

DIAMOND FOODS INC.

Q1 Fiscal 2010 Earnings Conference Call
Q&A

Operator: Thank you. I would like to remind everyone in order to ask a question press star 1 on your telephone keypad. We will pause for a moment to compile the Q&A roster.

Our first question comes from Tim Ramey with DA Davidson.

Tim Ramey: Good morning, congratulations or afternoon I guess I should say.

Michael Mendes: Hello Tim.

Tim Ramey: Just checking in on culinary which I'm not sure I totally understood the commentary there. I don't think the timing of the harvest would have had much to do with culinary sales unless I'm mistaken. Can you elaborate on that or is that just timing of promotions? I think Steve said something about that?

Michael Mendes: We've got to get the crop in on the culinary side to launch the product in. So it will have some impact on the revenues in October versus November. So the harvest will impact culinary. The biggest impact of course is on in-shell but it will also affect the shelled product as well.

Tim Ramey: Okay. And any commentary on the additional six weeks of sales? I mean I guess we've always sort of calculated it, but what do the additional six weeks of sales add to Pop Secret in the quarter?

Michael Mendes: Well, Tim, we don't breakout snack between Pop Secret and Emerald. But just to frame Emerald independently, I think one of the good things to look at as a lead indicator is our Nielsen trends in grocery over the last 12 weeks where Emerald's up over 40%.

And we're seeing very, very strong turns in the four week and the 12 week trends on Emerald. And our growth for Emerald outside of grocery's even stronger right now than it is within grocery. So obviously we have six weeks increment on our snack number from Pop Secret. But absent of that, Emerald's performing very well for us.

Tim Ramey: Okay, I understand you don't break it out but I mean it is, sort of industry best practice to breakout when you have acquisitions discontinuity sales. Maybe think about that and see if that's available later because if there isn't acquisitions discontinuity, it would be nice to know what that is.

Michael Mendes: Well we'll try to give more color on that Tim but, our practice hasn't changed since we acquired the brand on that front. But we will try to give as much transparency as we can on the performance of the two brands.

Tim Ramey: Okay thanks.

Operator: We'll go next to Heather Jones with BB&T Capital Markets.

Heather Jones: Hello.

Michael Mendes: Hi Heather.

Heather Jones: Hi. First I want to tell you that that S'mores product is excellent.

Heather Jones: Yes, a few questions first on your share performance and grocery. I am having a hard time understanding okay, so your sales were up 42% in food stores but yet your marketshare was only up 170 to 7.4%. And then that's down from where was earlier in the summer.

And so I was just wondering if you could explain the data to me if, earlier in the summer I believe you were approaching a 9% share, and looked like you were tracking to be able to get to close to 10% share later in the year? But even with this kind of growth you're now back in the seven's and so I'm just trying to figure out what's going on.

Michael Mendes: You know, that's good you point that out Heather. Back in that earlier period, the national brand and some of the other branded players were actually facing some negative sales points for the prior year. They've been able to reverse that trend. And they actually have demonstrated growth during this period as we have. So that has an effect of the share that we're able to obtain despite our growth.

I think the good news for us is that I think it's a proof point to the fact that one thing we've always shared is that our growth is - does not have to come at the expense of the national brand or other branded players in the category. And as a matter of fact, we've - were able to drive north of 40% growth. And the national brand another brand flavors are able to grow. And so we I think that what that demonstrates is that one we're bringing new snackers into the category or more repeat snackers into the category with our brand.

We're bringing more users into the category due to the unique properties of our products and the packaging configuration. And that we think the category is under-innovated and under-marketed.

And so we're pleased. We think that it's healthy for our retail partners to see overall category growth and that we can grow health in a very healthy manner. So I think it's more about the other folks have gained their footing than anything about us.

Heather Jones: And so you mentioned in a press release that only three SKUs with more than 60% ACV. When do you expect that number to meaningfully increase? And I mean and do you have some kind of idea when you think you would approach 10%?

Michael Mendes: Well two great questions. I'll take the first one on distribution just to give you some color around that.

I think one of the challenges for a company such as ours which prides itself is on innovation is that, with the pipeline of very exciting items, there can be a tendency to not focus on fully distributing your current items as you compete for time to market and get distribution of new items. A big part of our focus for our go to market team has been to try to improve on that front and take a more disciplined approach.

I'm really pleased with our North America sales team today. I think we've got the best sales team we've ever had in history this company, very capable of driving great results in the future.

I do think that we've somewhat re-conceived our go to market approach to be more contemporized in the face of structure of our customer base today. I'm going to have Lloyd just take a moment to talk to you about what we're doing on that structure.

Lloyd Johnson: Sure. Thank you, Michael. You know, and for perspective, a year ago we used 71 independent brokers to go market across North America. And at the same time, all of our sales organization was really focused on trying to manage the effectiveness of these brokers.

Unfortunately when you have 71 different entities managing and representing you across the country it's very difficult to get real sustainable traction over time. So we made the decision in May of this past year to consolidate into two brokerages nationally. We now have one broker

representing us in the Northeast and then Acosta represents us every place else in the country outside the Northeast.

We have their employees in our office. And at the same time we took our top 28 customers and staffed national account managers. We actually went out and recruited some of the best and brightest people the industry. And those people now are responsible for calling in concert with our broker partners and going in and really selling against the initiatives that we have at hand.

Now to Michael's point, we're not at all content with 61% ACV. The good news is we are seeing those numbers continue to grow. And as we've introduced new products, we've been able to get sustainable volumes immediately and very quick go to market executional timelines that our retail partners have been very supportive of. So thus far it feels like we're getting the right level of traction that we need. Regardless we're not happy with our results right now. And we believe we have an opportunity to improve rather significantly.

Michael Mendes: And one thing about the restructuring that Lloyd has done is we now have a very focused team that are managing the smaller regional accounts whereas our prior structure which was more geographically based, there was just a natural tendency to put a disproportionate amount of your energy and resources on driving sales distribution to the major national retailers.

So I think that our new structure's going to help us work harder and be more effective in gaining those very difficult to achieve but what adds up in totality distribution points to those smaller retailers which I think will answer your question on how we're going to drive that distribution up further.

Heather Jones: Yes because aren't, I mean it would seem that driving higher penetration of your existing SKUs would be - and I know you have to set a - hit a balance because you need to bring excitement to the category to generate interest et cetera.

But it would seem like it would be much more profitable to increase penetration of your existing SKUs as opposed to a bunch of new product development with only a few of them having depth.

Michael Mendes: Yes I agree with you 100% Heather. I think the struggle for us like most CPG companies is working with our retail partners who in some cases consider the higher velocity items that we're already selling somewhat similar to other items already on the shelf. And they have a very strong appetite for the more novel items that we're introducing. And so on some cases we're trying to strike a balance of satisfying their need for novelty and to proving uniqueness to the shelf and their desire to reduce the number of facings in the set.

And so one way to help do that is to show them that we're going to do a lot of things to help pull that product off the shelf. And Andrew spent some time to talk about our new Super Bowl commercial and our Super Bowl campaign that we've announced.

We had some very, very good success historically with this program. We've already booked more off shelf display activity for this Super Bowl than any prior Super Bowl campaign we've ever had at this point in time today.

And those are the kind of things that help us have more heft in our dialogue to get them to shelve more of those base items. And so I agree with you Heather and we've got to execute against it. That's a - it's a big opportunity for us.

Heather Jones: Okay. And my follow-up question is just in your release you talked about expanded market initiatives, but yet I believe you raised sales guidance and advertising with sort of the same.

Is it expanded versus your original plan or is it expanded relative to what you spent in Q1?

Michael Mendes: When you look at it, we're creating basically a total of six commercials against the Pop Secret business three 30s and three 15s. We're doing a Super Bowl commercial. We've got a big event with Warner Brothers. But the additive effect of merchandising these products together as a snack portfolio allows us to extend that investment. And so we're hoping to yield by far the greatest result as a result of our investment.

Heather Jones: Okay. All right, thank you and great quarter.

Michael Mendes: Thank you.

Operator: We'll go next to Ken Zaslów with BMO Capital Markets.

Ken Zaslów: Hey, good afternoon everyone.

Michael Mendes: Hey Ken.

Ken Zaslów: Hey, a couple questions. One is can you talk about the crop quality and how your outlook is for the pricing? Because it seems like there's maybe some old, or just kind of give us a little understanding of how the crop is coming out.

Michael Mendes: Hi Ken I assume you're focusing on walnuts on this question?

Ken Zaslów: Yes.

Michael Mendes: Yes. Just to give a little more background for those who maybe aren't as familiar, last year we had the record walnut crop north of 430,000 short tons in the US. This year's crop which is - which was supposed to be the off crop, the off cycling crop was projected in September by the

state to be a 415,000 ton crop. At this point where we've pretty much received the entire crop in, we think that and some other folks we talked in the industry that more likely the crop will be north of that 415,000 in terms of total production. What we did experience during the harvest was two rainstorms which was very unusual in not only the number of days that we had rain but the amount of rain we received. And where that caused some issue particularly those farmers who are located in areas that have heavier clay soils, it kept them out of the field from harvesting from five to seven days. So that affected two things. One is it delayed the receipt of the crop, but it also left the crop in the field quite a bit longer. And in some cases nuts we're on the ground. And walnuts, when they're harvested, they're picked up off the ground. They don't go into a canopy. So as we brought the crop in, barring that rain situation, we would have seen the quality of this crop to be substandard compared to the previous two years.

I think if you knocked the previous two years out people would have considered maybe more average quality. The previous two years the quality had been exceptional. There was a little more sunburn in this crop. I would say with the issue around the moisture and the rain during harvest conditions we are seeing more off grade in the product. I think what the net effect is going to be though Ken, is the total tonnage of the crop is probably going to be there, and some people are forecasting it could be north of 420,000 tons.

But the actual quality of the kernels that will be shelled are going to be compromised in terms of probably more sunburn. And I think that mold can be an issue. But, generally you tend to have quality attributes in nuts that have some form of defect. So usually nuts that are in good shape, if they're not in the water too long we will have a mold problem. But nuts that already have some form of defect are more susceptible to issues like mold problems. So we watch that and we'll watch that very carefully in this crop. I think that, in times like this, in crops like this, we've got as a company been around for 97 years, started in the walnut business, we have state of the art technology that allows us to segregate poor quality kernels from our product stream and to provide a extremely premium finished pack to our retail customers.

And then that off grade product we have ways to chop, slice, dice, rehydrate and basically try to process away the defects in those kernels for our more - for our ingredient based customers.

And so that's the challenge in front of us this year.

Ken Zaslow: Does that mean that you could actually make more profit from this or does it create higher pricing for walnuts?

Michael Mendes: Well I would say we probably have an opportunity to have some competitive advantage in that, when the crops - when nature has been very kind to us, our competitors who don't have the capability to process away defects aren't at a disadvantage. But in a year like this we definitely have an advantage in our ability to process away those defects and in some cases chop and process that product to produce a chopped item that is in demand.

One thing when you chop a dark walnut and you double chop it, you'll actually have the skin will fluff off the walnut and you'll get much more light meat exposed and you'll actually remove some of the dark inferior part of the product. So I do think our ability to process away those defects gives us an advantage.

As far as the aggregate value of the crop, I think that is still very much in question. You know, when you compare absolute market prices in Q1 of this year, the selling price to the forward market versus the absolute selling price in the forward market a year ago this time, prices this year are much lower. Now last year in the back half of the year commodity prices were quite a bit weaker. So we don't know what the commodity prices are going to do in the back half. So in terms of the aggregate value of the crop that's still very much in question, and really the marketing of the crop is in its very early days.

But I would say that, as far as competitive origins, the pecan crop is to have an on crop this year. The crop will be 100 million pounds larger from the US than last year's. It is on crop of pecans. Total supply will be up maybe not that much because of some differences in carrying inventory. But still probably total supply is up about 15% in pecans. So that will be a competitive factor to walnuts in the second half of the year. The flipside is that almonds has a shorter crop, albeit they had a large carry in almond prices and some of the smaller sizes should be a little stronger than last year. So those are the factors we're looking at going forward. And we'll have a lot more knowledge as we get past the first of the year.

Ken Zaslow: Okay because it seems like you're back half your 2010 guidance seems to be more front end loaded than maybe you expected. Is that because of the commodity price or the uncertainty or is that just because my math is not as good as yours.

Michael Mendes: I think as a percentage the numbers flow somewhat with our historical norms on that Ken. And I'll get my calculator out and run that.

But I think if you go back and look at our prior periods the percentage of earnings dropping out between if you take our Q1 and our Q2 range and you put that percentage against what we've done in some of the prior years, I think you'd see it being somewhat in the noise of what we've done historically.

Ken Zaslow: Okay. Then two quick questions, culinary was it more price or more volume why it went down?

Michael Mendes: Both. You know we did have two pieces. We talked about this in our last call as we were giving the guidance in the club channel that we had been doing as a service to our customers that were not strategic and very low margin that we discontinued this coming year. That attributed to a part of that. And then there's just top line deflation overlapping what was last

year by far the highest wholesale prices on walnuts in history. So those are the two major factors in culinary.

Ken Zaslow: Okay if it was volume, if it was just price I would assume that that means that your profitability didn't go down on a per \$1 basis, is that fair?

Michael Mendes: That's correct.

Ken Zaslow: So the only place that you lost or reduced your profitability would be on the volume side or no?

Michael Mendes: Ken I was trying to, I'm sorry, maybe I'm just not following your question. Could you frame that for me a little bit more?

Ken Zaslow: The price coming down I'm assuming would flow through on the cost so you're....so your profit would be indifferent?

Michael Mendes: Yes. That's correct.

Ken Zaslow: Okay that's what I wanted. But on the volume side then what you lost in the volume is lower profit versus the pricing just goes right through? That's actually... I want to make sure I...

Michael Mendes: Right.

Ken Zaslow: And then my last question is your two largest customers from the 10Q, sales were down pretty significantly between 25% and 30%. I mean can you talk about that? Is it just because of the culinary or just - make sure that I just don't understand that?

Michael Mendes: Yes. Well one is that and if you - our customers have shared with me a great disdain for us mentioning them by name on our call. So I hope you'll allow me to be somewhat general but hopefully answer your question. Pop Secret which is now in our numbers is one factor is that that is virtually all grocery.

Ken Zaslou: Okay.

Michael Mendes: So that would dilute those other two customers. And then those two customers also have some of the items that have had more impact on the commodity pricing.

Ken Zaslou: Okay. Thank you.

Operator: We'll go next to Alton Stump with Longbow Research.

Alton Stump: Yes, thank you. Good afternoon.

Michael Mendes: Hey Alton.

Alton Stump: You know, I just had a quick question. With the 100 calorie pack that you mentioned, went into distribution, could you give me an idea, even if it's just a ballpark number as to what the annual run rate might be looking like for the full year '010 on that new product?

Michael Mendes: I got to tell you that business is still in its infant stage. It would be very premature for us to try to make that projection. And as we think it's a great product, we're very encouraged by the off-take where we have it in distribution. But I have to say that, we try to show a lot of humility when we're in an area that we've not had a chance to in-depth understand the consumer usage pattern. And it's an area and a product category that consumers move in and out of product types. I think when you look at the dietary segment, and weight control area, the portion control

products that have had a great tenure have been items that are effective, provide you satiety but are of a flavor profile that's very appealing to an individual for the long term. You know, I just think it's very premature for us to prognosticate where that business is going to go. But I will tell you, we're very pleased where we've started. And, when we have a little more color on that, I'll take that question back with us and maybe next quarter we'll maybe be a little better prepared to try to forecast forward. But at this point in time I think it will be a little bit premature.

We like where we're - that's not saying we're not very happy with what we're seeing right now, but it's maybe a little premature to be projecting forward numbers at this point in time.

Alton Stump: Okay great. That's all I had. Thanks Michael.

Michael Mendes: Thanks.

Operator: We'll go next to Mark Argento with Craig Hallum Capital.

Michael Mendes: Hey, hello Mark?

Operator: Mr. Argento, your line is open. Please check your mute button.

Mark Argento: Sorry about that guys. Good afternoon.

Michael Mendes: Hey Mark.

Mark Argento: Quick question for you. I know you guys have been pretty promotional on that snack product driving some seven sales on that side of the business and getting awareness out. You know, clearly the volume growth and, on a unit level basis is pretty substantial there, I think you mentioned in October up 40% at least sell through. In terms of your infrastructure I know we've

talked a lot about marketing programs and so on and so forth of course a very important part of the consumer packaged goods arena. But, could you talk a little bit about the infrastructure? I know you guys have made a lot of investments over the last, 6, 9, 12 months in the platform in terms of the infrastructure be able to kind of produce the products?

And I know I think it was over the last six months you spent quite a bit of time in terms of expanding your production capabilities on the snack nut business. And just wondering if you can touch on that, kind of maybe frame up for us a little bit what you, how much production capability have you put in place given the investment? You know, that'd be helpful.

Michael Mendes: Mark, great question. You know, if you kind of track back some of our calls in our snack business, one thing that we have learned very early on was the need for us to have more than adequate capacity in context with the opportunity that we anticipate with the snack business.

And our approach is very simple. We identify the most capital intensive, the most strategically important and the longest lead time capital constraints in our system and make sure that we have more than adequate capacity in those gaining issue areas and then kind of back forwarded to the things that are very, very quick to secure like raw materials.

So for us in the snack nut business in particular, the longest lead time capital resource is roasting. We've just installed new roasting capacity in our Fisher's Indiana facility and have done some things to upgrade our capacity in our Stockton facility. But we've nearly doubled our roasting capacity based on this new capital project which was recently completed. One of the other longer lead time packaging items is our canister line. We just installed a second dedicated canister line. And this is an in-line roasting packaging unit in our Fisher's Indiana facility. And that's up and running and, we're very pleased with our timing on that because our business has grown nicely. And that has really positioned us well to take advantage of growth opportunities in front of us.

You know, as far as on bag capacity which is like our items, this breakfast on the go concept, the 100 calorie pack, we have ample capacity on that front. Some of the decisions that we've made to rationalize some of the nonstrategic culinary business has actually given us even more bandwidth on that front. And I think we were trying to project forward with some of those decisions.

So we feel very good about our capacity. I think the key for us is to be careful with things that can quickly be unutilized capacity because the customer and the trade have evolved rapidly past the strategy. And a lot of that's on automatic case packing.

You know, I think a company like ours if we were very mature if we had a 1% to 2% growth rate you'd see us spending a couple million dollars on a lot of automatic case - systems which would reduce our unit cost -- no doubt about it. We plan to do some of that. In many cases our business is not quite mature enough and we're seeing shifts in the trade. And we think that type of automation would be, not generate the return over the long term. So in those areas we're being cautious. And I think it's going to be prudent. One of the things we're hearing at retail right now is our retail partners are looking to improve their pack out at the shelf. And one way to try and achieve that is trying to get their principles to supply products in smaller unit cases.

If that shift continues that would dramatically change some of our capital decisions on how we'd auto pack some of that product. So in those areas we have consciously elected to be less automated. But that's the direction we'll achieve in the long term.

I would say that we're pretty bullish about our growth and we're already working towards even further expanding our roasting and some of our capacity. But we're pretty excited about what we have today. We think it's very well positioned.

You know, prior to the Indiana, the Fisher's Indiana installation, most of our snack product was being packed in California with, probably 2/3 of that being shipped to the eastern part of the country, East or the Southeast.

And so now that we've got nearly half of our capacity in the center of the country, we are able to more quickly service our customers and we can also do it more cost efficiently. And so I think we're in good shape on that front. I mean I think that the thing that I'm excited about for the future to which is going, I'm hoping will cause us our next capacity constraint issues is when we grow more aggressively in the club area.

I mean we are under-penetrated in the club channel. You know, for a company that has a tremendous club business for our culinary segment we are underdeveloped in club in the snack category.

We've made some progress this year. You know, for my sales team that's listening I appreciate the effort, but they as I are not satisfied with what we can do there. And so I would say that, our capacity is in great shape for our existing business format today. But given what our hopes are to grow in club and mass merch down the road we're going to keep adding capacity. And so you'll see that in our capital plans going forward.

Mark Argento: Okay good. Thanks Michael. I appreciate it.

Operator: We'll go next to Akshay Jadale with KeyBanc.

Akshay Jadale: Good afternoon. Congratulations on a good quarter.

Michael Mendes: Thanks Akshay.

Akshay Jadale: Just wanted to focus again a little bit on Emerald growth and talk about it from, two point of views I guess, volume and pricing. And if I can focus on the volume side on distribution that would be great. Can you just talk a little bit about how many SKUs, core SKUs you have in grocery today relative to, a year ago? And I'm assuming we should compare that to the 12 to 14 SKUs that you're planning to get out there in all grocery stores?

And then to add to that if you could talk about some of the differences, whether it's regionally or by customer that are, that exist today that haven't allowed you to get to 12 or 14 and so that we can just try to understand what the challenges are? Because what I'm hearing and the research that I do when I go to grocery stores in the Northeast and when I'm traveling to stores in the Midwest, there's a big difference in the amount of, in the number of SKUs that you have for your nut items in those two regions.

And I'm just trying to understand what the pushback could be from a particular customer when you go in there and show them the success you're having, with your nut platform. So if you could start with that and then I have some follow-ups on the pricing side.

Michael Mendes: Okay Akshay. You know, we we're going to have an analyst meeting in January. And we're hoping an open meeting with the analysts investors in January. Hopefully what we can try to do is to prepare some information to speak to that question more effectively and to present that information in a way that doesn't create any competitive issues for us.

But let me try to speak to it more generally. You're absolutely right in assessing the varied distribution by market for our Emerald brand product. We've got a major customer in the Northeast where we're driving a 20 market share where we have just a massive distribution of probably north of those 20 items. And our shelf placement is fantastic.

And probably the most important thing of all is we are getting tremendous cooperation in terms of off shelf display and feature activity and how they're merchandising or products. We have other regional customers where we're on the other end of the spectrum, market shares, in the low single digits and in probably everything in-between.

I think that, there's a couple of factors that play. One thing was we caused some of our own problems. I'll be perfectly candid because I was here and I was part of the strategy so I know the flaws.

You know, early on when we were starting it was very difficult for some of our retailer to get on the shelf. And basically the only item that they wanted to give us to be placed on the shelf we're very unique differentiated items. And then when those very unique differentiated items didn't turn at the velocity of the core almond, cashew, peanut, velocity we would have issues with performance of our brand portfolio. In other accounts where we had the discipline to say look, we're glad to give you some unique items but you need to give us some of the core stay products that consumers are coming to buy every day at your store no matter, and they'll pick them up as the brands. We established a very strong presence for our brand.

And so one of the things we're doing today is we are really working very hard to make sure that we get at least a few of our key core items in all of our retailers and trying to get good location on the shelf. And then finally, and this is the most important thing, that we make sure that we put together programming so we have promotional support throughout the year that assures that we get all self display activity and we promote the item effectively.

You know, so, these are things that are good to aspire to, difficult to obtain. I think we're making a lot of progress. Success begets success in this area.

And I have to say that I think that our very, very strong performance that we're showing right now with Emerald in light of the fact that the national brand is doing well which shows that, we just have a good brand and we have products that people want to buy. And we're demonstrating once again that, we don't interact with private label and it's not a substitute to the premium end, which is making a very good story for us to bill out distribution. Maybe I'll have Lloyd just give a little bit more color on some of our efforts on the front.

Lloyd Johnson: Sure and hi Akshay.

Akshay Jadale: Hi.

Lloyd Johnson: It's critical to note that if you look at the snack nut category there are seven sub-segments to it. Today nationally we compete in a meaningful way in four of the sub-segments. The other three, one of them being peanut, we're really just aggressively getting into right now. The two that we're not playing aggressively in nationally at this point in time are cashews halves and pieces and mixed nuts with peanuts. Those two sub segments make up a significant percentage of the total category. So if you look at where we do compete and how we're performing, and somebody had asked earlier about our share holding right now at a little north of the seven share, and again look at the segments where we compete in, we are very, very strong.

So it's really about at this point in time building out those - building out with those customers the distribution that we don't have to replicate what we don't have to replicate what we have in the Northeast and the Southeast and in certain segments of the Midwest and really capitalizing on the segments of the category that we don't compete in today.

Michael Mendes: One thing Akshay is that we are in the process of doing the things we need to do we think with some of those retailers that we think we're under-distributed in to have some very strong promotions particularly around Super Bowl which we think's going to improve our posture

with them as a supplier in this segment. And so, results are the number one path to improve distribution. So, so I would say that we're making progress, never fast enough for us and - or for our business partners. But I think we're making some real progress. And we're going to keep pushing hard on that front.

Akshay Jadale: That's helpful. And then on the promotional side I know Steve mentioned that promotions were up significantly. If you could just at least directionally try to help us understand how much, promotional activity is up especially in snacks and snack nuts if I may, year over year and then also maybe relative to what is normalized which we believe is around 25%, 30% right, if you look at the difference between gross and net? So anything you can give us in terms of having a little bit more comfort around what you're investing would be helpful. And I have a follow-up.

Michael Mendes: Yes, I think that as you look at our product line we now add peanuts to our portfolio which is a item that is more intensely promoted relative to other items within this segment, our promotional rate on peanuts would be higher than say our base product line for two reasons.

One is it's the nature of the category and secondly that we're introducing our items and we're trying to build consumer choice with our product. So that would be driving more of the incremental promotions support as a kind of percentage of sales. I'd say the balance of our range were promoted at the same type of levels.

What we are trying to spend Akshay is to work with our retail partners to better align our pricing promotional strategy to achieve the right balance between an everyday price which is agreeable to a consumer so that we generate sales velocity when we're off promotion versus our depth of price reduction when we are on promotion.

I think that, one thing that Lloyd has been gathering from our customers has been a penchant to have little more attractive every day front end price and to try to perhaps have a little less deep

promotional level recognizing consumers are having more of a reaction or little more price sensitivity than they had historically. And so we're working with our retail partners to try to redeploy our promotional program and to rebalance and to look at the balance between our everyday retail price and our promotional levels. But we're really trying to basically come away with the same value back to us as a company. So I don't see that as a increase in spending on those product but maybe redeploying of the resources on that front which should result in maybe a bit more attractive everyday prices and a little less deep promoted pricing. So that would be sort of the aggregate from that front.

Akshay Jadale: And just to add to that, can you talk a little bit about baseline volumes? I mean is that a good way to look at Nielsen data and grocery to get a sense of how volume does without, promotional activity?

Andrew Burke: Hey Akshay it's Andrew. Baseline and incremental volume on a brand like Emerald that is growing so fast and that has disproportionate shares in all these different customers is a little bit more difficult to look at baseline and incremental on a business where we are today in our brand lifecycle. On a more mature business it's more consistent, for our business not so easy to kind of look at that. However what we kind of talked about in terms of we're very happy with the philosophy of these core items and these new items that we're putting in like these peanut items. And so our job is to keep an eye on that and make sure that they're turning at a very good rate within the category. And we've talked before about how we're happy with how our core items are moving up the SKU list nationally in terms of sales per point of distribution.

Michael Mendes: You know, one thing Akshay that's been encouraging for us is the aggregate benefit of our multiple brand portfolio strategy. And one example is our Feed your Fingers campaign where we have generally two and on occasion three brands merchandised together. And on what generally the case is, is one brand of retailer is in clients from the other brand that they're bringing along for the promotion. We think that's pretty exciting when we can execute against that as a

way of very efficiently and effectively getting secondary placement. And so we're going to keep exploring that harder. And we're working hard on that for the Super Bowl.

Akshay Jadale: Yes that's very helpful. I'll follow up off-line.

Michael Mendes: Okay great. Thank you.

Akshay Jadale: Thank you.

Operator: We'll go next to Tim Ramey with DA Davidson.

Tim Ramey: Thanks for the follow-up. You know that you might have mentioned it but I just was going to restate the question. I am seeing the peanut product in the Home Depot and Albertsons in a couple of other outlets out here. How do you feel about the sell in there? And then just since we have Lloyd there I wanted to get a little bit more color on, kind of going from 71 brokers to two.

Should we think about the last six months as a difficult period, one where there's a learning curve, one where there's, kind of an improvement of performance over the next couple of months?

Lloyd Johnson: Let me answer the latter part of your question first Tim. I'm extremely pleased with the results that we've been posting in light of the fact that we've literally been transitioning to not only a different broker organization, but internally if you think about it from a systemic perspective we've completely changed our go to market strategy from a retail execution standpoint.

And at the same time we've hired and/or replaced about 75% of the sales organization. So in a year of significant transition, we've still been able to post very strong results. Clearly there's a learning curve associated with any type of change especially the level of change that we've implemented. The good news is we expected to have that learning curve in place.

And we did some things internally in terms of the pace of change and things we did to mitigate the risk along the way that we felt would really impede any downturn that we might experience as a result of moving forward with this level of change. But quite frankly as we transitioned organizationally from competing in just the culinary arena to acquiring Pop Secret and competing with very good, very large competitors in the snacking arena we really felt that we had to make these changes to be more reactive than proactive with our customers both at the same time.

So yes I do think it was a period where we had a very steep learning curve. I don't think it impeded our results. Again I couldn't be more pleased with what the team posted this past year. And looking forward I do expect a degree of execution higher than we've had historically. So from an organizational standpoint we feel pretty good.

Separately as it relates to peanuts we are ahead of where we thought we'd be from a distribution perspective on a national basis. We are extremely pleased with the results that we're posting and the ACV builds we're seeing.

We are seeing competitors come back in and promote at a more aggressive pace than they were prior to us introducing which again to Michael's point earlier, we feel very good about. We want to see a healthy category. Growing at 40% in a category that's now growing at 10% feels a heck of a lot better than growing at 40% in a category that was declining a 3%. It gives us all a better story to go share with the retailers and puts the retailers in a position where they want to promote the category more aggressively.

Tim Ramey: Okay thanks.

Lloyd Johnson: You're welcome.

Operator: There are no further questions.

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