

DJ CFA INSIDE INFO:

# Diamond Foods Execs Keep Buying As Price Grows

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Three top executives of Diamond Foods Inc. (DMND) extended their strong insider buying records last week, spending a total of \$257,000 on shares after the packaged-food company's stock fell on a disappointing earnings forecast for the current quarter.

Ben Silverman of InsiderScore.com, a site that tracks and rates insider transactions, called the purchases bullish--even though they didn't involve huge sums--because all three executives have continued to buy shares as the stock price increased. In addition, it has been fairly unusual this year to find a company's chief executive and chief financial officer buying at the same time.

The latest purchases were the largest burst of insider buying in more than two years.

Michael Painchaud, research director at Market Profile Theorems, said his firm rates Diamond a strong buy on both its insider trading and earnings models. He said the stock offers more reward for less risk because the company is in the consumer staples area, which is generally less volatile than other sectors.

Painchaud pointed out that Diamond insiders generally have been buyers, and a number of insiders purchased shares in the fall of 2008 as the recent financial crisis and credit crunch commenced.

Timothy Ramey, an analyst at D.A. Davidson & Co. who covers the company, said he was not surprised by the insiders' "opportunistic" buys after the stock slid last week.

"They are extremely confident in their ability to execute" their plan, which calls for \$4 a share in annual earnings by 2014, compared with \$1.36 in the latest fiscal year, ended July 31. Last week, Diamond raised its earnings forecast for the current fiscal year by 3 cents to a range of \$2.38 to \$2.48.

"The management team is deeply committed to the long-term success of the company, and the purchases reflect that dedication, confidence and belief in Diamond's future," a company spokesman said. The executives were not available for comment.

Ramey has a neutral rating on the stock and a \$44 price target. He said the current stock price largely reflects Diamond's recent successes, which include winning a distribution deal with Wal-Mart Stores Inc. (WMT) after its \$615 million acquisition of Kettle Foods in March. That deal gave the company a bigger share of the premium potato-chip market and more than doubled the size of its snack business.

Ramey also noted the recent strong performance by Diamond's core Emerald Nuts brand. Other company brands are Diamond of California and Pop Secret popcorn.

He said, however, that most high-valuation growth stocks aren't tied to a commodity the way Diamond is, and don't suffer from commodity-related volatility. Diamond attributed its sharply lower fiscal first-quarter earnings guidance to a late walnut crop.

In the recent trades, Chairman and Chief Executive Michael Mendes spent \$206,000 on more than 5,000 shares Thursday and Friday, bringing his total holdings to more than 240,000 shares, according to the Washington Service. Chief Financial Officer Steven Neil bought 1,000 shares and General Counsel Stephen Kim bought 250 shares on Thursday. Both also bought shares a year ago, when the stock price was about \$33. Insiders have been steady buyers since the company went public in 2005 at \$17 a share. Shares closed on Tuesday at \$40.80.

Mendes sold 150,000 shares for about \$4.8 million on Oct. 1, 2009 because he planned to use the funds to buy a house, according to a filing with the Securities and Exchange Commission.

The shares fell 4.1% from the closing price Oct. 5, before Diamond reported its quarterly results, to the closing price the next day. The stock slid as low as \$40.25 on Thursday before recovering some ground Friday. It reached its all-time high of \$46.67 in July.