

SCOTTS MIRACLE-GRO CO
Form 10-K
November 23, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-11593

The Scotts Miracle-Gro Company

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

14111 Scottslawn Road,
Marysville, Ohio

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

43041

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(Address of principal executive offices)

(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 No

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

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

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

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer

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

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

The aggregate market value of Common Shares (the only common equity of the registrant) held by non-affiliates as of April 1, 2011 (the last business day of the most recently completed second quarter) was approximately \$2,676,710,155.

There were 60,957,452 Common Shares of the registrant outstanding as of November 18, 2011.

DOCUMENTS INCORPORATED BY REFERENCE:

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Portions of the definitive Proxy Statement for the registrant's 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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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, 2011 (fiscal 2011). 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, including, in North America, Scotts® and Turf Builder® lawn and grass seed products, including the Scotts® LawnPro® Annual 4 Step® Program; Miracle-Gro®, Scotts®, Liquifeed® and Osmocote®¹ gardening and landscape products; Ortho®, Roundup®² and Home Defense® branded insect control, weed control and rodenticide products; and Scotts® and Morning Song® wild bird food products. In the United Kingdom, key brands include Miracle-Gro® plant fertilizers; Weedol® and Pathclear® herbicides; EverGreen® lawn fertilizers; and Levington® gardening and landscape products. Other significant brands in Europe include KB® and Fertiligène® in France; Celaflor®, Nexa Lotte® and Substral® in Germany and Austria; and ASEF®, KB® and Substral® in Belgium, the Netherlands and Luxembourg. We also operate the Scotts LawnService® business, which provides residential and commercial lawn care, tree and shrub care and limited pest control services in the United States.

Our heritage is tied to the 1995 merger of The Scotts Company, which traces its roots to a company founded by O.M. Scott in Marysville, Ohio in 1868, and Stern's Miracle-Gro Products, Inc., which was formed on Long Island, New York by Horace Hagedorn and Otto Stern in 1951. Scotts Miracle-Gro is an Ohio corporation.

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' outdoor lawn and garden environments. During fiscal 2011, we focused on four key initiatives designed to further strengthen our consumer-facing businesses, bring us closer to the consumer and support our long-term growth objectives:

Streamlining our portfolio of businesses to focus on core branded consumer lawn and garden products We continued to focus our business on our core branded consumer lawn and garden products by completing the sale of our Global Professional business during our second quarter of fiscal 2011. The sale of the Global Professional business followed the wind-down of our Smith & Hawken®³ business during our first quarter of the fiscal year ended September 30, 2010 (fiscal 2010). In addition, we are in the process of winding down the remaining portion of our professional seed business, leaving a portfolio exclusively comprised of consumer-facing businesses.

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 (Monsanto).

3 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.

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Ensuring our financing structure supports our long-term growth and cash utilization strategies The second initiative focused on reconfiguring our financing structure to ensure we have sufficient flexibility to execute our long-term growth and cash utilization strategies:

We executed a new credit facility during our third quarter of fiscal 2011. Following the issuance of \$200 million aggregate principal amount of 6.625% Senior Notes in our first quarter of fiscal 2011 and the issuance of \$200 million aggregate principal amount of 7.25% Senior Notes in our second quarter of fiscal 2010, the new credit facility brought to completion the successful transformation of our financing structure from one comprised solely of bank debt with a single maturity date to one consisting of both bank and bond debt with staggered maturities that come due in 2016, 2018 and 2020.

Our revised financing structure provides us with significant freedom to operate within our stated target leverage ratio of 2.0 - 2.5. Within that target range we have sufficient flexibility to execute our long-term strategy of investing approximately two-thirds of our operating cash flow in growth initiatives (equally divided between capital reinvestment and modest acquisitions of additional consumer-facing brands and businesses) and returning the balance to shareholders.

During fiscal 2011, our long-term cash utilization strategy resulted in our returning \$67.9 million to shareholders in the form of our quarterly dividend, which we increased by 20% in the fourth quarter of fiscal 2011, and \$358.7 million through repurchases of our common shares pursuant to our 4-year, \$700 million share repurchase program (cumulative purchases under this program total \$383.7 million through September 30, 2011). In addition, we invested \$72.7 million in capital expenditures and \$10.9 million in acquisitions within our growing media and Scotts LawnService® businesses.

Restructuring our business to improve operational efficiencies and reposition our cost structure Having successfully streamlined our business portfolio and reconfigured our financing structure to support long-term growth, our next initiative focused on ensuring that our internal organizational model and cost structure are designed to best help us achieve that growth:

During the second half of fiscal 2011, we undertook a restructuring effort designed to improve operational efficiencies and the speed with which key decisions are made. This effort centered on eliminating unnecessary management layers and ensuring that key decision makers have spans of control appropriate for their roles. We anticipate that the resulting reduction in force will ultimately produce \$20 - \$25 million in annualized savings.

Another piece of this initiative involves reducing the amount we spend on indirect purchasing and other non-revenue generating administrative matters. This multi-year effort involves better leveraging our scale to competitively bid out the products and services we buy and ultimately reduce the number of vendors we use across a variety of spending areas. We expect that, over time, this effort will generate cost savings similar to those realized from the organizational restructuring.

The final step in repositioning our cost structure involves re-investing the savings generated by the organizational restructuring and indirect purchasing efforts back into our business. Through this initiative, we intend to increase the amount we spend in those areas we believe will help drive the long-term growth of our consumer business, such as advertising and innovation.

Continuing to regionalize both our sales and marketing models in order to get closer to the consumer and accelerate category growth and our manufacturing and distribution networks to further reduce costs During fiscal 2011, we continued to invest in the regional sales, marketing, manufacturing and distribution initiatives that were launched during the fiscal year ended September 30, 2009 (fiscal 2009):

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Within the U.S., we operate regional sales and marketing offices in the North, the Southeast, the Southwest and the West. The regional offices are focused on better understanding and meeting the needs of consumers at the local level, thereby increasing both the overall participation rate in lawn

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and garden activities and our market share. Our headquarters in Marysville, Ohio continues to support the regional offices with programs and services designed to attract more consumers, enhance support to retailers, and drive innovation in our products, services, programs and operations in order to keep consumers engaged in lawn and garden activities and accelerate category growth.

Fiscal 2011 marked year three of a multi-year supply chain initiative to co-join distribution networks for our lawn fertilizer and growing media products at a number of our growing media facilities, which are then shipped directly to our retail customers. To date this initiative has helped eliminate the need for approximately 25% of our third-party warehouse space.

We continued to regionalize our manufacturing capabilities through the acquisition of an additional growing media business in Florida, which we anticipate will help further drive cost savings through a combination of reduced freight and inventory investments. We also completed our first full year of operations at our second U.S. liquids manufacturing facility, enabling us to better serve southern U.S. markets.

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 senior management. Financial information about these segments for each of the three years ended September 30, 2011 is presented in NOTE 22. SEGMENT INFORMATION of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. The reportable segments have been revised from prior periods to reflect the sale of a significant majority of the assets of our previously reported Global Professional business segment, which is now reported in discontinued operations. See NOTE 2. DISCONTINUED OPERATIONS of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding the sale of the Global Professional business.

Principal Products and Services

Global Consumer

In our Global Consumer segment, we manufacture and market 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 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 Ortho®, Scotts® and Lawn Pro® brand names, including sub-brands such as Weed B Gon® and 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, AccuGreen® drop spreaders and Handy Green®II handheld spreaders.

Gardening and Landscape: The gardening and landscape category is designed to help consumers grow and enjoy flower and vegetable gardens and beautify landscaped areas. 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 Osmocote® and Shake 'N Feed®.

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brand names, 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 Nature Scapes[®] sub-brand, landscape weed prevention products under the Ortho[®] brand, plant-related pest and disease control products under the Ortho[®] brand, wild bird food and bird feeder products under the Scotts Songbird Selections[®], Morning Song[®] and Country Pride[®] brand names, and organic garden products under the Miracle-Gro Organic Choice[®], Scotts[®] and Whitney Farms[®] brand names. Internationally, similar products are marketed under the Miracle-Gro[®], Fertiligène[®], Substral[®], KB[®], Celflor[®], ASEF[®], Scotts[®], Morning Melodies[®], Scotts EcoSense[®], Fertiligène Naturen[®], Substral Naturen[®], KB Naturen[®], Carre Vert[®] and Miracle-Gro Organic Choice[®] brand names.

Home Protection: The home protection category is designed to help consumers protect their homes from pests and maintain external home areas. In the United States, insect control and rodenticide products are marketed under the Ortho[®] brand name, including insect control products under the Ortho Max[®] and Bug B Gon Max[®] sub-brands and rodenticide products under the Home Defense Max[®] sub-brand, weed control products for hard surfaces (such as patios, sidewalks and driveways) are marketed under the Ortho[®] brand name, while non-selective weed control products are marketed under the Roundup[®] brand name. Internationally, products within this category are marketed under the Nexa Lotte[®], Fertiligène[®], KB[®], Home Defence[®], Weedol[®], Pathclear[®] and Roundup[®] brands.

Since 1999, 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. 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 have responsibility for manufacturing conversion, distribution and logistics, and selling and marketing support for consumer Roundup[®]. 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 NOTE 7. MARKETING AGREEMENT of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Scotts LawnService[®]

The Scotts LawnService[®] segment provides residential and commercial lawn care, tree and shrub care and limited pest control services in the United States through periodic applications of fertilizer and control products. As of September 30, 2011, Scotts LawnService[®] had 83 Company-operated locations as well as 88 locations operated by independent franchisees.

Discontinued Operations

During our second quarter of fiscal 2011 we completed the sale of a significant majority of the assets of our Global Professional business (excluding the non-European professional seed business, Global Pro) to Israel Chemicals Ltd. (ICL). As a result of the then-pending sale, effective in our first quarter of fiscal 2011 we classified Global Pro as discontinued operations. See NOTE 2. DISCONTINUED OPERATIONS of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding the sale of Global Pro.

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 and food and drug stores through both a direct sales force and our network of brokers and distributors. In addition, during fiscal 2011, we employed approximately 2,800 full-time and seasonal in-store associates within the U.S. to help our retail partners merchandise their lawn and garden departments directly to consumers of our products.

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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 utilize third parties to manage the primary distribution centers for our Global Consumer business in North America, which are strategically placed across the United States and Canada. The primary distribution centers for our Global Consumer business internationally are located in the United Kingdom, France, Germany 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. As discussed in ITEM 1. BUSINESS Company Description and Development of the Business of this Annual Report on Form 10-K, fiscal 2011 marked year three of our multi-year plan to co-distribute lawn fertilizer and growing media products directly to our retail customers, which to date has helped eliminate the need for approximately 25% of our third-party warehouse space.

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, sphagnum peat, grass seed and wild bird food grains. Our objectives surrounding the procurement of these materials are to ensure continuous supply, to minimize costs and to 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 predictability and control costs. Sufficient raw materials were available during fiscal 2011.

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 and maintenance of key trademarks and proactive monitoring and enforcement activities to protect against infringement. The Scotts®, Miracle-Gro®, Ortho®, Scotts LawnService®, Hyponex® and Earthgro® brand names and logos, as well as a number of product trademarks, including Turf Builder®, Organic Choice®, Home Defense Max® 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 a vast portfolio of utility and design patents covering subject matter 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 any of our business segments or the business as a whole.

Seasonality and Backlog

Our business is highly seasonal, with approximately 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 are received and shipped within the same fiscal year with minimal carryover of open orders at the end of the fiscal year.

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Significant Customers

Approximately 89% of our worldwide net sales in fiscal 2011 were made by our Global Consumer segment. Our three largest customers are reported within the Global Consumer segment and are the only customers that individually represent more than 10% of reported consolidated net sales. Approximately 30% of our net sales in fiscal 2011 were made to Home Depot, 18% to Lowe's and 13% to Walmart. We face strong competition for the business of these significant customers. The loss of any of these customers or a substantial decrease in the volume or profitability of our business with any of these customers could have a material effect on our financial condition, results of operations or cash flows.

Competitive Marketplace

The markets in which we sell our products are highly competitive. In the United States Global Consumer lawn and garden and pest control markets, our products compete against private-label as well as branded products. Primary competitors include Spectrum Brands, Bayer AG, Central Garden & Pet Company, Enforcer Products, Inc., Kellogg Garden Products, Old Castle 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.

Internationally, we face strong competition in the Global Consumer lawn and garden market, particularly in Europe. Our competitors in the European Union include Bayer AG, Compo GmbH, Westland Horticulture and a variety of local companies.

We have the second largest market share position in the fragmented U.S. lawn care service market. We compete against TruGreen®, a division of ServiceMaster®, 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 \$50.9 million, \$47.3 million and \$49.8 million in fiscal 2011, fiscal 2010 and fiscal 2009, respectively, including product registration costs of \$14.6 million, \$12.1 million and \$15 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.

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. Our manufacturing operations are subject to waste, water and air quality permitting and other regulatory requirements of federal, state and foreign agencies. Our wild bird food business is subject to regulation by the U.S. Food and Drug Administration and various state regulations. 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. The failure to comply with any of these laws or regulations could have an adverse effect on our business.

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

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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 federal, state, local and foreign laws and regulations may affect us, see ITEM 1A. RISK FACTORS Compliance with environmental and other public health regulations 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.

FIFRA Compliance, the Corresponding Governmental Investigations and Similar Matters

In April 2008, we became aware that a former associate apparently deliberately circumvented our policies and U.S. EPA regulations under FIFRA by failing to obtain valid registrations for certain products and/or causing certain invalid product registration forms to be submitted to regulators. Since that time, we have been cooperating with both the U.S. EPA and the U.S. Department of Justice (the U.S. DOJ) in related civil and criminal investigations into our pesticide product registration issues as well as a state civil investigation into related allegations arising under state pesticide registration laws and regulations.

In late April 2008, in connection with the U.S. EPA s investigation, we conducted a consumer-level recall of certain consumer lawn and garden products and a Scotts LawnService® product. Subsequently, the Company and the U.S. EPA agreed upon a Compliance Review Plan for conducting a comprehensive, independent review of our product registration records. Pursuant to the Compliance Review Plan, an independent third-party firm, Quality Associates Incorporated (QAI), reviewed substantially all of our U.S. pesticide product registrations and associated advertisements, some of which were historical in nature and no longer related to sales of our products. The U.S. EPA investigation and the QAI review process resulted in the temporary suspension of sales and shipments of certain products. In addition, as the QAI review process or our internal review identified potential FIFRA registration issues (some of which appear unrelated to the actions of the former associate), we endeavored to stop selling or distributing the affected products until the issues could be resolved. QAI s review of our U.S. pesticide product registrations and associated advertisements is now substantially complete. The results of the QAI review process did not materially affect our fiscal 2009, fiscal 2010 or fiscal 2011 sales and are not expected to materially affect our fiscal 2012 sales.

In fiscal 2008, we conducted a voluntary recall of certain of our wild bird food products due to a formulation issue. Certain wild bird food products had been treated with pest control additives to avoid insect infestation, especially at retail stores. While the pest control additives had been labeled for use on certain stored grains that can be processed for human and/or animal consumption, they were not labeled for use on wild bird food products. In October 2008, the U.S. Food & Drug Administration concluded that the recall had been completed and that there had been proper disposition of the recalled products. The results of the wild bird food recall did not materially affect our fiscal 2009, fiscal 2010 or fiscal 2011 financial condition, results of operations or cash flows.

Settlement discussions relating to potential fines and/or penalties are a frequent outgrowth of governmental investigations. In that regard, on or about June 30, 2011, we received a Notice of Intent to File Administrative

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Complaint (Notice) from the U.S. EPA Region 5 with respect to the alleged FIFRA violations. The Notice, which does not set forth a proposed penalty amount, offers us an opportunity to present any information we believe the U.S. EPA should consider prior to filing the complaint and indicates that the U.S. EPA is prepared to meet with us to discuss the alleged violations. We made a timely response to the Notice, and communications between us and the U.S. EPA are underway. We are also engaged in settlement discussions with the U.S. DOJ regarding its criminal investigation.

In June 2008, the California Department of Pesticide Regulation (CDPR) issued a request for information to the Company relating to products that had been the subject of the April 2008 recall. We cooperated with that inquiry and reached agreement with CDPR that it would place its investigation on hold pending the completion of our internal audit. In July 2010, CDPR notified us that it planned to proceed with its investigation independent of the U.S. EPA and U.S. DOJ, and in March 2011 we received a letter from CDPR offering to settle the matter without the need for an enforcement proceeding for \$245,631. On July 25, 2011, we paid the requested civil penalty and entered into a Settlement Agreement pursuant to which CDPR agreed not to take further civil or criminal action with regard to the affected products.

For more information with respect to additional risks and uncertainties that we may face in connection with the ongoing investigations and for a discussion of the costs and expenses related to the matters discussed above, see ITEM 1A. RISK FACTORS The ongoing governmental investigations regarding our compliance with FIFRA could adversely affect our financial condition, results of operations or cash flows of this Annual Report on Form 10-K and NOTE 3. PRODUCT REGISTRATION AND RECALL MATTERS of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Other Regulatory Matters

In 2004, we completed negotiations with the Philadelphia District of the U.S. Army Corps of Engineers (the Corps) regarding the terms of site remediation and the resolution of the Corps' civil penalty demand in connection with our prior peat harvesting operations at our Lafayette, New Jersey facility. The final consent decree required us to perform five years of wetland monitoring and to complete additional actions if after five years the monitoring indicated the wetlands had not developed satisfactorily. As site monitoring activities were not initiated until the beginning of 2006, the five-year monitoring period extended until December 2010. Having received notice from the Environmental Defense Section of the U.S. DOJ that the terms of the consent decree had been satisfied, on January 24, 2011, the United States District Court for the District of New Jersey ordered the matter closed.

On or about October 28, 2011, the Pennsylvania Department of Environmental Protection (the Department) sent a letter to EG Systems, Inc., d/b/a Scotts LawnService (SLS), a wholly-owned, indirect subsidiary of Scotts Miracle-Gro, alleging that on June 30 and July 1, 2010, an SLS employee discharged industrial waste into the waters of the Commonwealth in violation of the Clean Streams Law and the Solid Waste Management Act. The letter indicated that the Department is willing to accept a civil penalty of \$200,000 to resolve the matter in lieu of a civil penalty action. We are in the process of formulating our response to the Department.

At September 30, 2011, \$3.9 million was accrued for non-FIFRA compliance-related environmental actions, the majority of which is for site remediation. During fiscal 2011, fiscal 2010 and fiscal 2009, we expensed \$2.4 million, \$0.5 million and \$0.8 million, respectively, for non-FIFRA compliance-related environmental matters. We had no material capital expenditures during the last three fiscal years related to environmental or regulatory matters.

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Employees

As of September 30, 2011, we employed approximately 6,300 employees. During peak sales and production periods, we employ approximately 9,000 employees, including seasonal and temporary labor.

Financial Information About Geographic Areas

For certain information concerning our international revenues and long-lived assets, see NOTE 22. 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.

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 2011 Annual Report to Shareholders (our 2011 Annual Report), contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Other than statements of historical fact, information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management's estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of Scotts Miracle-Gro common shares. Forward-looking statements generally can be identified through the use of words such as guidance, outlook, projected, believe, target, predict, estimate, forecast, strategy, may, goal, expect, foresee, likely, will, should and other similar words and variations.

Forward-looking statements contained in this Annual Report on Form 10-K and our 2011 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 2011 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.

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The ongoing governmental investigations regarding our compliance with FIFRA could adversely affect our financial condition, results of operations or cash flows.

Our products that contain pesticides must comply with FIFRA and be registered with the U.S. EPA and similar state agencies before they can be sold or distributed. In April 2008, we became aware that a former associate apparently deliberately circumvented our policies and U.S. EPA regulations under FIFRA by failing to obtain valid registrations for certain products and/or causing certain invalid product registration forms to be submitted to regulators. Since that time, internal and third-party reviews have identified additional potential pesticide product registration issues (some of which appear unrelated to the actions of the former associate) and we have been cooperating with both the U.S. EPA and the U.S. DOJ in related civil and criminal investigations into our pesticide product registration issues as well as a state civil investigation into related allegations arising under state pesticide registration laws and regulations.

In connection with the registration investigations and FIFRA compliance review process, we have recorded, and in the future expect to record, charges and costs for estimated retailer inventory returns, consumer returns and replacement costs, costs to rework existing products, inventory write-downs and legal and professional fees and costs associated with administration of the registration investigations and FIFRA compliance review process. Because expected future charges are based on estimates, they may increase as a result of numerous factors, many of which are beyond our control, including the number and type of legal or regulatory proceedings relating to the registration investigations and FIFRA compliance review process and regulatory or judicial orders or decrees that may require us to take certain actions in connection with the registration investigations and FIFRA compliance review process or to pay civil or criminal fines and/or penalties at the state and/or federal level.

The U.S. EPA, U.S. DOJ and related state investigations continue and may result in future state, federal or private rights of action as well as judgments, settlements, fines and/or penalties with respect to known or potential additional product registration issues. At this stage of the investigations, we cannot reasonably estimate the total scope or magnitude of all possible liabilities that could result from known or potential product registration issues. Based on the facts and circumstances known to us at this time (including settlement discussions that have taken place to date), we have established what we believe to be an appropriate reserve. However, it is possible that any fines and/or penalties with respect to the investigations, as well as any judgments, litigation costs or other liabilities relating to such known or potential product registration issues, could exceed the amount of the reserve, possibly materially, and could have an adverse effect on our financial condition, results of operations or cash flows.

There can be no assurance that the ultimate outcome of the investigations will not result in further action against us, whether administrative, civil or criminal, by the U.S. EPA, the U.S. DOJ, state regulatory agencies or private litigants, and any such action, in addition to the costs we have incurred and would continue to incur in connection therewith, could materially and adversely affect our financial condition, results of operations or cash flows.

Compliance with environmental and other public health regulations 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 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

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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 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.

The harvesting of peat for our growing media business 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 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 regarding 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 or cash flows.

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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 the on-going governmental investigations may harm our reputation and acceptance of our products by our retail customers and consumers, 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, certain 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. We intend to increase the amount we spend on advertising activities in fiscal 2012 by as much as \$40 million. There can be no assurances that our marketing strategies will be effective or that increasing 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.

Disruptions in availability or increases in the prices of raw materials 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, particularly urea, 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. The uniqueness of our 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. However, in periods of declining urea and fuel prices the hedge agreements can have the effect of increasing 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 swap 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.

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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, 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 or cash flows. Our inability to continue to develop and grow brands with leading market positions, maintain our relationships with key retailers and deliver products on a reliable basis at competitive prices could have a material adverse effect on us.

We may not successfully develop new products or improve existing 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 products and to develop, manufacture and market new, innovative 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 products or product innovations which satisfy consumer needs or achieve market acceptance, or that we will develop and market new products or product innovations in a timely manner. If we fail to successfully develop, manufacture and market new or enhanced 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 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 innovations, further exacerbating the risks to our business.

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

Global Consumer net sales represented approximately 89% of our worldwide net sales in fiscal 2011. Our top three retail customers together accounted for 61% of our fiscal 2011 net sales and 47% of our outstanding

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accounts receivable as of September 30, 2011. Home Depot, Lowe's and Walmart represented approximately 30%, 18% and 13%, respectively, of our fiscal 2011 net sales. The loss of, or reduction in orders from, Home Depot, Lowe's, Walmart or any other significant customer could have a material adverse effect on our business, financial condition, results of operations or 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 or 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 whose bargaining strength is strong. 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 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 result in cost overruns, shortages or other problems, which could result in significant customer dissatisfaction and thereby materially affect our business, financial condition and results of operations.

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 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.

We rely on a limited number of suppliers for certain of our raw materials, product components and other necessary supplies, including certain of the 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 results.

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 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 retail 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.

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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 results.

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

As of September 30, 2011, we had \$795 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 share repurchases depends 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 assure you 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, the indenture governing our 7.25% Senior Notes due 2018 (the 7.25% Senior Notes) and the indenture governing our 6.625% Senior Notes due 2020 (the 6.625% Senior Notes) and, collectively with the 7.25% Senior Notes, the 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. A breach of any of those financial ratio covenants or other covenants could result in a default. Upon the occurrence of such an event of default, the lenders could elect to declare all of the outstanding indebtedness immediately due and payable and terminate all commitments to extend further credit. We cannot assure you that our lenders 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 our Senior Notes, we may incur additional debt in the future. If we incur additional debt, the risks described above could intensify.

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.

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