

DIAMOND FOODS, INC.

**Moderator: Linda Segre
December 8, 2010
3:30 pm CT**

Operator: Good afternoon; my name is Gwen and I will be your conference operator today. Today's call is being recorded.

At this time, I would like to welcome everyone to the Diamond Foods first quarter fiscal 2011 earnings conference call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question and answer session. If you'd like to ask a question during that time, simply press star 1 on your telephone keypad.

Ms. Segre, you may begin your conference.

Linda Segre: Thank you, Gwen and good afternoon everyone. Welcome to the Diamond Foods Investor conference call and webcast to review the financial results of our first quarter fiscal 2011 which ended October 31.

Before we get started, let's cover a few housekeeping items. First a printed copy of our prepared remarks will be available on our Web site diamondfoods.com under the section titled Investor Relations followed by earnings releases within one hour after the call's conclusion.

Second we've arrange for a taped replay of this call to be available via telephone beginning about two hours after the call's conclusion until 7:30 pm Eastern Time on December 15, 2010.

The toll-free dial in number to access the replay is 888-203-1112 otherwise use 719-457-0820. The conference ID is 4512522. In addition this call is being webcast live and a replay will be available on the Web site.

Third, we want to remind you that during the course of today's call we will make forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 including projections of our results.

Since actual results may differ materially from these projections we encourage you to learn more about the risks and uncertainties that affect our business by reviewing our SEC filings under the heading Risk Factors.

Note that our forward-looking statements are based on factors that are subject to change and therefore these statements speak only as of the date they are given. We do not undertake to update forward-looking statements.

Fourth, since we incurred deal related costs this quarter associate with the Kettle foods acquisition and integration we will focus our prepared remarks on non-GAAP results. A reconciliation to GAAP can be found in the press release.

Now I'd like to turn the call over to Michael Mendes, our Chairman, President and Chief Executive Officer.

Michael Mendes: Thanks Linda. Good afternoon everyone and thank you for joining us.

Before we begin today, I'd like to introduce Steve Neil, our Chief Financial and Administrative Officer and Andrew Burke, our Chief Marketing Officer, who'll be joining me as we review our prepared remarks.

We had strong revenue growth for the quarter and off to a good start for the 2011 fiscal year. We delivered a 58% increase in retail sales led by 130% increase in snack revenue.

Double digit organic growth in our consumer products portfolio and the acquisition of Kettle contributed the largest portion of our growth.

Based on our performance for the quarter and outlook for balance of the fiscal year we are raising our full year sales guidance and are now projected to increase sales by nearly 40% over last year.

In addition to strong revenue growth we exceeded the top end of our EPS guidance earning 65 cents per share.

Our EBITDA of \$37 million for the quarter reflects the strong cash flow generation of the business even though we are making significant investments in new products and building brand equity to position the company for future growth.

We continue to focus on expanding the breadth of our distribution in channels we currently serve and are increasing our penetration into the mass drug and C store channels.

New product development and the effective execution of retail merchandising programs should also drive sales growth.

The key to driving our retail velocity which is exceeding the category in all of the retail segments that we serve is directly linked to our willingness to invest in our brands for growth over the long term.

One example is the launch this spring of our new breakfast product targeted for the convenience breakfast aisle in grocery.

While this line will add to gross sales in the back half of the fiscal year we plan to support the launch with a strong advertising promotional program to drive product trial.

In addition we will incur slotting costs which are contra revenue and a period expense.

We believe these investments are a critical step in the process of establishing the Emerald brand in the new category and to leverage and increase our brand equity.

We've worked to effectively reduce our tax obligation for the quarter and the full year. As a result we will redeploy a portion of these savings as we increase our investment in new distribution and advertising and are raising our full year earnings guidance.

Andrew will now provide more detail about the quarter and discuss our marketing and promotional plans.

Andrew Burke: Thanks Michael. Let me provide a few highlights from the past quarter and discuss some key initiatives moving forward.

Diamond Culinary revenue grew 5% this quarter. According to the most recent 12-week US grocery syndicated data the Diamond brand was up about 1% while the category declined over 5% resulting in a 160 basis point share gain.

We successfully implemented a price increase in the spring across certain commodities and are pleased with the brand's performance as we move into the important holiday baking season.

We have just kicked off a holiday promotion featuring national print and online media. Diamond has partnered with Nestlé Toll House Morsels, Carnation Milk, and Glad Wrap -- all top performers in their categories and favorites during the holiday season.

Emerald performed well this past quarter posting 32% growth in the grocery channel despite lapping 43% growth in the prior year period. The average number of core items per store grew 11%.

As we look ahead we expect Emerald to continue to drive strong sales. It should be noted that Emerald's growth rate in grocery will be compared to periods last year that saw tremendous growth.

For example the 12-week period ended January 23 saw an 88% growth rate due to merchandising activity around the launch of our peanut items.

However we do expect to see increasing sales and growth from the drug and mass channels as our previously announced new Emerald canister distribution comes on line.

Pop Secret performed well growing 4% in the most recent 12-week period while the category excluding Pop Secret was down 12%.

We returned to television in October airing our kernel campaign which we created last year.

We also concluded our successful promotion with Labels for Education where consumers sent in box tops to raise money for their local school.

We placed more than 14,000 shippers during the back-to-school period and this is a great evergreen promotion which we feel will continue to grow and attract consumers to the brand.

Kettle US continued to outgrow the potato chip category by a factor of two to three times in the most recent 12-week period in grocery.

We continue to expand distribution via new accounts as well as additional placements with existing customers in areas such as the high-traffic deli section.

These additional placements are critical to the business since they encourage trials and expose the brand to a unique set of consumers from the snack aisle.

This past quarter we also launched Kettle Brand TIAS! our all-natural all-flavored tortilla chips.

We are initially focused in the natural channel and early consumer takeaway has been positive.

Kettle UK had strong quarterly sales results in scanned channels as well. Dollar sales were up 10% versus category growth of 7%.

We are seeing growth from two key areas. In October we launched a national advertising campaign behind our new Kettle Ridge Crisps line. This line targets younger consumers who are distinct from the existing core Kettle consumer.

The second focus area is multipacks. Multipacks make up more than 50% of the UK chip market but are less than 10% of Kettle sales.

Our UK team has restructured the offering to hit a critical price point and has launched these new items across several large retailers during the quarter.

Looking forward one area of focus for our US snack business is the convenience channel. This is an important channel given its size with more than 140,000 outlets and an estimated \$1.6 billion of retail sales across chips and snack nuts.

We have added items to hit key price points as well as expanding the breadth of our Kettle and Emerald offering to this channel.

We have also begun to align our supply chain to enable our distributor partners to purchase and pick up both Kettle and Emerald inventory at a single location.

This efficiency is important to our partners and is one way we can leverage our new scale in the snack category.

We have just begun testing this program in select markets and look forward to the results. While this is a channel that will require investment in the near term we believe it can be a meaningful contributor to our snack growth as we look out to our long term horizon.

For this year's Super Bowl we are planning our first joint merchandising event that includes all three of our snack brands -- Kettle, Emerald, and Pop Secret.

The program is called Snack Bowl 45 and consumers can win a trip to the Pro Football Hall of Fame where they will have a plaque placed in the hall with their name on it if they can encourage enough of their friends to vote for them on our micro site. The program will kick off in early January.

This New Year's Eve we are sponsoring the sixth annual Emerald Nuts Midnight Run at Central Park. This is a great way to kick off the New Year and attracts more than 5000 runners, thousands of spectators, and significant media attention.

This year we will use the event to kick off our Better for You platform with sampling, signage, and couponing featuring our Emerald and Pop Secret 100 Calorie Packs and Kettle Baked Chips.

Now I'll turn it over to Steve to talk about our financial results.

Steven Neil: Thanks Andrew and good afternoon everyone. Please note that our earnings press release and 10-Q were both filed today.

As Michael and Andrew indicated, the first quarter was another very good quarter for Diamond Foods. We had strong retail revenues this quarter driven both from organic growth as well as the acquisition of Kettle.

Our revenue growth reflects a moderation in our promotional spend across our retail brands. We continue to optimize our approach to promotional spend balancing frequency and depth along with increasing joint programs involving multiple brands.

Our non-retail sales were down 32% in the quarter reflecting the later harvest of the walnut crop.

The greatest decline in sales came from North American Ingredient and Food Service as we focused on supplying our international customers in time for the holidays.

We have now caught up on harvest volumes and can service product demands for the balance of the year.

Gross margin in the quarter was 25.2% in line with our expectation and approximating last year.

Our SG&A expense was 9.1% of sales compared to 7.5% last year.

The increase was primarily driven by the addition of Kettle including the associated intangible amortization for customer relationships.

We continue to invest in our brands, which is reflected in the 98% increase in advertising. During the quarter we aired a new Pop Secret commercial, participated in a Labels for Education program, and supported multiple Kettle initiatives in the US and UK.

We focus our ad spend on activities where we gain advantage with distribution expansion and promotional activities and this quarter reflects that approach.

Additionally we expense advertising production costs as incurred. And since we produced the Pop Secret commercial last year the advertising expense in this quarter included only the cost of airtime.

Our spending as a result will vary from quarter to quarter depending on the specific activities running in each quarter.

For fiscal 2011 we expect advertising to be in the upper half of our original \$38 million to \$43 million estimate.

So we are updating guidance to \$40 million to \$43 million which reflects an increase of 21% to 30% over last year.

Operating margin was 11.1% in line with our guidance and reflects the significant investment we made in brand building and advertising during the quarter.

Interest expense in the quarter was \$6 million. As is typical for us, our first quarter is our heaviest cash usage quarter. And our outstanding debt of \$555 million reflects this pattern. The interest rate for the quarter of just under 4.7% reflects the benefit of a low rate environment.

The effective tax rate for the quarter was 33.6% -- slightly below our expected range of 34% to 36% and was due to our tax planning efforts and the impact of income allocation across our various tax jurisdictions.

For fiscal 2011 we now anticipate our effective tax rate to be in the 32% to 34% range -- down from the 34% to 36% range we guided to in last quarter's call.

The more favorable tax rate allows us to invest more back into brand building to drive long term sustainable growth.

So overall we earned \$14.5 million or 65 cents per share.

As we mentioned on our call last quarter our fiscal 2011 earnings are shifting from being so heavily first quarter driven due to both the later harvest and the less seasonal Kettle business.

We generated \$37 million in EBITDA compared to \$29 million during the prior year quarter. And we anticipate EBITDA to be in the \$135 million to \$140 million in 2011. So we continue our strong focus on cash generation from operations.

Our leverage ratio of 4.5 reflects seasonality in our cash usage. We anticipate meaningful cash generation in the second quarter while making significant commodity purchases and funding the expansion of both Kettle US facilities.

Finally on November 3, we paid a 4-1/2 cent per share dividend.

Now I'd like to provide second quarter and updated full year 2011 guidance.

Our strong sales in the first quarter results in us expecting second quarter sales in the range of \$255 million to \$265 million.

As we discussed on last quarter's call we expect first half earnings in 2011 to be 60% to 65% of our full year net income ranging from \$32 million to \$34 million -- an increase of 40% to 50% over last year.

We anticipate second quarter EPS of 85 cents to 91 cents per share resulting in first half EPS of \$1.50 to \$1.56 compared to \$1.35 last year on approximately 5.7 million fewer shares outstanding.

For full year 2011 we are increasing sales guidance from \$910 million to \$940 million to new guidance of \$920 million to \$945 million which is 35% to 39% growth over the prior year.

With regards to input costs our largest cost consists of tree nuts, potatoes, corn, oil, and paper products including corrugate.

Across this mix of inputs we think that cost inflation should be manageable as we have successfully hedged or taken long positions. If necessary we can moderate promotional spend or institute price increases as appropriate

We expect gross margin to be 200 to 300 basis points above 2010 reflecting our current expectations about retail and channel sales mix.

Our operating margin expectations have not changed from our previous guidance of 11.5% to 12% excluding integration costs.

We are increasing EPS guidance to \$2.43 to \$2.49 per share as compared to our previous guidance of \$2.38 to \$2.48 per share.

This represents growth of 48% to 51% in net income reflecting the improved earnings power of our portfolio and the approximately 5 cent improvement we anticipate from our lower effective tax rate, a portion of which we plan on reinvesting and expanding distribution and support of our brands.

Our 2011 capital expenditure guidance is increasing from the range of \$30 million to \$35 million to the range of \$35 million to \$40 million reflecting an acceleration of our spending on Kettle facility and equipment additions.

At this time, we'll conclude our formal comments and open the call for questions.

Operator: Thank you. I would like to remind everyone in order to ask a question press star 1 on your telephone keypad. If you're on a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that's star 1 to ask a question. We'll pause for just a moment to compile the Q&A roster.

And we'll go first to Tim Ramey with DA Davidson.

Tim Ramey: Congratulations. What a great quarter.

Steven Neil: Thanks Tim.

Tim Ramey: Couple of things, the CAPEX acceleration, does that mean Steve that you're closer to nailing down the actual physical location of a new plant? And maybe I missed that but I know that was still kind of up in the air and you weren't sure how much actual movement you'd have this year?

Steven Neil: Yes it does two things. Just as a reminder we're adding 25% of our capacity to the Salem facility and that will come online this spring.

And then we did announce recently Tim that we are going to double the capacity of our Beloit facility. And that we're starting to incur costs there and that will come online in the spring of 2012.

And the reason that we held off a little bit in that announcement is we are working very closely with local and state officials in Wisconsin to work on an incentive package there.

We very much enjoy our employees and our relationships in that area and so we're really pleased to double that capacity.

Tim Ramey: And Michael, I know you're always very close to the vest on walnut crop expectations but can you talk a little bit about what that 200 to 300 basis point improvement in gross margin kind of means given your forecast of the harvest and general pricing trends?

Michael Mendes: Sure Tim. You know, the walnut crop and the almond crop this year were projected to be the largest crops in history.

–And it looks like those crops are coming in as projected. As far as commodity inflation for CPG company we are less dependent on grain-based commodities than a lot of other CPG companies.

So what we're seeing in some commodity cost inflation may be a bit in corn and a bit in oil in the back half of this fiscal year. We are pretty much covered on those commodities for most of the current fiscal year.

And on the tree nut side of things we already had that commodity cost baked into coming into the year now. Our retail pricing reflects that.

So I don't see any big delta from our last call guidance related to those tree nut commodities.

I think on the other input front I think that (craft) and paper we're seeing a little bit more pressure there than we'd seen before.

Again I think we're fairly well covered on that but that might be one delta. I think we're going to probably offset that hopefully with scale and effective purchasing.

We're really looking to enjoy more scale across our snack portfolio which is really driving a lot of that margin growth.

We're seeing the benefit of Emerald becoming a more mature brand in the category and being able to command a stronger brand premium. And that in part is contributing to that aggregate margin expansion.

Tim Ramey: So we should think of the gross margin expansion as being scale and mix rather than input driven?

Michael Mendes: Yes that's correct.

Tim Ramey: Okay thanks so much.

Operator: We'll go next to Bill Chappell with Suntrust.

Bill Chappell: Good afternoon.

Michael Mendes: Hello Bill.

Bill Chappell: I know you don't breakout by division sales, but if I just kind of back out the Kettle business maybe \$65 million, \$70 million; it looks like the core snack or legacy snack business was up double digits. Does that sound about right?

Michael Mendes: Yes that's correct.

Bill Chappell: And then if I look at Kettle is there any way you can quantify how much it was hurt by currency just looking at the UK business?

Steven Neil: Yes the currency year on year had some impact on revenues. Again we don't have the comp in last year's numbers because we didn't own them.

But you've seen the dollar weakened a bit in the first quarter and it strengthened and now it's weakening again. So not a huge change year on year from what we saw.

Bill Chappell: Okay and just maybe talk a little bit about the tax rate, what pushes that down? And then is this something that's permanent as we move into 2012 and beyond?

Steven Neil: Good question. Yes, we're doing a lot of work on planning for tax initiatives. Having an international operation and frankly working in multiple state jurisdictions gives us some opportunity to plan and we hope there's more to come but you don't book them until they've been fully approved by tax authorities.

So yes, we feel the reduction is permanent. We have a lower tax rate in England versus the US and we'll see what Congress does here. But you can't bank on those statutory rate changes but you can plan accordingly. So we do think that's a permanent savings.

Michael Mendes: Steve adjusted our guidance to 32 to 34 and for the current year. And we think we're probably coming in at the lower end of that range the way it's working right now.

Bill Chappell: And basically just the way you're looking at that tax rate is everything you're getting from that kind of 200, 300 basis points savings is being reinvested back into the business in terms of advertising and other initiatives?

Michael Mendes: That's right.

Bill Chappell: And then just final maybe Michael you can give a little bit of update on the success rate you've had in getting Kettle to the main snack aisle and then any color you can give about having the single serve product out there in terms of distribution or how quickly we see an impact?
Thanks so much.

Michael Mendes: Sure. Yes as far as Kettle placement of our large frame sharing bags I think our primary focus has been trying to have the product in display in areas where they get more traffic than perhaps previously.

And in some cases that's by moving where the product is permanently placed but another way we've been getting at it is through our merchandising activity.

And Andrew talked about the Snack Bowl promotion which we are doing around Super Bowl. That's going to be an example of a great opportunity that we're going to have a display focused event where we're going to aggregate the brands and get off shelf display in a high velocity area at retail.

So those are the short term efforts we're making and we're really pleased with the progress on that front. I think that's going to be a systemic shift in probably what we bring as the parent of this brand.

As far as the single serve side of things we probably made the most progress in mass and traditional grocery in the deli area.

With one of the largest grocery chains and one of the largest mass customers we've got significant presence in deli that we didn't have last year.

And we really like that because again it's a high traffic area. At retail it's a great option for consumers to get trial and to experience the brand. And it's also a place where we can do that at a reasonable profit to the company.

So that's where we're making progress right now. We're working closely with our retail partners to understand their needs and to find the right positioning for us as a brand.

I think that the UK is an example where we're even making more progress on single serve products.

That impulse channel in the UK is an area where we've made quite a bit of progress in the past six months. And we're pretty excited about the prospect of growing there in the individual unit bag.

And we're starting to make progress on the multipacks as Steve mentioned in his prepared remarks.

So for as early as we are in the life of owning this brand I think we're making some nice progress, a lot of work ahead of it though.

Bill Chappell: Great. Thanks so much.

Michael Mendes: Thanks.

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

(Brett): Thank you. Hey guys this is (Brett) standing in for Heather today. How's everyone doing?

Michael Mendes: Good. How are you, (Brett)?

(Brett): I'm good thank you. I guess just to piggyback on that last question too, you guys have talked pretty extensively about how important placements are with Kettle And I'm just curious if you would put a little bit more to that and share with us maybe Kettle growth or how you think about that qualitatively, Kettle growth from the different placements in the deli section for instance and how that compares to other areas of the store and are placements sustainable in deli?

Michael Mendes: Placements are sustainable in deli. I think that we're mindful of when retailers are doing resets of the traditional snack aisle.

And we're not going to stand pat or stand idle until that six months or nine months from now when they might be cutting products into the area.

So we're pursuing all opportunities that are available to us when they're available to us that are strategic. For example deli was an imminent opportunity and we aggressively pursued it.

We are definitely going to improve the proximity of our products at grocery where you find shoppers.

And in some cases we will be doing that in the natural aisle because that will make good sense. In some cases that might not be the right positioning. The key is to work with our retail partners and to effectively merchandise the product.

There's no question about what the end result is that we're trying to achieve. But the geography - we're not married to a geography.

And one thing we have concluded is how retailers manage their products varies quite dramatically from retailer to retailer to format to format.

For example in some retailers where they're quite committed to natural products in the natural product segments and it's in a good geography in the stores that might be the right place for us to be and we will capitalize on that positioning. But in other retailers it might be different.

So I would say that's not a metric of progress we're making. It's a question of how do we achieve our objectives? And we're happy with the progress we made at this early stage.

(Brett): Okay and then real quick , is it fair to say that there wasn't a ton of seasonality in Kettle Q4 to Q1, kind of the comment that you've talked about previously? Just looking for some type of qualitative answer there on gauging how Kettle sales move sequentially?

Steven Neil: Yes divide Kettle up into the UK and the US. Fourth quarter our fiscal fourth quarter to fiscal first quarter in the US there's one major holiday in each and so that's generally the seasonality for us is the summer, Labor Day, Fourth of July, Memorial Day. That's the seasonality for Kettle US.

In the UK, the heaviest season is actually around Christmas. So that would get us here into the second fiscal quarter.

If you're looking Q4 to Q1 not a major seasonality. And again just to really gauge it, roughly 48% of Kettle sales would be in our first half fiscal year and 52% or so in the second half so not hugely seasonal compared to our traditional nut business.

(Brett): Okay thanks Steve. I appreciate it. And then one more Kettle question, would you guys mind just talking a little bit about the input cost environment in the UK and kind of translating that into a margin discussion there and what your expectations are?

Steven Neil: Yes our input cost environment in the UK frankly is not too different than what you see in the US. Traditionally the potato chip business enters into long term contracts for its primary inputs. And that would be potatoes, oils, and natural gas.

We will have locked in at the beginning of our fiscal year basically the pricing for the balance of the year. And that's true in the US as well as in the UK.

So very much a longer term focus than what our traditional markets would - or a lot of our traditional markets would be on the nut side of the business.

Again UK not too much different than the US, all long term and pretty much locked in for the year.

Michael Mendes: I would say that based on some conditions during the potato harvest there's going to be a slight yield issue with potatoes in the UK versus the US.

But again given that potatoes represent about 15% of cost of goods sold it's a pretty nominal cost in the big picture for us.

I think you will see a bit of pressure on oil costs versus the back half of last year that we do cover a significant portion of our needs. I don't know how much of that's going to manifest itself into cost pressure which will affect our margins in the current fiscal year.

(Brett): Okay and then I just want to address China very quickly. We saw walnut exports explode in October. And we read a report where production was supposed to be up at a pretty good clip locally in China.

And I just want to get your thoughts and your outlook for exports and how that would affect you guys?

Michael Mendes: Yes as far as shipments on the international front there has been some very strong shipments in the first two months of the new harvest season for walnuts to China quite a bit higher than last year which is probably going to leave some questions of what shipments are going to look like in the back half of the year into those markets and what will that do to total demand?

One of the things that we, as the largest walnut processor in the world we're always mindful that the shipments are only half the story. It's probably not the most important half of the story. I think the real question is what's the ultimate demand and how's that product pull through?

We've had a good start as far as the initial trade interest in the product. And I think that bodes well given it's going to be the largest crop in history by a significant margin.

But we're going to monitor it very carefully to see how that product pulls through. I think the one thing that's helped has been the currency situation. And that's been favorable but probably more so in Japan to be candid with you.

We look at Japan as a very strategic market with developed users that walnuts represent a relatively small percentage of cost of goods sold.

And so when the commodity value might be in the higher end of the spectrum it might not have that much of a significant impact on the end consumer price.

In China a lot of that product is being sold in its natural form. So the shipments are a lot higher this year than they were last year in the first couple months of the year and the selling price is quite a bit higher. We need to watch that carefully to see how that moves through the market.

(Brett): Okay all right that helps. But as of right now you just reiterate you feel comfortable with your input cost outlook for the year?

Michael Mendes: Yes I think our assumptions are very solid and we're going to be able to validate that. Again we do have pricing power if we do see a need to make adjustments that we can pass that pricing through. But at this point in time we think we've got it pretty well dialed in.

(Brett): Yes great. Well thanks for taking my questions guys.

Michael Mendes: Thanks.

Operator: We'll go next to Bryan Spillane with Bank of America Merrill Lynch.

Bryan Spillane: Hi. Good evening or good afternoon.

Michael Mendes: Hello Bryan.

Bryan Spillane: Hi. Just two questions, one a follow-up to this last question that was just asked relative to exports for walnuts.

I've fielded a few inquiries about the potential that exports could actually end up driving walnut costs higher than what you're estimating right now into your guidance.

So could you just Michael, give some color in terms of what it would take for that to occur?

Michael Mendes: Well I think that the macro issues are something that we all need to look at. One thing about the walnut crop is that once it's harvested, one of the things it's important to note is that the crop was quite late this year.

We were probably anywhere from seven to 12 days late depending on the variety.

One of the issues around the crop being late is those are sales in the fall that we will not be able to capture in the fall.

And that does put some aggregate pressure on the discernible market in which to market the crop
I think that's one thing to note.

The second thing is that the crop currently is projected to be 17% larger than last year which was
the biggest crop in history.

The third thing is - as the largest walnut company in the world we get a lot of view of the crop and
it does appear that the crop is coming in.

Early on it seemed like the crop might come short of the estimate. Now it does look like it is
coming in at the estimate. It might even slightly surpass the estimate so at this point the estimate
does seem valid.

And finally we are seeing consumption in Europe and the US. If you look at the scanner data and
the consumption data it's relatively flat versus last year. And that's a bit concerning.

I actually think it's positive given that it's effective price is a bit higher particularly on the
commodity side of things.

So it would be extremely bullish to forecast a significant strengthening from what we're seeing
today. And we'll monitor it closely.

Again, I think anything's possible but at this point in time we think we have our arms around all
the variables.

Bryan Spillane: Okay great. That's helpful. And then Michael just as a follow-up on Kettle I think on the
fourth quarter earnings call you talked a little bit about the promotional environment in the UK and
the potato chip in the chip market and how that was still quite price competitive relative to the US.

So could you just talk a little bit about how it - that played out in the first quarter? It's still very promotional. Has that changed at all?

Andrew Burke: Yes Bryan, it's Andrew and actually we're seeing the market in the UK abate a little bit in terms of the promotional environment. It seems like retailers are pushing activity and manufacturers are going more into royalty cards and other promotional vehicles other than just about price. So that seems to have abated since our last call.

Michael Mendes: One thing to keep in mind is there is going to be this change in the VAT the first of the year and that's going to create some noise.

The UK is probably going to provide retailers some optics the might enable them to pass through some consumer price inflation that otherwise might be more difficult to pass on so I think I'd be mindful of that as well.

Bryan Spillane: Okay great. And then Michael congratulations, you ran a really nice time in the marathon.

Michael Mendes: You know, I was consuming all of our products. Maybe I consumed too many of them but thank you very much.

Bryan Spillane: All right, I'll pass it along.

Michael Mendes: Thanks Bryan.

Operator: And we'll go next to Jane Gelfand with Barclays Capital.

Jane Gelfand: Good afternoon everyone.

Michael Mendes: Hello Jane.

Jane Gelfand: Just a quick question on your efforts to kind of pull back on some of the trade spending in Emerald.

I know last year was a bigger year around the peanut launch and the hope was that you could moderate some of that into going into this year. It seems like that's been successful.

So I guess I'd be curious about your observation on the level of base growth that Emerald has sustained as you're pulling back whether you've been satisfied with that and also perhaps, what have you seen from a promotional standpoint in the snack nuts category?

Are you being allowed to do that without too much interference from\ some of your competitors?

Michael Mendes: Let me take the first half of that and then have Andrew give some additional color.

As far as on the competitive front we have been pleased to see one of the other large branded players direct more resources towards national television advertising, we think that's fantastic.

We're a big believer in trying to draw more consumers to the snack nut shelf. And it's great to see the biggest player spending resources on consumer advertising in lieu of promotional spending.

We think that's great and that's an environment that is consistent with we would like to do. It builds equity in the brands and also helps draw consumers to the set. Let me have Andrew speak to the promotional environment specifically.

Andrew Burke: Yes Jane- as we look at the grocery environment and you look at what's happening in the snack nut market the whole market is moving up at about 5% or a 6% clip which is a very healthy clip in terms of a category size.

And as we look at the split between base as well as promotional or incremental we feel like it's moving in conjunction together.

So we feel that it's a very healthy market. We're very happy with what we've seen on Emerald with some of our new items.

As you know we launched our cinnamon roast almonds and our cocoa roast almonds continue to do very well.

Those are very unique items that as soon as we get to get consumers into the franchise and into those items they keep coming back to those items. So we've been very pleased with our performance particularly over the last quarter.

Jane Gelfand: Thanks so much. And just maybe a quick follow-up on the growth margin trajectory as the year unfolds.

Steve, I know you mentioned, retail and channel sales mix as driving some of that variability between the 200 to 300 basis points of expansion.

In the beginning of the year you're making a big push to get into new doors whether it be with Breakfast on the Go or some Emerald items in the mass channels. And I assume that takes more of a kind of push on promotions and such to try and drive some of that initial kind of take away.

So is that what we're seeing being reflected in gross margins in the beginning of the year? And then do we expect some of that profitability naturally to improve as you've got a stronger foothold in those retail channels towards the end of the year?

Is that how we should look for growth margins to trend as well meaning maybe kind of picking up as the year unfolds?

Steven Neil: Yes Jane, good question. You are exactly right on not so much in the first quarter on slotting and the like, but we certainly will see at the backend here the second quarter and into the third quarter significant slotting on Breakfast on the Go and the new items that we have coming out. And that will definitely impact margin.

But we do expect as we go out of the third quarter into the fourth quarter to have less of that as an impact and so you do pick up margin there.

I think the other thing is as you go from one crop to the other we carried in some costs that might have been a little bit more expensive last year in our whole portfolio of inventory that we're pulling into this year. That had a little bit of impact on margin this quarter which is why this quarter was at 25.2% and we expect it to grow a little bit for the balance of the year. So there's always that fluctuation.

But the biggest impact is what you noted. The impact in slotting and the promotional activity since that's a contra sale that's going to impact gross margin. And it starts to abate a little bit as we get to the back half of the year.

Michael Mendes: You'll note also Jane that our gross margin guidance is a little bit wider than when we started the year with. And a lot of that's just attributed to still some uncertainty of whether we're going to be sourcing that growth in club and mass or traditional grocery.

If we source a little more of that growth in the back half through club or mass our operating margin will be considered our guidance. But that might have a little lower gross margin just because the nature of channel for example in club we don't pay brokerage. So that's a little more color on that gross margin guidance.

Jane Gelfand: Sounds good. It sounds like maybe we want more sales in club and mass just because that means you're getting into more doors. But thank you for the clarity. I appreciate it.

Steven Neil: We'll take that. Thanks Jane.

Operator: We'll go next to Mitch Pinheiro with Janney Capital Markets.

Mitch Pinheiro: Yes, good afternoon.

Michael Mendes: Hello Mitch.

Mitch Pinheiro: Couple questions first on pricing. In the snack nut category for the quarter just looking at IRI it looked like Emerald was down about 10%. Is that about right?

Michael Mendes: That would reflect mix...

Mitch Pinheiro: Okay.

Michael Mendes: ...peanuts being a being a larger portion of the sales. Within the nut segment, you wouldn't find any noise there. But it's just our peanuts is a larger part of the mix than say a year ago.

Mitch Pinheiro: Okay, thank you. That's helpful. And how about in Pop Secret? I also saw pricing down in the mid-single digits. Is that about right?

Steven Neil: Andrew's looking over the data to see if he has anything. I think the biggest difference there is again mix.

A lot of shipper activity as we're having promotions. And that will depend on how it goes across the scan which will impact the unit pricing.

Michael Mendes: Are you looking at FDM data or are you looking at just food?

Mitch Pinheiro: FDM.

Michael Mendes: On FDM we have got more mass this year than we had a year ago and that could be – what it is based on...

Mitch Pinheiro: Your channel mix as well?

Michael Mendes: Yes channel mix would be part of that...

Mitch Pinheiro: Okay, that's helpful. And then as you look at the overall growth in snack for fiscal '11 what type of pricing assumption would there be?

I understand that with your tree nut input costs being relatively benign I would imagine there's not a lot of pricing there and in fact might be down a little bit. But what are the assumptions in pricing in the sales guidance?

Michael Mendes: Yes I would say it's relatively flattish. There's a little bit of commodity price increase in the culinary side of things. But that's really more some catch-up pricing that we did sort of minded the gap on some of the items that we had not advanced the pricing. And really the commodity costs supported it. So pretty much flat on snack and a little bit up on culinary.

Mitch Pinheiro: Okay. In this quarter just reported, was any of the expansion into Wal-Mart, was it a factor at all?

Michael Mendes: In our sales volume?

Mitch Pinheiro: Yes.

Michael Mendes: Yes we started to pick some of that up, not a big part of it but we did start to pick some of that up this last quarter.

Mitch Pinheiro: So the quarter that we're in now, the second quarter will have much more. It'll be the larger impact, correct?

Michael Mendes: We'll see more benefit this quarter.

Mitch Pinheiro: Okay and then just last question for Andrew or for any of you about Super Bowl spending year over year, where do you think rates are going to fall out? I know you had a pretty good deal last year.

And then related to that obviously the impact of the Super Bowl ad is really in front of the Super Bowl, not after the Super Bowl. How do you see that playing out year over year in your plans?

Steven Neil: Yes so actually this year, as we talked about in the prepared remarks the fact that we're doing this promotion around our entire snack portfolio on this idea of Snack Bowl 45.

We're actually putting all three of our brands together. And we talked about how this is the first time we've ever had that - put that whole portfolio together so that we could generate great displays.

We're planning those promotions and those things with our retail partners now. Super Bowl is a big holiday for everybody in the snack business and it'll be no different this year.

The other thing that we've done is that program uses a mix of national print. It uses digital media and then it also uses social media where we're actually going to dial up the consumer engagement that we have in this promotion. They're going to be using social media like Facebook to send out to their friends videos to try to attract them back to our Web site to vote for them to win this honor.

And we think it's a great way as we've learned to really drive our retail sales behind this promotion, it's a great way to drive it for this Super Bowl season.

Mitch Pinheiro: Okay so you think spending is going to be up relative to this in totality from social media spending to print to TV to displays you think?

Michael Mendes: You mean our advertising spending versus same quarter last year?

Mitch Pinheiro: Yes.

Michael Mendes: Probably not specifically against this program correct. It'll be lower. But hopefully we are going to be able to get some display activity that will approximate some of the kind of work we've done in the past.

We've done commercials around the Super Bowl before. We are going to be using television as a big part of our programming this coming year.

We got some ideas for the back half of the year where we'll be on television around some of our new product support. And we thought that was the best way to use media resources this year.

One thing that's important is we have used the Super Bowl television commercial as a way of helping our retail partners see the opportunity with our products around the Super Bowl.

And so we are clearly in the discussion with them about Super Bowl display activity and we're hoping to do a great job with this year's campaign in that we're not going to see some big drop off because we're not doing a commercial. And that will leave us dry powder to use that media and creative dollars for the back half of the year.

Mitch Pinheiro: Okay, all right thank you very much.

Michael Mendes: Thanks.

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

Ken Zaslow: Hey good afternoon everyone.

Michael Mendes: Hello Ken.

Ken Zaslow: A couple questions. One is Breakfast on the Go, can you talk about how that's developing, if it's starting to get more penetration, just kind of what your expectation is for that brand and see where that's developing?

Michael Mendes: Let me start and I'll have Andrew give a little more color. You know, we really have been pleased by the reception by our trade customers on the product.

I think that there's quite a bit of enthusiasm for granola-backed products. A lot of the things that you find in this breakfast mixed area tends to fall a bit short on premium ingredients.

So I really think there's an opportunity and that we're filling a void that the retailer, more importantly the consumers will be pretty excited about. And we've got the serving size and the pack configuration right so that we can hit the appropriate price point.

We're going to be out there with some consumer support behind it. And we think it has a very, very promising future for us.

This could be a \$10 million or \$20 million part of our Emerald portfolio over time? I think absolutely it could be.

Could it be more? I think that we're going to have to shift some consumer behavior. But it has that kind of legs and so we're enthusiastic about it. We will be supporting with consumer support. And I'll have Andrew give a little more color on that.

Andrew Burke: Yes Ken I think that we've been very happy about it as we go out and talk with our retail partners as well as consumers is it feels like that segment, that breakfast segment in terms of those bars is going through the same thing that we're seeing across all of snacks where consumers are looking for more natural less processed snack foods.

And as we come into that market with a different form than currently is available, we've had just a terrific reaction from both consumers and retailers.

And so we have very good hopes for that. The selling like Michael said is going very well. We're going to make sure that we turn on enough advertising that we get people aware of the product and then drive them into the stores to get it off the shelf.

Michael Mendes: I would remember though Ken that we're looking to get this thing launched here in the spring, probably starting shipping in February, we'll be at those consumer support. We'll be paying slotting.

It's probably not going to have a meaningful impact on our top line when you net out that promotional and slotting spend so we want to work hard on it this year, it's a meaningful contributor to sales and profitability next year.

Ken Zaslow: Okay so if I think about you raising the sales growth number for retail snacks, was it because of increased penetration, better sell through, higher prices? What exactly was the reason for the greater confidence in the sales growth projections?

Michael Mendes: Part of that is we think we're going to probably do more gross sales with Breakfast on the Go. But I don't think it's going to be a big margin contributor as we're investing in it out the gate.

It also reflects some improvement in sales velocity with our Kettle sales in the US and the UK TIAS and our Ridge product in the UK. Those are some of the contributors then also our Emerald based business.

Ken Zaslow: And is Emerald based business was it greater distribution or was it pricing or it just moved off the shelves quicker, the volume?

Michael Mendes: Our work on filling in the base distribution is going a little better than we had hoped. So that's a smaller contributor.

I'd say the bigger two would be Breakfast on the Go and the Kettle sales expansion, the TIAS in the US and the Ridge in the UK. It's going to probably be the larger contributors.

Ken Zaslow: My last question is I must've misunderstood the beginning of the conference because the questions seem to diverge from what I thought I heard in the early is that it sounds like there was some pricing ability that you had if the commodities kept on going up.

So my question to you is do you have pricing ability? In which categories did you expect to have the greatest pricing capability if the need arose?

Michael Mendes: Yes I would say that if we see any potential commodity pressure it would probably be on the Diamond Culinary side of things. And I think we do have the pricing capability there.

I don't think that's going to be the case but we do have the ability to pass on pricing there if we see that's necessary.

Ken Zaslow: Great so the outlook doesn't seem dependent at all on commodity prices or at this point, your need for pricing. It's basically just delivering your sales growth targets and no real external factors at this point seem to be impacting your outlook?

Michael Mendes: Yes. I think we need to execute, that's right Ken.

Ken Zaslou: Okay great. I appreciate it.

Michael Mendes: Okay thanks.

Operator: We'll go next to Ed Aaron with RBC Capital Markets.

Ed Aaron: Thanks for taking the question, afternoon guys.

Michael Mendes: Good afternoon.

Ed Aaron: Just wanted to kind of clarify a little bit on the snack business with the guidance. So you had a good top line in the quarter obviously. And that business is basically at a run rate that's consistent with your full year guidance for that part of your business.

And I know you plan to reinvest in slotting, which is contract revenue line item. But, with distribution coming online, starting more in Q2 and some of the programs that you run around Super Bowl, it seems like that business is basically on a trajectory to do something better than what you've guided to.

Should I interpret that as just a matter of conservatism or is there something that I might be missing?

Michael Mendes: Well, I think that our guidance is consistent with an accurate projection of what we think the business will do with what we know today.

And so we're going to be working hard to perform even better. But, I think that would be strong performance what we've guided. And it's not a walk in the park to achieve that.

The guidance is consistent with what we believe is an appropriate projection for the business what we know today.

Ed Aaron: Okay and then if I kind of focus on the higher end of guidance it's not that apparent to me, where exactly the reinvestment of the lower taxes is coming from.

Because the high end of the gross margin, the advertising expense and the operating margin guidance, none of those things changed. So am I missing something there?

Steven Neil: No you're not. Certainly we raised revenues and there's going to be an offset to revenues on promotion as we're investing behind the new products that we're launching here Emerald products and with TIAS.

The biggest investment is that you're going to see is in promotions. And then we also updated the advertising guidance.

We didn't increase the top end but we took up the bottom end. So on average if you want to play averages here, but we're going to spend more advertising dollars than what we had originally planned and we'll spend a little bit more in promotional dollars. That's where you're going to see that investment behind the brand.

Ed Aaron: Okay and then maybe one last one if I could. I know we're still a little bit away from where the new Kettle capacity comes online. But that business has been supply constrained for some time.

And as that capacity frees up just wanted to get a sense of a prioritization standpoint, in terms of where you would ramp it up to capacity most to satisfy some demand but maybe you've even kind of left on the table because of the supply constraints?

Michael Mendes: You know it's an interesting business. As we go across our snack portfolio. I think a differentiating observation on the chip business versus say the snack nut business is your capacity in shorter periods of time is important.

With snack nuts you can build inventory, much more inventory. And that inventory can help you work through your gaps in capacity.

With chips it's your capacity each month that matters because of the relatively short shelf life of the product.

That's one of the important takeaways if you're trying to gain permanent distribution, you need to be able to supply that permanent distribution year-round.

For example in the UK we note that are multipack area has been a capacity constrained area.

We're deploying resources to expand our capacity with the multipack and we're already selling against that expanded capacity.

In the US I would say it's really not a packaged size constraint. It's probably more of a frying constraint in terms of our frying capacity.

And so as we build that out in Salem we will have that come available...

Steven Neil: End of April beginning of May. In the spring in time in advance for the holidays for the summer, I mean that's the key. That's when we really pick up our base and our total volume.

And again the target as we said actually last quarter is we're very, very strong in the West but East of the Rockies as we grow capacity -- and that's where we're focusing on Beloit -- that's an opportunity for us there as well.

Michael Mendes: We're also mindful of leveraging the resources that we have that aren't constrained.

For example, our all natural TIAS product, we have a co-manufacturing partner that is enabling us with the success of that business which gives us more capacity in the system. And so we're leveraging that and we're focusing there quite a bit.

We're leveraging the capacity we have today and we are full steam ahead on deploying the capital in Salem and Beloit.

Ed Aaron: Great thanks for the color, nice job on the quarter guys.

Michael Mendes: Thanks.

Operator: And we'll go next to Akshay Jagbale with Key Bank Capital Market.

Akshay Jagbale: Hi, congratulations.

Michael Mendes: Thanks Akshay.

Akshay Jagbale: Just one point of clarification on the sales growth. Your snack sales growth guidance hasn't changed. And there's some questions earlier that eluded to an increase in snack sales guidance so am I missing anything there?

Steven Neil: No you're right. Snack sales stayed the same projected at 540 to 560. We took up the bottom end of total revenue by ten and the top end by five. And we feel very, very comfortable about where we are in snacks.

And certainly the biggest wildcard there is how much are you going to sell through on the new products for Emerald and what's the impact on promotional and sales dollars?

So we didn't want to get too far ahead of our skis on a crystal ball on what's going to pull through.

But we did feel overall, all of our products as we summed them up together more confident in where the total sales were coming.

So that's what led us to keeping snack where it was. Obviously we'll update it as we have experience but raising the overall sales guidance now.

Michael Mendes: Yes and I was speaking to our year to year snack growth driver. Sorry about that.

Akshay Jagbale: Okay and just another point of clarification, what was organic snacks sales growth this quarter?

Michael Mendes: Around 15%.

Akshay Jagbale: Okay that's helpful. And going back to just the cost side Michael, you talked a lot about China and supply being up. I mean supply's up now two years in a row and the way I interpreted your results so you took up sales guidance, you took down the bottom end of gross margin. So the way I viewed that was your mix of sales is changing.

So I thought of it as you're going to have more of your commodity business sales as you look at it today relative to what your guidance was before.

And I thought that was driven by your assumption on Walnut prices which may be a bit higher than they were before. Am I missing something there? Did I misinterpret it?

Michael Mendes: You know, it's quite nuanced Akshay. There's a lot of component parts. I think that directionally you've captured some components of it.

But I think that as far as the gross margin range really reflects that in the back half of the year there's going to be some variation of how that mix is going to shift.

And there may be a likelihood that we'll be more heavily in the club and mass side relative to grocery. And we may also do a bit more in the international walnut shipment which we ship in the beginning of the current fiscal year.

For example we do have an opportunity to sell a little more of our inventory at the end of this fiscal year on that Walnut side of things that would have an impact of having a lower gross margin but not affect the operating margin.

So I think it just sort of speaks to the fact that we feel good about our operating margin number but there's going to be some moving parts.

I would say that if we have a chance to generate cash earlier rather than carry inventory out we will. And that could have the net effect of dampening the gross margin but not affecting the operating margin and actually reducing our carrying costs going forward.

Akshay Jagbale: Okay and one on the mass and non-measured channel growth because from next quarter onwards you'll be lapping some pretty strong comparisons for Emerald.

Can you give us some sense of magnitude on that and also an update on the distribution into a big mass merchandiser and just part of their store base.

I was wondering if that's going to reset and go to all of their stores or how we should think about that?

Michael Mendes: At this point there's not been a meaningful change in our distribution drive there. We're in the performance stage of that effort so we're going to be working hard to stimulate consumption. And you'll see consumer support to help augment that. You'll see display activity. You'll see some national FSI programming -- all of those things intended to try to stimulate consumer take away.

And if we get some good velocity at the shelf that's going to be the forbearer for us to gain distribution there.

But as of this date and based on our guidance we're not projecting an expansion within - not an expansion within the current fiscal year in that distribution.

Akshay Jagbale: Okay great I'll pass it along. Thanks.

Michael Mendes: Thanks.

Operator: And there are no other questions at this time. I'd like to turn the conference back to Ms. Segre for any closing remarks.

Linda Segre: Thank you, Gwen. Thank you for joining us. This will conclude our call.

Operator: Thank you everyone. That does conclude today's conference. We thank you for your participation.

END