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Smart Balance Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Robert Labick - CJS Securities.

Robert Labick - CJS Securities

First I wanted to just take a step back and go over, I know you tried to explain this already, the inventory draw down and where we stand now? And given the drawdown of the 16 ounce size to allow for the 15 to come in consistently, are we at low levels right now?

Stephen B. Hughes

We're in balance coming out of the quarter and we're seeing as we move into the third quarter what we would expect to see a little recovery. I think the key on this is we have basically on these six items we have about 50,000 to 60,000 cases of inventory between us and the end of the store self so it's about 360,000 cases of inventory that need to be adjusted and in some cases retailers drew down the warehouse inventory before they brought in the new products and in some cases they had to really run the product down on the shelf because they don't want to have the wrong tag on the shelf relative to the old size and the new size on the shelf.

Robert Labick - CJS Securities

I understand that from an if everything was equal perspective, but what happened to the sell-in of the new SKUs. I mean, SKUs went from 12 to 14 up to 18 to 19 in certain locations. Shouldn't that add to sell-in?

Stephen B. Hughes

Well that was kind of what we saw in the first quarter. We basically had shipments ahead of consumption in the first quarter and then we reversed that this quarter. If we hadn't changed the size in the second quarter, we would have expected to see consumption in balance with consumption. So the Plus 6 really was mostly impacted on the shipment side in the first quarter. The second quarter has been an impact to the size change. We're looking forward to the third quarter certainly because we'll have those two major transitions behind us.

Robert Labick - CJS Securities

Can you update us on the progress in non-IRI locations?

Stephen B. Hughes

We don't want to talk about specific customers but we had major progress in super centers in the quarter and we look to see now as we look at the numbers and you can tell by the consumption numbers in total we're outpacing our out-of-store purchases faster. They're performing at a higher level than the actual IRI numbers which are grocery only.

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