

**Transcript**  
**First Quarter 2009 Conference Call**  
**April 30, 2009**

**BRYAN BROWN** (*Director of Investor Relations & Corporate Communications, Chiquita Brands International*):

Thank you, Operator. Welcome to Chiquita Brand's first quarter 2009 earnings conference call. On the call today are Fernando Aguirre, chairman and chief executive officer and Jeff Zalla, chief financial officer.

After today's prepared remarks we will take questions as time allows. If you have not received a copy of today's press release you'll find it on the company's website at [www.chiquita.com](http://www.chiquita.com) or you may contact Chiquita's investor relations department at 513-784-6366.

Please note, our press release includes reconciliations of any non-GAAP financial measures we mention today to their corresponding GAAP measures.

Before we begin, let me remind you that this call may contain forward-looking statements concerning operating performance or industry developments and any such statements are intended to fall within the safe harbor provided under the securities laws. Factors that could cause results to differ materially are described in the Forward Looking Statements of today's press release and in Chiquita's SEC filings, including its annual report on form 10-K and quarterly reports on form 10-Q. Now, I'd like to turn the call over to Fernando Aguirre.

**FERNANDO AGUIRRE** (*Chairman and CEO, Chiquita Brands International*):

Thank you, Bryan and good afternoon and thank you for joining us today. We are pleased with our first quarter results, which continue to build on the momentum we achieved in 2008. In spite of an economy that is tough for many companies and consumers, we were able to post better-than-expected results. Our banana business remained strong and our salads business improved significantly from the year ago period.

Importantly, we have started 2009 on solid footing that leaves us well positioned to achieve our goal of improving profitability for the full year on a comparable basis.

Let me discuss the drivers behind our segment results for the quarter:

- We are very pleased with the results of our banana business, which remain relatively strong despite the lower value of the euro and about \$17 million of flood-related costs. Pricing continues to be strong in North America, as base contract increases have offset a significant reduction in fuel-related surcharges. We also expect pricing to remain relatively stable.

- Local European banana prices were down only slightly, as expected, compared to last year's strong results. We also continue to drive costs out of the banana supply chain. For example, we recently negotiated more favorable pricing on commodity inputs such as paper.
- However, we were most pleased about our results in salads and healthy snacks that were much stronger than expected. We are achieving excellent returns on the investments we made in 2008 to streamline our manufacturing operations and permanently reduce our fixed costs. We increased operating income in the segment by \$9 million versus the year-ago period, as a result of the actions we have taken related to pricing, cost reductions and network efficiencies. The success ahead of expectations in early 2009 is gratifying and I am confident that we will achieve our full-year target of 3 to 4 percent operating margins in salads.

In addition to our added confidence from the first quarter results, there are a number of fundamental business reasons that make us believe we are positioned to outperform in 2009.

First and foremost, this tough economy represents an opportunity for us. In a recessionary environment, we believe the strength of our trusted Chiquita and Fresh Express brands is a significant advantage, because consumers tend to choose brands that they know and trust. In a recession, our brands offer real value to consumers compared to other less recognized brands or even private label.

- According to a recent Neilson report, food categories are driving dollar growth for retailers, and food staples topped the list of growth categories for retailers. Additionally, research suggests that, now more than ever, high-income households are willing to pay for brands they can trust to deliver quality, freshness and value.
- Our products are food staples and are therefore recession-resistant. Bananas, in particular, are one of the least expensive items in the store, yet they provide more energy and nutrition per dollar spent than most power supplements, nutritional bars, and certainly more than junk food. We provide consumers with better nutrition at an affordable price from brands that they know and trust. This is the ultimate definition of nutritional consumer value.

Secondly, we have a cost infrastructure that allows us to generate a profit in tough times.

- In our salads business, we spent all of last year completing the full integration of the Harrisburg facility into our product supply network, eliminated hundreds of low-profit or unprofitable products, and significantly reduced production overhead costs in a structural and sustainable way. Our 2008 investments produced a manufacturing environment that can actually deliver better profitability on less volume. In fact, our direct cost of goods sold per unit in the first quarter is back to the same level of 2005 when we first acquired the business

and this is the lowest since we have owned the business. However, as a company in general and salads in particular, we are not making reasonable profit returns yet, but many of these structural changes are helping us reduce fixed costs. So as the economy picks up and consumer spending increases, we will be in a position to deliver more reasonable profits.

- We are continually driving down SG&A costs, as witnessed by our 2007 restructuring and the cost actions we implemented at the beginning of 2009. Over the last two years we have closed plants and transformed the manufacturing network, eliminating almost 1,000 jobs. To institutionalize our focus on cost reduction, we have asked groups of employees at each plant to eliminate any waste in our manufacturing processes and teams from every function in the business to structurally reduce costs. Every employee knows we are obsessed about cost reduction and they have a responsibility to help force excess costs out of the business.
- In late 2007 we acquired a salad manufacturing plant in Harrisburg, and integrated that plant into our network in 15 months, to drive manufacturing and distribution efficiencies across the entire national manufacturing network.

We also made progress on our most underrepresented region and we are now serving Northeast consumers and customers fresher product. As a result, our market share in the Northeast has increased nearly six share points and the number of stores where consumers can buy Fresh Express branded salads in the region has increased by more than 30 percent. In fact, we have seen some recent improvement in national share results. Based on IRI data, our dollar share of the category ended the first quarter at 46.5 percent, our highest levels since March of last year.

In addition, we continue to price up the contracts we renew and we have also achieved profitable new retail distribution, including new and expanded accounts which will begin to benefit our results in the second and third quarters of this year.

Lastly, our consumer centric innovation is second to none in the industry.

- Gourmet Café is a perfect example of product innovation that expands consumption opportunities. As an example, consumers can buy Gourmet Café single serve salads in traditional grocery outlets throughout the country, as well as buy the product at universities like Vanderbilt and sports venues like Wrigley field. Without our innovation platform, we simply would not be able to capture non-grocery opportunities like these.
- Additionally, we are very proud to announce that, just last week, our newly launched Chiquita Pineapple Bites won the “New Product of the Year” award at the recent United Fresh Produce Association annual conference. Gourmet Café was also a finalist, making Chiquita the only company in the industry to have more than one product among the finalists.

- We have also continued our successful innovation with other healthy snacks. Our European smoothie product, Just Fruit in a Bottle, continues to be recognized for superior product quality, which is driving increasing sales and strengthening our position as the No. 1 brand of smoothies in nearly all the markets in which we compete. Our Raspberry Pomegranate smoothie has been recognized in Germany as the “Product of the Year” and received the best seller award by two leading trade magazines.
- We have recently expanded Just Fruit in a Bottle to include two new varieties of “superfruit” smoothies, which meet consumers’ desire for food with specific health benefits. Superfruits have a higher level of nutrients, vitamin and antioxidants. We now offer a Vitamin C super fruit variety packed with oranges, pink guava and acerola, and an antioxidant variety made from acai, blueberry, and pomegranate. As always, all the nutritional goodness comes directly from the fruits with no additives.

We're also working to strengthen our long-term competitive position by continuing to focus on strategies to build consumer loyalty and to drive preference for Fresh Express products. Assuming we continue to at least deliver or surpass our current profit goals, we will begin investing in consumer marketing programs during the second half of 2009 to further differentiate the Fresh Express brand. The combination of consumer marketing programs and our successful track record of product innovation will continue to drive our profitable growth.

As you can see, we are confident that we have the right strategy in place to leverage emerging global health and wellness trends. Consumers know and trust our brands, and our high quality, fresh products are in basic categories that are very affordable.

In summary, we are positioned to win, even if the economy stays difficult. We have permanently reduced costs in both bananas and salads, and we continue to innovate and sell our way out of a tough economy. Our balance sheet and liquidity remain in excellent shape, and we have ample flexibility in our debt covenants. Our entire organization is managing for profitability, eliminating costs, and innovating to drive profitable growth.

And, while there will be quarter-to-quarter volatility, our strong first quarter further strengthens our confidence that we will achieve our objective to improve our full-year earnings, on a comparable basis, over 2008, which itself was up significantly over the prior year. Our full-year expectations for 2009 remain the same: we are committed to deliver more profitability and net income than last year, which on a comparable basis was \$49 million.

I look forward to updating you on our results as we move through the year. Now I'm going to ask Jeff to provide more detail on our financial results for the first quarter, as well as our outlook for the balance of the year. Jeff?

**JEFF ZALLA** (*Chief Financial Officer, Chiquita Brands International*):

Thank you, Fernando. As detailed in today's press release, on a comparable basis, first quarter income from continuing operations was \$22 million or \$0.49 per diluted share. Net sales decreased by 10 percent due to the impact of the much lower value of the euro on our European banana business, and lower volumes in salads, driven primarily by the planned reduction of foodservice volumes and the elimination of retail product SKUs that were not sufficiently profitable.

In the **Banana segment**, year-over-year sales decreased 8 percent in the first quarter to \$485 million, and comparable operating income was \$40 million, versus \$61 million in the year-ago period. The decrease in operating income was due to a net \$18 million negative impact from the lower value of the euro, as well as \$17 million of higher product supply costs as a result of flooding in Panama and Costa Rica in the fourth quarter last year.

- In North America, year-over-year banana pricing increased 17 percent in the first quarter due to increases in base contract prices and surcharges, on slightly lower volume which reflected tight supplies. During April, pricing has remained strong. In fact, it's down only about 1 percent year-on-year, despite the fact that, with the decline of fuel prices, fuel surcharges, as a component of pricing, are now at their lowest level since we introduced them four years ago.
- In our core European markets, as expected, banana pricing was down one percent on a local basis, and 13 percent on a dollar basis, during the first quarter. Volume decreased 6 percent; however, this represented a negative impact on operating income of only about \$2 million in the quarter, because the volume decline was concentrated in markets where we discontinued low-margin sales, particularly in the U.K. and France. In April, local prices were higher, and dollar prices were about 9 percent lower than the year-ago quarter.

In our **Salads and Healthy Snacks segment**, net sales decreased 16 percent from the year-ago quarter to \$281 million, primarily as we reduced foodservice volumes and discontinued hundreds of foodservice and retail products that did not generate sufficient profit. With respect to foodservice specifically, we have eliminated more than 150 low-margin products and maintained more than 50 of our most profitable items, which simplified our manufacturing and distribution process and is driving improved margins.

Comparable operating income was \$13 million, more than triple the \$4 million we achieved in the year-ago period. This increase was due to pricing, cost reduction and network efficiencies, as well as very strong lettuce yields late in the quarter. Pricing in retail value-added salads was flat versus the year-ago periods. Setting aside the planned elimination of Verdelli and other less profitable retail SKUs, the volume of Fresh Express branded retail value-added salads was down 1 percent for the quarter. In April, our retail value-added salad volume was basically flat versus year-ago, despite our elimination of unprofitable SKUs, and pricing was up slightly.

In our **Other Produce segment**, net sales were flat at \$75 million. Comparable operating income was \$2 million, a decline of \$1 million versus a year-ago due to one-time costs related to the favorable resolution of a lawsuit during the quarter. This segment will continue to be seasonal, but we expect it to deliver stronger operating income and cash flow in future periods.

Now, let's review our **outlook for 2009** and how we are thinking about the broader trends in our business. Overall, our full-year expectations for 2009 remain the same; we are committed to deliver improved results, on a comparable basis, over 2008.

We expect that the actions we have taken will allow us to more than overcome higher sourcing costs in bananas and a significantly lower euro exchange rate year-over-year.

- Our plans for salads will deliver a significant improvement, resulting in operating margins of 3 to 4 percent for the full-year 2009 versus breakeven last year;
- We will reduce our start-up losses in Just Fruit in a Bottle by as much as \$10 million for the year;
- We have continuing strong banana pricing in North America; and
- We continue to aggressively take costs out of the business.

Now, for a few segment specific comments:

In the **Banana** segment, overall supply and consumer demand remains relatively favorable, but we continue to expect that higher flood-related costs and a lower euro value will pressure margins for the year.

- Banana sourcing and production costs are expected to increase in 2009 compared to 2008 due primarily to purchased fruit contract pricing, government-imposed exit prices, and our current estimate of up to \$25 million of incremental sourcing and logistics costs from flooding that occurred late in 2008 in Costa Rica and Panama, of which \$17 million was recorded in the first quarter. Most of these flood-related costs should revert to income in 2010, if we don't experience similar negative weather events.
- Banana pricing in North America was favorable and we expect it to remain relatively stable, despite a significant decline of fuel related surcharges as a component of price.
- Local European banana pricing, which is set weekly, is less certain, and as always will depend on the volume of total banana imports, the quantities of competing summer fruit, and other factors; however, local pricing is presently up versus a year ago, and we expect it to remain favorable in the balance of the second quarter.

- In contrast, we expect a much lower euro exchange rate to continue through the third quarter based on current market forward rates. The euro averaged \$1.47 in 2008, and was at a peak of \$1.56 during the second quarter of 2008. We remain about 75 percent hedged at \$1.39 in 2009, versus recent spot rates closer to \$1.30 per euro. At present rates, our put options are providing valuable protection, but currency will continue to put significant pressure on margins in our European banana business in 2009 if local prices don't increase further year-on-year to compensate for the decline in the value of the euro.

As Fernando described, we continue to expect significantly improved operating margins of 3 to 4 percent in the full year 2009 in our **Salads and Healthy Snacks** segment, up from 2008. Assuming we are generating our targeted profit improvements, we expect to invest responsibility in innovation and consumer marketing to drive consumer loyalty and product preference during this second half of 2009.

In healthy snacks, the company expects to reduce its operating losses by as much as \$10 million in 2009, compared to 2008, from the roll-out from Just Fruit in a Bottle in seven European countries, in keeping with the target for individual markets to reach breakeven by the end of their third year after market launch.

In addition, I want to comment on a few unusual items that will continue to impact reported results during 2009.

- First, as we announced in 2008, we are in the process of relocating our European headquarter from Belgium to Switzerland, to optimize our long-term tax structure. We expect to incur one-time costs related to this relocation in the range of \$19 to \$23 million, of which \$7 million was recorded in 2008, and \$5 million in the first quarter of this year. Most of the remaining \$7 to \$11 million will occur in the second quarter of 2009. This will continue to be a reconciling item in arriving at comparable income figures for the year.
- Second, while it has no impact on a cash basis, the new accounting standard regarding convertible notes increases reported interest expense by approximately \$7 million in 2009 and greater amounts in later years. As we have noted for several months, we consider this as an add-back in arriving at comparable results for 2009. A more complete explanation of the impact of this new accounting standard on our financial statement, including the significant reduction in our reported debt balances, is included in exhibit F of today's press release.

For the balance of the year, in comparing to 2008 performance, investors should also keep in mind the following items that were unusual in 2008 and therefore were adjustments in arriving at comparable income for 2008, by quarter:

- The second quarter last year included a net \$5 million of gains from the resolution of claims and receipt of refunds for certain non-income taxes;

- We had gains from open-market repurchases of senior notes of \$10 million in the third quarter and \$5 million in the fourth quarter last year; and,
- We also had in the fourth quarter last year \$3 million in charges related to the closure of a U.K. ripening center.

Finally, I'd like to comment on our capital structure, which has placed us in an excellent position to withstand uncertainty in current global financial markets. At the end of the first quarter, we had \$78 million in cash, and \$91 million in borrowing capacity under a five year revolver with a syndicate of highly rated commercial banks. At quarter-end, we had \$38 million drawn under our revolver for normal seasonal working capital, of which we have already repaid \$10 million and the remainder will be repaid in the second quarter.

In addition to ample liquidity, we have significant leeway in our covenants and expect to remain in compliance in 2009 and beyond. Further, we don't have any more than \$20 million in principal maturing in any year until 2014. So, we are in a very strong financial position and expect to remain so. As just one indication of this strength, within the last six months both major credit rating agencies have improved their outlook rating for Chiquita.

In summary, we are pleased with our strong start to the year and have made significant progress in executing our plan to improve performance in salads; our innovation efforts are on track; investors can take comfort in our very solid capital structure and financial discipline; and lastly, as Fernando said, our full year expectations remain in line with our initial plans for the year. As a result of our strong start to the year, we have seen greater confidence in our ability to deliver on our commitment to achieve year-over-year improvement in comparable earnings for the full year 2009 versus 2008 when we delivered \$49 million of net income on a comparable basis.

At this time, Fernando and I would like to open the call for questions. We'll take as many questions as time allows. Operator?

## **QUESTIONS AND ANSWERS**

**BRYAN HUNT** (Wachovia Securities): Good afternoon. Jeff, based on my calculations and your target for the amount of net income you're going to generate in backing into an operating cash flow number, it looks like you'll all be free cash flow for the year, could you talk about what your objectives maybe if you do generate free cash flow in 2009?

**ZALLA:** Sure, Bryan. Our number one priority for the use of excess cash flow would be to continue to reduce debt. We think that's the right priority, not only from a debt holder's perspective, but from an equity holder's perspective as well. We intend to continue to manage the company conservatively from a financial standpoint. That will remain our number one priority for use of cash.

**REZA VAHABZADEH** (Barclays Capital): Just building up on some of your last comments Jeff regarding liquidity and so forth. Where are you, exactly on your covenants -- band covenants?

**AGUIRRE:** Reza, before Jeff answers that, just understand it now, we just stopped hearing Bryan. Bryan Hunt, if you can still hear us, and would like us to come back to your second question, make sure you get the queue in and we'll get to it. Sorry, Reza, but I wanted to make sure he knew that we didn't cut him off as his line got disconnected somehow.

**ZALLA:** Reza, we have plenty of cushion under our debt covenants. The financial maintenance covenants are under our revolving credit and term loan facility, which is at the operating company level, has two covenants. It's got an operating leverage covenant and a fixed charge coverage covenant, both of which we have plenty of room under.

**VAHABZADEH:** Do you happen to recall where you are on the fixed source covenants so I know how much cushion you have?

**ZALLA:** Well, it's not something that typically we disclose, but we've got the fixed charge coverage ratio of 1.15. And we've got the operating company debt leverage covenant of 3.5 times, under both of which we've got plenty of cushion.

**VAHABZADEH:** Okay. You did disclose it in an 8K previously so I thought you might want to provide that again since these topics are pretty topical these days. But in any case, on the operating margin opportunity in the salad business, you talk about the 3 to 4 percent, what's the risk there? What's the uncertainty in your mind, what could make it not get there on time this year?

**AGUIRRE:** I think the majority of the risk there, Reza, which we've always talked about, is whether or not we would get to the right combination of volume and pricing. Right now we were ahead of expectations for the first quarter for three reasons. One, we had better lettuce yields and that actually allowed us to get the higher volume that we could sell and push through the quarter. We had not been expecting that obviously because predicting the yield of the field is one of the most difficult things for the business.

We also did better in our costs reduction, and particularly the network efficiencies that we've generated are really delivering very well and ahead of our schedule and then our pricing has continued to do well. Now the big unknown, as I said, is a combination of volume and price, and secondly category growth. As you will recall, several years ago, this category was growing at double digits, and we haven't seen double digit growth now for a couple of years and is that going to return? Is the economy going to impact more, those are the big unknowns that we need to guard against?

**VAHABZADEH:** Got it. And then the last question, the North America pricing of 16.5 percent and then moving on to just -- I think you said flat in April. What's the difference?

Is it just the passing of the 16 percent going to 1 percent in April? Is that just a passing of the fuel surcharges?

**ZALLA:** No, Reza, the most significant contributor is that the force majeure surcharges that went into effect in March a year ago lapsed at the end of the first quarter. So April is the first full month in which we didn't have the benefit of the additive force majeure surcharge. So we see it as a very positive result. But in April, pricing was down only 1 percent even though the fuel surcharge has come down significantly. So, base contract prices have increased substantially.

**VAHABZADEH:** Okay and one housekeeping question, Jeff. Pretax gain on the divestiture, was that \$5 million or \$6 million, what was the number?

**ZALLA:** Pre tax was \$4 million on the sale of our operations in the Ivory Coast.

**VAHABZADEH:** Got it. Thank you much.

**HUNT:** Again sorry about the connection. I'm traveling. I was wondering if you could talk about whether you've changed your philosophy on hedging, whether its currency or bunker fuel, and have you moved out any further on either aisle since the last conference call?

**ZALLA:** We have not changed our policy, our strategy, or our philosophy about hedging. We think that it helps to mitigate volatility in the business. We are already hedged in fuel, up to 75 percent which is our maximum coverage out through 2011, so we have not changed those coverage levels at all. With respect to the euro, we have a rolling program of layering on put options. We buy those put options up front in cash and they protect us from any significant decline in the value of the euro while allowing us to preserve 100 percent of the upside. So in periods like the present, when we have put options struck at \$1.39, and spot rates are bouncing around closer to \$1.30, they provide valuable protection and currently we have protection of about 75 percent for 2009 and about 35 percent for 2010, almost all of which is in the first half of the year.

**AGUIRRE:** One of the things, Bryan, that we have done as a Board, we decided years ago that if we were going to have a hedging strategy we needed to be consistent. And typically when companies get into hedging strategy you want to remain executing your strategy. We review it with the Board, obviously regularly, but we would not expect to go back and decide a very major difference of strategy here because then we would end up speculating, and the last thing we want to do is speculate. We have been very conservative as Jeff explained, and from across the board we always talk about being conservative and being consistent. I believe that as we have executed the hedging strategy it's been both, very consistent and very much attuned to the times that we've been living under.

**ZALLA:** One thing we did add several quarters ago was to do balance sheet hedging with euro forward. In the first quarter, for example, we mitigated a lot of volatility by

doing that. First quarter we had \$4 million of gains on the euro forward that offset most of the \$5 million loss that we had on balance sheet translation from net euro assets, principally receivables, and we think that's a smart way to take unexpected volatility out of recorded earnings.

**HUNT:** A couple of your competitors don't hedge their bunker fuel with the same vigor you all do. Have you seen them become more competitive on contract negotiations given their relative cost position?

**ZALLA:** It's not our place to comment on the pricing activity or behavior of competitors. We set our prices independently and we're making decisions driven by profitability and our cost structure which reflects the losses on fuel hedging that are part of our cost structure at the moment.

**HUNT:** Lastly, given the tightness in the market in bananas globally and how strong Asia has been given the banana diet there, do you believe there's been some shifting of supply out of Europe into Asia, and do you think when you've seen events such as these dietary events, how long do they typically last?

**ZALLA:** We don't see a shift of supply from Europe to Asia. Principally Asian markets and Middle Eastern markets are served out of the Philippines, as from a logistic standpoint, that's the source that makes the most cost effective location to provide bananas through Japan.

The banana diet in Japan did increase prices over a period of months. We have seen pricing sustain higher than a year ago, although I would venture to say that the effect of the fad as an element have faded. However, our volume out of the Philippines is up year-on-year, and so Asia and the Middle East were both contributors to our first quarter results compared to a year ago.

**HUNT:** All right, thank you for your time and thank you for your patience.

**HEATHER JONES** (*BB&T Capital Markets*): Hi, good quarter. A few questions: first, on the fuel, did you say you were 75 percent hedged through 2011?

**ZALLA:** That's correct.

**JONES:** I thought at the end of last year you only had a little bit of coverage going through 2011, so have you added extensive coverage given the weakness in the bunker fuel market?

**ZALLA:** No we haven't, Heather. We did add months ago, but we have not in the last several months. We were adding positions as fuel was coming down, but we added them before fuel hit its bottom. If you recall, it peaked last July. We were adding positions late in the fall and after that it came down further. More recently, with pricing coming up, the magnitude of loss in these existing positions has come down.

**JONES:** So, I mean is it in the \$400s, \$500s type range?

**ZALLA:** The hedge positions for 2009 are at \$353 a metric ton. In 2010 they average \$481; in 2011 they average \$439.

**JONES:** Okay. And so you won't be taking any more coverage for those years?

**ZALLA:** That's correct.

**JONES:** Okay, and I want to make sure, as far as this gain on Ivory Coast, the \$4 million pre tax - did that show up in SG&A or cost of goods?

**ZALLA:** The gain from the sale showed up in cost of goods sold.

**JONES:** And then there was a benefit of \$4 million including that of about \$7 million on the tax line. So you had a \$5 million tax benefit, so netting that out, \$2 million of tax expense? Is that correct?

**ZALLA:** We had \$4 million of tax benefit from the divestiture. And, we had a net benefit for taxes of \$5 million in the quarter, including the \$4 million gain from the Ivory Coast. So the other components are normal accruals for income taxes as well as resolution of tax uncertainties which is typical under Fin 48.

**JONES:** Okay, so really the only thing we should be adjusting the tax rate for is that \$4 million.

**ZALLA:** That's correct.

**JONES:** Okay. Going back to this balance sheet translation -- in the past you all have taken out euro denominated debt or short term debt or something to sort of hedge that, you're now using -- did I hear you say forwards?

**ZALLA:** You're correct, Heather. Several years ago we did have some portion of our term loan facility that was denominated in euros. But since we put in the new financing at the beginning of last year that term loan is fully denominated in dollars. So the hedging on our net euro balance sheet exposure, principally receivables, is now done through rolling forward contracts. Again, we don't speculate at all, we simply do that in a way to offset unexpected volatility in the translation of the net receivables.

**JONES:** So we shouldn't be expecting any like \$10 to \$15 million big hits quarter-to-quarter?

**ZALLA:** You're correct. We use forwards precisely to avoid that.

**JONES:** Okay. And the margin you got in Fresh Express, that was dramatically better than I was looking for and so I appreciate your conservatism this early in the year and it is very understandable. However, I was wondering, is there anything unusual in Q1 that explains why this was so good and why you're - other than conservatism - that you're sticking with this 3 to 4 percent operating margin? I mean I didn't know if there was help that's not going to be repeated in Q2 through Q4, just if you could give some color there.

**AGUIRRE:** I think as I said, Heather, to an earlier question. The lettuce yields may have been the only, as you call it, unusual factor because it's very difficult to predict the yields ahead of time and we did have very good yields this quarter. Other than that, the pricing got better and the cost structure was also better than we had expected. So from that standpoint, it really is a quarter that was ahead of expectation. Some conservatism and the only quote-unquote unusual factor was the lettuce yield.

Now, having said that, as you think about your model for the year, clearly we will continue to manage this in a conservative manner, but remember that we have been talking about investing in consumer marketing as well for the Fresh Express brand and that will be reflected mostly in the second half of the year.

**JONES:** And second half, and so is it fair to think that -- I mean I don't know what your expectations were for Fresh Express for the quarter, but you disclosed the majority of the upside was lettuce, so lets call it \$4 to \$5 million.

**ZALLA:** No Heather, that's what the element that Fernando said was unexpected and may not be sustained. So we haven't quantified the dollar of magnitude of that, but it did help the quarter.

**JONES:** So are you going to invest its unexpected upside, are you going to invest that? Is that added investment into the consumer marketing?

**AGUIRRE:** Well we have in our plans and have had in our plans for the year investment in consumer marketing. The only thing I'm pointing out is that we will have investment in consumer marketing during the second half and we have gathered a number of data points from previous recessions, if you will, and studies that point to those companies who have invested in consumer marketing have fared much much better than companies who have not. And so it is part of our plan, has been part of our plan and depending on where the results come out, we may decide to invest a little more if the results continue to be ahead of expectations.

**JONES:** Okay. And finally -- and I may have gotten the context of this comment wrong, but I thought that you said some of the biggest unknowns for the back half of the year is volume and price. I thought that was on the Fresh Express side and was wondering -- I was under the impression that most of your pricing is fairly well locked up already.

**AGUIRRE:** Well, there are contracts that are still being negotiated, but yes, the question was about salads and yes, a significant amount of pricing is set, but I also said that

category growth is probably -- and now that you're asking the question again, I would say that the category growth is probably going to be the biggest unknown for the rest of the year because category growth will depend on our investment. It will depend on the recession itself and it will depend on whether consumers are coming back to the same type of spending that they were before.

So both of those items are unknowns but again, we do have a lot of pricing locked up, but we still have contracts that are being renegotiated because as we have said before, our contracts are negotiated sporadically during the year. We don't have all our contracts expire at any one month or even any one quarter. We spread them out throughout the quarter.

**JONES:** So how is the category volume been trending through the first four months of the year on salads?

**AGUIRRE:** Yes, the trend has been slightly down, 2 percent for the first quarter and we were essentially in line with a category decline.

**JONES:** Okay, and did April get better or stay the same?

**ZALLA:** Sequentially it got better through the quarter. In fact, in the first quarter as a whole, we lagged -- Fresh Express lagged the category, but if you look month by month, the four week periods sequentially got better. So the last month for which we've got data from IRI for retail scan data for all retail value added salads, all retailers, including Wal-Mart, we progressed to a point that our four week performance was in line with the category and our total dollar share in the category rose to 46.5 percent in that four week period. That's the highest level since March a year ago. So we feel like we're gaining good momentum.

**JONES:** Okay, so there's a lot of uncertainty because you've got eight months left, but the trends for the category and the trends for Fresh Express specifically are moving in the right direction?

**ZALLA:** The category is moving in the right direction. We would like to see the category as a whole get back to positive unit volume territory; right now it's still slightly negative.

**JONES:** But no worse than it was earlier in the year?

**ZALLA:** Correct, that's right.

**JONES:** Okay, all right. Thank you.

**KAREN ELTRICH (Goldman Sachs):** Thank you. You guys sound like you have a pretty good new product pipeline in the U.S. How broad of distribution are you targeting for these products, and are there any associated costs we should be looking for this year?

**AGUIRRE:** We are for all our new products, and our ultimate objective is to achieve national distribution. Right now, of those that we have talked about, the Gourmet Café, and what we call the garden restage, and the Baby Blends Refresh that we did last year, are the ones that are much closer to having national distribution already. Also, we're just started expanding the distribution of our Pineapple Bites in the last few weeks. We tested that and it did very well on the west coast and we're now expanding it and that will take some time. We expect to, in the next month or so, to be around 30, 35 percent distribution and then it will continue to grow throughout the year.

And then we have a couple of other things that we just started, one was the licensing agreement that we struck to expand frozen fruit smoothies here in the United States. There again, the ideal objective is to achieve national distribution.

To the second part of your question, there's obviously always costs associated with that, but all of those costs are always included in the financial calculations for each product innovation. So, anytime we talk about any of our new products, we talk about the first three years being essentially investment, meaning we're not going to make any profitability and then after year three, we expect all our new products to start contributing with positive profitability. We won't go into details for modeling perspectives because we don't disclose very specifically what the new product costs are.

**ELTRICH:** Okay, very good. And I have to ask finally, the token question, are there any developments with regards to the EU-tariff?

**AGUIRRE:** There are no new developments since we last disclosed. The EU continues to negotiate with Latin countries. Their discussions over the last few weeks have been on the basis and the lines of the July Framework Agreement. This was a July agreement that was almost signed last year in July, but it ended up not being signed, and so those are the lines with which the countries are negotiating. But that is a very fluid negotiation and just like it happened last time, we were all expecting it to be done, and it didn't happen at the last moment. Right now the negotiations continue and it could happen suddenly or it could continue to take more weeks to resolve. It is unfortunately, if you will, it's a political situation as you get in trade, and so, our plan is just to continue to reflect that the €176 per metric ton tariff that exists today and we'll continue to do that if we get relief, then we'll get relief on our financials as well.

**ELTRICH:** Great, thank you very much.

**KARRU MARTINSON** (*Deutsche Bank*): Good afternoon. In terms of the \$9 million increase in corporate expenses, could you break that out between the ongoing healthcare costs and the legal costs?

**ZALLA:** Sure, of the \$9 million, the largest component was \$4 million in healthcare costs. That's principally because we have a self insured medical care plan and we had a higher than expected claims activity in the quarter. The second biggest component was

higher legal fees. They were up at corporate by \$3 million, most of that related to activities regarding shareholder derivative cases related to Colombia. It's difficult to predict of course the pace of those cases and spending, but clearly this is a relatively high run rate. We also had about \$1 million in severance costs incurred through the actions we took earlier this year in further streamlining the organization. Those were the biggest components of the \$9 million increase.

**MARTINSON:** Okay, so the \$4 million healthcare costs were higher than expected, and we shouldn't necessarily model that going forward?

**ZALLA:** That's correct, you should not. It varies based on activity, but clearly we see this as a higher than normal run rate.

**MARTINSON:** Okay, and just on the improvement in salads here, how much of that was improvement in the smoothie operations as you go forward that get closer to breakeven? Was that a contributor to the performance of the segment?

**ZALLA:** No, the investment in Just Fruit in a Bottle in the first quarter this year was the same in amount as the investment in the first quarter last year. So that was not a contributor.

**MARTINSON:** Okay, so no impact from that?

**ZALLA:** Correct. We expect the improvements in Just Fruit in a Bottle to come mainly later in the year.

**MARTINSON:** Okay. As you guys reduced the foodservice capacity there, are you seeing vendors be more willing to accept pricing there or is it just kind of continuing to be cut?

**AGUIRRE:** What we talked about was reducing the volume and we have continued to experience the reduction in volume because of contract that we decided not to renew. Those contracts were unprofitable. Essentially now the majority of our contracts are with the handful of customers that we decided to continue, and those are now pretty much in place and negotiated, and there will be some more volume losses, but essentially we're getting to a point now where we're going to continue on a volume stream that's pretty similar to what we achieved in the first quarter.

**MARTINSON:** And with the improvement in the market share for packaged salad, where is that coming from? Do you feel that you're taking it from your top competitor or is that more private label as people are paying for the quality that you guys referenced?

**AGUIRRE:** Some of it is the Northeast, as I mentioned, particularly those six share points that I referenced in my part of the script for the quarter, and essentially, all others including private labels has grown slightly and the second competitor has dropped slightly.

**MARTINSON:** All right, thank you very much guys.

**AGUIRRE:** Thank you. Thank you all very much for your participation, and we obviously look forward to talking again in the next quarter. Have a good afternoon.

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