Consumer segment; and
- the unfavorable impact of foreign exchange rates as a result of a weakening of the U.S. dollar relative to other currencies including the Canadian dollar, euro, and British pound;
- which were partially offset by a decline in material costs in our Global Consumer and Scotts LawnService® segments due to product cost-out initiatives including growing media material costs and packaging and decreased prices of fertilizer inputs.

Gross Profit

As a percentage of net sales, our gross profit rate was 35.3%, 36.3% and 35.3% for fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	Year Ended September 30,	
	2015	2014
Pricing	(0.3)%	0.6%
Material costs	(0.1)	0.8
Product mix and volume:		
Roundup® commissions and reimbursements	0.1	0.1
Acquisitions	(0.5)	—
Corporate & Other	—	0.1
Scotts LawnService®	0.3	0.2
Global Consumer mix and volume	(0.2)	(0.8)
	(0.7)	1.0
Impairment, restructuring and other	(0.3)	—
Change in gross profit rate	(1.0)%	1.0%

The decrease in the gross profit rate for fiscal 2015 was primarily driven by:

- unfavorable product mix within our Global Consumer segment due to increased sales of growing media and the net impact of acquisitions;
- the unfavorable impact of decreased pricing in the Global Consumer segment, primarily in the United States related to controls products; and
- increased material costs within our Global Consumer segment for our grass seed and growing media products;
- partially offset by increased commission income under our Marketing Agreement for consumer Roundup®; and
- an increase in sales within our Scotts LawnService® segment.

The increase in the gross profit rate for fiscal 2014 was primarily driven by:

- decreased material costs within our Global Consumer segment due to product cost-out initiatives including growing media material costs and packaging costs and decreased prices of fertilizer inputs; and
- the favorable impact of increased pricing for the Global Consumer segment, primarily in the United States;
- which were partially offset by unfavorable product mix within our Global Consumer segment due to increased sales of our mulch products and higher distribution costs.

Selling, General and Administrative Expenses

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

	Year Ended September 30,		
	2015	2014	2013
	(In millions, except percentage figures)		
Advertising	$146.1	$143.6	$142.2
Advertising as a percentage of net sales	4.8 %	5.1 %	5.1 %
Share-based compensation	13.2	11.1	10.3
Research and development	46.8	48.4	46.4
Amortization of intangibles	14.6	10.2	8.2
Other selling, general and administrative	477.7	467.2	452.5
	$698.4	$680.5	$659.6

SG&A increased $17.9 million, or 2.6%, to $698.4 million for fiscal 2015 compared to $680.5 million for fiscal 2014. Advertising expense increased $2.5 million or 1.7% to $146.1 million in fiscal 2015 compared to $143.6 million in fiscal 2014. Excluding the impact of changes in foreign exchange rates, advertising expense increased by $5.3 million, or 3.7%, during fiscal 2015 primarily due to acquisitions. Advertising expense in fiscal 2014 increased $1.4 million, or 1.0%, compared to fiscal 2013, due to increased spending on Tomcat® branded products.

Share-based compensation expense increased $2.1 million, or 18.9%, to $13.2 million in fiscal 2015 compared to $11.1 million in fiscal 2014 as a result of additional expense associated with fiscal 2015 awards as well as lower prior year expense due to the impact of forfeitures of previously recognized share-based compensation for executive departures during fiscal 2014. Share-based compensation expense in fiscal 2014 increased $0.8 million, or 7.8%, compared to fiscal 2013, primarily due to forfeitures of previously recognized share-based compensation for executive departures.

Amortization expense increased $4.4 million, or 43.1%, to $14.6 million in fiscal 2015 compared to $10.2 million in fiscal 2014. Amortization expense in fiscal 2014 increased $2.0 million, or 24.4%, compared to fiscal 2013. These increases are due to the impact of recent acquisitions.

Other SG&A increased $10.5 million, or 2.2%, in fiscal 2015 compared to fiscal 2014 due to the impact of recent acquisitions of $30.6 million, partially offset by foreign exchange rate impact of $12.0 million as the U.S. dollar has strengthened relative to other currencies including Canadian dollar, euro, and British pound. In fiscal 2014, Other SG&A increased $14.7 million compared to fiscal 2013. The primary drivers of the increase were increased marketing spending including package design costs, the startup of The Hawthorne Gardening Company, which is focused on urban and indoor gardening, and diligence and integration costs of our acquisitions of Solus and Fafard.

Impairment, Restructuring and Other (included in Operating Expenses)

The following table sets forth the components of impairment, restructuring and other charges (included in Operating Expenses):

	Year Ended September 30,		
	2015	2014	2013
	(In millions)		
Restructuring and other	$78.0	$17.3	$2.2
Goodwill and intangible asset impairments	—	33.7	15.9
	$78.0	$51.0	$18.1

During the third quarter of fiscal 2015, we began experiencing an increase in certain consumer complaints related to our newly reformulated Bonus S® fertilizer product sold in the southeastern United States indicating customers were experiencing damage to their lawns after application. We continue to work with impacted consumers and our insurance carriers to resolve the matter over the coming months. During fiscal 2015, we recognized $59.3 million in costs within the “Impairment, restructuring and other” line within “Operating expenses” on the Consolidated Statement of Operations related to resolving these consumer complaints and the recognition of costs to be incurred for current and

expected consumer claims. We are working through the claims process with our insurers and received reimbursement payments of $4.9 million during fiscal 2015, which was recorded as an offsetting insurance reimbursement recovery. Upon the receipt of additional reimbursement by our insurance carriers, we will record an offsetting insurance reimbursement recovery.

In addition, in fiscal 2015 we recognized $18.7 million in restructuring costs related to termination benefits provided to U.S. and international personnel as part of the continuation of the fiscal 2014 restructuring initiative to eliminate management layers and streamline decision making, and the liquidation and exit from the U.K. Solus business.
During the third quarter of fiscal 2014, as a result of an impairment review, we recognized an impairment charge for a non-recurring fair value adjustment of $33.7 million within the Global Consumer segment related to the Ortho® brand. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho® business. During fiscal 2014, we recognized $12.5 million in restructuring costs related to termination benefits provided to U.S. personnel as part of our restructuring of the U.S. administrative and overhead functions. In addition, we recognized $2.0 million in additional ongoing monitoring and remediation expense for our turfgrass biotechnology program. We also recognized $2.8 million of international restructuring and other adjustments during fiscal 2014 for the continuation of our 2013 restructuring plan.
During fiscal 2013, we recognized income of $4.7 million related to the reimbursement by a vendor for a portion of the costs incurred for the development and commercialization of products including the active ingredient MAT 28 for the Global Consumer segment. We also recognized a $4.3 million asset impairment charge as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment. As a result of a 2013 impairment review, we recognized an impairment charge for a non-recurring fair value adjustment of $11.6 million within the Global Consumer segment related to the Ortho® brand and certain sub-brands of Ortho®. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho® business. During fiscal 2013, we recognized $6.9 million in restructuring costs related to termination benefits provided to international employees in relation to the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment.

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, franchise fee income from our Scotts LawnService® business, foreign exchange gains/losses, equity income/loss on unconsolidated affiliates and gains/losses from the sale of non-inventory assets. Other income, net, was $6.1 million, $14.7 million and $10.0 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. The decrease in other income, for fiscal 2015 was primarily due to recognition of investment gains in fiscal 2014 related to our investment in AeroGrow.

Income from Operations

Income from operations in fiscal 2015 was $294.6 million compared to $314.6 million in fiscal 2014, a decrease of $20.0 million, or 6.4%. Excluding impairment, restructuring and other charges, income from operations increased by $20.5 million, or 5.6%, in fiscal 2015, primarily driven by growth in net sales and gross profit, partially offset by an increase in SG&A and a decrease in other income, net.
Income from operations in fiscal 2014 was $314.6 million compared to $310.5 million in fiscal 2013, an increase of $4.1 million, or 1.3%. Excluding impairment, restructuring and other charges, income from operations increased by $34.8 million, or 10.5%, in fiscal 2014, primarily driven by higher gross profit and an increase in other income, net, partially offset by an increase in SG&A.

Costs Related to Refinancing

Costs related to refinancing were $10.7 million for fiscal 2014. The costs incurred were associated with the redemption of our 7.25% senior notes due 2018 (the “7.25% Senior Notes”).

Interest Expense

Interest expense in fiscal 2015 was $50.5 million compared to $47.3 million in fiscal 2014 and $59.2 million in fiscal 2013. The increase in fiscal 2015 was driven by an increase in average borrowings of $260.2 million, excluding the impact of foreign exchange rates; partially offset by a decrease in our weighted average interest rate of 78 basis points primarily due to reduced rates under our credit facility and the redemption of the 7.25% Senior Notes. The decrease in fiscal 2014 was primarily due to a decrease in our weighted average interest rate of 124 basis points compared to fiscal 2013.

Income Tax Expense

A reconciliation of the federal corporate income tax rate and the effective tax rate on income from continuing operations before income taxes is summarized below:

	Year Ended September 30,		
	2015	2014	2013
Statutory income tax rate	35.0 %	35.0 %	35.0 %
Effect of foreign operations	(0.5)	1.5	0.8
State taxes, net of federal benefit	3.1	2.7	2.9
Domestic production activities deduction permanent difference	(3.1)	(2.7)	(2.1)
Effect of other permanent differences	0.1	0.2	0.8
Research and experimentation and other federal tax credits	(0.2)	(0.8)	(0.3)
Resolution of prior tax contingencies	0.4	0.2	0.2
Other	0.2	(0.5)	(0.7)
Effective income tax rate	35.0 %	35.6 %	36.6 %

The effective tax rate for continuing operations was 35.0% for fiscal 2015, compared to 35.6% for fiscal 2014 and 36.6% for fiscal 2013.

Income and Earnings per Share from Continuing Operations

We reported income attributable to controlling interest from continuing operations of $159.8 million, or $2.57 per diluted share, in fiscal 2015 compared to $165.7 million, or $2.64 per diluted share, in fiscal 2014. In fiscal 2015 and fiscal 2014, the pre-tax impact of impairment, restructuring and other charges was $91.5 million and $51.0 million, respectively. Additionally, we incurred $10.7 million of pre-tax costs during the third quarter of 2014 related to refinancing. Excluding these items, adjusted income attributable to controlling interest from continuing operations was $219.3 million in fiscal 2015 compared to $206.3 million in fiscal 2014, an increase of $13.0 million, primarily driven by growth in net sales and gross profit, partially offset by an increase in SG&A and a decrease in other income, net. Diluted weighted-average Common Shares outstanding decreased from 62.7 million in fiscal 2014 to 62.2 million in fiscal 2015. The decrease was primarily driven by share repurchases, partially offset by the exercise of stock options and the issuance of Common Shares upon the vesting of restricted share-based awards. Dilutive equivalent shares for fiscal 2015 and fiscal 2014 were 1.1 million and 1.1 million, respectively.

We reported income attributable to controlling interest from continuing operations of $165.7 million, or $2.64 per diluted share, in fiscal 2014 compared to $159.4 million, or $2.55 per diluted share, in fiscal 2013. In fiscal 2014, we incurred pre-tax costs of $51.0 million, relating to impairment, restructuring and other charges, and we incurred $10.7 million of pre-tax costs during the third quarter of 2014 related to refinancing. In fiscal 2013, we incurred $20.3 million of pre-tax impairment, restructuring and other charges. Excluding these items, adjusted income attributable to controlling interest from continuing operations was $206.3 million in fiscal 2014 compared to $172.6 million in fiscal 2013, an increase of $33.7 million, primarily driven by higher gross profit, increased other income, net, and lower interest expense; partially offset by higher SG&A spending. Diluted weighted-average Common Shares outstanding increased from 62.6 million in fiscal 2013 to 62.7 million in fiscal 2014. The increase was primarily driven by the exercise of stock options and the issuance of Common Shares upon the vesting of restricted share-based awards, and an increase in the number of dilutive potential Common Shares; partially offset by share repurchases. Dilutive equivalent shares for fiscal 2014 and fiscal 2013 were 1.1 million and 0.9 million, respectively. The increase in dilutive equivalent shares was primarily driven by an increase in our average share price, partially offset by the exercise of stock options.

Income from Discontinued Operations

In our second quarter of fiscal 2014, we completed the sale of our wild bird food business at which time we began presenting this business within discontinued operations. Income from discontinued operations, net of tax, was zero,

$0.8 million and $1.7 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively, and is primarily associated with the 2014 sale of our wild bird food business.

Segment Results

Our continuing operations are divided into two reportable segments: Global Consumer and Scotts LawnService®. 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. Corporate & Other consists of revenues and expenses associated with our supply agreements with ICL, as well as corporate, general and administrative expenses and certain other income/expense items not allocated to the business segments.

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

The following table sets forth net sales by segment:

	Year Ended September 30,		
	2015	2014	2013
	(In millions)		
Global Consumer	$2,701.0	$2,552.0	$2,484.7
Scotts LawnService®	288.5	263.0	257.8
Segment total	2,989.5	2,815.0	2,742.5
Corporate & Other	27.0	26.3	31.2
Consolidated	$3,016.5	$2,841.3	$2,773.7

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

	Year Ended September 30,		
	2015	2014	2013
	(In millions)		
Global Consumer	$466.2	$438.8	$403.7
Scotts LawnService®	33.3	30.2	28.7
Segment total	499.5	469.0	432.4
Corporate & Other	(96.6)	(90.4)	(91.2)
Intangible asset amortization	(16.8)	(13.0)	(10.4)
Impairment, restructuring and other	(91.5)	(51.0)	(20.3)
Costs related to refinancing	—	(10.7)	—
Interest expense	(50.5)	(47.3)	(59.2)
Consolidated	$244.1	$256.6	$251.3

Global Consumer

Global Consumer segment net sales increased 5.8% from $2.6 billion in fiscal 2014 to $2.7 billion in fiscal 2015. For fiscal 2015, favorable impacts of volume and acquisitions of 4.3% and 4.8%, respectively, were partially offset by unfavorable changes in pricing and foreign exchange rates of 0.3% and 2.9%, respectively.

Net sales in the United States increased $154.1 million, or 7.6%, during fiscal 2015 driven by increased volume of controls, growing media, and cleaners products, as well as the impact of recent acquisitions. Excluding the impact of changes in foreign exchange rates, net sales internationally increased by $69.7 million, or 13.6%, during fiscal 2015 driven by the acquisitions of Fafard and Solus, and higher sales volume within Canada.

Global Consumer segment income from continuing operations before income taxes increased 6.2% from $438.8 million in fiscal 2014 to $466.2 million in fiscal 2015. Excluding the impact of changes in foreign exchange rates, the increase was 7.2% for fiscal 2015, primarily driven by higher sales volume of controls, including increased sales of Tomcat® products, as well as growing media and cleaners products in the United States, and higher sales volume within Canada, partially offset by decreased pricing, increased material costs for our grass seed and growing media products, and higher SG&A as a result of recent acquisitions.

Global Consumer segment net sales increased 2.7% from $2.5 billion in fiscal 2013 compared to $2.6 billion in fiscal 2014. The change in fiscal 2014 net sales was favorably impacted by the Tomcat® acquisition, favorable pricing and foreign exchange rates, which were responsible for net sales increases of 1.6%, 1.1%, and 0.2%, respectively. These increases were partially offset by a slight decrease in sales volume driven by a decline in sales within the U.S. of plant fertilizers and control products, partially offset by increased sales of mulch products in the United States and increased net sales in Europe. Net sales in the United States increased by 1.5%, primarily driven by the acquisition of Tomcat®, and an increase in pricing, partially offset by a slight overall decrease in sales volume driven by a decline in sales

within the United States of plant fertilizers and control products, partially offset by increased sales of mulch products. Net sales outside of the United States increased 7.3% in fiscal 2014, primarily attributable to sales volume improvements in Europe and favorable effects of foreign currency changes as a result of the weakening

of the U.S. dollar relative to other currencies, particularly the euro. Excluding the impact of foreign currency rates, net sales outside of the United States increased 6.2% compared to fiscal 2013.
Global Consumer segment income from continuing operations before income taxes for fiscal 2014 was $438.8 million, an increase of $35.1 million, or 8.7%, compared to fiscal 2013. Excluding the impact of foreign exchange movements, the increase was $33.5 million, or 8.3%, for fiscal 2014. The increase for fiscal 2014 was primarily driven by the sales from businesses acquired in fiscal 2014, the favorable impact of pricing, and decreased material costs, partially offset by an increase in SG&A expenses primarily related to increased marketing expense in the U.S. Consumer business and transaction costs related to the acquisitions of Solus and Fafard.

Scotts LawnService®

Scotts LawnService® net sales increased by $25.5 million, or 9.7%, in fiscal 2015 compared to fiscal 2014. The increase in net sales was driven by the $12.0 million in net sales for Action Pest included in the Scotts LawnService® segment for fiscal 2015, as well as increased customer count. The segment operating income for Scotts LawnService® increased by $3.1 million, or 10.3%, in fiscal 2015 compared to fiscal 2014. The increased income was primarily driven by the acquisition of Action Pest and higher customer count, partially offset by higher SG&A expenses for planned increases in selling costs.
Scotts LawnService® net sales increased by $5.2 million, or 2.0%, in fiscal 2014 as compared to fiscal 2013, primarily due to higher customer counts and increased volume. Scotts LawnService® segment income increased $1.5 million to $30.2 million in fiscal 2014. The improved operating results were driven by higher net sales, lower product costs and lower incentive compensation, partially offset by higher selling expenses.

Corporate & Other

Net sales for Corporate & Other increased $0.7 million to $27.0 million in fiscal 2015, due to an increase in sales for our ICL supply agreements, which commenced shortly after the sale of Global Pro in our second quarter of fiscal 2011. The net operating loss for Corporate & Other was $96.6 million in fiscal 2015 as compared to $90.4 million in fiscal 2014. The increase for fiscal 2015 was primarily related to higher share-based compensation expense and litigation settlement activity.
Net sales for Corporate & Other decreased $4.9 million to $26.3 million in fiscal 2014, primarily due to a decline in sales for our ICL supply agreements. The net operating loss for Corporate & Other was flat for fiscal 2014 compared to fiscal 2013.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities totaled $246.9 million and $240.9 million for fiscal 2015 and fiscal 2014, respectively. Cash provided by operating activities increased by $6.0 million, driven by a decrease in cash used for working capital, partially offset by a decrease in net income. The decrease in cash used for working capital was primarily due to less growth in accounts receivable and inventory, partially offset by less growth in accounts payable.
Cash provided by operating activities declined by $101.1 million to $240.9 million in fiscal 2014. The change in the cash provided by our operating activities was primarily due to an increase in inventory of $38.7 million in fiscal 2014 as part of an early build of growing media and plant food products for the fiscal 2015 lawn and garden season and a decline in expected volumes compared to an $89.0 million decline in inventory in fiscal 2013.
The seasonal nature of our operations generally requires cash to fund significant increases in inventories during the first half of the fiscal year. Receivables and payables also build substantially in our second quarter of the fiscal year in line with the timing of sales to support our retailers’ spring selling season. These balances liquidate during the June through September period as the lawn and garden season unwinds. Unlike our core Global Consumer segment, Scotts LawnService® typically has its highest receivables balance in the fourth quarter because of the seasonal timing of customer applications and service revenues.

Investing Activities

Cash used in investing activities totaled $536.4 million and $155.6 million in fiscal 2015 and fiscal 2014, respectively. The change in cash used in our investing activities was primarily driven by the payment of $300 million to Monsanto

in consideration for Monsanto's entry into the amendments to our Marketing Agreement for consumer Roundup®, the lawn and garden brand extension agreement and the commercialization and technology agreement, and increased acquisitions of $66.2 million. During fiscal 2015, our Global Consumer segment completed the acquisitions of General Hydroponics and Vermicrop for $120.0 million and $15.0 million, respectively, in addition to four acquisitions of growing media operations with an aggregate estimated purchase

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price of $40.2 million. Additionally, our Scotts LawnService® segment completed the acquisition of Action Pest for $21.7 million. These acquisitions included cash payments of $180.2 million during fiscal 2015. Significant capital projects during fiscal 2015 included investments in our growing media production and packaging facilities, additional capital for supply chain optimization projects, investments in information technology, facility improvement and maintenance, and investments in fleet vehicles for Scotts LawnService®.

Cash used in investing activities totaled $155.6 million and $64.2 million in fiscal 2014 and fiscal 2013, respectively. The change in cash used in our investing activities was primarily driven by increased capital investments in property, plant and equipment and acquisitions of $27.5 million and $110.8 million, respectively, partially offset by $35.1 million in cash proceeds received from the sale and leaseback of an airplane as well as proceeds received from the sale of our U.S. and Canadian wild bird food business of $7.2 million, and the sale of long-lived assets of $3.7 million. Significant capital projects during fiscal 2014 included investments in our growing media production and packaging facilities, additional capital for supply chain optimization projects, investments in information technology, facility improvement and maintenance, and investments in fleet vehicles for Scotts LawnService®. Further, during fiscal 2014 we completed acquisitions within our Global Consumer segment of Tomcat®, a consumer rodent control business, from Bell Laboratories, Inc. for $60.0 million and Fafard, a consumer growing media business based in Quebec, Canada for $52.7 million in cash and contingent consideration of $7.1 million based on future performance of the business.

For the three fiscal years ended September 30, 2015, our capital spending was allocated as follows: 65% for expansion and maintenance of existing Global Consumer productive assets; 14% for new productive assets supporting our Global Consumer segment; 13% to expand our information technology and transformation and integration capabilities; 3% for expansion and upgrades of Scotts LawnService® infrastructure; and 5% for Corporate & Other assets. We expect fiscal 2016 capital expenditures to be consistent with our recent capital spending amounts and allocations.

Financing Activities

Financing activities provided cash of $278.9 million in fiscal 2015, and used cash of $124.3 million in fiscal 2014. The change related to financing activities was the result of the redemption of $200.0 million of our 7.25% Senior Notes during fiscal 2014, a decrease in dividends paid in fiscal 2015 as a result of the prior year special one-time cash dividend of $2.00 per share, or $122.1 million, and a decrease in repurchases of Common Shares of $105.2 million, partially offset by a decrease in net borrowings under our credit facility of $29.5 million. Net borrowings under our credit facilities in fiscal 2015 were $378.0 million compared to $407.5 million in fiscal 2014. Financing activities also included an increase in cash received from the exercise of stock options of $4.3 million in fiscal 2015 compared to fiscal 2014.

Financing activities used cash of $124.3 million and $280.6 million in fiscal 2014 and fiscal 2013, respectively. The change in cash used in financing activities was the result of higher net borrowings of $614.8 million under our credit facility, partially offset by an increase in cash returned to shareholders through dividends of $143.0 million (which included $20.9 million in recurring quarterly cash payments and $122.1 million for the special one-time cash dividend of $2.00 per share), the repayment of our 7.25% Senior Notes of $200.0 million, and $120.0 million for repurchases of Common Shares in fiscal 2014. Net borrowings under our credit facilities in fiscal 2014 were $407.5 million compared to net payments of $207.3 million in fiscal 2013. Financing activities also included an increase in cash received from the exercise of stock options of $6.7 million in fiscal 2014 compared to fiscal 2013.

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 $71.4 million and $89.3 million at September 30, 2015 and 2014, respectively, included $55.1 million and $59.9 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”). The former credit facility, which was in effect throughout fiscal 2015 and as of September 30, 2015, also provided us with the right to seek to increase the committed credit by an aggregate amount of up to $450 million, subject to certain specified conditions. Under the former credit facility we had the ability to obtain letters of credit up to $75 million. At September 30, 2015, we had letters of credit outstanding in the aggregate face amount of $22.7 million, and $861.0 million of availability under our former credit facility, subject to our continued compliance with the covenants discussed below. The weighted average interest rates on average borrowings under our former credit facility were 4.0% and 4.8% for fiscal 2015 and fiscal 2014, respectively. In August 2015, we paid Monsanto $300 million using borrowings under our former credit facility.

On October 29, 2015, we entered into a fourth amended and restated credit agreement (the “new credit agreement”), providing us with five-year senior secured loan facilities in the aggregate principal amount of $1.9 billion, comprised of a revolving credit facility of $1.6 billion and a term loan in the amount of $300 million (the “new credit facilities”). The new credit agreement also provides us with the right to seek additional committed credit under the agreement in an aggregate amount of up to $500 million plus an unlimited additional amount, subject to certain specified financial and other conditions. The new credit agreement replaces the former credit facility, and will terminate on October 29, 2020. Borrowings on the revolving credit facility may be made in various currencies, including U.S. dollars, euro, British pounds, Australian dollars, and Canadian dollars.

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

On September 25, 2015, we entered into an amended and restated MARP Agreement that provides for the discretionary sale and purchase, on a revolving basis, of certain accounts receivable in an aggregate amount not to exceed $400.0 million as described above, but adds a commitment period during which the banks will be required to purchase such accounts receivable in an aggregate committed amount not to exceed $160.0 million. The commitment period will begin no earlier than February 20, 2016 and end no later than June 17, 2016, and the commencement and continuation of the commitment period will be subject to, among other things, the absence of any termination event under the MARP Agreement or any default or event of default under our current credit agreement. Under the amended and restated terms of the MARP Agreement, the banks continue to have the opportunity to purchase those accounts receivable offered by us at a discount (from the agreed base value thereof) effectively equal to the one-week LIBOR plus 0.75%. The MARP Agreement has a termination date of August 26, 2016. There were $122.3 million and $84.0 million in short-term borrowings under the MARP Agreement as of September 30, 2015 and September 30, 2014, respectively. As of September 30, 2015, there was $2.8 million of availability under the MARP Agreement. The carrying value of the receivables pledged as collateral was $152.9 million and $113.7 million as of September 30, 2015 and September 30, 2014, respectively.

On January 15, 2014, we used a portion of our available former credit facility borrowings to redeem all of our outstanding $200.0 million aggregate principal amount of 7.25% Senior Notes, paying a redemption price of $214.5 million, which included $7.25 million of accrued and unpaid interest, $7.25 million of call premium, and $200.0 million for outstanding principal amount. The $7.25 million call premium charge was recognized within the “Costs related to refinancing” line on the Condensed Consolidated Statement of Operations in our second quarter of fiscal 2014. Additionally, we had $3.5 million in unamortized bond discount and issuance costs associated with the 7.25% Senior Notes that were written-off and recognized in the “Costs related to refinancing” line on the Condensed Consolidated Statement of Operations in our second quarter of fiscal 2014. These amounts are reported in the aggregate in the “Costs related to refinancing” line of the Consolidated Statement of Operations for fiscal 2014 in this Annual Report on Form 10-K.

On December 16, 2010, we issued $200.0 million aggregate principal amount of 6.625% Senior Notes due 2020. The net proceeds of the offering were used to repay outstanding borrowings under our then existing credit facilities and for general corporate purposes. The 6.625% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 6.625% Senior Notes have interest payment dates of June 15 and December 15 of each year, which began on June 15, 2011, and may be redeemed prior to maturity starting December 2015 at applicable redemption premiums. The 6.625% Senior Notes contain usual and customary covenants and mature on December 15, 2020. Substantially all of our domestic subsidiaries serve as guarantors of the 6.625% Senior Notes.

On November 13, 2015, Scotts Miracle-Gro provided an irrevocable notice to the trustee of its election to redeem all of its outstanding 6.625% Senior Notes for 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 million for outstanding principal amount. The redemption is expected to be completed in the first quarter of the fiscal year ended September 30, 2016 (“fiscal 2016”).

On October 13, 2015, we issued $400 million aggregate principal amount of 6.000% Senior Notes due 2023. 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, and may be redeemed prior to maturity starting October 2018 at applicable redemption premiums. The 6.000% Senior Notes contain usual and customary covenants and mature on October 15, 2023. Substantially all of our domestic subsidiaries serve as guarantors of the 6.000% Senior Notes.

We believe we were in compliance with all debt covenants as of September 30, 2015. Our new credit agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio on the last day of each quarter on and after September 30, 2015, calculated as our net indebtedness divided by adjusted earnings before interest, taxes, depreciation and amortization. The maximum leverage ratio was 4.50 as of September 30, 2015. Our leverage ratio was 2.63 at September 30, 2015. Our new credit agreement also includes an affirmative covenant regarding our interest coverage. The minimum interest coverage ratio was 3.00 for the twelve months ended September 30, 2015. Our interest coverage ratio was 9.34 for the twelve months ended September 30, 2015. The terms of the new credit agreement allow us to make unlimited restricted payments (as defined), 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. The weighted average interest rates on average debt were 4.2% and 5.0% for fiscal 2015 and fiscal 2014, respectively. Please see “ITEM 6. SELECTED FINANCIAL DATA” of this Annual Report on Form 10-K for further details pertaining to the calculations of the foregoing ratios.

We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the new credit agreement and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2016. However, an unanticipated shortfall in earnings, an increase in net indebtedness or other factors could materially affect our ability to remain in compliance with the financial or other covenants of our new credit agreement, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of our credit facilities. While we believe we have good relationships with our lending group, we can provide no assurance that such a request would result in a modified or replacement credit agreement on reasonable terms, if at all.

At September 30, 2015, we had outstanding interest rate swap agreements with major financial institutions that effectively converted the LIBOR index portion of variable-rate debt denominated in U.S. dollars to a fixed rate. The swap agreements had a total U.S. dollar notional amount of $1,300.0 million at September 30, 2015. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below. The notional amount, effective date, expiration date and rate of each of these swap agreements are shown in the table below.

Notional Amount (in millions)		Effective Date (a)	Expiration Date	Fixed Rate	
$50		2/14/2012	2/14/2016	3.78	%
150	(b)	2/7/2012	5/7/2016	2.42	%
150	(c)	11/16/2009	5/16/2016	3.26	%
50	(b)	2/16/2010	5/16/2016	3.05	%
100	(b)	2/21/2012	5/23/2016	2.40	%
150	(c)	12/20/2011	6/20/2016	2.61	%
50	(d)	12/6/2012	9/6/2017	2.96	%
200		2/7/2014	11/7/2017	1.28	%
150	(b)	2/7/2017	5/7/2019	2.12	%
50	(b)	2/7/2017	5/7/2019	2.25	%
200	(c)	12/20/2016	6/20/2019	2.12	%

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

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

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

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

We believe that our cash flows from operations and borrowings under our agreements described herein will be sufficient to meet debt service, capital expenditures and working capital needs for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our borrowing agreements in amounts sufficient to pay indebtedness or fund other liquidity needs. Actual results of operations will depend on numerous factors, many of which are beyond our control as further discussed in “Item 1A. RISK FACTORS — Our indebtedness could limit our flexibility and adversely affect our financial condition” of this Annual Report on Form 10-K.

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

The following table summarizes our future cash outflows for contractual obligations as of September 30, 2015:

Contractual Cash Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In millions)				
Debt obligations	$1,163.3	$134.8	$11.2	$817.3	$200.0
Interest expense on debt obligations	182.8	61.7	92.8	28.3	—
Operating lease obligations	228.5	50.4	79.7	55.2	43.2
Purchase obligations	213.4	134.2	69.7	9.5	—
Other, primarily retirement plan obligations	92.5	3.7	18.9	19.1	50.8
Total contractual cash obligations	$1,880.5	$384.8	$272.3	$929.4	$294.0

We have long-term debt obligations and interest payments due primarily under the 6.625% Senior Notes and our current credit facility. Amounts in the table represent scheduled future maturities of long-term debt principal for the periods indicated.

On November 13, 2015, Scotts Miracle-Gro provided an irrevocable notice to the trustee of its election to redeem all of its outstanding 6.625% Senior Notes for 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 million for outstanding principal amount. The redemption is expected to be completed in the first quarter of fiscal 2016.

The interest payments for our current credit facility are based on outstanding borrowings as of September 30, 2015. Actual interest expense will likely be higher due to the seasonality of our business and associated higher average borrowings.

Purchase obligations primarily represent commitments for materials used in our manufacturing processes, as well as commitments for warehouse services, grass seed and out-sourced information services which comprise the unconditional purchase obligations disclosed in “NOTE 17. COMMITMENTS” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Other obligations include actuarially determined retiree benefit payments and pension funding to comply with local funding requirements. Pension funding requirements beyond fiscal 2015 are based on preliminary estimates using actuarial assumptions determined as of September 30, 2015. The above table excludes liabilities for unrecognized tax benefits and insurance accruals as we are unable to estimate the timing of payments for these items.

Off-Balance Sheet Arrangements

At September 30, 2015, we have letters of credit in the aggregate face amount of $22.7 million outstanding. Further, we have residual value guarantees on Scotts LawnService® vehicles and the corporate aircraft as disclosed in “NOTE 16. OPERATING LEASES” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

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 “ITEM 1. BUSINESS — Regulatory Considerations — Regulatory Matters” and “ITEM 3. LEGAL PROCEEDINGS” of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. Certain accounting policies are particularly significant, including those related to revenue recognition, goodwill and intangibles, certain associate benefits and income taxes. We believe these

accounting policies, and others set forth in "NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K, should be reviewed as they are integral to understanding our results of operations and financial position. Our critical accounting policies are reviewed periodically with the Audit Committee of the Board of Directors of Scotts Miracle-Gro.

The preparation of financial statements requires management to use judgment and make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, intangible assets, income taxes, restructuring, environmental matters, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Although actual results historically have not deviated significantly from those determined using our estimates, our results of operations or financial condition could differ, perhaps materially, from these estimates under different assumptions or conditions.

Revenue Recognition and Promotional Allowances

Most of our revenue is derived from the sale of inventory, and we recognize revenue when title and risk of loss transfer, generally when products are received by the customer. Provisions for payment discounts, product returns and allowances are recorded as a reduction of sales at the time revenue is recognized based on historical trends and adjusted periodically as circumstances warrant. Similarly, reserves for uncollectible receivables due from customers are established based on management's judgment as to the ultimate collectability of these balances. We offer sales incentives through various programs, consisting principally of volume rebates, cooperative advertising, consumer coupons and other trade programs. The cost of these programs is recorded as a reduction of sales. The recognition of revenues, receivables and trade programs requires the use of estimates. While we believe these estimates to be reasonable based on the then current facts and circumstances, there can be no assurance that actual amounts realized will not differ materially from estimated amounts recorded.

Income Taxes

Our annual effective tax rate is established based on our pre-tax income (loss), statutory tax rates and the tax impacts of items treated differently for tax purposes than for financial reporting purposes. We record income tax liabilities utilizing known obligations and estimates of potential obligations. A deferred tax asset or liability is recognized whenever there are future tax effects from existing temporary differences and operating loss and tax credit carryforwards. Valuation allowances are used to reduce deferred tax assets to the balances that are more likely than not to be realized. We must make estimates and judgments on future taxable income, considering feasible tax planning strategies and taking into account existing facts and circumstances, to determine the proper valuation allowances. When we determine that deferred tax assets could be realized in greater or lesser amounts than recorded, the asset balance and Consolidated Statements of Operations reflect the change in the period such determination is made. Due to changes in facts and circumstances and the estimates and judgments that are involved in determining the proper valuation allowances, differences between actual future events and prior estimates and judgments could result in adjustments to these valuation allowances. We use an estimate of our annual effective tax rate at each interim period based on the facts and circumstances available at that time, while the actual effective tax rate is calculated at year-end.

Inventories

Inventories are stated at the lower of cost or market, principally determined by the first-in, first-out method of accounting. Inventories include the cost of raw materials, labor, manufacturing overhead and freight and in-bound handling costs incurred to pre-position goods in our warehouse network. Adjustments to net realizable value for excess and obsolete inventory are based on a variety of factors, including product changes and improvements, changes in active ingredient availability and regulatory acceptance, new product introductions and estimated future demand. The adequacy of our adjustments could be materially affected by changes in the demand for our products or regulatory actions.

Long-lived Assets, including Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on the straight-line method and is based on the estimated useful economic lives of the assets. Intangible assets with finite

lives, and therefore subject to amortization, include technology (e.g., patents), customer relationships and certain tradenames. These intangible assets are being amortized over their estimated useful economic lives typically ranging from 3 to 25 years. We review long-lived assets whenever circumstances change such that the recorded value of an asset may not be recoverable and therefore impaired.

Goodwill and Indefinite-lived Intangible Assets

We have significant investments in intangible assets and goodwill. Our annual goodwill and indefinite-lived intangible asset testing is performed as of the first day of our fiscal fourth quarter or more frequently if circumstances indicate potential impairment.

In our evaluation of goodwill and indefinite-lived intangible assets impairment, we perform either an initial qualitative or quantitative evaluation for each of our reporting units and indefinite-lived intangible assets. Factors considered in the qualitative test include operating results as well as new events and circumstances impacting the operations or cash flows of the reporting unit and indefinite-lived intangible assets. For the quantitative test, the review for impairment of goodwill and indefinite-lived intangible assets is primarily based on our estimates of discounted future cash flows, which are based upon annual budgets and longer-range strategic plans. These budgets and plans are used for internal purposes and are also the basis for communication with outside parties about future business trends. While we believe the assumptions we use to estimate future cash flows are reasonable, there can be no assurance that the expected future cash flows will be realized. As a result, impairment charges that possibly would have been recognized in earlier periods may not be recognized until later periods if actual results deviate unfavorably from earlier estimates. An asset's value is deemed impaired if the discounted cash flows or earnings projections generated do not substantiate the carrying value of the asset. The estimation of such amounts requires management to exercise judgment with respect to revenue and expense growth rates, changes in working capital, future capital expenditure requirements and selection of an appropriate discount rate, as applicable. The use of different assumptions would increase or decrease discounted future operating cash flows or earnings projections and could, therefore, change impairment determinations.

Fair value estimates employed in our annual impairment review of indefinite-lived intangible assets and goodwill were determined using discounted cash flow models involving several assumptions. Changes in our assumptions could materially impact our fair value estimates. Assumptions critical to our fair value estimates were: (i) discount rates used in determining the fair value of the reporting units and intangible assets; (ii) royalty rates used in our intangible asset valuations; (iii) projected revenue and operating profit growth rates used in the reporting unit and intangible asset models; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and may change in the future based on period specific facts and circumstances.

At September 30, 2015, goodwill totaled $432.4 million, with $283.7 million and $148.7 million of goodwill for the Global Consumer and Scotts LawnService® segments, respectively. No goodwill impairment was recognized as a result of the annual evaluation performed as of June 28, 2015. The estimated fair value of each reporting unit with a significant goodwill balance was substantially in excess of its carrying value as of the annual test date. If we were to alter our impairment testing by increasing the discount rate in the discounted cash flow analysis by 100 basis points, there still would not be any impairment indicated for either of these reporting units. At September 30, 2015, indefinite-lived intangible assets consisted of tradenames of $184.8 million, as well as the Marketing Agreement Amendment of $188.3 million and Brand Extension Agreement of $111.7 million which were both acquired during fiscal 2015. With the exception of the Ortho® tradename, each of the tradenames had an estimated fair value substantially in excess of its carrying value as of the annual test date. The fair value of the Ortho® business was calculated based upon the evaluation of historical performance and future growth expectations. As a result of the annual impairment review in the fourth quarter of fiscal 2015, we concluded that the fair value of the Ortho® tradename exceeded the carrying value of the intangible asset and no impairment was necessary. If we were to increase the discount rate in the Ortho® brand fair value calculation by 100 basis points, the impairment charge for a non-recurring fair value adjustment would have been $6.6 million.

During the third quarter of fiscal 2014, as a result of an impairment review, we recognized an impairment charge for a non-recurring fair value adjustment of $33.7 million within the Global Consumer segment related to the Ortho® brand.

Associate Benefits

We sponsor various post-employment benefit plans, including pension plans, both defined contribution plans and defined benefit plans, and other post-employment benefit ("OPEB") plans, consisting primarily of health care for retirees. For accounting purposes, the defined benefit pension and OPEB plans are dependent on a variety of assumptions to estimate the projected and accumulated benefit obligations and annual expense determined by actuarial valuations. These assumptions include the following: discount rate; expected salary increases; certain employee-related factors, such as turnover, retirement age and mortality; expected return on plan assets; and health care cost trend rates.

Assumptions are reviewed annually for appropriateness and updated as necessary. We base the discount rate assumption on investment yields available at fiscal year-end on high-quality corporate bonds that could be purchased to effectively settle the pension liabilities. The salary growth assumption reflects our long-term actual experience, the near-term outlook and assumed inflation. The expected return on plan assets assumption reflects asset allocation, investment strategy and the views of investment managers regarding the market. Retirement and mortality rates are based primarily on actual and expected plan experience. The effects of actual results that differ from our assumptions are accumulated and amortized over future periods.

Changes in the discount rate and investment returns can have a significant effect on the funded status of our pension plans and shareholders' equity. We cannot predict discount rates or investment returns with certainty and, therefore, cannot determine whether adjustments to our shareholders' equity for pension-related activity in subsequent years will be significant. We also cannot predict future investment returns, and therefore cannot determine whether future pension plan funding requirements could

materially affect our financial condition, results of operations or cash flows. A 100 basis point change in the discount rate would have an immaterial effect on fiscal 2015 pension expense. A 100 basis point change in the discount rate would have a $55.6 million change in our projected benefit obligations as of September 30, 2015.

Insurance and Self-Insurance

We maintain insurance for certain risks, including workers' compensation, general liability and vehicle liability, and are self-insured for employee-related health care benefits up to a specified level for individual claims. We establish reserves for losses based on our claims experience and industry actuarial estimates of the ultimate loss amount inherent in the claims, including losses for claims incurred but not reported. Our estimate of self-insured liabilities is subject to change as new events or circumstances develop which might materially impact the ultimate cost to settle these losses.

Derivative Instruments

In the normal course of business, we are exposed to fluctuations in interest rates, the value of foreign currencies and the cost of commodities. A variety of financial instruments, including forward and swap contracts, are used to manage these exposures. Our objective in managing these exposures is to better control these elements of cost and mitigate the earnings and cash flow volatility associated with changes in the applicable rates and prices. We have established policies and procedures that encompass risk-management philosophy and objectives, guidelines for derivative-instrument usage, counterparty credit approval, and the monitoring and reporting of derivative activity. We do not enter into derivative instruments for the purpose of speculation.

Contingencies

As described more fully in "NOTE 18. CONTINGENCIES" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K, we are involved in environmental and legal proceedings which have a high degree of uncertainty associated with them. We continually assess the likely outcome of these proceedings and the adequacy of reserves, if any, provided for their resolution. There can be no assurance that the ultimate outcomes of these proceedings will not differ materially from our current assessment of them, nor that all proceedings that may currently be brought against us are known by us at this time.

Other Significant Accounting Policies

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed above, are also critical to understanding the consolidated financial statements. The Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K contain additional information related to our accounting policies, including recent accounting pronouncements, and should be read in conjunction with this discussion.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As part of our ongoing business, we are exposed to certain market risks, including fluctuations in interest rates, foreign currency exchange rates and commodity prices. Financial derivative and other instruments are used to manage these risks. These instruments are not used for speculative purposes.

Interest Rate Risk

We had variable rate debt instruments outstanding at September 30, 2015 and September 30, 2014 that are impacted by changes in interest rates. As a means of managing our interest rate risk on these debt instruments, we entered into interest rate swap agreements with major financial institutions to effectively fix the LIBOR index on certain variable-rate debt obligations.

At each of September 30, 2015 and September 30, 2014, we had outstanding interest rate swap agreements with a total U.S. dollar equivalent notional value of $1,300.0 million. The weighted average fixed rate of swap agreements outstanding at September 30, 2015 was 2.0%.

The following table summarizes information about our derivative financial instruments and debt instruments that are sensitive to changes in interest rates as of September 30, 2015 and September 30, 2014. For debt instruments, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swap agreements, the table presents expected cash flows based on notional amounts and weighted-average interest rates by contractual maturity dates. Weighted-average variable rates are based on rates in effect at September 30, 2015

and September 30, 2014. A change in our variable interest rate of 100 basis points for a full twelve-month period would have a $2.5 million impact on interest expense assuming approximately $250 million of our average fiscal 2015 variable-rate debt had not been hedged via an interest rate swap agreement. The information is presented in U.S. dollars (in millions):

2015	Expected Maturity Date 2016	2017	2018	2019	2020	After	Total	Fair Value
Long-term debt:								
Fixed rate debt	$—	$—	$—	$—	$—	$200.0	$200.0	$206.3
Average rate	—	—	—	—	—	6.6 %	6.6 %	—
Variable rate debt	$122.3	$—	$—	$816.3	$—	$—	$938.6	$938.6
Average rate	0.9 %	—	—	2.3 %	—	—	2.1 %	—
Interest rate derivatives:								
Interest rate swaps	$(6.2)	$(1.6)	$(2.4)	$(3.2)	$—	$—	$(13.4)	$(13.4)
Average rate	2.9 %	3.0 %	1.3 %	2.1 %	—	—	2.0 %	—

2014	Expected Maturity Date 2015	2016	2017	2018	2019	After	Total	Fair Value
Long-term debt:								
Fixed rate debt	$—	$—	$—	$—	$—	$200.0	$200.0	$212.5
Average rate	—	—	—	—	—	6.6 %	6.6 %	—
Variable rate debt	$84.0	$—	$—	$—	$481.8	$—	$565.8	$565.8
Average rate	0.9 %	—	—	—	1.8 %	—	1.6 %	—
Interest rate derivatives:								
Interest rate swaps	$—	$(11.6)	$(1.9)	$(0.2)	$2.2	$—	$(11.5)	$(11.5)
Average rate	—	2.9 %	3.0 %	1.3 %	2.1 %	—	2.1 %	—

Excluded from the information provided above are $24.7 million and $18.5 million at September 30, 2015 and September 30, 2014, respectively, of miscellaneous debt instruments.

Other Market Risks

Through fiscal 2015, we had transactions that were denominated in currencies other than the currency of the country of origin. We use currency forward contracts to manage the exchange rate risk associated with intercompany loans with foreign subsidiaries that are denominated in local currencies. At September 30, 2015, the notional amount of outstanding currency forward contracts was $52.3 million with a negative fair value of $0.7 million. At September 30, 2014, the notional amount of outstanding currency forward contracts was $149.0 million with a negative fair value of $0.1 million.

We are subject to market risk from fluctuating prices of certain raw materials, including urea and other fertilizer inputs, resins, diesel, gasoline, natural gas, sphagnum peat, bark and grass seed. Our objectives surrounding the procurement of these materials are to ensure continuous supply and to control costs. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. In addition, we use derivatives to partially mitigate the effect of fluctuating diesel and gasoline costs on our Global Consumer and Scotts LawnService® businesses. We had outstanding derivative contracts for 9,030,000 and 10,206,000 gallons of fuel at September 30, 2015 and September 30, 2014, respectively. The outstanding derivative contracts had a negative fair value of $3.9 million at September 30, 2015, compared to a negative fair value of $1.4 million at September 30, 2014.

We also enter into hedging arrangements designed to fix the price of a portion of our projected future urea requirements of our Global Consumer business. We had outstanding derivative contracts for 52,500 and 58,500 aggregate tons of urea at September 30, 2015 and September 30, 2014, respectively. The outstanding derivative contracts had a negative fair value of $1.3 million at September 30, 2015, compared to a negative fair value of $0.5 million at September 30, 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and other information required by this Item are contained in the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Schedules Supporting the Consolidated Financial Statements listed in the “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 50 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the principal executive officer and the principal financial officer of The Scotts Miracle-Gro Company (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 (the “Exchange Act”)), as of the end of the fiscal year covered by this Annual Report on Form 10-K. 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 as of the end of the fiscal year covered by this Annual Report on Form 10-K.

Management’s Annual Report on Internal Control Over Financial Reporting

The “Annual Report of Management on Internal Control Over Financial Reporting” required by Item 308(a) of SEC Regulation S-K is included on page 51 of this Annual Report on Form 10-K.

Attestation Report of Independent Registered Public Accounting Firm

The “Report of Independent Registered Public Accounting Firm” required by Item 308(b) of SEC Regulation S-K is included on page 52 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

No changes in the Registrant’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the Registrant’s fiscal quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Registrant’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors, Executive Officers and Persons Nominated or Chosen to Become Directors or Executive Officers

The information required by Item 401 of SEC Regulation S-K concerning the directors of Scotts Miracle-Gro and the nominees for election or re-election as directors of Scotts Miracle-Gro at the Annual Meeting of Shareholders to be held on January 28, 2016 (the “2016 Annual Meeting”) is incorporated herein by reference from the disclosure which will be included under the caption “PROPOSAL NUMBER 1 — ELECTION OF DIRECTORS” in Scotts Miracle-Gro’s definitive Proxy Statement relating to the 2016 Annual Meeting (“Scotts Miracle-Gro’s Definitive Proxy Statement”), which will be filed pursuant to SEC Regulation 14A not later than 120 days after the end of Scotts Miracle-Gro’s fiscal year ended September 30, 2015.

The information required by Item 401 of SEC Regulation S-K concerning the executive officers of Scotts Miracle-Gro is incorporated herein by reference from the disclosure included under the caption “SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT” in Part I of this Annual Report on Form 10-K.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

The information required by Item 405 of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” in Scotts Miracle-Gro’s Definitive Proxy Statement.

Procedures for Recommending Director Nominees

Information concerning the procedures by which shareholders of Scotts Miracle-Gro may recommend nominees to Scotts Miracle-Gro’s Board of Directors is incorporated herein by reference from the disclosures which will be included under the captions “CORPORATE GOVERNANCE — Nominations of Directors” and “MEETINGS AND COMMITTEES OF THE BOARD — Committees of the Board — Nominating and Governance Committee” in Scotts Miracle-Gro’s Definitive Proxy Statement. These procedures have not materially changed from those described in Scotts Miracle-Gro’s definitive Proxy Statement for the 2015 Annual Meeting of Shareholders held on January 29, 2015.

Audit Committee

The information required by Items 407(d)(4) and 407(d)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “MEETINGS AND COMMITTEES OF THE BOARD — Committees of the Board” in Scotts Miracle-Gro’s Definitive Proxy Statement.

Committee Charters; Code of Business Conduct & Ethics; Corporate Governance Guidelines

The Board of Directors of Scotts Miracle-Gro has adopted charters for each of the Audit Committee, the Nominating and Governance Committee, the Compensation and Organization Committee, the Innovation and Technology Committee and the Finance Committee, as well as Corporate Governance Guidelines, as contemplated by the applicable sections of the New York Stock Exchange Listed Company Manual.

In accordance with the requirements of Section 303A.10 of the New York Stock Exchange Listed Company Manual and Item 406 of SEC Regulation S-K, the Board of Directors of Scotts Miracle-Gro has adopted a Code of Business Conduct & Ethics covering the members of Scotts Miracle-Gro’s Board of Directors and associates (employees) of Scotts Miracle-Gro and its subsidiaries, including, without limitation, Scotts Miracle-Gro’s principal executive officer, principal financial officer and principal accounting officer. Scotts Miracle-Gro intends to disclose the following events, if they occur, on its Internet website located at http://investor.scotts.com within four business days following their occurrence: (A) the date and nature of any amendment to a provision of Scotts Miracle-Gro’s Code of Business Conduct & Ethics that (i) applies to Scotts Miracle-Gro’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, (ii) relates to any element of the code of ethics definition enumerated in Item 406(b) of SEC Regulation S-K, and (iii) is not a technical, administrative or other non-substantive amendment; and (B) a description of any waiver (including the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver), including an implicit waiver, from a provision of the Code of Business Conduct & Ethics granted to Scotts Miracle-Gro’s principal executive officer,

principal financial officer, principal accounting officer or controller, or persons performing similar functions, that relates to one or more of the elements of the code of ethics definition enumerated in Item 406(b) of SEC Regulation S-K. In addition, Scotts Miracle-Gro will disclose any waivers from the provisions of the Code of Business Conduct & Ethics granted to an executive officer or a director of Scotts

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Miracle-Gro on Scotts Miracle-Gro's Internet website located at http://investor.scotts.com within four business days of the determination to grant any such waiver.

The text of Scotts Miracle-Gro’s Code of Business Conduct & Ethics, Scotts Miracle-Gro’s Corporate Governance Guidelines, the Audit Committee charter, the Nominating and Governance Committee charter, the Compensation and Organization Committee charter, the Innovation and Technology Committee charter and the Finance Committee charter are posted under the “Corporate Governance” link on Scotts Miracle-Gro’s Internet website located at http://investor.scotts.com. Interested persons and shareholders of Scotts Miracle-Gro may also obtain copies of each of these documents without charge by writing to The Scotts Miracle-Gro Company, Attention: Corporate Secretary, 14111 Scottslawn Road, Marysville, Ohio 43041.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the captions “EXECUTIVE COMPENSATION,” “NON-EMPLOYEE DIRECTOR COMPENSATION,” “EXECUTIVE COMPENSATION TABLES,” “SEVERANCE AND CHANGE IN CONTROL (CIC) ARRANGEMENTS,” and “PAYMENTS ON TERMINATION OF EMPLOYMENT AND/OR CHANGE IN CONTROL” in Scotts Miracle-Gro’s Definitive Proxy Statement.

The information required by Item 407(e)(4) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “MEETINGS AND COMMITTEES OF THE BOARD — Compensation and Organization Committee Interlocks and Insider Participation” in Scotts Miracle-Gro’s Definitive Proxy Statement.

The information required by Item 407(e)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “COMPENSATION COMMITTEE REPORT” in Scotts Miracle-Gro’s Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Ownership of Common Shares of Scotts Miracle-Gro

The information required by Item 403 of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” in Scotts Miracle-Gro’s Definitive Proxy Statement.

Equity Compensation Plan Information

The information required by Item 201(d) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “EQUITY COMPENSATION PLAN INFORMATION” in Scotts Miracle-Gro’s Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Person Transactions

The information required by Item 404 of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the caption “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS” in Scotts Miracle-Gro’s Definitive Proxy Statement.

Director Independence

The information required by Item 407(a) of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the captions “CORPORATE GOVERNANCE — Director Independence” and “MEETINGS AND COMMITTEES OF THE BOARD” in Scotts Miracle-Gro’s Definitive Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference from the disclosures which will be included under the captions “AUDIT COMMITTEE MATTERS — Fees of the Independent Registered Public

Accounting Firm” and “AUDIT COMMITTEE MATTERS — Pre-Approval of Services Performed by the Independent Registered Public Accounting Firm” in Scotts Miracle-Gro’s Definitive Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

1 and 2. Financial Statements and Financial Statement Schedules:

The response to this portion of Item 15 is submitted as a separate section of this Annual Report on Form 10-K. Reference is made to the "Index to Consolidated Financial Statements and Financial Statement Schedules" on page 50 of this Annual Report on Form 10-K.

(b) EXHIBITS

The exhibits listed on the "Index to Exhibits" beginning on page 119 of this Annual Report on Form 10-K are filed or furnished with this Annual Report on Form 10-K or incorporated herein by reference as noted in the "Index to Exhibits."

(c) FINANCIAL STATEMENT SCHEDULES

The financial statement schedule filed with this Annual Report on Form 10-K is submitted in a separate section hereof. For a description of such financial statement schedules, see "Index to Consolidated Financial Statements and Financial Statement Schedules" on page 50 of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ JAMES HAGEDORN
James Hagedorn, President, Chief Executive Officer and Chairman of the Board

Dated: November 24, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS RANDAL COLEMAN Thomas Randal Coleman	Chief Financial Officer and Executive Vice President (Principal Financial Officer and Principal Accounting Officer)	November 24, 2015
/s/ JAMES HAGEDORN James Hagedorn	President, Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	November 24, 2015
/s/ BRIAN D. FINN* Brian D. Finn	Director	November 24, 2015
/s/ ADAM HANFT* Adam Hanft	Director	November 24, 2015
/s/ MICHELLE A. JOHNSON* Michelle A. Johnson	Director	November 24, 2015
/s/ STEPHEN L. JOHNSON* Stephen L. Johnson	Director	November 24, 2015
/s/ THOMAS N. KELLY JR.* Thomas N. Kelly Jr.	Director	November 24, 2015
/s/ KATHERINE HAGEDORN LITTLEFIELD* Katherine Hagedorn Littlefield	Director	November 24, 2015

Signature	Title	Date
/s/ JAMES F. MCCANN* James F. McCann	Director	November 24, 2015
/s/ NANCY G. MISTRETTA* Nancy G. Mistretta	Director	November 24, 2015
/s/ JOHN R. VINES* John R. Vines	Director	November 24, 2015

* The undersigned, by signing his name hereto, does hereby sign this Report on behalf of each of the directors of the Registrant identified above pursuant to Powers of Attorney executed by the directors identified above, which Powers of Attorney are filed with this Report as exhibits.

By: /s/ THOMAS RANDAL COLEMAN
Thomas Randal Coleman, Attorney-in-Fact

THE SCOTTS MIRACLE-GRO COMPANY
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AND FINANCIAL STATEMENT SCHEDULES

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All other financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because they are not required or are not applicable, or the required information has been presented in the Consolidated Financial Statements or Notes thereto.

ANNUAL REPORT OF MANAGEMENT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of The Scotts Miracle-Gro Company and our consolidated subsidiaries; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of The Scotts Miracle-Gro Company and our consolidated subsidiaries are being made only in accordance with authorizations of management and directors of The Scotts Miracle-Gro Company and our consolidated subsidiaries, as appropriate; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of The Scotts Miracle-Gro Company and our consolidated subsidiaries that could have a material effect on our consolidated financial statements.

Management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2015, the end of our fiscal year. Management based its assessment on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. This assessment is supported by testing and monitoring performed under the direction of management. As allowed by the SEC guidance, management excluded from the assessment the internal control over financial reporting at General Hydroponics, Inc., Bio-Organic Solutions, Inc. and Action Pest Control Inc., which were acquired in fiscal 2015. These acquisitions constituted 6% of total assets, 1% and 3% of revenues and net income, respectively, included in our consolidated financial statements as of and for the fiscal year ended September 30, 2015.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even an effective system of internal control over financial reporting will provide only reasonable assurance with respect to financial statement preparation.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2015, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. We reviewed the results of management’s assessment with the Audit Committee of the Board of Directors of The Scotts Miracle-Gro Company.

Our independent registered public accounting firm, Deloitte & Touche LLP, independently audited our internal control over financial reporting as of September 30, 2015 and has issued their attestation report which appears herein.

/s/ JAMES HAGEDORN	/s/ THOMAS RANDAL COLEMAN
James Hagedorn	Thomas Randal Coleman
President, Chief Executive Officer and Chairman of the Board	Executive Vice President and Chief Financial Officer
Dated: November 24, 2015	Dated: November 24, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of
The Scotts Miracle-Gro Company
Marysville, Ohio

We have audited the accompanying consolidated balance sheets of The Scotts Miracle-Gro Company and subsidiaries (the “Company”) as of September 30, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended September 30, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2015, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 24, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE
LLP

Columbus, Ohio
November 24, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of
The Scotts Miracle-Gro Company
Marysville, Ohio

We have audited the internal control over financial reporting of The Scotts Miracle-Gro Company and subsidiaries (the “Company”) as of September 30, 2015, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at the following subsidiaries which were acquired in 2015: General Hydroponics, Inc., Bio-Organic Solutions, Inc. and Action Pest Control Inc. which were acquired in fiscal 2015. These acquisitions constituted 6% of total assets, 1% and 3% of revenues and net income, respectively, included in the consolidated financial statements as of and for the fiscal year ended September 30, 2015. Accordingly, our audit did not include the internal control over financial reporting at General Hydroponics, Inc., Bio-Organic Solutions, Inc. and Action Pest Control Inc. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Annual Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended September 30, 2015 of the Company and our report dated November 24, 2015 expressed an unqualified opinion on those

financial statements and financial statement schedules.
/s/ DELOITTE & TOUCHE
LLP

Columbus, Ohio
November 24, 2015

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THE SCOTTS MIRACLE-GRO COMPANY
Consolidated Statements of Operations
(In millions, except per share data)

	Year Ended September 30,		
	2015	2014	2013
Net sales	$3,016.5	$2,841.3	$2,773.7
Cost of sales	1,945.0	1,809.9	1,793.3
Cost of sales—impairment, restructuring and other	6.6	—	2.2
Gross profit	1,064.9	1,031.4	978.2
Operating expenses:			
Selling, general and administrative	698.4	680.5	659.6
Impairment, restructuring and other	78.0	51.0	18.1
Other income, net	(6.1)	(14.7)	(10.0)
Income from operations	294.6	314.6	310.5
Costs related to refinancing	—	10.7	—
Interest expense	50.5	47.3	59.2
Income from continuing operations before income taxes	244.1	256.6	251.3
Income tax expense from continuing operations	85.4	91.2	91.9
Income from continuing operations	158.7	165.4	159.4
Income from discontinued operations, net of tax	—	0.8	1.7
Net income	$158.7	$166.2	$161.1
Net loss attributable to noncontrolling interest	1.1	0.3	—
Net income attributable to controlling interest	$159.8	$166.5	$161.1
Basic income per common share:			
Income from continuing operations	$2.62	$2.69	$2.58
Income from discontinued operations	—	0.01	0.03
Basic net income per common share	$2.62	$2.70	$2.61
Diluted income per common share:			
Income from continuing operations	$2.57	$2.64	$2.55
Income from discontinued operations	—	0.01	0.02
Diluted net income per common share	$2.57	$2.65	$2.57

See Notes to Consolidated Financial Statements.

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

	Year Ended September 30,		
	2015	2014	2013
Net income	$158.7	$166.2	$161.1
Other comprehensive income (loss):			
Net foreign currency translation adjustment	(14.2)	(8.2)	(5.2)
Net unrealized losses on derivative instruments, net of tax of $5.3, $3.0 and $2.1 for fiscal 2015, fiscal 2014 and fiscal 2013, respectively	(8.6)	(4.9)	(3.3)
Reclassification of net unrealized losses on derivatives to net income, net of tax of $4.0, $5.9 and $5.4 for fiscal 2015, fiscal 2014 and fiscal 2013, respectively	6.5	9.5	8.4
Net unrealized gains (losses) in pension and other post retirement benefits, net of tax of $4.6, $4.9 and ($2.4) for fiscal 2015, fiscal 2014 and fiscal 2013, respectively	(7.4)	(7.9)	5.8
Reclassification of net pension and post-retirement benefit income to net income, net of tax of $1.9, $1.9 and $2.3 for fiscal 2015, fiscal 2014 and fiscal 2013, respectively	3.1	3.1	3.8
Total other comprehensive income (loss)	(20.6)	(8.4)	9.5
Comprehensive income	$138.1	$157.8	$170.6

See Notes to Consolidated Financial Statements.

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

	Year Ended September 30,		
	2015	2014	2013
OPERATING ACTIVITIES			
Net income	$158.7	$166.2	$161.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment, restructuring and other	4.3	33.7	16.2
Costs related to refinancing	—	3.5	—
Share-based compensation expense	13.2	11.1	10.3
Depreciation	51.4	50.6	54.9
Amortization	17.6	13.8	11.2
Deferred taxes	1.3	12.1	24.2
Loss (gain) on sale of long-lived assets	—	1.1	(2.1)
Gain on sale of business	—	(1.4)	—
(Gain) loss on investment of unconsolidated affiliate	—	(5.7)	0.4
Changes in assets and liabilities, net of acquired businesses:			
Accounts receivable	(12.5)	(29.4)	17.9
Inventories	(17.5)	(38.7)	89.0
Prepaid and other assets	1.8	(3.2)	0.3
Accounts payable	6.9	52.6	(5.2)
Other current liabilities	12.9	(22.9)	5.4
Restructuring reserves	12.1	4.9	(8.1)
Other non-current items	(3.4)	(14.6)	(32.6)
Other, net	0.1	7.2	(0.9)
Net cash provided by operating activities	246.9	240.9	342.0
INVESTING ACTIVITIES			
Proceeds from sale of long-lived assets	5.5	3.7	3.6
Proceeds from sale of business, net of transaction costs	—	7.2	—
Investments in property, plant and equipment	(61.7)	(87.6)	(60.1)
Proceeds from sale and leaseback transaction	—	35.1	—
Investment in unconsolidated affiliate	—	—	(4.5)
Investment in marketing and license agreement	(300.0)	—	—
Investments in acquired businesses, net of cash acquired	(180.2)	(114.0)	(3.2)
Net cash used in investing activities	(536.4)	(155.6)	(64.2)
FINANCING ACTIVITIES			
Borrowings under revolving and bank lines of credit and term loans	1,836.0	1,932.8	1,474.8
Repayments under revolving and bank lines of credit and term loans	(1,458.0)	(1,525.3)	(1,682.1)
Repayment of 7.25% senior notes	—	(200.0)	—
Financing and issuance fees	(0.5)	(6.1)	—
Dividends paid	(111.3)	(230.8)	(87.8)
Purchase of Common Shares	(14.8)	(120.0)	—
Payments on sellers notes	(1.5)	(0.8)	(0.8)
Excess tax benefits from share-based payment arrangements	4.7	5.9	2.0
Cash received from exercise of stock options	24.3	20.0	13.3
Net cash provided by (used in) financing activities	278.9	(124.3)	(280.6)

Effect of exchange rate changes on cash	(7.3)	(1.5)	0.7
Net decrease in cash and cash equivalents	(17.9)	(40.5)	(2.1)
Cash and cash equivalents at beginning of year	89.3	129.8	131.9
Cash and cash equivalents at end of year	$71.4	$89.3	$129.8
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	$(47.6)	$(46.9)	$(56.6)
Call premium on 7.25% senior notes	—	(7.3)	—
Income taxes paid	(108.3)	(55.3)	(44.0)

See Notes to Consolidated Financial Statements.

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

	September 30, 2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$71.4	$89.3
Accounts receivable, less allowances of $8.7 in 2015 and $7.5 in 2014	191.3	224.0
Accounts receivable pledged	152.9	113.7
Inventories	407.6	385.1
Prepaid and other current assets	125.4	122.9
Total current assets	948.6	935.0
Property, plant and equipment, net	453.7	437.0
Goodwill	432.4	350.9
Intangible assets, net	663.5	302.7
Other assets	29.0	32.7
Total assets	$2,527.2	$2,058.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	$134.8	$91.9
Accounts payable	197.9	193.3
Other current liabilities	280.4	259.5
Total current liabilities	613.1	544.7
Long-term debt	1,028.5	692.4
Other liabilities	252.5	254.0
Total liabilities	1,894.1	1,491.1
Commitments and contingencies (Notes 16, 17 and 18)		
Shareholders' equity:		
Common shares and capital in excess of $.01 stated value per share; shares outstanding of 61.4 in 2015 and 60.7 in 2014	400.4	395.3
Retained earnings	684.2	636.9
Treasury shares, at cost; 6.7 shares in 2015 and 7.4 shares in 2014	(357.1)	(392.3)
Accumulated other comprehensive loss	(106.8)	(86.2)
Total shareholders' equity - controlling interest	620.7	553.7
Noncontrolling interest	12.4	13.5
Total equity	$633.1	$567.2
Total liabilities and equity	$2,527.2	$2,058.3

See Notes to Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
Consolidated Statements of Shareholders' Equity
(In millions, except per share data)

	Common Shares		Capital in Excess of Stated Value	Retained Earnings	Treasury Shares		Accumulated Other Comprehensive Income (loss)	Total	Non-controlling Interest	Total
	Shares	Amount			Shares	Amount				
Balance at September 30, 2012	68.1	$ 0.3	$ 408.3	$ 630.2	6.8	$ (349.6)	$ (87.3)	$ 601.9	$ —	$ 601.9
Net income				161.1				161.1		161.1
Other comprehensive income							9.5	9.5		9.5
Share-based compensation			10.3					10.3		10.3
Dividends declared ($1.4125 per share)				(87.8)				(87.8)		(87.8)
Treasury share purchases										
Treasury share issuances			(21.4)		(0.7)	37.0		15.6		15.6
Other				(0.1)				(0.1)		(0.1)
Balance at September 30, 2013	68.1	0.3	397.2	703.4	6.1	(312.6)	(77.8)	710.5	—	710.5
Net income (loss)				166.5				166.5	(0.3)	166.2
Other comprehensive loss							(8.4)	(8.4)		(8.4)
Share-based compensation			11.1					11.1		11.1
Dividends declared ($3.7625 per share)				(233.0)				(233.0)		(233.0)
Treasury share purchases					2.1	(120.0)		(120.0)		(120.0)
Treasury share issuances			(13.3)		(0.8)	40.3		27.0		27.0
Investment in noncontrolling interest									13.8	13.8
Balance at September 30, 2014	68.1	0.3	395.0	636.9	7.4	(392.3)	(86.2)	553.7	13.5	567.2
Net income (loss)				159.8				159.8	(1.1)	158.7
Other comprehensive loss							(20.6)	(20.6)		(20.6)
Share-based compensation			17.5					17.5		17.5
Dividends declared ($1.8200 per share)				(112.5)				(112.5)		(112.5)

Treasury share purchases					0.2	(14.8)		(14.8)		(14.8)
Treasury share issuances			(12.4)		(0.9)	50.0		37.6		37.6
Balance at September 30, 2015	68.1	$ 0.3	$ 400.1	$ 684.2	6.7	$ (357.1)	$ (106.8)	$ 620.7	$ 12.4	$ 633.1

See Notes to Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The Company also operates the Scotts LawnService® business, which provides residential and commercial lawn care, tree and shrub care and pest control services in the United States.

In March 2014, the Company completed the sale of its U.S. and Canadian wild bird food business. As a result, effective in the second quarter of fiscal 2014, the Company classified its results of operations for all periods presented to reflect the wild bird food business as a discontinued operation.

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

Organization and Basis of Presentation

The Company's consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company's consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. AeroGrow International, Inc. ("AeroGrow"), in which the Company has a controlling interest, is consolidated, with the equity owned by other shareholders shown as noncontrolling interest in the consolidated balance sheets, and the other shareholders' portion of net earnings and other comprehensive income shown as net income/loss or comprehensive income attributable to noncontrolling interest in the Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income (Loss), respectively.

Use of Estimates

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

Revenue Recognition

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

Under the terms of the Amended and Restated Exclusive Agency and Marketing Agreement (the "Marketing Agreement"), the Company performs certain functions, primarily manufacturing conversion services (in North America), distribution and logistics, and selling and marketing support, on behalf of Monsanto in the conduct of the consumer Roundup® business. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred under the Marketing Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in "Cost of sales" and the reimbursement of these costs in "Net sales," with no effect on gross profit dollars or net income.

Promotional Allowances

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

Advertising

Advertising costs incurred during the year by our Global Consumer segment are expensed to interim periods in relation to revenues. All advertising costs, except for external production costs, are expensed within the fiscal year in which such costs are incurred. External production costs for advertising programs are deferred until the period in which the advertising is first aired. The costs deferred at September 30, 2015 and 2014 were $0.7 million and $1.9 million, respectively.

Scotts LawnService® promotes its service offerings through direct mail and direct selling campaigns. External costs associated with these campaigns that qualify as direct response advertising costs are deferred and recognized as advertising expense in proportion to revenues over a period not beyond the end of the immediately following calendar year. Costs that do not qualify as direct response advertising costs are expensed within the fiscal year incurred on a monthly basis in proportion to net sales. The costs deferred at September 30, 2015 and 2014 were $1.5 million and $1.3 million, respectively.

Advertising expenses were $146.1 million in fiscal 2015, $143.6 million in fiscal 2014 and $142.2 million in fiscal 2013.

Research and Development

All costs associated with research and development are charged to expense as incurred. Expenses for fiscal 2015, fiscal 2014 and fiscal 2013 were $46.8 million, $48.4 million and $46.4 million, respectively, including product registration costs of $13.1 million, $12.6 million and $12.4 million, respectively.

Environmental Costs

The Company recognizes environmental liabilities when conditions requiring remediation are probable and the amounts can be reasonably estimated. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Environmental liabilities are not discounted or reduced for possible recoveries from insurance carriers.

Share-Based Compensation Awards

The fair value of awards is expensed over the requisite service period which is typically the vesting period, generally three years, except in cases where employees are eligible for accelerated vesting based on having satisfied retirement requirements relating to age and years of service. Performance-based awards are expensed over the requisite service period based on achievement of performance criteria. The Company uses a binomial model to determine the fair value of its option grants. The Company classifies share-based compensation expense within selling, general and administrative expenses to correspond with the same line item as cash compensation paid to employees.

Earnings per Common Share

Basic earnings per Common Share is computed based on the weighted-average number of Common Shares outstanding each period. Diluted earnings per Common Share is computed based on the weighted-average number of Common Shares and dilutive potential Common Shares (stock options, stock appreciation rights, performance shares and restricted stock unit awards) outstanding each period.

Cash and Cash Equivalents

The Company considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. The Company maintains cash deposits in banks which from time to time exceed the amount of deposit insurance available. Management periodically assesses the financial condition of the Company’s banks and

believes that the risk of any potential credit loss is minimal.

Accounts Receivable and Allowances

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Allowances for doubtful accounts reflect the Company's estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. The allowance is determined based on a combination of factors, including the Company's risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

Inventories

Inventories are stated at the lower of cost or market, principally determined by the first in, first out method of accounting. Inventories include the cost of raw materials, labor, manufacturing overhead and freight and in-bound handling costs incurred to pre-position goods in the Company's warehouse network. The Company makes provisions for obsolete or slow-moving inventories as necessary to properly reflect inventory at the lower of cost or market value. Adjustments to reflect inventories at net realizable values were $17.8 million and $18.4 million at September 30, 2015 and 2014, respectively.

Long-lived Assets

Property, plant and equipment are stated at cost. Interest capitalized in property, plant and equipment amounted to $0.4 million, $0.4 million and $0.8 million during fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. When properties are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts with the resulting gain or loss being reflected in income from operations.

Depreciation of property, plant and equipment is provided on the straight-line method and is based on the estimated useful economic lives of the assets as follows:

Land improvements	10 – 25 years
Buildings	10 – 40 years
Machinery and equipment	3 – 15 years
Furniture and fixtures	6 – 10 years
Software	3 – 8 years

Intangible assets subject to amortization include technology, such as patents, customer relationships, non-compete agreements and certain tradenames. These intangible assets are being amortized over their estimated useful economic lives, which typically range from 3 to 25 years. The Company's fixed assets and intangible assets subject to amortization are required to be tested for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. If an evaluation of recoverability was required, the estimated undiscounted future cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down is required. If the undiscounted cash flows are less than the carrying amount, an impairment loss is recorded to the extent that the carrying amount exceeds fair value and classified as "Impairment, restructuring and other charges" within "Operating expenses" in the Consolidated Statements of Operations.

The Company had noncash investing activities of $8.5 million, $7.0 million and $7.3 million during fiscal 2015, fiscal 2014 and fiscal 2013, respectively, representing unpaid liabilities incurred during each fiscal year to acquire property, plant and equipment.

Internal Use Software

The costs of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or the post-implementation/operation stage. As of September 30, 2015 and September 30, 2014, the Company had $18.6 million and $21.8 million, respectively, in unamortized capitalized internal use computer software costs. Amortization of these costs was $6.0 million, $8.3

million and $7.3 million during fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

Goodwill and Indefinite-lived Intangible Assets

Goodwill and indefinite-lived intangible assets are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis, as of the first day of the Company's fiscal fourth quarter, or more frequently if circumstances indicate impairment may have occurred.

With respect to goodwill, the Company performs either a qualitative or quantitative evaluation for each of its reporting units. Factors considered in the qualitative test include reporting unit specific operating results as well as new events and circumstances impacting the operations of the reporting units. For the quantitative test, the Company assesses goodwill for impairment by comparing the carrying value of its reporting units to their respective fair values and reviewing the Company's market value of invested capital. A reporting unit is defined as an operating segment or one level below an operating segment. The Company has identified six reporting units. The Company determines the fair value of its reporting units under the income-based approach utilizing discounted cash flows and incorporates assumptions it believes marketplace participants would utilize. The Company also uses a comparative market-based approach using market multiples and other factors to corroborate the discounted cash flow results used.

With respect to indefinite-lived intangible assets, the Company performs either a qualitative or quantitative evaluation for each of its indefinite-lived intangible assets. Factors considered in the qualitative test include indefinite-lived intangible asset specific operating results as well as new events and circumstances impacting the cash flows of the indefinite-lived intangible assets. For the quantitative test, the value of all indefinite-lived intangible assets is determined under the income-based approach utilizing discounted cash flows and incorporating assumptions the Company believes marketplace participants would utilize. For tradenames, value was determined using a royalty savings methodology similar to that employed when the associated businesses were acquired but using updated estimates of sales, cash flow and profitability. 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 its estimated fair value and classified as "Impairment, restructuring and other charges" within "Operating expenses" in the Consolidated Statements of Operations.

Insurance and Self-Insurance

The Company maintains insurance for certain risks, including workers' compensation, general liability and vehicle liability, and is self-insured for employee-related health care benefits up to a specified level for individual claims. The Company accrues for the expected costs associated with these risks by considering historical claims experience, demographic factors, severity factors and other relevant information. Costs are recognized in the period the claim is incurred, and accruals include an actuarially determined estimate of claims incurred but not yet reported.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases. Management reviews the Company's deferred tax assets to determine whether their value can be realized based upon available evidence. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company's tax provision in the period of change.

The Company establishes a liability for tax return positions in which there is uncertainty as to whether or not the position will ultimately be sustained. Amounts for uncertain tax positions are adjusted in quarters when new information becomes available or when positions are effectively settled. The Company recognizes interest expense and penalties related to these unrecognized tax benefits within income tax expense.

U.S. income tax expense and foreign withholding taxes are provided on unremitted foreign earnings that are not indefinitely reinvested at the time the earnings are generated. Where foreign earnings are indefinitely reinvested, no provision for U.S. income or foreign withholding taxes is made. When circumstances change and the Company determines that some or all of the undistributed earnings will be remitted in the foreseeable future, the Company accrues an expense in the current period for U.S. income taxes and foreign withholding taxes attributable to the anticipated remittance.

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Translation of Foreign Currencies

The functional currency for each Scotts Miracle-Gro subsidiary is generally its local currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each fiscal year-end. Income and expense accounts are translated at the average rate of exchange prevailing during the year. Translation gains and losses arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income (loss) within shareholders' equity. Foreign currency transaction gains and losses are included in the determination of net income and classified as "Other income, net" in the Consolidated Statements of Operations.

Derivative Instruments

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. A variety of financial instruments, including forward and swap contracts, are used to manage these exposures. These financial instruments are recognized at fair value on the Consolidated Balance Sheets, and all changes in fair value are recognized in net income or shareholders' equity through accumulated other comprehensive income (loss). The Company's objective in managing these exposures is to better control these elements of cost and mitigate the earnings and cash flow volatility associated with changes in the applicable rates and prices.

The Company has established policies and procedures that encompass risk-management philosophy and objectives, guidelines for derivative-instrument usage, counterparty credit approval, and the monitoring and reporting of derivative activity. The Company does not enter into derivative instruments for the purpose of speculation.

The Company formally designates and documents instruments at inception that qualify for hedge accounting of underlying exposures in accordance with GAAP. The Company formally assesses, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in cash flows of the related underlying exposure. Fluctuations in the value of these instruments generally are offset by changes in the cash flows of the underlying exposures being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. GAAP requires all derivative instruments to be recognized as either assets or liabilities at fair value in the Consolidated Balance Sheets. The Company designates commodity hedges as cash flow hedges of forecasted purchases of commodities and interest rate swap agreements as cash flow hedges of interest payments on variable rate borrowings. Any ineffective portion of a change in the fair value of a qualifying instrument is immediately recognized in earnings.

RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition from Contracts with Customers

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

Discontinued Operations Reporting

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

significant impact on the Company's consolidated financial position, results of operations or cash flows.

Going Concern

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

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 prospectively for fiscal years beginning after December 15, 2016 and are not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Debt Issuance Costs

In April 2015, the FASB issued an accounting standard update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the corresponding debt liability rather than as an asset. The provisions are effective for fiscal years beginning after December 15, 2015 and require retrospective application. The adoption of the amended guidance impacts presentation and disclosure of debt issuance costs and is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows. As of September 30, 2015, the Company had unamortized debt issuance costs of $11.3 million.

Cloud Computing Arrangements

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

Business Combinations

In September 2015, the FASB issued an accounting standard update to simplify the accounting for measurement-period adjustments by requiring an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, and requiring disclosure of the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The provisions are effective prospectively for fiscal years beginning no later than December 15, 2016 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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THE SCOTTS MIRACLE-GRO COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 2. DISCONTINUED OPERATIONS
Wild Bird Food
In March 2014, the Company completed the sale of its U.S. and Canadian wild bird food business, including intangible assets, certain on-hand inventory and fixed assets, for $4.1 million in cash and an estimated $1.0 million in future earn-out payments. As a result, effective in the second quarter of fiscal 2014, the Company classified its results of operations for all periods presented to reflect the wild bird food business as a discontinued operation. In addition, in the third quarter of fiscal 2014, the Company received $3.1 million for the sale of the remaining wild bird food manufacturing facilities resulting in a gain of $1.2 million.
The following table summarizes the results of the wild bird food business within discontinued operations:

	Year Ended September 30,		
	2015	2014	2013
	(In millions)		
Net sales	$—	$18.1	$42.8
Operating costs	—	17.6	40.4
Gain on sale of assets	—	(1.2)	—
Income from discontinued operations before income taxes	—	1.7	2.4
Income tax expense from discontinued operations	—	0.9	0.7
Income from discontinued operations, net of tax	$—	$0.8	$1.7

NOTE 3. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES
Activity described herein is classified within the "Impairment, restructuring and other" lines in the Consolidated Statements of Operations.
The following table details impairment, restructuring and other charges during fiscal 2015, fiscal 2014 and fiscal 2013:

	Year Ended September 30,		
	2015	2014	2013
	(In millions)		
Restructuring and other	$84.6	$17.3	$4.4
Goodwill and intangible asset impairments	—	33.7	15.9
Total impairment, restructuring and other	$84.6	$51.0	$20.3

The following table summarizes the activity related to liabilities associated with the restructuring and other charges during fiscal 2015, fiscal 2014 and fiscal 2013:

	Year Ended September 30,		
	2015	2014	2013
	(In millions)		
Amounts reserved for restructuring and other at beginning of year	$16.0	$11.1	$10.2
Restructuring and other charges	84.6	17.3	9.1
Payments and other	(72.5)	(12.4)	(8.2)
Amounts reserved for restructuring and other at end of year	$28.1	$16.0	$11.1

Included in the restructuring reserves as of September 30, 2015, is $4.0 million that is classified as long-term. Payments against the long-term reserves will be incurred as the employees covered by the restructuring plan retire or through the passage of time. The remaining amounts reserved will continue to be paid out over the course of the next twelve months.

Fiscal 2015

During fiscal 2015, the Company recognized $22.2 million in restructuring costs related to termination benefits provided to U.S. and international personnel as part of the Company's restructuring of its U.S. administrative and overhead functions, the continuation of the international profitability improvement initiative, and the liquidation and exit from the U.K. Solus business. The restructuring charges include $4.3 million of costs related to the acceleration of equity compensation expense for fiscal 2015. Included within the restructuring charges for fiscal 2015 were $14.3 million for the Global Consumer segment, $1.3 million for the Scotts LawnService® segment, and $6.6 million for Corporate & Other. Costs incurred to date since the inception of the current initiatives are $35.7 million for Global Consumer, $1.7 million for Scotts LawnService®, and $9.2 million for Corporate & Other.

During the third quarter of fiscal 2015, the Company's Global Consumer segment began experiencing an increase in certain consumer complaints related to the newly reformulated Bonus S® lawn fertilizer product used in the southeastern United States indicating customers were experiencing damage to their lawns after application. During fiscal 2015, the Company recognized $62.4 million in costs related to resolving consumer complaints and the recognition of costs the Company expects to be incurred for current and expected consumer claims. The Company is working through the claims process with its insurers, and received reimbursement payments of $4.9 million during fiscal 2015, which was recorded as an offsetting insurance reimbursement recovery. Upon the receipt of additional reimbursement of these costs by its insurance carriers, the Company will record an offsetting insurance reimbursement recovery. During fiscal 2015, the Company paid $42.7 million to its third party administrator to pay for lawn repairs.

Fiscal 2014

During the third quarter of fiscal 2014, as a result of financial performance, the Company recognized an impairment charge for a non-recurring fair value adjustment of $33.7 million within the Global Consumer segment related to the Ortho® brand. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho® business.

During fiscal 2014, the Company recognized $12.5 million in restructuring costs related to termination benefits provided to U.S. personnel as part of the Company's restructuring of its U.S. administrative and overhead functions. The Company also recognized $2.8 million of international restructuring and other adjustments during fiscal 2014 for the continuation of the profitability improvement initiative announced in December 2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment. In addition, during fiscal 2014, the Company recognized $2.0 million in additional ongoing monitoring and remediation costs for the Company's turfgrass biotechnology program.

Fiscal 2013

During the first quarter of fiscal 2013, the Company recognized income of $4.7 million related to the reimbursement by a vendor for a portion of the costs incurred for the development and commercialization of products including the active ingredient MAT 28 for the Global Consumer segment. During the first quarter of 2013, the Company also recognized a $4.3 million asset impairment charge as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment. Also, as a result of the Company's annual impairment review performed in the fourth quarter of fiscal 2013, the Company recognized an impairment charge for a non-recurring fair value adjustment of $11.6 million within the Global Consumer segment related to the Ortho® brand and certain sub-brands of Ortho®. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho® business.

During fiscal 2013, the Company recognized $9.1 million in restructuring costs related to termination benefits provided to international employees in relation to the profitability improvement initiative announced in December

2012, associated with the international restructuring plan to reduce headcount and streamline management decision making within the Global Consumer segment.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS, NET

The following table displays a rollforward of the carrying amount of goodwill by reportable segment:

	Global Consumer	Scotts LawnService®	Total
	(In millions)		
Goodwill	$245.9	$132.0	$377.9
Accumulated impairment losses	(62.8)	—	(62.8)
Balance at September 30, 2013	183.1	132.0	315.1
Acquisitions, net of purchase price adjustments and foreign currency translation	35.8	—	35.8
Goodwill	$281.7	$132.0	$413.7
Accumulated impairment losses	(62.8)	—	(62.8)
Balance at September 30, 2014	218.9	132.0	350.9
Acquisitions, net of purchase price adjustments and foreign currency translation	64.8	16.7	81.5
Goodwill	$346.5	$148.7	$495.2
Accumulated impairment losses	(62.8)	—	(62.8)
Balance at September 30, 2015	$283.7	$148.7	$432.4

The following table presents intangible assets, net:

	September 30, 2015			September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)					
Finite-lived intangible assets:						
Technology	$69.7	$ (56.9)	$12.8	$70.3	$ (56.0)	$14.3
Customer accounts	122.6	(51.5)	71.1	74.2	(47.2)	27.0
Tradenames	94.9	(17.2)	77.7	69.0	(12.7)	56.3
Other	97.3	(80.2)	17.1	99.2	(81.4)	17.8
Total finite-lived intangible assets, net			178.7			115.4
Indefinite-lived intangible assets:						
Indefinite-lived tradenames			184.8			187.3
Marketing Agreement Amendment			188.3			—
Brand Extension Agreement			111.7			—
Total indefinite-lived intangible assets			484.8			187.3
Total intangible assets, net			$663.5			$302.7

Fiscal 2015

As a result of the annual impairment review, in the fourth quarter of fiscal 2015, the Company determined that no charges for impairment of goodwill or intangible assets were required. The estimated fair value of each reporting unit with a significant goodwill balance was substantially in excess of its carrying value as of the annual test date. Each of the indefinite-lived tradenames had an estimated fair value substantially in excess of its carrying value as of the annual test date, with the exception of the Ortho® brand.

Fiscal 2014

During the third quarter of 2014, the Company completed an impairment review and recognized an impairment charge for a non-recurring fair value adjustment of $33.7 million, within the Global Consumer segment related to the Ortho® brand. The fair value was calculated based upon the evaluation of the historical performance and future growth expectations of the Ortho® business. The impact of the fair value adjustment was to reduce the carrying value of the indefinite-lived Ortho® brand and sub-brands from $126.0 million to $92.3 million. The impairment charge is discussed further in "NOTE 3. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES." As a result of the annual impairment review, the Company also determined that no other charges for impairment of goodwill or intangible assets were required. The estimated fair value of each reporting unit with a significant goodwill balance was substantially in excess of its carrying value as of the annual test date. Each of the indefinite-lived tradenames had an estimated fair value substantially in excess of its carrying value as of the annual test date, with the exception of the Ortho® brand.

Fiscal 2013

During the first quarter of 2013, the Company recognized a $4.3 million asset impairment charge as a result of issues with the commercialization of an insect repellent technology for the Global Consumer segment. During the fourth quarter of fiscal 2013, the Company completed its annual impairment review and recognized an impairment charge for a non-recurring fair value adjustment of $11.6 million, which included $11.1 million for indefinite-lived tradenames and $0.5 million for finite-lived tradenames, within the Global Consumer segment related to the Ortho® brand and certain sub-brands of Ortho®. The impact of the fair value adjustment was to reduce the carrying value of the indefinite-lived Ortho® brand and sub-brands from $137.1 million to $126.0 million. The impairment charge is discussed further in "NOTE 3. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES." As a result of the annual impairment review, the Company also determined that no other charges for impairment of goodwill or intangible assets were required. The estimated fair value of each reporting unit with a significant goodwill balance was substantially in excess of its carrying value as of the annual test date. Each of the indefinite-lived tradenames had an estimated fair value substantially in excess of its carrying value as of the annual test date, with the exception of the Ortho® brand.

Total amortization expense for the years ended September 30, 2015, 2014, and 2013 was $17.6 million, $13.8 million and $11.2 million, respectively. Amortization expense is estimated to be as follows for the years ending September 30 (in millions):

2016	$18.5
2017	16.2
2018	14.9
2019	13.2
2020	12.2

NOTE 5. DETAIL OF CERTAIN FINANCIAL STATEMENT ACCOUNTS

The following is detail of certain financial statement accounts:

	September 30, 2015 (In millions)	2014
INVENTORIES:		
Finished goods	$230.2	$217.5
Work-in-progress	48.3	46.2
Raw materials	129.1	121.4

	$407.6	$385.1
PREPAID AND OTHER CURRENT ASSETS:		
Deferred tax asset	$78.2	$72.2
Accounts receivable, non-trade	11.2	12.7
Other	36.0	38.0
	$125.4	$122.9

THE SCOTTS MIRACLE-GRO COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	September 30, 2015	2014
	(In millions)	
PROPERTY, PLANT AND EQUIPMENT, NET:		
Land and improvements	$96.5	$87.1
Buildings	221.7	218.8
Machinery and equipment	558.1	536.2
Furniture and fixtures	41.9	40.5
Software	113.0	123.8
Aircraft	6.7	6.7
Construction in progress	28.7	21.1
	1,066.6	1,034.2
Less: accumulated depreciation	(612.9)	(597.2)
	$453.7	$437.0

	September 30, 2015	2014
	(In millions)	
OTHER CURRENT LIABILITIES:		
Payroll and other compensation accruals	$66.1	$79.0
Advertising and promotional accruals	66.9	64.1
Other	147.4	116.4
	$280.4	$259.5
OTHER NON-CURRENT LIABILITIES:		
Accrued pension and postretirement liabilities	$92.5	$93.8
Deferred tax liabilities	125.4	120.4
Other	34.6	39.8
	$252.5	$254.0

	September 30, 2015	2014	2013
	(In millions)		
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Unrecognized loss on derivatives, net of tax of $5.6, $4.3 and $7.1	$(9.0)	$(6.9)	$(11.5)
Pension and other postretirement liabilities, net of tax of $39.3, $38.6 and $31.4	(63.7)	(62.4)	(58.0)
Foreign currency translation adjustment	(34.1)	(16.9)	(8.3)
	$(106.8)	$(86.2)	$(77.8)

NOTE 6. MARKETING AGREEMENT

The Scotts Company LLC and Monsanto are parties to an 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

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Agreement subject to the achievement of annual earnings thresholds. The Marketing Agreement also requires the Company to make annual payments of $20 million to Monsanto as a contribution against the overall expenses of the consumer Roundup® business. From 1998 until May 15, 2015, the Marketing Agreement covered the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. 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 20 years, with a remaining unamortized amount of $2.6 million and remaining amortization period of less than 3 years as of September 30, 2015.

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.
- 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 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 are 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 20 years, which will automatically renew for additional successive 20 year terms, at the Company’s sole option, for no additional monetary consideration.

The Commercialization and Technology Agreement provides for the Company and Monsanto to further develop and commercialize new products and technology developed at Monsanto and intended for introduction into the residential lawn and garden market. Under the Commercialization and Technology Agreement, the Company receives an exclusive first look at new Monsanto technology and products and an annual review of Monsanto's developing products and technologies. The Commercialization and Technology Agreement has a term of 30 years (subject to early termination upon a termination event under the Marketing Agreement or the Brand Extension Agreement).

The Company recorded the $300 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 basis, recognizing such costs in “Cost of sales” and the reimbursement of these costs in “Net sales,” with no effect on gross profit dollars or net income.

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

	Year Ended September 30		
	2015	2014	2013
	(In millions)		
Gross commission	$88.7	$85.2	$81.8
Contribution expenses	(20.0)	(20.0)	(20.0)
Amortization of marketing fee	(0.8)	(0.8)	(0.8)

Net commission income	67.9	64.4	61.0
Reimbursements associated with Marketing Agreement	63.3	63.0	62.0
Total net sales associated with Marketing Agreement	$131.2	$127.4	$123.0

NOTE 7. ACQUISITIONS

Fiscal 2015

On October 16, 2014, Scotts LawnService® acquired the assets of Action Pest Control Inc. (“Action Pest”), a residential and commercial pest control provider in the Midwest, for $21.7 million. Action Pest provides residential and commercial pest control services to homeowners and businesses throughout Indiana, Kentucky, and Illinois. This transaction provides Scotts LawnService® an entry into the pest control market. Included in the purchase price of $21.7 million is non-cash investing activity of $4.0 million representing the deferral of a portion of the purchase price into subsequent fiscal periods. The valuation of acquired assets included finite-lived identifiable intangible assets of $6.1 million and tax deductible goodwill of $14.1 million. Identifiable intangible assets included tradename, customer relationships and non-compete agreements with useful lives ranging between 1 to 12 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for Action Pest included in the Scotts LawnService® segment for fiscal 2015 were $12.0 million. During fiscal 2015, Scotts LawnService® also acquired several other businesses that individually and in the aggregate were not significant for an aggregate purchase price of $3.5 million, which included $2.6 million in tax deductible goodwill.

During fiscal 2015, the Company completed four acquisitions of growing media operations within the Global Consumer segment for an aggregate purchase price of $40.2 million. These acquisitions expand the Company's growing media operations and distribution capabilities within its Global Consumer segment. The valuation of acquired assets for the transactions included (i) $10.1 million in finite-lived identifiable intangible assets, (ii) $11.4 million in fixed assets, (iii) $9.8 million in tax deductible goodwill, and (iv) $9.7 million of inventory and accounts receivable. Identifiable intangible assets include tradenames and customer relationships with useful lives ranging between 7 to 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for these acquired businesses included in the Global Consumer segment for fiscal 2015 were $21.2 million.

On March 30, 2015, the Company acquired the assets of General Hydroponics, Inc. (“General Hydroponics”) and Bio-Organic Solutions, Inc. (“Vermicrop”) for $120.0 million and $15.0 million, respectively. This transaction provides the Company's Global Consumer segment with an additional entry in the indoor and urban gardening market, which is a part of the Global Consumer segment's long-term growth strategy. General Hydroponics and Vermicrop are leading producers of liquid plant food products, growing media, and accessories for the hydroponics markets. The General Hydroponics purchase price includes non-cash investing activity of $1.0 million representing the deferral of a portion of the purchase price into fiscal 2016. Included in the Vermicrop purchase price is $5.0 million of contingent consideration, the payment of which will depend on the performance of the business through calendar year 2015. Additionally, the Vermicrop purchase price was paid in common shares of Scotts Miracle-Gro (“Common Shares”) based on the average share price at the time of payment. The valuation of acquired assets was determined during the third quarter of fiscal 2015 and included (i) $14.2 million of inventory and accounts receivable, (ii) $5.7 million in fixed assets, (iii) $65.0 million of finite-lived identifiable intangible assets, and (iv) $53.7 million of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete arrangements with useful lives ranging between 5 to 26 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for General Hydroponics and Vermicrop included within the Global Consumer segment for fiscal 2015 were $30.9 million.

The Consolidated Financial Statements include the results of operations for these business combinations from the date of each acquisition.

Fiscal 2014

During the fourth quarter of fiscal 2014, the Company obtained control of the operations of AeroGrow through its increased involvement, influence, and working capital loan of $4.5 million provided in July 2014. AeroGrow is a developer, marketer, direct-seller, and wholesaler of advanced indoor garden systems designed for consumer use in gardening, cooking, healthy eating, and home and office décor markets. AeroGrow operates primarily in the United States and Canada, as well as Australia and select countries in Europe and Asia. The valuation of acquired assets included finite-lived identifiable intangible assets of $13.7 million, and goodwill of $11.6 million. Identifiable intangible assets included tradename and customer relationships with useful lives ranging between 9 to 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for AeroGrow included in the Global Consumer segment for fiscal 2015 and 2014 were $17.1 million and $1.7 million, respectively.

The Company completed an acquisition of the assets of the U.K. based Solus Garden and Leisure Limited (“Solus”) in the fourth quarter of fiscal 2014 within its Global Consumer segment for $7.4 million, $1.1 million of which was paid in cash and $6.3 million of which was paid through the forgiveness of outstanding accounts receivable owed by Solus to the Company. Solus is a supplier of garden and leisure products and offers a diverse mix of brands. Net sales for Solus included in the Global Consumer segment for fiscal 2015 and 2014 were $21.2 million and $3.3 million, respectively.

On September 30, 2014, Scotts Miracle-Gro's wholly-owned subsidiary, Scotts Canada Ltd., acquired Fafard & Brothers Ltd. (“Fafard”) for $59.8 million. Fafard is a Canadian based producer of peat moss and growing media products for the consumer and professional markets, including peat-based and bark-based mixes, composts and premium soils. The acquisition of Fafard increases the Company's presence within Canada as Fafard serves customers primarily across Ontario, Quebec and New Brunswick. The valuation of acquired assets included working capital of $17.6 million, property, plant, and equipment of $23.4 million, finite-lived identifiable intangible assets of $12.6 million, and tax deductible goodwill of $7.9 million. Working capital included accounts receivable of $4.7 million, inventory of $17.7 million, and accounts payable of $4.8 million. Identifiable intangible assets included tradename, customer relationships, non-compete agreements, and peat harvesting rights with useful lives ranging between 1 to 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Included in the purchase price of Fafard is $7.1 million of contingent consideration, the payment of which will depend on the performance of the business through fiscal 2016. Net sales for Fafard included in the Global Consumer segment for fiscal 2015 were $37.8 million.

The Consolidated Financial Statements include the results of operations for these business combinations from the date of each acquisition.

Fiscal 2013

During fiscal 2013, the Company completed several acquisitions within its controls, growing media and Scotts LawnService® businesses that individually and in the aggregate were not significant. The aggregate purchase price of these acquisitions was $7.2 million. The Consolidated Financial Statements include the results of operations for these business combinations from the date of each acquisition.

NOTE 8. RETIREMENT PLANS

The Company sponsors a defined contribution 401(k) plan for substantially all U.S. associates. The Company matches 150% of associates' initial 4% contribution and 50% of their remaining contribution up to 6%. The Company may make additional discretionary profit sharing matching contributions to eligible employees on their initial 4% contribution. The Company recorded charges of $14.1 million, $13.8 million and $13.1 million under the plan in fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

The Company sponsors two defined benefit pension plans for certain U.S. associates. Benefits under these plans have been frozen and closed to new associates since 1997. The benefits under the primary plan are based on years of service and the associates' average final compensation or stated amounts. The Company's funding policy, consistent with statutory requirements and tax considerations, is based on actuarial computations using the Projected Unit Credit method. The second frozen plan is a non-qualified supplemental pension plan. This plan provides for incremental pension payments so that total pension payments equal amounts that would have been payable from the Company's pension plan if it were not for limitations imposed by the income tax regulations. In connection with the restructuring plans discussed in "NOTE 3. IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES," the Company recognized a plan curtailment gain of $0.5 million in fiscal 2013 for a change in the benefit obligations associated with these plans.

The Company sponsors defined benefit pension plans associated with its international businesses in the United Kingdom, Germany, France and the Netherlands. These plans generally cover all associates of the respective businesses, with retirement benefits primarily based on years of service and compensation levels. In fiscal 2013, the Company's remaining obligations were settled for the defined benefit pension plan associated with its Netherlands business. On July 1, 2010, the Company froze its two U.K. defined benefit pension plans and transferred participants to an amended defined contribution plan. Under the frozen defined benefit plans, participants are no longer credited for future service; however, future salary increases will continue to be factored into each participant's final pension benefit.

In October 2014, the Society of Actuaries released an updated report on mortality tables and a mortality improvement scale to reflect increasing life expectancies in the United States. As of September 30, 2015, the Company revised assumed mortality rates to reflect the updated information, resulting in an increase in the projected benefit obligation.

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The following tables present information about benefit obligations, plan assets, annual expense, assumptions and other information about the Company's defined benefit pension plans. The defined benefit pension plans are valued using a September 30 measurement date.

	U.S. Defined Benefit Pension Plans		International Defined Benefit Pension Plans	
	2015	2014	2015	2014
	(In millions)			
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$109.2	$106.7	$208.3	$190.7
Service cost	—	—	1.2	1.2
Interest cost	4.0	4.5	7.3	8.3
Actuarial loss	11.4	5.1	4.5	17.7
Benefits paid	(7.3)	(7.1)	(6.4)	(6.5)
Other	—	—	(1.1)	(0.6)
Foreign currency translation	—	—	(15.7)	(2.5)
Projected benefit obligation at end of year	$117.3	$109.2	$198.1	$208.3
Accumulated benefit obligation at end of year	$117.3	$109.2	$192.0	$200.8
Change in plan assets:				
Fair value of plan assets at beginning of year	$89.8	$84.3	$166.3	$148.8
Actual return on plan assets	(1.4)	9.2	13.9	16.4
Employer contribution	2.4	3.4	7.4	8.9
Benefits paid	(7.3)	(7.1)	(6.4)	(6.5)
Foreign currency translation	—	—	(11.5)	(0.4)
Other	—	—	(1.1)	(0.9)
Fair value of plan assets at end of year	$83.5	$89.8	$168.6	$166.3
Underfunded status at end of year	$(33.8)	$(19.4)	$(29.5)	$(42.0)
Information for pension plans with an accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	$117.3	$109.2	$198.1	$208.3
Accumulated benefit obligation	117.3	109.2	192.0	200.8
Fair value of plan assets	83.5	89.8	168.6	166.3
Amounts recognized in the Consolidated Balance Sheets consist of:				
Noncurrent assets	$—	$—	$2.4	$—
Current liabilities	(0.2)	(0.2)	(0.9)	(1.1)
Noncurrent liabilities	(33.6)	(19.2)	(31.0)	(40.9)
Total amount accrued	$(33.8)	$(19.4)	$(29.5)	$(42.0)
Amounts recognized in accumulated other comprehensive loss consist of:				
Actuarial loss	$49.2	$34.3	$57.8	$64.7
Prior service cost	—	—	0.3	0.4
Total amount recognized	$49.2	$34.3	$58.1	$65.1

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	U.S. Defined Benefit Pension Plans		International Defined Benefit Pension Plans	
	2015	2014	2015	2014
	(In millions, except percentage figures)			
Total change in other comprehensive loss attributable to:				
Pension benefit (loss) gain during the period	$(18.2)	$(1.1)	$0.5	$(10.7)
Reclassification of pension benefit losses to net income	3.3	3.7	1.7	1.4
Foreign currency translation	—	—	4.8	0.7
Total change in other comprehensive loss	$(14.9)	$2.6	$7.0	$(8.6)
Amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost in fiscal 2016 are as follows:				
Actuarial loss	$1.8		$1.7	
Prior service cost	—		—	
Amount to be amortized into net periodic benefit cost	$1.8		$1.7	
Weighted average assumptions used in development of projected benefit obligation:				
Discount rate	3.82%	3.81%	3.52%	3.73%
Rate of compensation increase	n/a	n/a	3.49%	3.65%

	U.S. Defined Benefit Pension Plans			International Defined Benefit Pension Plans		
	2015	2014	2013	2015	2014	2013
	(In millions, except percentage figures)					
Components of net periodic benefit cost:						
Service cost	$—	$—	$—	$1.2	$1.2	$1.2
Interest cost	4.0	4.5	3.8	7.3	8.3	7.8
Expected return on plan assets	(5.4)	(5.2)	(5.2)	(8.9)	(9.4)	(8.7)
Net amortization	3.3	3.7	4.8	1.7	1.4	1.2
Net periodic benefit cost	1.9	3.0	3.4	1.3	1.5	1.5
Curtailment loss (gain)	—	—	—	—	—	(0.5)
Settlement	—	—	—	—	—	(0.5)
Contractual termination benefits	—	—	—	—	0.3	—
Total benefit cost	$1.9	$3.0	$3.4	$1.3	$1.8	$0.5
Weighted average assumptions used in development of net periodic benefit cost:						
Discount rate	3.81%	4.32%	3.39%	3.73%	4.32%	4.45%
Expected return on plan assets	6.25%	6.25%	6.25%	5.63%	6.17%	6.52%
Rate of compensation increase	n/a	n/a	n/a	3.7%	3.7%	3.4%

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	U.S. Defined Benefit Pension Plans		International Defined Benefit Pension Plans	
	(In millions, except percentage figures)			
Other information:				
Plan asset allocations:				
Target for September 30, 2016:				
Equity securities	25	%	32	%
Debt securities	70	%	66	%
Real estate securities	5	%	—	%
Cash and cash equivalents	—	%	—	%
Insurance contracts	—	%	2	%
September 30, 2015:				
Equity securities	23	%	31	%
Debt securities	70	%	67	%
Real estate securities	4	%	—	%
Cash and cash equivalents	3	%	—	%
Insurance contracts	—	%	2	%
September 30, 2014:				
Equity securities	25	%	52	%
Debt securities	69	%	45	%
Real estate securities	4	%	—	%
Cash and cash equivalents	2	%	1	%
Insurance contracts	—	%	2	%
Expected Company contributions in fiscal 2016	$3.2		$5.5	
Expected future benefit payments:				
2016	$7.6		$6.1	
2017	7.7		6.4	
2018	7.7		6.7	
2019	7.7		7.0	
2020	7.7		7.3	
2021 – 2026	37.8		43.7	

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The following tables set forth the fair value of the Company’s pension plan assets, segregated by level within the fair value hierarchy:

	September 30, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In millions)			
U.S. Defined Benefit Pension Plan Assets				
Cash and cash equivalents	$2.6	$—	$—	$2.6
Mutual funds—real estate	—	3.5	—	3.5
Mutual funds—equities	—	19.0	—	19.0
Mutual funds—fixed income	—	58.4	—	58.4
Total	$2.6	$80.9	$—	$83.5
International Defined Benefit Pension Plan Assets				
Cash and cash equivalents	$0.6	$—	$—	$0.6
Insurance contracts	—	2.6	—	2.6
Mutual funds—equities	—	52.3	—	52.3
Mutual funds—fixed income	—	113.1	—	113.1
Total	$0.6	$168.0	$—	$168.6

	September 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(In millions)			
U.S. Defined Benefit Pension Plan Assets				
Cash and cash equivalents	$2.0	$—	$—	$2.0
Mutual funds—real estate	—	3.7	—	3.7
Mutual funds—equities	—	22.2	—	22.2
Mutual funds—fixed income	—	61.9	—	61.9
Total	$2.0	$87.8	$—	$89.8
International Defined Benefit Pension Plan Assets				
Cash and cash equivalents	$1.7	$—	$—	$1.7
Insurance contracts	—	3.0	—	3.0
Mutual funds—equities	—	87.4	—	87.4
Mutual funds—fixed income	—	74.2	—	74.2
Total	$1.7	$164.6	$—	$166.3

The fair value of the mutual funds are valued at the exchange-listed year end closing price or at the net asset value of shares held by the fund at the end of the year. Insurance contracts are valued by discounting the related cash flows using a current year end market rate or at cash surrender value, which is presumed to equal fair value.

Investment Strategy

Target allocation percentages among various asset classes are maintained based on an individual investment policy established for each of the various pension plans. Asset allocations are designed to achieve long-term objectives of return while mitigating against downside risk and considering expected cash requirements necessary to fund benefit payments. However, the Company cannot predict future investment returns and therefore cannot determine whether future pension plan funding requirements could materially and adversely affect its financial condition, results of operations or cash flows.

Basis for Long-Term Rate of Return on Asset Assumptions

The Company's expected long-term rate of return on asset assumptions are derived from studies conducted by third parties. The studies include a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plans to determine the average rate of earnings expected. While the studies give appropriate consideration to recent fund performance and historical returns, the assumptions primarily represent expectations about future rates of return over the long term.

NOTE 9. ASSOCIATE MEDICAL BENEFITS

The Company provides comprehensive major medical benefits to certain of its retired associates and their dependents. Substantially all of the Company's domestic associates who were hired before January 1, 1998 become eligible for these benefits if they retire at age 55 or older with more than 10 years of service. The retiree medical plan requires certain minimum contributions from retired associates and includes provisions to limit the overall cost increases the Company is required to cover. The Company funds its portion of retiree medical benefits on a pay-as-you-go basis.

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The following table sets forth information about the retiree medical plan for domestic associates. The retiree medical plan is valued using a September 30 measurement date.

	2015	2014
	(In millions, except percentage figures)	
Change in Accumulated Plan Benefit Obligation (APBO):		
Benefit obligation at beginning of year	$32.4	$31.6
Service cost	0.4	0.4
Interest cost	1.3	1.4
Plan participants' contributions	1.2	1.1
Actuarial loss	2.0	0.7
Benefits paid (net of federal subsidy of $0.3 and $0.3)	(3.1)	(2.9)
Plan changes	(8.2)	0.1
Benefit obligation at end of year	$26.0	$32.4
Change in plan assets:		
Fair value of plan assets at beginning of year	$—	$—
Employer contribution	2.2	2.1
Plan participants' contributions	1.2	1.1
Gross benefits paid	(3.4)	(3.2)
Fair value of plan assets at end of year	$—	$—
Unfunded status at end of year	$(26.0)	$(32.4)
Amounts recognized in the Consolidated Balance Sheets consist of:		
Current liabilities	$(2.1)	$(2.3)
Noncurrent liabilities	(23.9)	(30.1)
Total amount accrued	$(26.0)	$(32.4)
Amounts recognized in accumulated other comprehensive loss consist of:		
Actuarial loss	$3.4	$1.3
Unamortized prior service cost (credit)	(8.1)	0.1
Total amount recognized	$(4.7)	$1.4
Total change in other comprehensive loss attributable to:		
Benefit loss during the period	$2.1	$0.9
Net prior service cost (credit)	(8.2)	0.1
Total change in other comprehensive loss (income)	$(6.1)	$1.0
Discount rate used in development of APBO	4.03%	4.08%

	2015	2014	2013
Components of net periodic benefit cost			
Service cost	$0.4	$0.4	$0.5
Interest cost	1.3	1.4	1.3
Amortization of actuarial loss	—	—	0.1
Total postretirement benefit cost	$1.7	$1.8	$1.9
Discount rate used in development of net periodic benefit cost	4.08%	4.54%	3.66%

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The estimated actuarial loss that will be amortized from accumulated loss into net periodic benefit cost over the next fiscal year is $0.1 million. On January 1, 2016, a plan change will become effective whereby Medicare eligible participants will be covered under a Health Reimbursement Arrangement (“HRA”) and a catastrophic prescription drug plan provided by the Company that will be used by retirees to purchase individual insurance policies that supplement or replace Medicare through a private exchange. This plan change resulted in a decrease in the benefit obligation of $8.2 million.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the “Act”) became law. The Act provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the benefit establ