Diamond Foods Q3 Fiscal 2007 Earnings Release
<u>Conference Call Q&A</u>

Operator: [OPERATOR INSTRUCTIONS] Your first question comes from the line of Ken Zaslow with BMO Capital.

Ken Zaslow: Good afternoon, everyone.

Management: Hello, Ken.

Ken Zaslow: Just a couple quick questions. The first one, in terms of the tax rate and reinvestment of that, if you were not reinvesting that, would have been raising guidance? Is that how to think about it, and is it a conscious decision for you to reinvest the tax benefit, and where will that show up, in SG&A or advertising?

Seth Halio: Probably most of it in advertising, Ken, because a large portion of it is the sampling programs we are doing in the club channel.

Ken Zaslow: I think your previous expectation for advertising was 20 or so million dollars or in that realm, so that should go up by the corresponding tax rate decrease?

Seth Halio: I think we said 19 to 20 dollars, so proportionately in there somewhere.

Michael Mendes: Also a portion of that, Ken, will also be in our promotional spending which, for example, we have some national coupon activity that we expanded to a larger geography, and the cost of placing the coupon, the FSI, is the advertised cost of the redemption is a reduction of sales through promotion.

Ken Zaslow: And what prompted you to actually do the trialing, rather than let it go to the bottom line and potentially, look potentially for higher earnings for the next year or two on this?

Michael Mendes: You know, Ken, our snack business is at a critical stage in order to really build out our distribution footprint, and we feel that like any young new business, it is really important that you establish your distribution foothold early on, and we felt that we could really, particularly in the club channel where as I mentioned, we now have four different items that are in distribution in some region, or in some cases nationally throughout the country. We think they are great products. We think the path to repeat usage is for people to try the product, and we felt that increasing our demo activity would be prudent for the long-term for the business.

Ken Zaslow: In terms of the snack sales, it came in a little below my expectations. Is this the path to which you expected sales growth, snack nuts to be in the third quarter versus fourth quarter?

Michael Mendes: You know, two things drove that. One is that there wasn't any really promotional event during the third quarter, like Fourth of July or Memorial Day or the Super Bowl, so we expect it to be a lower quarter due to the lack of promotional events, and also it is a function of the timing of our distribution with clubs.

We thought we might have gotten the club distribution a little sooner; all of that being said, we do have four different items, which is maybe one item more than I hoped.

To give you a little more color on that, we have a smoked almond item that is in one of the two club channels, that is currently being shipped to every club store in the country. We have a product called Spicy Southwest, which is an Emerald/Harmony co-branded item packaged in a 40-ounce bag. That is in trial distribution in Los Angeles region and the Texas region. We have actually gotten our first reorder in Texas. We felt again trial was important.

We have a product that is a club size set of our trail mix item is called Fruitnola. That product is currently in the process of being shipped to a club region in San Diego, and finally, we have a pecan glazed item, which is currently in distribution at about 150 clubs throughout the U.S., and we are going to be running a special demo promotion, with tying it with an ice cream manufacturer in July for an additional 200 plus clubs, so we thought these were great opportunities to get additional products across, that we felt it was best for the business to reinvest some of this benefit into the brand.

Ken Zaslow: Can you talk about two final issues, just in terms of the snack nut, looking back, would you say which new products did you think that exceeded your targets, and which ones do you think have not yet reached those targets, thinking about trail mix, bold flavors, and just give us a flavor for again if you could either rank them, or kind of give us some sort of idea of where you think your new products have hit, and where other ones have not?

Gary Ford: One thing I will point out, Ken, in terms of the Bold products, those are just getting on the shelves literally as we speak or in the next month or two, so I think it is a little premature to kind of talk about how those are meeting expectations.

Michael Mendes: Let me just go through that a bit, Ken. I would say that probably more the answer is related to how things are progressing in channels. I think we are very pleased with the progress we are making in the club channel here in the fourth quarter. We were probably hoping we would have made progress a little sooner, but I would say the trajectory is very positive with where we are getting some trial distribution there.

As far as the products, we are very pleased with the movement of the trail mix item where we have distribution. One thing we have learned with our entry into the snack business is the location of your product on the shelf, really weighs heavily on your potential success or failure.

We have been very prudent in our discussion with our retail partners, to working very hard to make sure that we try to more optimally position trail mix, bold nuts, and some of these other items we have launched on the set, and in some cases that meant that it maybe took a little longer to get on the shelf than otherwise, because we have been waiting for the actual reset. Because when we first got into the snack business in a number of cases we actually cut the product from the shelf immediately, and we had a sub-optimal positioning, which it is difficult to tend to improve that once you are already in, so I would say that most pleased with our trail mix of our new items. We think Bold is promising, but it is a little bit early.

I would say as far as our base product line, or tree nut subset of our total snack line is our strongest performers, led by our deluxe mix nut and our almond items, and I would say that the most challenging category has been the traditional peanut item, the dry roasted and oil roasted products.

All of that being said, we think that we are making progress there, and I think that our ability to really look at where we can bring value and to come to the consumers with innovation, such as our oven-roasted peanut product, I think demonstrates our ability to continue to work hard against the category, and to find a path for success.

Ken Zaslow: My last question is on the crop outlook. I know you were pretty optimistic last quarter on the outlook. Has that changed at all, and how does that affect your outlook in '08? I guess is really how you guys book your commodities, it tends to be done a little differently than most other companies, so can you just comment on the commodity outlook, the crop size, and is there some pressure that we might feel in '08?

Michael Mendes: Well, last quarter we had the benefit of no factual information on the new crop, and we were basically using historical trends to project forward. Generally that is very, very good information. Today we have got a little more information. We have seen a little bit of crop. We have a few estimates, so I will have Gary take you through the commodities, to let you know what factual information we have on that front, and maybe if you have a follow-on question, so let me turn it over to Gary.

Gary Ford: Ken, if you start with almonds, the subjective estimate was released three or four weeks ago, and it was at 1.31 billion pounds, which will be a record crop for almonds, and in addition to being a very, very, very large crop, it appears to be at least on time, and maybe a little early, so that is good news. Pricing has softened a little bit since that estimate.

Cashews look to be very plentiful this season, and those prices have tended to follow trends of almonds. The U.S. pecan crop has had three consecutive very disappointing years. This year is the “on” year for this alternate bearing nut, and currently the crop looks very good. Obviously we have to get through hurricane season in the southeast to harvest a very large crop, and ultimately we can do that, and that would be primarily the Georgia crop.

Peanuts are certainly going to be higher as a lot of southeastern farmers have planted corn instead of peanuts, as well as there is some pretty serious drought conditions in that part of the country, so we are expecting peanuts to be higher priced. Walnuts which are generally four weeks or so behind almonds, so it is just really too early to tell right now, and we are not really making any forecast on that crop. We are still a few weeks away from really having a good indication.

Ken Zaslow: Great. I appreciate it.

Operator: Your next question comes from the line of Barry Sine with Oppenheimer.

Barry Sine: Good afternoon.

Michael Mendes: Hello, Barry.

Barry Sine: I wanted to see if you could elaborate, please, on the announcement you made in terms of joint displays with Coca-Cola. Can you give us a sense of how many displays will be in how many store locations, what type of store locations, grocery, etc., and if you know, what type of Coca-Cola products –will it be Coke itself or other products that will be co-displayed with your products?

Gary Ford: Barry, Gary Ford again. The promotion is going to be a summer promotion, June through August, and it will be with their two primary products, diet Coke and regular Coke.

We are expecting joint displays in about 7,000 supermarkets, and with our target of between 10,000 and 15,000 displays of Emerald product, so we are very excited about that. It is their top products, diet Coke, regular Coke and we are pretty excited. We are out currently selling displays against that, and we have set an internal target of about 7,000 stores.

Barry Sine: And just if you can refresh my memory, how does that compare with what you did with Anheuser-Busch with Budweiser for the Super Bowl?

Gary Ford: We were around 15,000 displays for the Super Bowl, and that was the second year of that. We have set a target of between 10,000 and 15,000 with this promotion. It is going to run a little longer, so we are optimistic that we can achieve some, those types of numbers, or get in the ballpark of the Super Bowl number of displays.

Barry Sine: And can you disclose any of the supermarket chains at this point, or is it too early to know which chains may or may not be?

Gary Ford: It is too early to disclose, and we are still working, finalizing those details. Some are final, some are not, but it is a little early for us to disclose the specific events.

Barry Sine: And then last question is going back to the crop outlook, closing out last year, I guess you had set the walnut pricing. What did you wind up setting pricing at in March?

Seth Halio: We set the final price in March, Barry, but obviously with walnuts there are many, many varieties, many different grades of quality, so there is no single price to point to and say that is what we paid.

Barry Sine: Can you give one particular variety? I am looking for comparison versus prior year there, or a sense of what the increase or decrease will wind up being in rough terms?

Seth Halio: Yes. Let me get back to you on that. I don't have that specific information with me here.

Barry Sine: Great. Thank you very much.

Operator: Your next question comes from the line of Diane Geisler with Merrill Lynch.

Diane Geisler: Good afternoon.

Michael Mendes: Hello, Diane.

Diane Geisler: How are you?

Michael Mendes: Good, thanks.

Diane Geisler: I wanted to ask you about the culinary, which was much stronger than we had been looking for. Historically we kind of thought about that category as sort of the a little bit slower growing than the snack, and you obviously put up a good number there. Wondering if there is anything? Is it a market share issue? Are you taking share? Is it category growth? If you could just give us a little bit more color there, about what is going on in culinary?

Michael Mendes: Our biggest contributor to the growth in culinary for the quarter was growth in our club channel, and although we had growth in all channels, most of the growth was in club channel, and that was virtually all volume growth.

And so I think the thing that is exciting for us about culinary as a segment, you know, when you look at the culinary net demographic, it skews 45 and older, and that subset of the total U.S. population is growing two to three times faster than overall U.S. population, and a lot of people look at sort of the baking nut, culinary nut categories as a somewhat slower dormant category.

We tend to think that there is actually a nice opportunity there, so we keep working very hard with our consumer activity and with our channel activity. One example of that was a special promotion we did in the club channel to promote our Diamond product. Let me have Gary Ford take that for a moment.

Gary Ford: Diane, we did a Chef's event in one of the large club channel that is featured a Waldorf salad with Diamond walnuts, and that event was very successful, and drove a lot of volume.

Diane Geisler: When you went into the new club wins that you had, did you displace an existing brand, or was this just something where the club expanded into the category? Or maybe it was a little bit of both. I don't know.

Gary Ford: It was primarily, they were unique items in all but one case, and in another case I think there was a displacement of one item. I think three out of four they was unique, additional items that the clubs took in.

Diane Geisler: Just trying to figure out if it is a one-time, not a one-time, but just how much of it is sort of sustainable? Do we have a little bit higher growth rate than what we had originally been modeling? That is all.

Seth Halio: Our belief is that it is sustainable. Obviously a little more margin pressure on the club channel than maybe traditional food, but I think that sales base is sustainable.

Diane Geisler: All right. And then my moving over to snack, and just trying to understand you obviously are announcing some great new partnerships here with Coca-Cola, and it sounds like you are making progress in mass. As we look into fiscal '08, I mean what one of the hardest things that I have when I am modeling out your earnings or sales or whatever, when I am talking with investors is trying to get my hands around what is the true growth rate of snack? It is coming off a low base last year, doubling to 80 million, and then where does it go from here, as you add new partnerships and new distribution points, what should we be thinking about in, say, '08, '09, still transition years? Can you help us with that?

Michael Mendes: You know, I think on our last call, Diane, I talked a little bit about sort of a stair-step approach towards the building of our snack business, where I probably envision that next year we most likely will be somewhat gathering ourselves, solidifying the basis we have, improving the turns where we have distribution, perhaps investing a bit less in terms of slotting of new items, and perhaps putting more focus on growing some areas that we are just getting into like our produce snack set. I think that as we, as that business is looking again to solidify that quality distribution, I think next year would be not as rapid of a ramp-up.

I think that next will be a year where we are improving the quality of our distribution, filling distribution gaps, really making sure that we can that we can see good repeat purchase where we have distribution, and trying to slowly build share through the points of distribution that we have, so I would say that on a year like this we are working on getting more points of distribution as a big part of our front.

I think next year you will see us trying to drive more velocity through where we have distribution, so it is not going to be totally by binary, but I would that say you will see more focus on that front. I would say that our total sales ramp-up will probably not be as steep next year, but hopefully it will be less capital intensive on an annualized basis, which might allow us to slowly improve the profitability of the business a bit more in that area.

Diane Geisler: You know, obviously I am not expecting it to double in '08, but there is a lot of numbers between 80 and 160, so that tends to be the most challenging for me, in terms of just understand the top line, because you obviously have a lot going on, and not only in terms of distribution points, but slotting, promotion, and things that net to revenue.

Michael Mendes: I guess trying to get to the answer to your question, which I don't think I did the greatest job with my first answer, I think when you look at the whole commodity cost environment that we are in, tree nuts are still at historical record prices, even though we have seen a bit of relief on almonds, we still see generally historical high prices on these nut commodities, and probably a low likelihood to see any significant relief until we get towards the end of the calendar year, which is perhaps midway through our fiscal year.

So I think in that environment it will be more taxing than a normal situation to rapidly build our snack business, and so I think that we are looking kind of recognizing an environment we are in, we are look to solidify our base, improve the turns, and basically recoil for the next big lift in distribution, and so I would say that we are not giving guidance yet, and I apologize I am not giving you more OpEx early, at this point in time I think to expect a slower rate of growth next year would be appropriate, given the committed environment that we see ourselves in, and probably allowing us to do the right things with the business.

Diane Geisler: Okay. I appreciate that. And then on the tax rate, and some of the promotional items that it was able to fund with the lower effective tax rate, just a philosophical question. If you hadn't lowered your tax rate guidance, would you have foregone these promotional items that hit your EPS estimates you have given?

Michael Mendes: I would say that is, I am glad that I didn't have to face that decision, Diane. I appreciate the candor of your question.

Diane Geisler: I am not trying to put you in a corner. I am trying to get at--. (multiple speakers)

Michael Mendes: I would say we would have done a good part of it, maybe would we have done as much as we had, I would say in a vacuum, maybe someone would argue otherwise. I feel that we have had such good experience when people have the trial opportunity, and the club channel as you know, really lends itself very well to demos, and as we feel a need to build our affinity this consumers in that segment, not only to build the sales of those items, but also to show a path to get other new items in the channel, we felt it was critical, so I have to say that we do give a range on guidance, you know, and I would say that our plan would be to try to stay within that range.

I think that we definitely though, knew that having some relief on this tax situation, we felt quite bold investing in those demos, and maybe we certainly would have otherwise, and I think that will be a very good spend for the business.

Diane Geisler: Right. It is good to have that option. I guess the last question I had is in your prepared remarks, you mentioned that the snack margin was improving on year-over-year basis. Is there any way to help us understand sort of as the business grows on a volume basis, how the margins have improved over time? I realize obviously there are a lot of things going into that, but just in terms of the some of the things you have done in your plant, in terms of longer production runs, more mechanization within the plant itself, et cetera?

Seth Halio: One of the things I think we talked about on the last call, Diane, was the, where we put in an integrated line where the snack line that goes from processing to packaging without intervention by humans, so that is an example of not only do we get significantly better quality, higher yields, but also it takes labor costs out of the process, and our hope over the next several years would be to be processing somewhere around 60% of our business that way.

Diane Geisler: Would you be willing to share a number in terms of, is that 50 basis points, 100 basis points, 20? Just an the order of magnitude.

Seth Halio: Well, see, this is one line. It has only been in place a couple months. I would say it is relatively small. It is just an example of where we are going.

Diane Geisler: Right.

Seth Halio: You know, we have seen an improvement in the snack margin this quarter, despite the fact we have been investing more in terms of slotting, and so forth that you are well aware of. I would say one of the big drags on the snack margin today, which will improve in the future, is excess capacity as we built the capacity way ahead of the sales right now, and so as we grow into that capacity, you will see our margin expanding in the snack business.

Diane Geisler: Okay. Is there any way you can help us with what kind of impact that will have on the overall P&L? I know you are guiding to whatever, what is your gross margin? I don't have it right in front of me.

Seth Halio: Our five-year gross margin plan is 20%. If we are at 15% now, we have got 500 basis points to go. A large portion, significantly most of that improvement should come from snack, as that business grows and the margin improves.

Diane Geisler: Okay. Thank you very much.

Seth Halio: Thank you very much.

Michael Mendes: Thank you, Diane.

Operator: Your next question comes from the line of Heather Jones with BB&T Capital.

Heather Jones: Good evening.

Michael Mendes: Hello, Heather.

Heather Jones: How are you all doing today?

Michael Mendes: Good, thanks.

Heather Jones: I had a couple of questions … I was wondering and if you addressed this, I apologize, I missed the first few minutes. Marketing expense - how that is tracking versus where you had originally estimated?

Seth Halio: It is tracking right where we thought we would this quarter. And for the year again you may have missed this part. We may be slightly higher than we previously had said as we reinvested some of the tax dollars into some additional sampling in the club channel, but generally within the ballpark.

Heather Jones: Okay. And what about your slotting expense for the year? I believe you originally, I want to say it was like 7 to $8 million for the year.

Seth Halio: I don't think we have ever actually given a dollar amount, Heather. We talked about seven products that we are slotting, and slotting tends to run somewhere between 1 to 2 million dollars per SKU, and depending where you start and where you end up, you know, it is somewhere in that range. I would say we are tracking pretty much against where we thought we would.

Heather Jones: And a follow-up on Diane's question, so just what I took from your answer on the club channel business, it sounds like some of that was as you said sampling, so is it fair to say that barring additional sampling opportunities during Q4, that we shouldn't expect this strong of culinary growth in Q4?

Seth Halio: No. The sampling was for the snack products.

Heather Jones: Okay. Are you talking about the Waldorf salad sampling in the club channel?

Seth Halio: Yes.

Heather Jones: So my question is did you get permanent placement, and so you have won additional business, permanent business, and should we expect that to continue in Q4, or just if you can give us some help with that?

Gary Ford: On the culinary thing, Heather, we already had permanent distribution on the culinary walnuts.

Heather Jones: Okay.

Gary Ford: And that shelf event did give us a very nice lift in the third quarter.

Heather Jones: Okay. So it is not, you don't expect that kind of lift to continue into Q4?

Gary Ford: You know, we are not going to do that specific event in Q4, no.

Heather Jones: Okay. And then my final question is on the Harmony integration, just wondering if you could give us an update on that?

Gary Ford: In terms of the operations integration, we have just completed a final stage which included installing our J.D. Edwards IT system which allowed us to centralize all Customer Service, Accounts Receivable, IT and Accounting functions. That has now been completed and in place as of about a month ago. In addition, and what is really critical is we are now better utilizing that asset. We are processing and packaging both Diamond and Emerald products.

For example, our culinary pecans are being packaged in Indiana versus the West Coast, because it is closer to both source and to our customers. We are doing our trail mixes. They have got a very highly automated mixing line to do trail mixes, we are doing a lot of the Emerald trail mix products in Fishers to leverage that asset, so in those type of things that we are doing will, from an operational standpoint we are just really getting started on that, and there is lots more opportunities in that area.

Heather Jones: Okay. And you mentioned putting Emerald into the produce aisle, a push there. Could you give us some color on how far along you are in that process, initial success, et cetera?

Michael Mendes: When we acquired the Harmony assets, the production facility, we picked up the Harmony brand, and some other brands that they owned.

What we have done with that Harmony brand is we have positioned them under the Emerald brand architecture, and the first series of 11 items we have developed, which we have in about 20% of Wal-Mart Supercenters produce aisles nationally, which we are just in the process of start to go ship that product.

We think that was a particularly nice trade-up because we didn't actually have the Harmony brand that we had a brand called Golden Stream, which we felt that the new packaging Harmony under the Emerald umbrella is much more attractive, and we have also done a nice job we think, of improving the quality of the product in a few ways, by improving some of the ingredients, things of that sort.

That is going to be sort of the base footprint of the product. What we are doing with this business is providing ourselves a whole other facet to sell snacks to consumers. Prior to this Harmony positioning, we sold snacks through the center store, snack nut aisle to consumers which is a great location. We now are selling a produce snack solution under the Emerald master brand, but it is a Harmony lifestyle brand that is part of that.

These are visible bags, where you can see the product. The package is more in-line with the produce orientation. There is going to be a few subsets of that. There will be basically a nuts and seeds subset of that line. There will be a trail mix segment, which is sort of the main item with new trail mixes that we are working on actually as part of that, and the third subset is going to be a sweet growth products, things such as yogurt peanuts or yogurt raisins, things of that nature.

Those will be the three main components that will be sold in the produce aisle, primarily in packages, and I think some of the examples of successes, this trial in the club area where we are doing this 40-ounce spicy cha-cha which is under this Emerald/Harmony brand, and then in Wal-Mart, where we have the first traunch of these products in distribution, and we are just preparing that product for a larger national presentation here this summer, but we are probably not going to get that into other retailers until next year in a big way.

Heather Jones: All right. Okay. Thank you very much.

Michael Mendes: Thank you.

Operator: Your next question is from the line of Eric Larson with Piper Jaffray.

Eric Larson: Good afternoon, everyone.

Michael Mendes: Hello, Eric.

Eric Larson: Just a couple quick questions. A lot of them have been answered, but the first is again I think I am the fourth person to ask this, about tax rate, that your discretionary items, your 38% tax rate looks like it is really only a fiscal '07 item, and your tax rate should go back up again in '08. Would that be an unfair assumption?

Seth Halio: No, Eric. Actually the 38% right now looks like that will be generally our ongoing rate, so that it is a permanent rate change, if you will. There is an impact that is only going to impact fiscal 2007, so if you were to look at our GAAP effective tax rate year-to-date, it is about 34%, but that is because there is about 4 points of what we call discreet items, which is really a one-time thing, so for non-GAAP purposes we use 38%. And I would say that is a pretty good rate going forward.

Eric Larson: Okay. Then again, on fourth quarter snacks, obviously you maintained your goal of $80 million, which means you probably have to have 28 million of sales or north of that in the fourth quarter. That is a 13 million absolute dollar gain over the fourth quarter last year. Again, you had a 10 million increase this quarter. But it seems like another big substantial gain. Are you comfortable what you have in place to get to that 80 million for the full year?

Michael Mendes: Well, first of all, take that bar a little down. I think you said 28 million. It is more like 27 or a little under 27. You are right, it would be our biggest quarter ever. We do feel that we have a path to achieving our objectives. I talked to you about this, actually taking you through some of the component parts Eric. First of all you look at the club side of things. We have a four different items obviously one item is nationally in one of the club channels. That is the almond item.

We have the pecan pie item which is in varying levels of distribution but probably a total of about 350 clubs, and we have these other two items, the spicy southwestern and the fruitnola product, which is in 100 or 150 clubs. We think that those can contribute nicely to our fourth quarter contribution, maybe anywhere from say 3 to 5 million in sales, depending on how well those products do, and then we have some interesting promotional elements that are incremental to what we did in Q3, for example, the Coke promotion that Gary talked about.

We hope that will derive some very nice incremental display. We have the national FSIs that we dropped last a few weeks ago, that we didn't have in third quarter. We also were advertising in the fourth quarter this year which we didn't have media.

We weren't buying media in the fourth quarter last year, and another example is Safeway nationally. One of the earlier questions that Heather had, that I didn't answer completely, was giving some successes with the Harmony/Emerald offering. We have succeeded in getting 10 items in a bulk bin format in every virtually every Safeway in the United States. These ten items are actually in the process of shipping now, and it is basically part of a display unit that Safeway has towards the front part of the store, and one end of that has ten of our Emerald/Harmony items in that.

That is another thing that will be generating incremental sales, maybe only about $0.5 million, but again all of these pieces add up, so like any significant growth, when you are growing more than you ever have before, you can't say that is in the bank. We feel very positively inclined towards the path to achieving those growth objectives and we are working hard on that front every day. It is a significant step-up from where we were last year. I think we have got the pieces in place to achieve it.

Eric Larson: Okay. The other item that I will ask a little differently, the big really the very big surprise is in your culinary business. That had $8 million more of revenue in the quarter than I was looking, about 25%, and this is where you make your money.

Obviously it helped your earnings in the quarter as well, but I would have honestly expected your earnings to EBIT, had even have been better with that kind of delta positive in your culinary side. Is it fair to say that this is also giving you some leverage to reinvest, I suspect, and I will follow up with another one after that?

Seth Halio: One comment is a lot of the incremental growth in the culinary business as I think Michael said earlier was in the club channel, which tends to be lower margins, so that while there was a very favorable impact to us, it might be a little less than you might have thought.

Eric Larson: Is there a… we have always looked at this business as kind of a one, two, maybe 3% growth business. Is there some dynamics here, I think Diane asked in one-way earlier, is there something dynamically changing here that we should be looking for better growth just in general going forward from culinary?

Michael Mendes: Well, you know, the one thing that we were pleased with on that growth is that we did achieve some new distribution. A big part of that was in the club channel, and our ability to sustain that distribution will be key in that being a big part of our business in the future. I would say that we have had a good history in sustaining our base business in the club channel.

I think we have got some very strong supply chain capabilities that enable us to really endear ourselves with that channel partner. I think that there has been, one of the downstream effects of the tight commodity market on a number of tree nuts, has been that a lot of small bakery or small foodservice users of nuts have not been able to supply product on the open market if they buy in the spot market, and so they are actually going to these club channels to purchase this product. Our ability to very rapidly respond to that demand with great service and a good value proposition, I think has improved our status with the two major club customers, and so I feel good about the base that we are building off of there.

I think the one thing to speak to your question on, I would hope there is better margins is that as we gave guidance on this year, we had some assumptions about the commodity pricing pressure that we thought we would experience this year, which was assuming a pretty strong headwind, and I would say that that headwind has been a bit stronger than we expected, so I think that is another thing that factors into the overall would you have had better earnings, but I think the reality is that the commodity price pressures, probably have been a bit stronger than we would have anticipated, which sort of took a little air out of the balloon on that earnings improvement opportunity.

Eric Larson: Okay. And that actually makes sense. The final question, we have heard a lot about the difficulties in pollinating crops with the issues with the honey bees. Is the almond crop, is this stuff going to get pollinated this year?

Gary Ford: It is already pollinated. Again, the subjective estimate, which is done post-pollination, is already in at 1.3 billion pounds, so that is by far a record crop, and that should not be an issue at all this year.

Michael Mendes: And with walnuts, bees don't pollinate the trees. It is a wind process. That doesn't affect walnuts.

Eric Larson: I was specifically speak to almonds at this point. Thank you.

Michael Mendes: Thanks, Eric.

Operator: Ladies and gentlemen, we have reached the end of the allotted time for questions and answers. I will now like to turn the call back over to management.

Michael Mendes: Thank you. In summary, we think we had a very good quarter, and we are pleased with the progress we are making, particularly our staying power to build our brand and continue to improve the quality of our distribution. I think that is core to our ability to build the business that not only performs well this fiscal year, but has the capability to achieve our long-term growth and profit objectives.

We continue to shift our business towards more of a retail higher proportion of retail of our total sales, and towards more value-added products, which again allow us to continue to improve our earnings potential in the future, so we are very pleased with the work that is happening on this front, and the investments we are building on.

As a final note, I just wanted to mention we that will be attending the Piper Jaffray Consumer Conference in New York later this week, so hopefully we will have a chance to see some of you at that time. Thanks for joining our call.

Operator: This concludes today's Diamond Foods conference call. You may now disconnect.