

DIAMOND FOODS, INC.

**Moderator: Bob Philipps
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3:30 pm CT**

Q&A

Operator: Thank you, sir. I would like to remind everyone, in order to ask a question, press star 1 on your telephone keypad. If at anytime you'd like to be removed from the queue, please press star 2. If you're using a speakerphone, please disengage your mute function to make sure your signal reaches our equipment. And that is star 1 for questions. We will pause for just a moment to compile the Q&A roster.

And your first question comes from Tim Ramey with D.A. Davidson.

Tim Ramey: Good afternoon, guys. Congratulations.

Michael Mendes: Hello, Tim. Thank you.

Steven Neil: Thanks, Tim.

Tim Ramey: I was trying to figure out if there's any real seasonality to the Pop Secret business. Is there any kind of spike in the 4Q or is it pretty ratable throughout the year?

Steven Neil. Tim, this is Steve. Pop Secret, when you compare it to our nut business, is much more ratable over the year. If there is seasonality, you see it sometimes in September with the new TV season coming on and you may see it around the Super Bowl time, but really when you look at it compared to our other business, it's pretty ratable over the year.

Tim Ramey: Well, if I think about it being sort of a \$90 million run-rate, 22.5 million quarterly rate, that means your snack business was kind of 32 million in the fourth quarter. And if I annualize that to a \$128, \$130 million range, it seems like that sort of smacks in the middle of what you're guiding us to. So are you guiding us to essentially flat sales for fiscal '10 or that just conservative, or what are we expecting there?

Steven Neil: Flat with a run-rate of the fourth quarter.

Michael Mendes: Well, I think, Tim, as far as the fourth quarter, there's a lot of noise in that fourth quarter in that what you're seeing is some of that is some pipeline fill of new distribution gains, for example, with our hundred calorie pack in the mass merchandise channel and also with our peanut business as we're getting some new distribution there. So part of that surge in Q4 does show some channel pipeline fill, so I think when you clear that out of Q4, there is growth in next year (non) run-rate basis. But part of what you see in Q4 is some pipeline fill from that new distribution. And also, we had a new piece of club business in Pop Secret and a regional club customer which also we had pipeline fill in Q4.

Tim Ramey: Great. Thanks so much.

Steven Neil: Thanks, Tim.

Operator: And we'll take our next question from Heather Jones with BB&T Capital Markets.

Heather Jones: Good evening. Great quarter.

Michael Mendes: Hello, Heather. Thanks very much.

Heather Jones: No problem. A couple of questions. You mentioned price deflation in culinary and I guess I'm just trying to get a sense of – I guess my core question is how much was strategic volume up for the quarter? You mentioned walking away from sub-rationalizing some of your SKUs there and you mentioned price deflation. I'm just trying to get a feel for the business you want to keep strategic. How much of those volumes were up?

Michael Mendes: On our strategic business, the non-strategic business that we're talking about, culinary, was non-walnut related. We had some almond and pine nut business that we were doing as part of our larger service to some of our club customers that really was quite nominal and its contributions to us and really not leveraging our brand platform, so we moved away from some of that. So that's what we were referring to in terms of moving away from non-strategic business from the culinary side.

Heather Jones: So could you give us an idea of what volumes did give some price deflation? What kind of growth rate are you seeing in there because it seems like it's sort of masked by the price deflation.

Michael Mendes: Yes, absent the price deflation, you're still looking at culinary as a single digit grower, maybe low single digit grower during that fourth quarter when you clear the mark with some distribution gains that we had. We did get a major new national retail customer. We got the national culinary contract which artificially increased our pound volume growth. If you clear the market of that, you see low single digit volume growth on that culinary business.

Heather Jones: OK. Do you expect, I mean are we going to be comping on price deflation for all of '10 or can you give us some guidance as to that?

Michael Mendes: We will still see in the first quarter we'll be lapping higher prices on a per pound basis than the same period last year. That's reflected in our guidance and we will be lapping that on the top line. That won't be a penny profit issue but it will be a top line impact in Q1.

Heather Jones: OK. Just in Q1?

Michael Mendes: Primarily Q1.

Heather Jones: And then going to the margins, gross margins – two questions. Gross margins were phenomenal and much better than what we're looking for, and I think you had done — but I think you were doing 23 or 24% in Q3, and this sequential improvement, is that largely due to the efficiencies you noted in sort of (end show), or did you see further cost relief?

Michael Mendes: One thing that was a benefit for us in Q4 was the remaining inventory on walnuts, for example, that we had left to sell. We happened to have a market opportunity that allowed us to sell that product in more of its natural form to that customer that we had identified which avoided us having to double chop the material which would have had a recovery yield hit for us.

So kind of a happenstance that we had, we were able to market that remaining inventory more in its natural form versus having to double chop it, as has been our history, gave us some upside that – I don't know if that's something we'll be able to achieve on the out period but it's always something we're trying to do. But that, in part, contributed to that surge. The other elements were some cost issues we did talk about.

Got any more color to that, Steve?

Steven Neil: Yes. And I think as you start to see your snack business ramp up, while we do get some incremental margin there, so it was – the big one unusual item was the shelling operations and the others are just continuing efficiencies in the business.

Heather Jones: OK. And then on the SG&A line, that moved up considerably and I'm just wondering – I understand it's partly a function of greater retail sales but didn't know if there was some, for lack of a better word, unusual items in that?

Steven Neil: Yes, this is Steve again, Heather. The only unusual item in there is we did adjust our Harmony intangibles in the quarter, so that had a little bit over a million dollar impact on the quarter; so that would be unusual. The balance was, frankly, spending to support the retail growth that we had in the quarter and really overall for the year as we're coming into the season here as well. So, other than that little over a million dollar amount, I would say it's a pretty normalized amount. We do expect, as we indicated, SG&A as a percentage of sales to go down next year because you don't have that item and we don't have the transition cost for Pop Secret.

Heather Jones: OK. And then on your guidance, you took out the bottom and raised the top end nicely, I'm just wondering if you could speak to – clearly, you have some comfort with that, but do you feel like your projections for '10 are fairly conservative?

Michael Mendes: Heather, if you recollect in our comments, we mentioned, I think we have it in our press release, that we kept quite a wide range in our advertising projection from 29 to \$34 million in sales. Also, this coming year, we've got quite a host of new products that we're going to bring into the market. We have one new item at the Pop Secret side of the ledger; right now that's pending. We've got at least four items on the Emerald front that are currently pending launch this coming year, plus more in the pipeline. So we will be spending slotting dollars to launch those items.

We will have accelerated promotional spending as we look to get products, get our consumers to have trial those items, and that can be quite a significant upfront expense; so all that's taken into our numbers. So we do feel very good about that 16 to 22% EPS growth next year and doing that while investing and really putting ourselves in a position for that long-term earnings growth track that we talked about in terms of our long-term vision.

Heather Jones: OK. Thank you. Congratulations, again.

Michael Mendes: Thanks.

Steven Neil: Thanks, Heather.

Operator: We'll take our next question from Mark Argento with Craig-Hallum Capital.

Mark Argento: Hi, Mike. Hi, Steve.

Michael Mendes: Hello, Mark.

Mark Argento: Nice yearend for you guys. In terms of the \$500 million long-term goal on the snack side, can you walk us through your thoughts in terms of organic growth relative to potential acquisition growth?

Michael Mendes: Mark, I think that we've talked in previous calls about our concept of the build-or-buy decision. This is a company that, over its 97-year history due to a lack of resources, has had to generate virtually all of its growth to organic growth which, to be candid with you, is a very good disposition to come to the game with. I think that building is a lot of times more difficult than acquiring, and that's definitely at the heart of our effort. That's definitely in our DNA; it's what we're all about.

With that being said, Pop Secret can turn out to be a very nice acquisition for us, and not only as a free standing entity, it helped make us better as a company. It enabled us to do a better job in servicing the larger snack category and has built efficiencies the entire business has enjoyed. There are some channels that we would like to more effectively be able to service in the future. There are some consumers that we would like to augment our product line to more effectively appeal to those consumers. On occasion an acquisition could be a much more cost-efficient and rapid path to achieve those objectives.

So I would say that I think we're in a little different marketplace today than we were, say, three or four years ago. I think that if assets were to become available and they would reflect more of the current day multiples or maybe the multiples that we anticipate, we might see next year, that could be an interesting choice for us. And if that's the case, we want to be well-prepared to pursue those. That being said, we have quite a robust organic growth strategy, and we're working very hard to execute against that.

Mark Argento: Right. And then, dovetailing into that, in terms of this Emerald brand that you guys have built up – has clearly become a fairly popular brand in the snack area and growing fairly nicely. Any thoughts on taking that brand somewhere else in the grocery you know other snacks or other places in the grocery store?

Michael Mendes: Well you know we have made a foray into the breakfast cereal aisle with our breakfast on the go product, which you will find in the mass merch channel. That product is doing very well there. We think that that's a very interesting opportunity to pursue a different day part to build upon the equities we've built in the brand and to leverage capabilities that we currently have into a channel where maybe there's a lot more room on the shelf. And one thing that's appealing about that breakfast cereal category is there's a lot more real estate over there than there is in the snack nut aisle. And so I think that that's been an interesting foray for us.

We've been in the produce aisle historically with our in-shell nut products. We're making a slow build with our Emerald harmony produce snack offering. You know we've evolved that offering a good bit since we've acquired that business, that Harmony business, to make it more of a nut-centric offering, probably building off of the strengths of our capabilities. We dropped that under the Emerald endorser brand and I think there's an opportunity to sell to consumers through that high velocity part of retail.

You know I think the future is open for us. I do think though that it's very important that we finish the job in with Emerald as a snack offering. We feel that we are still very much under-distributed with our product in traditional grocery as well as other channels. I mean, in traditional grocery, we only have three items that are in distribution in more than 60% of the U.S. grocery; and the rest of our items have less than 60% distribution. So you can imagine if we just get to that 80% distribution line with our top 10 items, there's a lot of velocity and there's a lot of presence that we can gain and build on our franchise that way; not to mention opportunities in club, mass merch, drug, which are wholesale distribution customers that work well through our supply chain, and then finally looking at that convenience store segment that we are very lightly developed in and we think there's a big opportunity there.

So I think that you bring up a good point. I think that if we continue to make Emerald a strong brand, the ability to deploy those equities in other parts of retail is a big opportunity for us. I think the most immediate opportunity is to really go from good to great as a snack-nut brand and that's our focus right now.

Mark Argento: Great. Thank you very much.

Steven Neil: Thanks, Mark.

Operator: And we'll take our next question comes from Ken Zaslow with BMO Capital Markets.

Ken Zaslow: Hi, good afternoon, everyone.

Michael Mendes: Hello, Ken.

Ken Zaslow: Just making sure, I looked through some of my numbers. If I look at the internal sales growth of your snack nut business in the year, I get about 18%; for the quarter, I get about 24%. If I think about going forward, that looks like based on your guidance is about 10%. Is that the right kind of magnitude the way I'm looking at it?

Steven Neil: This is Steve, Ken. We'd have to pull out some of the pipe fill-in stuff. I think our growth rate going forward certainly in fiscal 2010 should be similar overall for Emerald. I mean, I think it's again timing of launches, et cetera, so I don't think it's going to be meaningfully different. We did though, and one of the things that is going against that growth rate is we did take out some non-strategic SKUs. For example, we had some SKUs carrying over from the Harmony acquisition, Gummi Bears and the like and we just didn't think that manufactured outside and not really a core product, so that's going against – not huge dollars but that's going against the growth rate as you look into 2010.

Ken Zaslow: When do you – how much do you think that will take off? Are we talking about two to three percentage points? And when does it anniversary?

Steven Neil: Interestingly enough, in the Diamond Foods organization we continually challenge to rationalize SKUs and make sure that we have the higher velocity items there, so it happens ratably throughout the year. That's the good news. You know it's a couple of percentage points, but we don't really quantify that, Ken. Again, the core Emerald growth rate should be similar, roughly similar in 2010 than what we see in 2009.

Michael Mendes: I think, Ken, the year-on-year numbers of our snack business I think are more indicative and sort of clears the noise between the quarters in terms of our snack business from last year, from this year to next year. The one thing to keep in mind is we do have quite a surge of new products and we are going to separate these items. You know just to give you an example, in one of the two large mass merch customers, if we want to do one demo, one national demo, the cost is \$450,000. And that's a pure expense and that's also because promo, it's a reduction of net sales.

We have found trial to be so important for our products and we think that some of our slow successes or failures of items that we think could have succeeded were based on our inability to get consumer trial. So one thing that is going to be a big focus for us is we will spend hard early to make sure that we give our products an opportunity to succeed and that's built into our guidance for our snack number, again, which does net out of our top line sales there.

So again, we've got some very interesting items that are core to our retailer. They're appealing to a consumer base and a need that existing that is substantial and – but I think it has a unique offering, from our perspective. I think it gives us a lot of opportunity. We need to get people to get trials of those products, so we will make sure we adequately promote against that.

And then there's also the issue on traditional grocery. We'll be paying slotting this coming year, which will also be (contra) revenue.

Steven Neil: I'm going to pile on just a bit here, Ken. Our focus here is to manage our brands as one portfolio. We're just launching – and you know this – the Feed-The-Fingers promotion, where we're actually going to be cross promoting with all three of our brands, so it's less of a focus on what's Emerald, what's Pop-Secret, what's Diamond doing, but more as that portfolio of brands. So you know we're getting away from singularly focusing on that one brand and looking at the

overall portfolio. So it may seem a little bit murky, but I think what's really driving that full offering for our retail partners and the consumers.

Ken Zaslou: I guess what I was trying to get at and the thing about it is you know your sales growth you know call it 4 or 5%, your EPS growth is 19%, but yet you know on a per annum basis like I guess with all the new products and what's happening on the (IRI) data it seems like there's – the growth in your EPS is more coming from the bottom – from cost management and commodity prices going down than from the growth in the snack nut business.

Steven Neil: OK.

Ken Zaslou: ... what I was just trying to get at.

Steven Neil: Yes. No, I don't think that's the case at all, Ken.

Ken Zaslou: ((inaudible)).

Steven Neil: Yes, and if we're growing –our snacks is growing 15 to 22%, and in that – in that is some rationalization of nonstrategic snack items that were part of that Harmony acquisition ...

Ken Zaslou: OK.

Michael Mendes: Ken, ... you know and clearing that would drive that number even further north. When you talk our non-retail business you know we talked about our retail business is going to be north of 80% of our total sales, so that means that that non-retail business is somewhere around \$100 million in sales. 10% in that business, Ken, there's a lot – the price, the commodity cost and the wholesale selling price tend to move quite closely in tandem, so we did see some significant price deflation that we're going to be seeing going into next year. And in that case just a 10% reduction

in input costs that went through to the wholesale price is a reduction in \$10 million of sales or 2% of our total top line, so that's some of magnitude and the aggregate business and I think is where it gives you that less than stellar appearance on the top-line growth, but when you get behind that and you carve out that commodity price deflation I think we're seeing some very good growth on our baseline core business.

Ken Zaslow: OK. The 19% growth from 2009 to 2014 I'm assuming that's you know from – you know call it you know \$1.40 [EPS], whatever you did, to \$3.50 [EPS]. How much of that is internal versus acquisitive, in terms of what you think is the growth?

Michael Mendes: I would definitely would say that there will be some acquisition that would be a part of that. But you know at this point in time a lot of that depends on the opportunities that present itself. You know we're not going to put ourselves in a position, Ken, that we say something today that sort of forces our hands to make an acquisition that's not prudent, so I have to tell you we – when you look at the \$3-billion snack nut category and our relatively small business within that snack nut category do we think we could drive tremendous growth in snack nuts ((inaudible)) and acquisition? We do. We absolutely do.

Ken Zaslow: Can get to that number without acquisitions, I guess? I would think that you could, but you're kind of ...

Michael Mendes: Well, yes, I would say we could, but it may be – that might – we might not get there most cost effectively and most rapidly if we rule out acquisitions.

Ken Zaslow: My last question is you know when you do make acquisitions what is your desire to use stock versus debt? I mean going – historically you've used debt. Obviously with the offering it brings up the – the potential of a stock side of it rather than just debt. How do you decide between the two and what is your appetite to use your stock as cash?

Michael Mendes: Well, as fellow shareholder with many people on the call I prefer to avoid dilution unless it's at a great return. That being said, I think it's very prudent that at the time that we're filing our 10-K that we very cost effectively file the shelf that we just did. You know our bent is at the current cost of debt we like using debt. I've got to tell you, we think that we're very fortunate that our banking partners are very positive in their experience with us. You know it's amazing how much the banks like you when you pay them back. And we've executed against our strategy and I think we're very fortunate to have lending institutions that are very supportive in trying to help enable our growth objectives.

That being said, we all want to be prepared in the event that there's some opportunity that is significant and that could have a great return for our shareholders that might require in part some equity consideration, so our strong preference is to use debt, especially at the current cost of debt right now, absolutely. And I tell you, we would be very, very cautious in any consideration of using equity. We think our equity is very valuable and so – but I do think that it's very, very prudent for us to file that shelf and to have that available amongst our robust capabilities of things we could do to help scale up this business in the future.

Ken Zaslou: Do you have target debt-to-cap ratios, and like how do you think about that?

Steven Neil: I wouldn't say we have target debt-to-cap ratios, Ken. I think leverage is good because obviously that drives significant growth in earnings, but I think those ratios, if you look in the past year, everybody's rewriting as to what's the ideal leverage ratio. So, no, I don't think we really have a target. I think we have the desire to generate cash flow to service all of our financing, so I think it's more tied to that. And it'd have to be specific to the situation, so I wouldn't constrain myself there. But, again, if you look at leverage, et cetera, I mean the markets have changed dramatically from there, and I think being a good steward of the business, either to our borrowers or to our shareholders, is what we're all about.

Ken Zaslow: Great, thank you very much.

Steven Neil: Thanks, Ken.

Male: Thanks, Ken.

Operator: We'll take our next question from Alton Stump with Longbow Research.

Alton Stump: Thank you. Good afternoon.

Male: Hello Alton.

Alton Stump: I guess just a quick question on the walnut cost environment, in particular, heading into the next year. It looks like the initial projections are pretty good for the upcoming harvest. If you have any thoughts on you know what you think walnut costs may do over the course of fiscal year 10?

Michael Mendes: Thanks, Alton. You know on the walnut situation we're just getting the harvest started – last year's crop. They expect the crop to be around 380,000 tons. The final crop in January was reported at over 430,000 tons. As a result, carryout inventory coming out of last year was larger than the prior year. This current crop, the estimate was 415,000 tons, which this is supposed to be the off year, a little bit larger than some people were thinking. Right now, given what we've seen in the early harvest you know I would think that 415 might be on the higher end, but we're very, very early in the harvest. If the crop comes in a little shorter than 415 I think pricing will hold relatively firm to where it is today.

One thing about last year is that walnut prices weakened about the middle of the season and there was a lot of big shipments into markets that normally don't import a lot of walnuts, markets such as Turkey and China, and with some additional products into China coming through Hong Kong, which really reduced the total inventory much lower than people expect by the end of the year. So, the aggregate of all that noise is that I do think that with the very weak dollar we're going to see strong exports in walnuts this year, and prices probably will stay firmer throughout the year than they did last year.

The thing that's difficult to tell based on the alternate bearing crops is that next year is supposed to be the on year for the walnut crop, and if it is going to be the on year and if the inventory is appearing to be similar to the same size inventory as started this year that could be a period where there might be some weakness, as people anticipate a larger crop coming. So those are some of the considerations around the crop. But it's very early. Quality is very important. I think last year we had a tremendous quality crop. This coming year it appears that we're seeing a little more shrivel in the crop. I think that the odds are that this crop will probably be more average in quality compared to last year, which will mean the net yield will be a little lower, so even if the crop is fairly large, I think the net shellable yield is going to be lower, which will probably add a little firmness to pricing. So, I would say it's all coming in about what we expected and that's pretty much baked into our guidance.

Alton Stump: OK, thank you, Michael, that's all I had.

Michael Mendes: Thank you.

Operator: And we'll take our next question from Akshay Jagdale with KeyBanc

Akshay Jagdale: Hey, good evening. Congratulations on a great quarter. I just wanted to make one comment. I mean, again, there's not many companies that are giving long-term guidance

anymore and for you guys to come out here and give 20-plus percent guidance for EPS I think is commendable. And to that point, I just wanted to confirm – I know many people have asked this question, but the numbers I'm coming up with on the long-term guidance are 12% top-line growth overall, 21% growth on average for snacks, and then operating margins of around 9 to 10% to get to the 350. Is that – is that roughly in line?

Male: Roughly in line. You're in the ballpark.

Akshay Jagdale: OK. Yes, again, and then just, Michael, when you look at the \$3.50 [EPS] 5 years out what in your mind are like the top three risks to getting to that number?

Michael Mendes: I'm going to frame that to a language that I would more use around the office every day ((inaudible)) probably the things that I'd been looking to build that's going to enable us to achieve that. I think the key is sustained brand value – we need to support our brands and make sure that these are brands that consumers value. And what I mean is that we need to be sure that we are meaningfully differentiating ourselves and sustaining value in the packaging, and the raw materials and the innovation.

I think we're going to need to be supporting our brands the way we communicate with our customers so that our retail partners see us as a value add to them, stimulating consumption, bringing consumers to the shelf you know. And then, finally, we need to have the scale operationally to effectively service those customers and our trade partners. I think if we can do those things we will be able to sustain and build a brand premium that'll make incremental sales profitable. I think that's very, very important.

I think a second assumption in this is that we need to continue to attract high-quality talent in our management team. You know we're not a massive company. I take a lot of pride that pound for pound we compete well with our other CPG competitors. I think that good talent doesn't just fall

into your doorstep. We need to aggressively evaluate the skills and the talents of our team. We need to all work to get better as individuals, and that includes me, and we need to, as we look to bring new talent to the organization, ask ourselves are we averaging up? I think that that's going to be very important. We're a better company today, on average, than we were 3 years ago. We need to be able to say the same thing 3, 4, 5 years from now.

Finally we need to have discipline in terms of our focus. I think that there's a lot of companies that take a very disparate approach to their product line and kind of use the excuse that, well, my consumer uses this product. Well, I always say that that's a nice thing to say when you're trying to rationalize a disparate group of products, but I think that you're not going to see us selling you on fresh pomegranates tomorrow. We're going to be staying very disciplined within our supply chain. And I think when you look at – right now we're very much at a center store food company. Generally our products have a year-plus shelf life, they generally are products that don't require refrigeration, and they go through a warehouse distribution system.

For us to move outside of that we're going to have to do that in a way that we gain scale, so you will not see us randomly move into a product line or a brand portfolio with a you know fourth, fifth, sixth-place brand small franchise that we can't get scale in how we move the products from manufacturing to that end consumer. So if we can maintain that discipline. I think the risk again is losing our discipline of focus so that we leverage to scale our infrastructure, and if we can remember some of those things I think it's going to really enable us to achieve strong results in our out periods.

Akshay Jagdale: All right, thank you. And then just focusing on Emerald, I think you said \$220 to \$230 million, that's still your plan for Emerald as of right now. You know I know you're ...

Michael Mendes: That's for our snack – that's for our snack business next year.

Akshay Jagdale: Next year, OK. Well, you've said Emerald is going to be about a \$200 million brand.

That was your vision for it, so if that's the end game you know I think you don't put out those numbers today, but I think most people would agree that you're around \$100 million today, so you know we see you as being halfway through there on the top-line target, but to me it seems like on the investment side you may be even ahead of that. And it's hard for us to see what you're doing on the promo side, given how people report these days. Can you just give us a sense of that aspect? I mean how – what's your competitive advantage in snack nuts relative to your competition? I mean you've obviously been succeeding you know with your growth, but it's hard for us to really quantify how much you've invested in the brand, and we are seeing the quality of your investments, but what makes you comfortable that this brand is going to double you know in the next 3 to 5 years? I mean it has to be your pipeline regarding your investments. So can you just give us a little bit more color into sort of you know your pipeline investment wise and how much promo dollars you may have already spent, et cetera?

Michael Mendes: Akshay, let me try to speak towards your question, because there's also some information I want to be cautious about, because this is a public call, for competitive reasons. When you look at our Emerald business I think one of the things as a member of management and as someone who's been with here since the inception of the brand that we get excited about is the velocity of the turn of the items that we have in distribution, and the opportunity that we have just to build out the distribution more than in just traditional grocery. I mean when you look at our top-selling item in almonds you know it's only distributed in 71% of the U.S. grocery, and it's the number one selling single almond item (scanning) U.S. grocery.

But when you go to the cashew segment the number two selling whole cashew in U.S. grocery is our Emerald whole cashew. And we are number two with distribution in only a third of U.S. grocery stores. So this product is really moving off the shelf where we have it in distribution. As our team is able to effect greater distribution in the U.S. grocery landscape you know we are very excited about the future of that business, our deluxe mixed nuts, similar type thing, number three

selling deluxe mix item. It's only in about 50% distribution, really moving well, differentiating itself in terms of its offering, but really driving velocity.

And so I think the thing that we're gratified in is that one of the biggest discussions you hear from a retailer is that they're trying to be more effective with their shelf space. They're looking to put the number one, number two brand and maybe their own brand, and then they want to try to reduce these other brands that basically are regional, that they cannibalize the own-store brand because they only sell on price, that they really don't have any unique packaging or flavor profile, and they're not really spending anything to invest in bringing consumers to the store for making the product top of line for consumers. So I think that when you look at the velocity of movement of our items that that is a very encouraging element to the D&A of the brand.

Secondly is that I think we've clearly established ourselves as the innovator in the snack nut set. I think our retail partners recognize that we're going to bring that innovation, that we're going to spend against the brand, that we're going to try to bring consumers to the segment, and that also we are going to try to appeal to a broader demographic with Emerald being much more positioned to appeal to a younger snack demographic, which is more consistent with a \$30-billion universe than the national brand. We are also very incremental to the set in that we're bringing younger consumers into the snack nut category and helping them move into that set earlier than they naturally would in their life.

So you know again I think that the aggregate dollar spent is – is data that could tell you something, or it could just tell you we waste a lot of money, so I think that that's information – I appreciate you asking for it, but we prefer not to disclose much of that publicly, but I would say that what we've spent I think has been very effective. And I will tell you this, we're a student of the game and we're constantly learning of what we think was effective and what wasn't and trying to do better every year. And so we've done it – you know we've guided – this coming year we're going to spend \$29 to \$34 million in consumer support against our brand and that reflects that if

we see the opportunity to scale up our consumer support program in a very meaningful way to build brand equity and to stimulate consumption we're going to make that investment.

Akshay Jagdale: That's helpful. One last one on M&A, just generally can you talk a little bit about the environment? You know I understand your shelf filing. I mean you're framing it as though it's just you know cost effective and timing wise the right time, and there may not be something imminent, but if you can just talk to the environment, your preferences, and maybe –Ken asked about some specific financial targets, but do you have any – can you share any hurdle rates with us? You know that would be very helpful.

Steven Neil: Akshay, this is Steve. You know we're not giving the impression that we don't have a need or whatever. I'm teasing you a little bit there. But you know we're seeing the M&A environment to start to get more active. I mean, I think if you see the IPO activity that's happening in the market today, if you follow the follow-on registration statements, the high-yield market and such, or you're starting to see the financial markets recovery a bit, I think that's naturally going to bring some assets out, the pent-up demand, et cetera, on financing. So we think that the deal flow, so to speak, should pick up here in the next 6 months to a year. So we want to be in a position that if there is something that makes you better then you're in a position to take advantage of that.

As far as hurdle rates, I could give you a list of 100 interesting brands or whatever would make us a better company, but each one of them are unique, so I don't think – at least from our perspective, we don't put that hurdle rate there. If it is going to improve shareholder value, if it is going to make us better, if it's going to help our other brands further distribute, and we've discussed with you situations where Pop-Secret has made Emerald a better brand, just dealing and having more influence with the buyers at retail. So, I don't think we have any specific metrics that we're going to put out there. I think we want to stay open to what may happen. With that said we've got 850 employees here and 845 of them work on three brands and making them the best three brands they possibly can. And maybe there's five of us who think every now and then

about M&A, so we're really focusing on what we control, and as the opportunity comes up we'll react accordingly.

Michael Mendes: Also imagine, Akshay, we want to be careful what we say because we would like to acquire things at the most attractive value we can, and so disclosing kind what we would pay – some kind of a marker of what we'd be satisfied with could actually be harmful to us down the road, so we're going to be careful about that.

But, speaking to your question on the filters, generally I sort of see concentric circles around where we're good and where we could get better. And obviously we're trying to (unintelligible) snack business. We enjoyed some unanticipated benefits of scale when we acquired Pop-Secret related to our snack business in general. That was very interesting for us, which probably puts that maybe the highest on our list as the opportunity we'd like to expand upon. I think that the ability for an acquisition to maybe provide us access to a channel that we currently don't have access to because of our own capability, for example. That could be particularly interesting.

I think that when you look at the baking needs aisle, obviously we've got a very strong program with our Diamond business in the baking needs aisle. We're important to our retail partners. We think we effectively and cost efficiently distribute other products in that set and that we could have a very accretive acquisition if the right target was available there, so that'd be something we'd consider.

Now, the broadly center store is something that we could consider, in terms of more readily consumable snacks, but probably those that more likely fit within our current supply chain capabilities would be more top of list. So, I'd say that's a bit how we are approaching it and we are going to be very prudent on how we approach that discussion. I would say that today we don't see a lot of opportunities that we can fit within those filters, but it's something we're going to be constantly evaluating.

Akshay Jagdale: OK, thank you very much and congratulations again.

Michael Mendes: Thank you.

Michael Mendes: Thanks, Akshay.

Operator: And we'll go next to Sarah Lester with Sidoti and Company.

Sarah Lester: Good afternoon.

Michael Mendes: Hello, Sarah.

Sarah Lester: I wanted to just get some clarity on the main reasons for raising your guidance. I guess what has changed since you originally introduced your guidance 3, 4 months ago?

Steven Neil: I'll take that initially, Sarah. We put the guidance out at the end of our second quarter, if you recall, and we did that at a time when the market was very soft. We would call it a below-average holiday season, et cetera, and we wanted to certainly express our feeling that we had growth in our product lines, et cetera. What we've experienced here in the second half of the year, with the success of new product launches with Emerald, with the success of taking over the full operations of Pop-Secret.

Remember, at the time, we had just, in the middle of February, taken over the back office and the supply chain for Pop-Secret. I think we're gaining confidence in our ability to develop the brand for Pop-Secret and drive demand there. So, I would say that those are two primary areas that we're focusing on. And again, I think as we get into the year and take a look at how we've grown our business to more retail focused, as opposed to non-retail business, has given us more

confidence, as well. So, I think those are three components certainly on the top line that's driving a lot of the change in estimate.

Sarah Lester: OK. And then for your advertising plans for fiscal 10, I guess how should be expect advertising expense to be weighted? Are there certain quarters where it could be heavier with the Pop-Secret ads coming up maybe in the first half of a little bit heavier there?

Steven Neil: Certainly it's going to be what we affectionately call – and this is a finance term – it's going to be lumpy. Again, I'm teasing you a little bit there, but our accounting method is we expense the costs as they are incurred. In other words you can't put them on the balance sheet and amortize them in, so that naturally causes them to be lumpy. As we come here in the late fall with our Pop-Secret media, et cetera, that will be certainly one area where we'll spend, but I think we're also going to remain opportunistic and that's why you see a wide spread in our guidance.

Michael Mendes: You know, Sarah, we are in the midst of creating a consumer sport campaign for Pop-Secret. We are carefully evaluating the best timetable to deploy that media, and that's going to have a real effect on our steady-state media spend on a go-forward basis, so this is going to be a year where we're going to see some shift in how we're spending our advertising because we're bringing this brand in for a full year, and I think this will be more of a base year for the future, so we'll try to give you more color on that next quarter.

Sarah Lester: OK. And then just – I think this questions been asked, but I'm still a little bit confused about your long-term targets. Do these targets include or exclude acquisitions?

Michael Mendes: They include acquisitions.

Sarah Lester: Include?

Michael Mendes: Yes.

Sarah Lester: OK. And then, finally, what's the maximum debt level that you would be comfortable with?

Steven Neil: I'll nebulously answer that. That which we are comfortable we can pay back. And I'm pulling your leg a little bit here, but I really think it's our ability to generate cash than corresponds to the debt level that we're willing to take on. So we're fortunate to be in a position in our markets that we can drive our business. And so if you notice, that we not only generate earnings, we generate cash flow and we actually have some sales growth. So that's a really good question.

I think we're comfortable more perhaps than the debt markets would lend to people today, just because the finance market has changed, so we really don't have a particular item. I think it's just very, very important for us to evaluate the ability of targets and the existing business to generate cash flow. That in turn tells you how much debt you can take on.

Sarah Lester: OK, that's all. Thank you.

Male: Thanks, Sarah.

Operator: And we'll go next to Tim Ramey with D.A. Davidson.

Tim Ramey: Thanks for the follow up. Are you actually shipping the new peanut package to any customers yet? Can you tell us anything about your ability to sell that product ((inaudible))?

Male: The product is in the Northeast and we've been very pleased with the velocity in the limited numbers of accounts that it's currently in, but you know I would say that it's a good start but not enough time to call it a trend. So the performance period that counts is still in front of us, but we've gotten started in the Northeast and we're making progress.

Tim Ramey: And Michael, on the culinary sales decline you indicated that you gave some of the input costs back. Was that in actual list price declines? Was that in additional promotion and trade spending? What form did that take and should we be modeling that number down certainly probably through the first half for fiscal 10?

Michael Mendes: Yes that would be right, Tim. And you know we – most of that would be in promotional spending and higher redemption levels on our FSIs in our periods, also, some wholesale price reduction in some of the value channels, so outside of the value channels most of that would – would be seen through increased promotional spending.

Tim Ramey: Terrific. Thanks again.

Michael Mendes: Thanks.

Operator: And we'll also take a follow up from Ken Zaslou with (BMO) Capital Markets.

Ken Zaslou: Hey guys, just following that question, it took me a minute to read through the 10-K. The \$10 million in this quarter and \$10 million last quarter is that the run rate that we're going – we should use for the next – each of the next 2 quarters for the reduction in inventories from the commodity cost?

Steve Neil: Wow, \$10 million reduction – no, I don't think there would be any tie – oh, I understand what you did. It was on the ...

Ken Zaslou: On page 45.

Steven Neil: ... we had a change in estimate. No, absolutely not. Remember, we don't finalize our costs until the end of the year, and as a result in the interim quarters we – we have to use estimates, so that's all trued up at the end of the fiscal year, so it's difficult for us on a quarterly basis to manage that. So, again, on the – it's a fiscal year to fiscal year, so don't plan anything at all. We're into a new season for all commodities.

Ken Zaslow: OK, so in this year you're not assuming anything in terms of lower commodity costs of that magnitude? This is now you know ...

Male: Yes, that's – again, that's all within year, Ken. The overall commodity market obviously depends on supply and demand, carrying inventories, et cetera, so it's an annual crop, so no inference from one fiscal to the other, and we use estimates throughout the year, though.

Michael Mendes: Yes, Ken, just to speak to that broader subject, in the three major tree nuts that we acquire, walnuts, pecans and almonds, I think we'll see a lot less volatility in this next 12-month period than we saw in the prior 3 years. You know probably, if the current – you know current industry estimates would probably be that (you) might see a bit stronger pricing costs in walnuts and almonds, within certain varieties. Pecans in the back half of the year should come off, given the projected record crop. So, I think all in it should be about a push.

Ken Zaslow: And you're still able to grow? That's the major question. That's ...

Michael Mendes: Absolutely. Absolutely.

Ken Zaslow: Not because of the commodity costs being you know \$20 to \$70 million lower? You can grow off this without any sort of commodity you know tailwind behind you?

Michael Mendes: Absolutely, and ...

Ken Zaslow: OK, (cool).

Michael Mendes: ... that's what reflected in our guidance. Thanks.

Ken Zaslow: Thanks.

Operator: And that does conclude today's question-and-answer session. At this time, I'd like to turn the call back over to Mr. Philipps.

Bob Philipps: Thank you, Jaime. Thank you everybody for joining us. We'll conclude the call thanks for your attention today.

Operator: This does conclude today's conference call. You may now disconnect.

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