CORPORATE PARTICIPANTS

Jim King
The Scotts Miracle-Gro Company - VP of IR and Corporate Communications

Jim Hagedorn
The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Dave Evans
The Scotts Miracle-Gro Company - CFO, PAO and EVP

Barry Sanders
The Scotts Miracle-Gro Company - EVP of North American Business

CONFERENCE CALL PARTICIPANTS

Bill Chappell
SunTrust Robinson Humphrey - Analyst

Mark Rupe
Longbow Research - Analyst

Olivia Tong
BofA Merrill Lynch - Analyst

Eric Bosshard
Cleveland Research Company - Analyst

Alice Longley
Buckingham Research - Analyst

Jeff Zekauskas
JPMorgan Securities Inc. - Analyst

Jon Andersen
William Blair & Company - Analyst

Carla Casella
JPMorgan - Analyst

Jason Gere
RBC Capital Markets - Analyst

Joe Altobello
Oppenheimer & Co. - Analyst

Doug Lane
Jefferies & Company - Analyst

Jim Barrett
CL King & Associates - Analyst

Sam Yake
BGB Securities, Inc. - Analyst

Connie Maneaty
BMO Capital Markets - Analyst

PRESENTATION

Operator
Please stand by for realtime transcript. Good morning and welcome to the second quarter 2011 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. (Operator Instructions) Thank you. I would now like to turn the call over to Jim King, Senior Vice President Investor Relations and Corporate Affairs. Please go ahead.

Jim King - The Scotts Miracle-Gro Company - VP of IR and Corporate Communications

Thanks, Amber. Good morning, everyone, welcome to our second quarter conference call. With me today are Jim Hagedorn, our Chairman and CEO, Dave Evans, our Chief Financial Officer and Barry Sanders, our President, and other members of the management team. Jim will start with an overview of the current state of the business, both in the context of our Q2 results as well as our overall progress. Dave will then walk through the financials and update you on our full year outlook. After their prepared remarks, we will open the call up to your questions. In the interest of time, we ask that you limit your time to one question and to one follow-up. If there are questions that we don't address, we are glad to handle those with you offline after the call.

With that I want to move on to today's call and remind everyone that our comments will likely contain forward looking statements. As such, actual results may differ materially due to that risk Scotts Miracle-Gro encourages investors to review the risk factors outlined in our form 10-K, which is filed with the Securities and Exchange Commission or our most recent 10-Q. As a reminder, the call is being recorded and an archived version of the call will also be available on our website and if we make any comments related to non-GAAP financial measures not covered in this morning’s press release, we will provide those items on the website as well. With that let me turn the call over to Jim Hagedorn to discuss our performance.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Thanks, Jim. Good morning, everybody. We posted great results this morning for the second quarter, giving us a nice tailwind for the back half of the year. Sales were up 8%. Gross margins improved by 150 basis points. SG&A was flat. And adjusted earnings improved by 30% to $2.22 per share.

As we said in our press release, we remain confident in our full-year outlook even after a tough April. Part of our optimism is because we expected to see some negative POS growth in April compared to the great year we had last year. I'll come back to this point in a few minutes. The other main contributor to my confidence is based on knowing how good this team really is.

Every year it looks different in this category. In 2010, we got off to a fast start. This year the season has broken a bit late. As you saw in the press release, consumer purchases entering May are down 7%. We're in a seasonal business, which is why we never get too far ahead of ourselves and try not to get too pessimistic. A 10 to 15 point swing in year-to-date POS can happen quickly in this business. We've already seen it happen once this year and we saw it happen twice last year. So, with that said, the balance of the year comes down to a simple thought, execution. At all levels of the organization, we know what needs to be done. And I'm confident this team can make it happen. I'll put our management team, sales force and supply chain against anyone, especially in companies with seasonal businesses.

In addition to our team's ability to execute, there are 3 other key reasons we remain confident in the guidance we provided. First, our retailers remain highly engaged and supportive of the category and of our brands. In fact, they have major programs scheduled over the next several weeks and we expect that level of engagement to continue throughout the season. Second, consumer engagement remains high even though it has been masked for the past month by weather. When weather isn't in the way, POS has been strong. We've seen solid growth in the southeast and southwest regions and over the past weekend, when we finally got some weather in the midwest and northeast, POS was up 18% and 26% respectively, the northeast was up 36% last weekend. And, third, I don't see any major cost or expense risks for 2011. We've locked in 90% of our raw material costs for the balance of the year and we've identified other cost savings if they are needed, and now believe interest rate expense will be lower than originally expected.
So, within our organization there remains a strong feeling of confidence. There's also a lot of motivation. Our incentive compensation program is designed for strong payouts only if we outperform. So, if all we do is hit our guidance then incentive pay will be pretty lousy this year. Read this to say that the team is incented to deliver. We know that we've got a lot of work to get done over the next 5 months, but no one doubts that we can get it done. It may not be the perfect season, but then I'm not sure the perfect season actually exists. With that said, let me give you a little more depth and context to how the business is unfolding this year.

I'll start by saying that the support from our retailers has been fantastic and I want to thank them for it. We've picked up valuable floor and shelf space with some of our largest partners and we're also seeing increased use of our brands in both their TV and print advertising campaigns. Retailers who were less engaged in the category last season have been more intensely focused this year, and retailers who had invested more in their own brands this is year have not done so at our expense. In fact, their support for us has been even stronger. We expect these trends to continue for the balance of the year. We continue to see retailers use lawn and garden as an attractive driver for them, and within a destination category, we clearly have the destination brands and the retailers are using those brands to fill their shopping carts of their consumers.

As it relates to the consumer, let me provide some deeper context behind the POS data. Through mid-March all of our trends were strong with POS up nearly 15% on a year-to-date basis at that time. But then we hit a stretch in which we knew the comparisons from last year would be challenging. Remember, last year we had 4 consecutive weeks of explosive consumer activity in late March and early April. During that period last year POS was up 35% from 2009, which had been up from 2008 so we expected negative comps in the mid-March to mid-April time frame and that was compounded by poor weather in most of the United States. But, we have easier comps for the balance of the year, especially in May and June, and as I already said, we had great results this past weekend when weather cooperated, so we have a high level of competence that we will be able to make up ground quickly.

Where we don't have to worry about making up ground is on market share. In fact, while it's early in the season, we continue to gain ground, in large part this is because our regionalization strategy is working. Across the board our regional teams are executing well and continuing to win market share. This is especially true in the markets where our share is lower. For example, through March we have captured another 200 basis points of share in the southeast. And we've gained more than 100 basis points of share in the southwest. You might recall that we had similar share gains in each of these respective regions last year. The teams in which these regions took advantage of early breaking markets, and implemented local strategies are continuing to win.

In the Florida market, we've had continued success with our snowbird programs, and in Texas the team was able to get consumers activated as soon as the season broke. While most of the country is cold and wet, Texas is hot and dry, even experiencing drought in some places. Some of our efforts in Texas right now are focused on reminding consumers how to protect their lawns and gardens even in those weather conditions. In addition to local advertising and in store communications, this is where it is also beneficial to have built relations with gardening experts who have local TV and radio shows. We can leverage their credibility with local consumers, and I will remind you that two years ago we were not set up to do any of this.

Although the remaining regions have been more impacted by weather, the changes to our business model have helped mute the impact. For example, we’ve held back about 1/2 of our planned spend for weather triggered radio spending. So, we've been chasing business on weekends when we knew consumer activity would be soft. Instead the teams have been working to ensure that we have the right products in the right places and that our local promotions can be activated quickly.

Let me touch upon Europe where we’ve had great success so far in the continent with the launch of EZ Seed. As occurred last year, we’re seeing strong market acceptance of the product and we’re also seeing increased market share. Because weather hasn’t been an issue in Europe, the season is off to a good start and POS is in line with what we would hope to see. Speaking of EZ Seed, you might recall that the launch last year in the US drove 700 basis point in market share gain in grass seed. So it is little surprise to us that players who are losing share have come out swinging this year with aggressive, and in our minds, misleading advertising campaigns about our marketing claims.
The good news is that their efforts have not had an impact and we’ve actually gained share in grass seed. In fact, we would like to thank them for increasing their advertising spending this year. We definitely saw a POS lift that corresponded to the launch of their campaign. Why? Two reasons. First, we believe increased category spending almost always benefits the category leader. And, second, negative advertising against the category leader usually doesn’t work. Their claim that our proprietary water absorbing coating is quote, filler, unquote is simply rubbish. We have brought a truly innovative seed product to market and we’ve been rewarded by the consumer as a result.

While I’m on the topic of advertising, I want to highlight some of the changes we’re making this season to our advertising. We shared with you at our analyst day meeting some of consumer research that we recently received which pretty clearly showed that we need a new dialogue with the consumer regarding our lawn fertilizer business. So, our advertising, this season, is no longer focused on telling consumers how to get the best looking lawn in the neighborhood. Instead we’ve been trying to educate consumers about the overall benefits of having a healthy lawn. And we have been telling them the easiest path to having a healthy lawn is to give it nutrition, in other words, feed it.

The evolution of our marketing efforts in this category is critical, but we cannot fully exploit the opportunities we have by simply writing some new add copy, we’ve got to remain patient and continue to invest, both in a new dialogue as well as new technology. On the innovation front, we are getting increasingly positive feedback related to our expanded test of Snap. Given the late break of the season, it is still too early to get into details, but we like what we’re hearing and seeing from consumers so far and we remain cautiously optimistic about an even broader roll-out next year.

We’ve also begun internal discussion related to next year’s planned roll-out of MAT28, which we believe is the biggest innovation in lawn care category in generations. Scott has global exclusivity in this consumer market on this new ingredient from DuPont. It will provide the consumer with a far superior experience than they’ve ever had and we think has the ability to drive significant growth. Everything, the advertising, the website, the packaging and the in-store support have to convey to the consumer why they need this product.

As we outlined during analyst day, household penetration in lawn fertilizer is only 42%, so even small changes to that number can have a significant impact on our business. I believe we’re taking the right steps to drive that number higher.

Speaking of marketing and taking the right steps, I want to make sure you are aware of the press release we issued last month announcing the hiring of Jim Lyski as of our new Chief Marketing Officer. He has previously been the CMO at both Nationwide Insurance and of Signa. Earlier in his career he had a marketing leadership role at FedEx as well. His background is on-point with our consumer first focus and he is quickly getting up to speed to figure out the best way to attack the opportunities we see on the horizon and to overcome some of the challenges.

While Jim fills a talent gap for us, I really don’t see any other areas where one might exist. In fact, I want to stress my confidence in the entire team I have around me. From Barry Sanders, to Claude Lopez, to Dave Evans, I have a high degree of confidence in our ability to execute and map a strategy for continued success. And Denise Stump, who leads HR, and Vince Brockman, our General Counsel, are driving change in the organization that is making it easier for the operators to be successful and to create a culture that is focused on winning.

I think that everyone on the team feels this is a pretty exciting time to be here. We’re working well together, we’re aligned on priorities and we all believe there remains significant upside in the business, so long as we focus on what we remains to be done and what we to best. So, Jim Lyski is just the latest link in an already strong management chain. He will focus on working with the regions, developing new message platforms and building better digital capabilities. He and his team are also looking to leverage our new innovation, not just Snap and MAT.

We told you at analyst day about our new grow media product, Expand ’n Gro. In fact, our IR team will be sending out product samples to many of you within the next week or two. While we have a limited roll out of Expand ’n Gro this year, consumer
feedback has been positive. In fact, we're moving forward with plans to build more manufacturing capability so we can support a broader roll-out in 2012.

Speaking of next year, let me move on and proactively address some of the key issues I know that are out there. Let's start with commodity costs. We're no different than anyone else. Our costs are going up. As it relates to the current year, I think we're in pretty good shape and Dave will fill you in on the details. For 2012, we're just formulating our plans, but I will tell you this, unless the macro trends change quickly, we will be taking selective pricing next year. How much and on what products, it is too early to provide any details, but you've heard us say before that we want to strike a careful balance between covering our cost and keeping consumers in the category. So, while I view a price increase as a last resort, I also believe it may well become necessary.

We will attempt to mitigate the increase to consumers by using other tools. We plan to reengineer our trade programs to focus on driving improved performance, as well as a more favorable product mix. Of course, we'll continue to rely on the supply chain savings as well as on a thoughtful hedging strategy.

While we obviously will be managing head count and other costs aggressively in this environment, we would still expect a higher level of investment in our brands next year. This is not negotiable. We said constantly that greater support of our brands is essential in driving the category. We're just now starting out our budgeting process and our line reviews with our retailers, so it is too early to discuss specifics. But we'll work through the issues over the summer and should be in a position to give you an update in August.

Right now, however, we have a more immediate focus. Which is to fully exploit fiscal year '11. So, I'll come full circle to where I started. The balance of this year is all about getting the job done. There are no trick plays that we can run in order to hit our guidance. And while we may be confident in our outlook, confidence only gets you so far. Now we have to execute.

We're going to continue to meet the needs of our consumers. We will continue to provide world-class service to our retail partners. We will continue to responsibly manage our costs. And our leaders will keep our associates focused on driving the business to enhance shareholder value, not just this season, but every season. Like I said at the outset, this is our business. Some seasons start early, some seasons start late. But this is a great category and Scotts Miracle-Gro remains a great enterprise.

With that, let me turn the call over to Dave to share some of the details from each business segment and discuss the overall financials. Dave.
From a regional perspective, for the quarter, 3 of our 5 US regions, the midwest, northeast and southwest, trended around the growth rate of global consumer. That is in the single digits. The southeast performed even better with sales growth in the high teens. In the deep south, where early weather was most favorable, performance was exceptional. The west, on the other hand, lagged with a 10% decline in sales. While early in the season, cold and wet weather up and down the west coast caused a contraction in the entire category for the quarter.

Within the US, grass seed and growing media were our strongest performing product categories. Grass seed benefited from last year’s hot and dry summer across the midwest and northeast, and continued strength of last year’s EZ Seed launch. Strength in growing media reflected a multi year growth trend in gardening across the country and this is a category, unlike lawns, that tends to be less sensitive to unfavorable weather. Additionally, we saw strong growth in mulch with high consumer interest, supported by aggressive retailer promotions designed to build store traffic. Bird food was the lowest performing category, down about 10% for the quarter. With the decline primarily driven by reduced sales of low margin commodity skews.

Outside the US, our strongest geographies were Canada and the UK. A continuation of momentum from last year, as well as a reflection of strong retailer support and selling. We also benefited from the launch of EZ Seed on the European continent. In Scotts Lawn Service, we had our fourth consecutive quarter of top line growth, 7%, with improved trends in both customer count and cancellations. Despite the improvements, unfavorable weather slowed new customer acquisition relative to our internal plan. We expect to recover a large portion of that miss as weather breaks in the northern half of the country.

Moving onto gross margin, we had a 150 basis point rate improvement for the quarter. We clearly signaled earlier in the year that the 70 to 100 basis point improvement we expected for the full year would be front-half-loaded, and it was. While some of that benefit was masked in the first quarter with lower year-over-year sales volume, the benefit was clearly evident in our second quarter. We’ve discussed this many times in the past, but since we are one of the few companies this quarter talking about margin benefit from lower commodity costs, the explanation deserves to be repeated.

You might recall that higher cost inventories resulting from a spike in commodity prices late in fiscal 2008, particularly urea, did not finish running through our P&L until the second quarter of fiscal 2010. Because we buy forward on many of our more volatile commodities, sometimes up to 9 months, and because we have low inventory turns in some product lines, particularly lawn fertilizers, it can take several quarters to see the impact of commodity fluctuations run through our P&L. Because of that, we had easier commodity cost comps for the first 2 quarters of this year. In fact, the impact was significant enough that it more than offset recent increases in commodities.

For the quarter, favorable year-over-year material and fuel costs drove about 1/3 of our 150 basis point improvement in margin rate. The other 2/3 was driven primarily by cost reductions, such as our regional supply chain initiative and favorable product mix which benefited from, among other things, lower commodity bird food and private label fertilizer sales.

As I’ve stated in the past, 30% to 35% of our cost of goods sold have some sensitivity to commodities. Of those commodities, costs for about 90% are now locked for fiscal 2011. With about $60 million left to purchase in fertilizers, packaging, diesel and bird food inputs in that order of importance. We’ll begin to see some, but limited influence from inflation on the remaining 10% to be purchased in the second of this year. Let’s wait until I speak to our full-year guidance to share more details.

Moving on to SG&A, as you can see spending was flat for the quarter, resulting in 4.8% growth for the first half. There were a lot of puts and takes, but we’re essentially on plan for the full year with increased investments in the regions, marketing insights and R&D embedded within the growth.

Moving on to interest, expense was $13.8 million for the quarter, down slightly from last year. Quarter end debt net of cash was down $310 million versus the same period last year. The decrease was provided for through proceeds from the sale of Pro in our second fiscal quarter. And debt reductions in the second half of fiscal 2010. The benefit of lower debt was partially offset by a marginal increase in our borrowing cost, primarily from the issuance of $200 million of 6 5/8% coupon bonds last December. You’ll also note that balances outstanding related to our bank credit facility are now classified as current liabilities on the balance sheet.
sheet, as the facility expires next February. I'll speak on our plans for renewal of that facility when I comment on the full year. The effective tax rate for the quarter and first half was 35.8%, which is consistent with our expected full-year rate.

Fully diluted share count increased by 200,000 versus prior year. We have repurchased about 2.3 million shares since we began the buyback program last fall. But the weighted average benefit of that buyback, which reflects that it was primarily done in the last 2 quarters, was more than offset by options exercised over the last 12 months, plus the addition of more than 600,000 common stock equivalents, a result of the significant depreciation in our year-over-year share price. All-told, this resulted in adjusted EPS of $2.22 per share, a 30% improvement from $1.71 per share last year. Those results exclude the impact of recall and registration matters which cost us about $0.02 per share in the quarter.

Income from discontinued operations, our Global Pro business, was $29 million for the quarter. About $3.5 million was generated by the business prior to the sale. The remaining $25.5 million represents the gain on the sale, net of tax.

As I transition to our full-year guidance, I think we've made it clear that we remain comfortable with our current range provided we have reasonable weather for the balance of the season, but as you fine-tune your models here is some additional context to keep in mind. If sales finish the year on the high end of the range, call it 5% or 6%, then we're also likely to see gross margin rate on the high end of the range, but it also means that SG&A would be higher. Conversely, if sales hit the low end of our range, call it 4% or 5%, then we would lose some of the leverage on our fixed overhead. In that scenario, growth margin rate would probably be on the lower end of the 70 to 100 basis point range. However, lower sales would also likely translate into lower levels of SG&A growth. Not only would we forego some end year expenses, but as Jim mentioned, areas like variable compensation would also be lower. So, everything essentially moves with the top line. Regardless of the sales assumptions at this point, we continue to feel reasonably comfortable with the bottom line range we have in place.

With that context, let me add some additional comments to give you color on the second half, starting with sales. Historically, about 55% of US consumer purchases occur in the May to September time period. Based on that, and year-to-date April performance, we need to see double digit growth in consumer purchases in the last 5 months of the year. With May and June representing 2 of the largest months of the season, easier year-over-year comps, strong consumer engagement where spring has arrived, tremendous support from our retailers and the abilities to deliver strong service execution, the numbers can change in a hurry. With all those factors, we believe we can still hit the full year sales guidance we provided at the beginning of the year.

With that let me move on to commodities. As I stated earlier, 90% of our purchases are locked for fiscal 2011. So, we have good visibility for this year. If there's any pressure, it's related to diesel and resins. However, on category -- I would categorize that risk right now as being less than $5 million to the year. Short of a dramatic spike in those costs over the next few weeks, this is within a manageable range. So, I'm comfortable with our 2011 guidance for gross margin rate. This implies margin rate improvement closer to 10 to 20 basis points for the second half of this year.

As we begin to look at commodities for next year, we are seeing the same pressures as everyone else. We've already said that we expect to see pressure on urea, but we also believe it will be short lived based on capacity we see coming online for 2013, and we expect material pressure on both fuel and resin. Additionally, corn prices have continued to climb, as we are anticipating inflation related to our bird food businesses too.

I told you earlier that commodities represent about 30% to 35% of our costs of goods sold. Right now we think those costs will increase by about 10% to 13%, or about $70 million to $80 million in fiscal 2012. As Jim said, we plan to cover those increases with a combination of improved promotional program productivity, supply chain savings, product mix management, innovation and targeted price increases. It is too early in the process to tell you how much each of those buckets will contribute, but we have confidence that we'll be able to cover the cost increase as a whole.

With respect to SG&A, it is appropriate to assume full year 2011 growth reasonably consistent with sales growth. We continue to invest in areas that we believe will grow core capabilities, while pushing for continual productivity improvements elsewhere. For interest expense, we expect to see a smaller year-over-year increase than our original outlook. We are now planning to
renew our facility at the end of the third quarter. Slightly later than originally planned. And the credit environment continues to slowly improve. On that basis, we expect full-year expense to be $8 million to $10 million above last year, rather than the original estimate of $12 million higher.

And finally, on the share buyback front, we continue to execute our plan using a blended programmatic and opportunistic strategy. Barring any sudden changes to share price, we’ll buyback just over 6 million shares this fiscal year, which includes proceeds from the sale of Global Pro. Based on that and other assumptions on option exercises and average share price, we still expect to see an approximate reduction to a fully diluted share count this year of 1 million shares with significantly more benefit to come next year. This all supports our original range of adjusted earnings per share of $3.60 to $3.70 per share for fiscal 2011, clearly the next 60 days are important. With that, I’ll turn the call back over to our operator so we can take your questions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from Bill Chappell with SunTrust.

---

**Bill Chappell - SunTrust Robinson Humphrey - Analyst**

Just trying to make sense in terms of the sell-through versus the sell-in and kind of where we stand. And I guess first question is if weather trends repeat what they did May and June of last year, this May and June, can you still come within your guidance or do you need help from weather and return purchases?

---

**Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman**

Well, I mean -- Barry and I can answer that, but my view is they were not difficult months last year, May and June, so the comps are relatively easy for us and nobody is too crazed on sort of the challenge that we have. Inventory levels in the field are lower than last year and so we don’t have an inventory problem in the field and the comps are pretty easy. That is what I would say.

---

**Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business**

Probably the only thing to add, Bill, is some business from last year got accelerated into end of March and April and so I think part of what is happening now is that there is pent up demand and that will get pushed out to May as well. So, I don’t think the weather -- if we have the weather that we had last year, I think that, that will actually be okay.

---

**Bill Chappell - SunTrust Robinson Humphrey - Analyst**

And then just second kind of digging into your -- Dave, some your 2012 commentary, when you are looking at pricing, I know it is early, do you think you can price to maintain gross margin next year or are you just trying to maintain the penny profit?

---

**Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP**

Bill, right now our objective is, first to grow the category. And then focus on the consumer. Within that context for next year at this stage, our first objective is to cover penny profit per unit.
Bill Chappell - SunTrust Robinson Humphrey - Analyst

Okay. And then just one little follow-up, what is in the corporate and other line this quarter, I haven't seen that before. Thanks so much.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

So, Bill it is the traditional portion that has been in there. In the past. Which is the headquarters function. In addition, when we divested Global Pro, a part of the business that remained behind, which we’ve indicated we have a desire to exit, is the US proceed business. That US proceed business is now in the headquarters segment, and finally in the feature you'll see more impact as well in that we have supply agreements with ICL. And the revenue and cost of those revenues are going to show up in that corporate and other segment as well.

Bill Chappell - SunTrust Robinson Humphrey - Analyst

So, that should be like a $15 million to $20 million type number?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

For --

Bill Chappell - SunTrust Robinson Humphrey - Analyst

Annual?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Annually the ICL is going to be probably between $20 million and $30 million.

Bill Chappell - SunTrust Robinson Humphrey - Analyst

Great. Thanks so much.

Operator

Your next question is from Mark Rupe with Longbow Research.

Mark Rupe - Longbow Research - Analyst

Hi, guys, not to beat a dead horse here, but if my memory serves correct is May and June half of that 55% that you suggested for May through September? Is that the right way to think about it.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

It's more about 60%.
Mark Rupe - Longbow Research - Analyst
Okay, okay. And then on the --

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
You are only the second guy out, how can you beat a dead horse?

Mark Rupe - Longbow Research - Analyst
Yes, I know, you guys obviously clarified it pretty decent. On the radio timed advertising you said you pulled back to half planned spend, how significant is that now that you have, I guess that -- quiver, going into when the weather hopefully gets better.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
It is significant. I do not think that it is just us. But I think that the retailers are very spring-loaded to driving the business for the season, okay? And have not given up. And, that's -- this is a really positive event because I've seen seasons where retailers basically just want to exit and get done. They are highly motivated. They see how important the category is. And so, they are also planning, to my knowledge, to promote for the remainder of the season heavier. By us delaying, it allows our rate of spend to be higher in that same period of time and dovetails well with promotional programs that we've just recently agreed with the retailers to do.

Mark Rupe - Longbow Research - Analyst
Okay. Perfect guys, good luck, thank you.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
You bet.

Operator
Your next question is from Olivia Tong with Bank of America Merrill Lynch.

Olivia Tong - BofA Merrill Lynch - Analyst
Could you give us the actual AMP spend for this year in this quarter. And also, in terms of the half spend radio timing, is it right to assume that it is not like you've cut your radio spend advertising assumptions for the year by whatever you didn't spend this quarter?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
Olivia, I'm going to deal with the latter part, I'm not sure that Dave is going to want to answer the first part. But remember how the P&L is built up. It is based on the budgeted advertising over sales. And so, by us not spending, that doesn't change the P&L and so we're not planning to reduce the spend. What we're planning to do is redeploy it to later in the season. So, I don't know if you want to answer the first part, Dave.
Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP
Yes.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
But the answer is it is a redeployment and will be a higher spend later in the season compared to what we had originally budgeted.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP
Olivia, I do not know if that answers your question. The way that we account for the media, it is not literally expensed as each flight runs. It is averaged over different pools. So, the media that you read on the year-to-date basis, the focus probably is really more, as Jim said, more important on the full year. In the full year we’re expecting to stay consistent with what we expressed back at the February analyst conference.

Olivia Tong - BofA Merrill Lynch - Analyst
Got it. That’s helpful. And then on the commodities front, have you started locking in supply for fiscal ’12? Is it too early to do that? Typically where do you stand on next year at this point in the previous year?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP
Yes. It’s early in the process, where we would typically be furthest out is in urea, and our procurement and treasury team is working collaboratively, look at historic trends in the cycle within the year. And this is traditionally the period right now where we’ll start buying into next year’s demand. So, we’re watching the markets daily and monitoring those and I would say that between now and June you will probably see us start to get in a more serious way locking into next year, for urea.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
But I think that we’ve built -- to some extent there is a lot of urea on the Mississippi right now and if people cannot start getting on those fields, we’re hopeful that it creates an opportunity to sort of accelerate our purchasing.

Olivia Tong - BofA Merrill Lynch - Analyst
Got it. Thanks a bunch.

Operator
Your next question comes from Eric Bosshard with Cleveland Research.

Eric Bosshard - Cleveland Research Company - Analyst
Good morning. Two questions. First of all, you commented that you thought that inventories were pretty low in the field. I’m wondering if you can expand on that a little bit in terms of how retailers are looking at inventories with the sell-through ease
in and it seemed like your shipments were pretty good in the March quarter. Can you just give a little more color on where retail inventories are?

Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business

Sure. This is Barry Sanders. Coming out of March, we were up, call it, low double digits, coming out of April we were down low single digits. And so we took a lot of inventory out in the month of April.

Eric Bosshard - Cleveland Research Company - Analyst

The -- related to this, I'm wondering from a promotional standpoint, I know that late spring, early spring, as long as spring comes, it seems like it works. But I'm wondering how promotional activity is trending and if you are finding that are you going to, or are going to need to, spend more money to get the category going as retailers get a little bit nervous about trying to drive it? And then how that would tie in to sort of gross margin expectation?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Well, I think that it -- that is a complicated question that we spent some time talking about this morning. As I said earlier, retailers are not giving up on the season. I think you are likely to see higher level of sort of promotional support. In addition, I think what you are seeing is, as we take a look at sort of incentive payments that would be given to the retailers, that we're looking at our spend for the year and where we're able to, we're also participating in increasing spend towards the consumer for the remainder of the season.

So, I think that what you are seeing is probably everybody will be spending, I'm not sure it is going to affect gross margin because it depends on what the rebate programs look like. So, I think we're trying to balance it all out and I'm not sure that it is -- Dave, I don't know what you are thinking, but I do not think that we're going to see margins impacted as a result of spend in sort of the second half of the season.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Yes, Eric, I would say that we anticipated a level of support that is not inconsistent with prior years that is built into our forecast and we're not seeing a dramatic change in any way to that level of support in terms of our level of participation.

Eric Bosshard - Cleveland Research Company - Analyst

So, your -- as you sit here now, you basically are saying even though the season has started, and I know you expected it to start slow, it started slower than you and the retailers expected, you are still going to spend the same amount on promotions. There's not additional mark down spending that is going to take place try to start to move some of this inventory, you are not going to spend any different than where you thought you were at the beginning of the year?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

I'm not going to say that. What I am telling you is I think we may spend differently. I think we'll probably spend about the same amount of money, I think that we may spend differently.
Eric Bosshard - Cleveland Research Company - Analyst

Okay. I understand what you are saying. The second question I want to ask slightly bigger picture, on the last call you talked about this consumer study and the price points relative to consumer take away and pricing perhaps having a limiting effect on growing the category. And I'm wondering if you have dug further into that and then I'm wondering how you considered that point with the need that you expressed today to raise prices in 2012.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Well, I think you noticed that the word we used was selective, at least the word that I used was selective. I think we -- I'm not sure we've dug a lot deeper. I know that Lyski is doing a lot of work on consumer research, but in regard to sort of elasticity on the lawn front, I think that it -- to us the research was relatively clear which is that it is probably -- all things being equal, with the same product that we're selling today, which remember we're not selling the same product next year that we're selling today, I think there is a fairly high internal level of sensitivity on any sort of significant pricing on the lawns category. But, remember, Dave said a couple of things, we believe with program changes and selective pricing, we can cover any cost increases that we see currently on the horizon.

In addition, we have got to look at the new MAT28 product which really changes the market and we have to set pricing on that and that has -- that decision has not happened yet. So, what I would say is we believe that we can cover our cost increases, we believe in the research, we're doing more research and I'm not sure what else there is to add besides that. Barry, would you add anything?

Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business

No. I think, Eric, we're consistent, we're taking pricing, we're going to cover the cost. We've said relative to lawn fertilizer that we have seen some pressure relative to price. We think that the cost of urea is going to be a short-lived thing with capacity that we see coming online in '13 and '14. And so, we don't want to take pricing up to cause unit decline, and to Jim's point, we have new products coming that we want to promote and we think we have a real opportunity next year to get this category going again with the consumer. So, we think we're in really good shape where we are right now.

Eric Bosshard - Cleveland Research Company - Analyst

Just one last question if I could. Just a house keeping item, can you remind me of the retailers ability to return early season product to you that they do not sell, just remind me of how that works?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Eric, we have a very limited number of products that are highly seasonal in their nature, so a product like WinterGuard would be an example where we have tightly defined programs to take back excessive inventories they have at the store level. We reserve for those routinely and every quarter and so that's kind of embedded within our expectations. So, when we look at the early spring, something that we closely monitor, which is our Turf Builder with Halts product and make sure that we've sufficiently reflected those expectations in our reported results.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

And we believe that we're appropriately reserved at the moment.
Great.

Operator

Your next question comes from Alice Longley with Buckingham Research.

Alice Longley - Buckingham Research - Analyst

Hi, good morning. You just said that your sales last year from mid-March to mid-April were up 35%. How much last year were your sales in May and June, or what was the comp last year for May and June?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Alice, so I'm going from recollection here, but I believe in May we saw declines in the mid single digits and then in June we saw some rebound with growth in the low single digits. And then over the balance of the summer, it was kind of flat type of a performance over the course of the fourth quarter.

Alice Longley - Buckingham Research - Analyst

Okay. But I'm assuming June didn't completely recover the May, so putting May and June together probably you were down a little bit?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

I believe that's correct, yes.

Alice Longley - Buckingham Research - Analyst

Okay. And then this year, mid-March to mid-April against that comp up 35%, how much were you down?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

From mid-March to mid-April? Alice, I don't have that specific time period in front of me. We'll have to follow-up afterwards on that.

Alice Longley - Buckingham Research - Analyst

If you were down 7% year-to-date and a lot of it happens in April, I'm assuming that you were down in the teens?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Yes. That would be a safe assumption.
Alice Longley - Buckingham Research - Analyst
Or more?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP
Yes. It could of been -- it could be more than that as well.

Alice Longley - Buckingham Research - Analyst
Okay. And on a happier front, could you repeat the numbers that you gave us for last weekend? I think you said that Northeast was up 36% and how -- what are the comparable numbers for the Midwest? That was the first good weekend.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP
18% for the Midwest.

Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business
26% for the Northeast.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
That was for the week.

Alice Longley - Buckingham Research - Analyst
26% was for the what?

Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business
The week.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
26% was the Northeast for the week, the weekend was up 36%. The Midwest was up 18% for last week.

Alice Longley - Buckingham Research - Analyst
For the week?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman
Yes, ma’am.
Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Look, I've got to throw out there that spent a lot of time working this script. April has been cool and wet for the Northern markets, which is basically the Midwest and Northeast categories. What we're doing here is saying we're affirming original guidance and we've got a lot of good stuff going on here. So, to me, we had a really good first half, we're affirming guidance, we have a lot of good things going on here. This is a part of what we do. This is the execution side of our business.

And, yes, you are right. Every week is going to matter through the rest of the season. But that is what we do. And we're pretty good at it. So, you've asked us not to bitch and complain about weather and we aren't. We're affirming our guidance. And we mean it. And so, that's what our job is.

Operator

Your next question comes from Jeff Zekauskas with JPMorgan.

Jeff Zekauskas - JPMorgan Securities Inc. - Analyst

You talked about your expectations for urea costs and some moderation in the future. When you talk about moderation, do you mean that you think that they will moderate below the prices that you paid in the summer of 2010, or do you think that they are going to moderate above?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Above.

Jeff Zekauskas - JPMorgan Securities Inc. - Analyst

Above?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Yes.

Jeff Zekauskas - JPMorgan Securities Inc. - Analyst

Okay. So, in other words 2010 was some kind of base and you think that maybe there won't be that much growth over time?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

You mean on urea pricing?
Jeff Zekauskas - JPMorgan Securities Inc. - Analyst

Yes.

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

I think the answer is yes, that is true.

Jeff Zekauskas - JPMorgan Securities Inc. - Analyst

So, in terms of the sales shortfall that you’ve got this year, it sounds to me like you expect to earn something like $1.70 in the third quarter. In that, if you are going to hit your original guidance, you lost about a dollar in the first quarter, you lose about $0.30 in the fourth quarter, we know what you made in the second. That comes out to around $1.70 and I do not know if I’ve done the calculation precisely, but that would mean about $200 million in operating profit in the third quarter. Have I done the math right?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Jeff, we explicitly avoid discussing quarters unless we see something abnormal that we want to alert you to. So, I’m going to talk more to the second half than the third quarter or the fourth quarter specifically.

Jeff Zekauskas - JPMorgan Securities Inc. - Analyst

Sure.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

The timing of the sales has been clearly evidenced this morning, is dependent upon the timing of the weather. We think over the breadth of the season, it is predictable within a reasonable range, but it is not predictable from week-to-week and so I’m going to avoid from addressing that question directly.

Jeff Zekauskas - JPMorgan Securities Inc. - Analyst

Okay. Thanks very much.

Operator

Your next question comes from Jon Andersen with William Blair.

Jon Andersen - William Blair & Company - Analyst

I just had a couple of questions on innovation. Jim, you mentioned the early feedback on Snap is fairly positive, just wondering if you had some more color on that and what some of the go-no-go criteria will be for a broader roll-out next year. And also I think Expand ‘n Gro is available now in limited release and what you are seeing, so far, with respect to the retailers and the consumer understanding that product because it is quite different?
Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business

Okay, Jon, first one is -- this is Barry, with Snap, what we've seen so far is markets that we've gone back to, we have a bigger breadth of products this year. And so, the most compelling thing is that the repurchase intent and the number of units that they are buying are actually higher than our average units of what people are buying fertilizers. So, that repurchase intent is fantastic and what we've also seen, we did some price testing on the base unit itself last year. And we were going everywhere from $49 all the way up to $79, we've lowered that price point down to the $49 range and we've seen much greater purchase intent with that unit. And then, also from a mix, we're following the sales pretty closely and doing store intercepts and what we're seeing is, while fertilizer has tended to be a male category, we've seen very good purchase intent from the female consumers.

So, all three of those things are positive trends, but I would also say some of these markets are also Northern markets, so as we've been talking for the last hour or so, it hasn't been the best weather in April, so we're going to continue tracking that through the year. From an Expand 'n Gro standpoint, I think it is too early to tell much yet. That really just got out on the market, we have some different concepts, so probably next call would be appropriate to get some information back on that.

Jon Andersen - William Blair & Company - Analyst

Okay, thanks. Just one other quick one, maybe for Dave. Dave I think you said that the plan is to repurchase a little bit north of 6 million shares this year. Could you just talk about how you are balancing share repurchase versus other uses of the free cash flow that you are generating, acquisitions, et cetera? Thanks.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Sure. So, Jon, first and foremost, we direct our capital to fund our internal growth in the core business. I'll say internally it is kind of our first, second and third priorities. And I think you've seen an increase in the pipeline of projects that are high returning projects as our CapEx has expanded from two, three years ago was consistently $55 million to $60 million, to last year when it was I believe in the mid-70. And this year, I will tell you that we're probably going to be in the mid-80s or higher. So, we're really trying to focus on internal innovation, grow for capacity and drive cost productivity improvements with organic capital.

Second, with respect to acquisitions, I think we have a fairly defined, tightly defined view of how we think about acquisitions. We do think that there are opportunities for us to do small tuck in type of acquisitions. And part of what I told you at the investor conference was that we are building some organizational capability to do that, and do it well. I think we learned a lot from the Global Pro divestiture, we managed that extremely professional. And I think started to rebuild some skills that atrophied in the past, but having said that, I think we're going to be very disciplined in how we think about that. So, we're not going to be repaying debt, we've got our leverage down to a level we think is appropriate, to manage our cost of capital and we're left then with returning cash to shareholders.

We doubled our dividend last year, we've got a commitment to revisit that on an annual basis now with our Board of Directors and my expectation is that we'll continue to adjust that on an annual basis. So, what is left is the share repurchase.

So, I've been asked a lot about the share repurchase. I would say that we're not out there maniacally buying shares regardless of our share price. We are looking at our share price on a routine basis and comparing that with our own internal models. We still believe that we're in an environment where buying back our shares is appropriate. How we buy them back is both what I describe a blend of programmatic and opportunistic. We generally don't feel like being a market timer is right, but we've built in a program where we've put collars and if the price exceeds a certain level or falls below a certain level then our program will automatically adjust accordingly, based on the circumstances. So, that's really our cash -- our strategy for uses of cash as we are articulating it today.
Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

I want to just throw in there that one of the things that is very exciting about what is happening here is, our sort of operating strategy and our financial strategy are coming together really well. Dave and Barry and the team are working really hard on this. And we have a Board meeting later this week where they are going to be kind of prepped for the first time on -- which is I think a freshened view of our financial strategy, combined with our operating strategy. And I think what Dave said there is very important, is that the way we're looking at the business, we have plenty of money to actually fund our internal operations and growth. And with an approach that basically says our leverage is pretty much where we want it to be, significantly sends money home to the shareholders, as well, through some combination of dividends, which you could read as increased dividend. Maybe. And continued share repurchase.

So, it's a very good time for us. And we're not starving the business to send money home and we're not holding money that we have no purpose for either. So, it's -- and we have a very exciting operating strategy and so I'm -- it's like I said, it is a good time. The team is working really well together. Everybody is excited by what they are seeing. I just -- it is just too bad that April has been kind of a drag because otherwise, we'd be not only really excited about this year, but very excited about the future, but that shouldn't mask what's -- the really good things that are happening in this business.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Yes, Jon, I think we'll increasingly try to be as crisp as we can on your question. But I think what you've seen is over the last handful of years, we've delivered top quartile total shareholder returns and when we look at the fundamentals of our business, the position of our balance sheet, the consistent, strong cash flows we generate, we believe that we can demonstrate, through performance, consistency of returns to shareholders that are going to be our goal, top quartile returns, through combination of dividend share repurchase and fundamental growth in the business. So, I think it is going to be a very compelling story that I hope we will be rewarded for as we deliver those results on a consistent basis.

Jon Andersen - William Blair & Company - Analyst

Okay.

Operator

Your next question comes from Carla Casella with JPMorgan.

Carla Casella - JPMorgan - Analyst

Hi, can you tell us how long the exclusivity period lasts on the DuPont product?

Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business

Ten years from the start and I think we have eight years left on that. But we'll have to confirm that for you. Eight when the 2012 year

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

While we're on this, I just want to throw out what this product does, okay? Started with the Southeast where we hope to have this product in the market for this fall. So, we've received our EPA registrations, and we're in the state registration mode right
now. I know that Barry, and Lyski, Claude and myself are very interested in getting this product out to the consumer this fall. If we can get that done just from a regulatory point of view.

This product has virtual total control of the most important weed in the Southeast, which is this [dala] weed and as a Floridian now, I can tell you it is a major weed pest where the active ingredient that all of us are using today has very mediocre control over it, that's all that is proved. So, this product will be virtual 100% control of that product. For the Northeast on clover and dandelion, this is a product that does not require watering in. It is a product that just gets applied, goes onto the soil and it is brought in through the roots as opposed to the leafs and again you are going to smoke dandelion and clover, the most important weeds in the Northeast.

So, this is a, not only a much simpler product to apply, but it is a much more effective product than anything anybody has got today and we are going to be the only people who are going to have it. This is a very exciting launch of a product and I'm telling people around here, I'm not sure that we've seen a major innovation like this in lawn care, well, maybe since Miracle Gro Extra Lasting Lawn Food, but I mean probably since Dwight Scott, and that goes back aways. So, this is a very cool product, major innovation, exclusive and a very good relationship with our friends at DuPont.

Carla Casella - JPMorgan - Analyst

Okay. Great. And then just one question on pricing in the market. Have you seen any competitors take price increases or discuss price increases for the year, and give us a sense of how much of that 10% to 15% increase in commodities could be offset with price?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

No, but, listen, we tend to lead in that space, number one, but you know that everyone is thinking about it because at the end of day we are all selling products that are urea-based, we are all selling products that have plastic in them and we are all selling products that delivered on trucks that use diesel, so it is going to be an issue that everybody is dealing with and I think whether it is good or not, we are the leader in the category and I think we tend to start the conversation.

Operator

Your next question comes from Jason Gere with RBC Capital Markets.

Jason Gere - RBC Capital Markets - Analyst

Good morning, thanks. Just want back to on 2011 gross margin, I know you were talking about protecting penny profits. Is it reasonable to assume the historical 25 to 50 basis point acceleration gross margins can still be achieved and just on that context, if you can talk about the regionalization savings, where there could potentially be more upside that could help keep moving gross margins northward? Thanks.

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Yes, Jason. I think our goal of raising margin rates is 25 to 50 basis points, that goal stands firm when we look about our long term business plan. So, over the breadth of a business cycle, we think that we have a portfolio cost savings projects and innovations that should do that. Having said that, I think we're at this early stage of the season and the planning process, hedging our bets relative to whether we can continue to grow rate next year given the magnitude of some of these cost increases we're seeing.
This is not guidance for next year, but we clearly see it as a challenge, and one that I would not want to commit that we can grow it given those significant headwinds next year. Coming out of that cycle, again though, without that type of an inflationary environment, we still believe that it’s guidance that we expect to deliver on a longer term basis.

Jason Gere - RBC Capital Markets - Analyst

Okay. And then just this -- I guess a separation question, I do not know if you talked about it earlier in the call, just in terms of the accounts receivable, the higher level, is there any concern there?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

No. We see -- it’s a seasonal business and the timing of shipments within the quarter influences those receivables. Remember, even though it is a little confusing because you are talking POS on one hand through April and the other we’re talking about shipments through March, we had a strong shipments quarter in the second quarter and that combined with the timing of the shipments was driving our receivables. So, as an outcome we do not see that there is any structural change in our receivables.

Jason Gere - RBC Capital Markets - Analyst

Okay. Great. Thanks, guys.

Operator

Your next question comes from Joe Altobello with Oppenheimer.

Joe Altobello - Oppenheimer & Co. - Analyst

Thanks, good morning. Most of my questions have been answered. Just one quick one on the addition of Jim Lyski, is this a situation where you felt like your advertising message needed tweaking or is this just adding talent when you can?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Let’s start with affirming the last part, which is adding talent. I think this goes back and is very consistent with the story we’ve said to you guys, which is that this is a time where you’ve got to work for your money. That you are not seeing a significant amount of growth, if any, in sort of retailer foot print. Consumers are out of money and this is not some editorial about pricing, don’t read it that way. But it says that if we are going to create growth for this business and our category, it is going to be because of what we do. Getting tight with the consumer is what that is about. So, this is about upgrading our marketing organizations so that -- if I look at our, basically our sales force, I think we -- it is hard to see that there’s somebody better than us. If you look at our supply chain, it is really hard for me to say there is anyone better than us in sort of -- and, again, this is the predominant amount of our business is big box retail, but seasonal big box retail, it is hard to see anyone that distributes better than us.

I think Dave and his organization are great on the finance side, so I think we have these major pockets of really high quality. Our most important single asset, I think besides our people is our brand. And I expect our brands to be managed, as well as any other part of our business and I think that I just came out feeling that we could be doing better. Again, this is not a ding on the folks, because I think most of those folks are still here. It is basically on a leadership side. I think it was really about a talent upgrade and we made that. So, I think that when I talk in my script about the team that surrounds me, which is really the core of this business, is the people around me and I think it there is a legacy that I add it is the team that I put in place.
I think Jim is the kind of person who can raise marketing up where we’ve got to do this. And it’s -- everything about our business is going to depend on this tightness with the consumer and the regionality is part of that. But it is actually -- it is how -- who we are. When I say who we are, who our brands are and what our brands say to the consumer and the promise they make and the partnership that our brands have with consumers, something they clearly are interested in. You look at these categories, almost 40% growth last weekend in the Northeast and it wasn’t even that nice a weekend. So, there is a lot of pent up demand in this space and given decent weather and our brands being relevant to consumers, and then continue to do things we're good at and I think, listen it is an unstoppable kind of formula and I like that.

Joe Altobello - Oppenheimer & Co. - Analyst

Okay. Great. Thank you.

Operator

Our next question is from Doug Lane with Jefferies.

Doug Lane - Jefferies & Company - Analyst

Just a couple of quick questions to tie up. A couple things, Dave, you mentioned one was sounds like you are going to get a favorable $0.02 to $0.04 in earnings this year from less interest expense. Should we assume that you took a comparable amount out of EBIT? And then secondly, can you try to square on the share count, how we can be up 0.5 million shares year-to-date and you are still looking to be down 1 million shares by the end of the year with your stock buyback program being pretty much on track and unchanged?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

So, Doug, on your first question, when we reaffirmed guidance at $3.60 to $3.70, that's all in. It’s kind of balancing the whole breadth of areas from sales, to margin rate, to SG&A and is inclusive of the improvement in interest expense.

With respect to the share count, this is one of the areas it is second to gross margin rate, is not necessarily, terribly intuitive. Part of the reason why is the fully diluted share count is driven by a weighted average and because our share repurchase program is only just started last September in a small way. It is slowly ramped up in our first quarter and gained a little more momentum in the second quarter and it will gain even more momentum as we reinvest proceeds from Pro in the third in and fourth quarter, you have this phenomena of the waiting.

We got very little benefit from that at our second quarter. We are going to start to see a lot more benefit from that weighed average in the third and fourth quarter because they will have been out of the marketplace a greater portion of that trailing 12 month period. So, without walking you through the actual mechanics of the calculation, I can tell you that I’ve gone through this kind of backwards and forwards and I'm confident in that answer.

The sensitivity that we have is really around share price, the average share price in the marketplace. That share price can modulate our common share equivalence and as well, can modulate the number of shares we buy back. But when we do a sensitivity on that, it is really hard to see that changing the answer by more than 0.25 million shares in either direction. So, Doug, that is as clear as I can be on a very unclear topic.
Doug Lane - Jefferies & Company - Analyst

And I understand that. So, the fact that you are up 6 months, 0.5 million shares is not off of what you originally expected, or did option exercise kind of throw you for a loop? Is there anything you can do to control option exercises in the second half of the year?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

Well option exercises are one I can't necessarily control directly. So, we base our modeling looking at 5 year averages and sometimes they are more and sometimes they are less. I think the share price is definitely appreciated significantly in the last 12 months and that has influenced shares from option exercises. But the half -- the answer though is the increase for the quarter, I'll be totally candid and tell you that it kind of -- I knew that, but it was not intuitive and I went through and that caused me to triple check the full year. And we are effectively, within some reasonable tolerance, on our plan for driving that remaining shares, which is where we started the year.

Doug Lane - Jefferies & Company - Analyst

Okay. Thanks a lot.

Operator

Your next question is from Jim Barrett with CL King Associates.

Jim Barrett - CL King & Associates - Analyst

Jim, will the MAT28 product, will that replace Turf Builder Plus 2, and or Halt, or is it an incremental SKU?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Both. Not incremental. It will replace both those products. So, it will be the primary active ingredient in -- not in Halt. I'm sorry. In just in Plus 2 and Bonus S.

Jim Barrett - CL King & Associates - Analyst

And is there any reason why, therefore, given its efficacy that you would not price that, a very material problem to Turf Builder Plus 2 and Bonus S?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

We haven't made that decision yet and it would be, I think, stupid for me to flap my lips. I think the issue on sensitivity and elasticity is real, but we also think this is a major innovation and that decision has to be made, and I think our fall Bonus S season will be a really good test ground for us to see what we can get from the consumer for this innovation before next years season hits off hard.

Jim Barrett - CL King & Associates - Analyst

Okay. And real quickly, is there a basis for taking legal action against Pennington Seed’s advertising?
Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

Probably, but we aren’t going to do it. I think this idea of running to the courts like its mommy or daddy and getting them to solve our problems, I think we are very happy to compete in the marketplace and I think that it’s -- there is times where we all feel like we should get Vince Brockman involved and our General Counsel. But I think generally, it’s not the right way to run every time-- I wish people would say things that were true, but I can’t always make that happen.

Jim Barrett - CL King & Associates - Analyst

Okay. Thank you very much.

Operator

Your next question is from Sam Yake from BGB.

Sam Yake - BGB Securities, Inc. - Analyst

I was just wondering, I was very encouraged by the news from the analyst day about SC Johnson. Do you have any updates for us on that?

Barry Sanders - The Scotts Miracle-Gro Company - EVP of North American Business

The partnership is going well. We started to make our first customer communications, both with them representing us at grocery/drug and having conversations with our customers. It’s early on. We are starting a line review process, but it looks promising so far.

Sam Yake - BGB Securities, Inc. - Analyst

Okay, great. Then one last thing. I heard some differing things about how much of your business you are doing in private label. Do you have any round numbers you could give us on what percent of your revenue for this year will be private label?

Jim Hagedorn - The Scotts Miracle-Gro Company - CEO, President and Executive Chairman

I tell you, at the speed that Dave was pulling into his file with his numbers, it must mean that he has a sheet that has that on there. Dave, are you going to take this one?

Dave Evans - The Scotts Miracle-Gro Company - CFO, PAO and EVP

I thought you were going to talk for a minute longer Jim. The punch line is that it’s a very small part of our business. If I look at our private label with two of our three largest retailers, where the majority of it is, order of magnitude we are talking $100 million in sales.

Sam Yake - BGB Securities, Inc. - Analyst

Only $100 million? Okay. Thanks so much. Appreciate it.
Our final question is from Connie Maneaty with BMO Cap.

Hi. Just one question for Dave. If interest expense is coming in a little bit lower this year, do you have a sense of what it will be in 2012?

Yes, unfortunately, Connie, it's almost like what I said at the analyst conference, it's a fixed number. So, to -- within the assumptions we made at that time. So, the extent we are getting benefit this year by delaying the new facility, it's not changing the number for next year.

Okay, great. Thank you.

I would now like to turn the call back to Jim King for final remarks.

Okay, thanks Amber. Thanks everybody for joining us this morning. If you've got any follow-up questions, feel free to give us a call offline. For those of you who are interested, we will be out a good bit in May. We have conferences in both New York and later in London. So, give us a call and we will take up any other questions you have offline. Thanks for calling. Have a great day.

Thank you for participating. You may disconnect at this time.