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## COMPANY SUMMARY

Monday, March 19, 2007

Speaker: Bob Cummins

**Rating: Strong Buy**

Food Industry Comment:

### Del Monte Foods (DLM-\$11.15)

	<u>F2006</u>	<u>F2007E</u>	<u>F2008E</u>	<u>Dividend/ Yield</u>	<u>Shares Out. (mil.)</u>	<u>12-Mo. Range</u>	<u>12-Mo. Target</u>
EPS (a)	\$0.67b	\$0.75	\$0.85	\$0.16	201.9	\$12-\$10	\$14-\$15
P/E	-	14.9x	13.1x	1.4%			

(a) April fiscal years. Excludes one-time items. (b) Continuing operations.

We are reemphasizing our "1" (Strong Buy) rating on Del Monte Foods, a well-managed mid-size branded packaged foods company that in the past 12 months has significantly upgraded its business portfolio, while dealing effectively with a third consecutive year of inflationary cost pressures. Earnings, which were relatively flat for several years, showed a healthy pickup in the January quarter, a trend that we expect will continue, focusing renewed attention on this company and its moderate valuation. Our 12-month target price range is \$14-\$15, or 15-16 times our tentative calendar 2008 EPS estimate of \$0.92, which would be a new high.

Just a year ago, DLM took a major asset redeployment step when it sold its private label and foodservice soup businesses and its infant feeding operations, with combined annual sales of about \$300 million, to TreeHouse Foods. DLM's position in infant feeding was far behind the industry leader, while its soup operations, although dominant in their field, had profit margins that were well below those of the brand-name companies. Then, in May and July, 2006, it expanded its pet food business by some 50% when it acquired two long-established brands,

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**See page 9 for Analyst's Certification, pages 9-10 for Important Disclosures and pages 10-11 for Other Disclosures and Disclaimers**

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Meow Mix and Milk-Bone, with combined sales of \$430 million a year. We view the resulting change in the company's business mix as highly constructive, as the pet food industry is strongly brand-oriented, profit margins are well above those of consumer foods, industry sales are growing at an above-average rate, and pet owners are receptive to product innovation.

With the recent expansion in pet products, DLM now ranks second in that field overall, after Nestle's Purina subsidiary. The integration process is well under way, and management expects to achieve significant cost savings once it is completed. In addition, the company sees opportunities to increase sales of the Milk-Bone brand, which did not receive much attention when it was part of Kraft. Thus far, the acquisitions appear to be highly successful. For the nine months ended in January, 2006, which included Meow Mix for about eight months and Milk-Bone for seven, Pet Products sales totalled \$937 million, up 49% from a year ago. With the help of a price increase last May, operating profits for the pet segment rose 71%, as the margin strengthened from 16.0% of sales a year ago to 18.4%. For the nine months to date, Pet Products accounted for 38% of DLM's sales and 57% of its operating income, up from 29% and 40% a year earlier, in part because profits in the Consumer Products segment were down. Growing recognition by the market that this is now primarily a pet food company should lead eventually to a higher valuation, in our opinion, as investors focus on the attractive characteristics of this business. Management calculates that on an overall basis, Del Monte now derives 40% of sales from high margin/high growth businesses, compared with only 30% in fiscal 2006.

If there is a downside to DLM's expansion in pet foods, it is the increased debt resulting from the transactions. At the end of January, 2007, total debt net of cash, at \$2.2 billion, was nearly \$1 billion higher than a year ago, and despite the healthy increase in profits in the January quarter, interest expense absorbed 34% of operating income, compared with 25% a year ago. However, we do not view the increased leverage as a serious issue, particularly since the company generates a significant amount of excess cash, a portion of which is likely to be used to reduce debt.

Meanwhile, the Consumer Products segment, comprising the Del Monte, S&W, Contadina and College Inn canned foods lines and StarKist tuna products, continues to suffer under the burden of rising costs for ingredients, packaging, energy and transportation. Despite periodic price increases, as well as cost reduction measures, Consumer segment profits have shown year-to-year declines for nine consecutive quarters, as higher prices have led some consumers to reduce purchases or trade down. The inflation impact in this segment has been greater than that in Pet Products, where margins are inherently higher and demand is less price-elastic. In the first nine months of F2007, Consumer segment revenues declined about 1% (to \$1.55 billion), while operating income fell 13%. Management expects some moderation of energy and fish costs in F2008, but prices for a number of other inputs, including tinplate for cans, are likely to continue rising. An eventual easing of cost pressures should lead to a recovery in earnings and profit margins in this segment. The Consumer Products operating margin in the past 12 months was 9.0% of sales, down from 12.2% as recently as F2004. A full margin recovery, on the present sales base, would increase DLM's annual after-tax earnings by \$0.26 per share, or 35%.

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In general, cost inflation is the principal reason for Del Monte's relatively flat earnings and stock price trend since the Heinz spinoff in F2003. Management calculates annual inflationary and other cost increases, excluding savings initiatives, at \$120 million in F2005, \$150 million in F2006, and \$130 million in F2007. On an after-tax basis, those figures translate to an annual negative EPS impact of \$0.35, \$0.47, and \$0.43, respectively, or a cumulative \$1.25 over the three years. Thus, management deserves credit for holding earnings steady, through price increases, productivity gains, and product innovation, during the most difficult period the food industry has had to face in many years.

It was announced last week that Menu Foods, Inc., a leading contract manufacturer of pet foods, was recalling some of its products due to contamination that caused kidney failure resulting in a number of deaths of cats and dogs. Menu supplies private label products to 17 of the top 20 North American retailers, including Wal-Mart, Kroger and Safeway, and also makes certain items for major brand-name pet food companies such as Nestle, Procter & Gamble and Colgate-Palmolive. Del Monte's management assures us that Menu Foods is not a supplier to the company, and that none of DLM's pet foods or treats have been recalled. It seems possible that over the near term it could gain some business at the expense of the competition, especially the store brands.

**Table 1: Del Monte Foods Company - Quarterly Data (millions except EPS) (a)**

	F2007 (d)		F2006 Cont. Ops. (c)		F2006		F2005		F2004	
<b>July</b>										
Net Sales	\$674.1	+9%	\$616.6		\$671.1	+7%	\$626.0	+2%	\$611.3	
Cost of Products Sold	509.7		466.7		509.3		476.3		455.5	
Gross Profit	164.4	+10	149.9		161.8	+8	149.7	(4)	155.8	
SG&A Expenses	117.0		108.1		114.4		100.6		97.3	
Operating Income	47.4	+13	41.8		47.4	(3)	49.1	(16)	58.5	
Interest Expense	30.5		21.2		21.2		24.6		30.0	
Other Expense (Income)	0.3		-		-		2.0		0.8	
Total	30.8		21.2		21.2		26.6		30.8	
Income Before Taxes	16.6	(19)	20.6		26.2	+16	22.5	(19)	27.7	
Income Taxes	4.4		7.8		9.9		8.6		9.8	
Net Income	\$12.2	(5)%	\$12.8		\$16.3	+17%	\$13.9	(22)%	\$17.9	
Diluted Shares	204.0	(3)%	210.5		210.5	(1)%	211.9	+1%	210.6	
Earnings Per Share	\$0.06	-	\$0.06		\$0.08	+33	\$0.06	(33)	\$0.09	
Gross Margin	24.4%		24.3%		24.1%		23.9%		25.5%	
SG&A/Sales	17.4		17.5		17.0		16.1		15.8	
Operating Margin	7.0		6.8		7.1		7.8		9.7	
Effective Tax Rate	26.7%		37.9%		37.8%		38.2%		35.4%	
<b>October</b>										
Net Sales	\$893.5	+13%	\$793.2		\$882.3	+4%	\$846.6	+7%	\$791.6	
Cost of Products Sold	649.0		580.6		650.8		622.8		578.0	
Gross Profit	244.5	+15	212.6		231.5	+3	223.8	+5	213.6	
SG&A Expenses	141.4		129.0		139.1		125.9		114.4	
Operating Income	103.1	+23	83.6		92.4	(6)	97.9	(1)	99.2	
Interest Expense	42.9		22.9		22.9		25.9		30.9	
Other Expense (Income)	0.1		1.1		1.1		0.5		(2.4)	
Total	43.0		24.0		24.0		26.4		28.5	
Income Before Taxes	60.1	+1	59.6		68.4	(4)	71.5	+1	70.7	
Income Taxes	23.5		22.3		25.7		27.1		25.0	
Net Income	\$36.6	(2)%	\$37.3		\$42.7	(4)%	\$44.4	(3)%	\$45.7	
Diluted Shares	203.5	+1%	202.2		202.2	(5)%	212.1	+1%	210.6	
Earnings Per Share	\$0.18	-	\$0.18		\$0.21	-	\$0.21	-	\$0.21	
Gross Margin	27.4%		26.8%		26.2%		26.4%		27.0%	
SG&A/Sales	15.9		16.3		15.7		14.8		14.5	
Operating Margin	11.5		10.5		10.5		11.6		12.5	
Effective Tax Rate	39.1%		37.4%		37.6%		37.9%		35.4%	

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**Table 1: Continued (a)**

	F2006		F2006		F2005		F2004	
	F2007 (d)	Cont. Ops. (c)	F2006		F2005		F2004	
<b>January</b>								
Net Sales	\$907.2	+15%	\$789.6	\$878.5	+2%	\$861.3	+6%	\$811.1
Cost of Products Sold	649.1		571.3	638.3		629.1		582.6
Gross Profit	258.1	+18	218.3	240.2	+3	232.2	+2	228.5
SG&A Expenses	135.4		125.8	136.2		124.5		106.2
Operating Income	122.7	+33	92.5	104.0	(3)	107.7	(12)	122.3
Interest Expense	42.2		22.7	22.7		25.9		31.4
Other Expense (Income)	(0.6)		(0.1)	(0.1)		0.1		(0.5)
Total	41.6		22.6	22.6		26.0		30.9
Income Before Taxes	81.1	+16	69.9	81.4	(1)	81.7	(11)	91.4
Income Taxes	28.0		24.7	29.4		31.1		34.6
Net Income	\$53.1	+17%	\$45.2	\$52.0	+3%	\$50.6	(11)%	\$56.8
Diluted Shares	204.4	+1%	201.9	201.9	(5)%	212.7	+1%	211.5
Earnings Per Share	\$0.26	+18	\$0.22	\$0.26	+8	\$0.24	(11)	\$0.27
Gross Margin	28.5%		27.6%	27.3%		27.0%		28.2%
SG&A/Sales	15.0		15.9	15.5		14.5		13.1
Operating Margin	13.5		11.7	11.8		12.5		15.1
Effective Tax Rate	34.5%		35.3%	36.1%		38.0%		37.9%
<b>April</b>								
Net Sales			\$799.2			\$847.1	(8)%	\$915.9
Cost of Products Sold			595.3			646.1		663.1
Gross Profit			203.9			200.9	(21)	252.8
SG&A Expenses			117.0			102.3		109.8
Operating Income			86.9			98.6	(31)	143.0
Interest Expense			21.4			21.0		36.7
Other Expense (Income)			0.1			0.2		0.4
Total			21.5			21.2		37.1
Income Before Taxes			65.4			77.4	(27)	105.9
Income Taxes			23.7			28.0		37.8
Net Income			\$41.7			\$49.4	(27)%	\$68.1
Diluted Shares			202.9			212.9	-	212.0
Earnings Per Share			\$0.21			\$0.23	(28)%	\$0.32
Gross Margin			25.5%			23.7%		27.6%
SG&A/Sales			14.6			12.1		12.0
Operating Margin			10.9			11.6		15.6
Effective Tax Rate			36.2%			36.2%		35.7%

(a) Excludes nonrecurring gains and charges.

(b) 14 weeks. (c) Continuing operations. Reflects sale of soup and infant feeding businesses.

(d) Includes acquisitions of Meow Mix from May 19 and Milk-Bone from July 2, 2006.

**Table 2: Del Monte Foods Company - Quarterly Segment Data (millions) (a)**

	F2007 (d)		F2006 Cont. Ops. (c)		F2006		F2005		F2004	
<b>July</b>										
Net Sales:										
Consumer Products	\$420.6	-	\$422.2	\$476.7	+7%	\$447.0	-	\$449.1		
Pet Products	253.5	+30%	194.4	194.4	+9	179.0	+10%	162.2		
Total	<u>\$674.1</u>	<u>+9%</u>	<u>\$616.6</u>	<u>\$671.1</u>	<u>+7%</u>	<u>\$626.0</u>	<u>+2%</u>	<u>\$611.3</u>		
Operating Income:										
Consumer Products	\$25.8	(14)%	\$30.0	\$34.9	(11)%	\$39.4	+5%	\$37.4		
Pet Products	36.6	+61	22.8	23.5	+36	17.3	(37)	27.3		
Total	62.4	+18	52.8	58.4	+3	56.7	(12)	64.7		
Corporate	(15.0)	-	(11.0)	(11.0)	-	(7.6)	-	(6.2)		
Total Income	<u>\$47.4</u>	<u>+13%</u>	<u>\$41.8</u>	<u>\$47.4</u>	<u>(3)%</u>	<u>\$49.1</u>	<u>(16)%</u>	<u>\$58.5</u>		
Operating Margin:										
Consumer Products	6.1%		7.1%	7.3%		8.8%		8.3%		
Pet Products	14.4		11.7	12.1		9.7		16.8		
Total	9.3		8.6	8.7		9.1		10.6		
Corporate	(2.3)		(1.8)	(1.6)		(1.3)		(1.0)		
Total Income	<u>7.0%</u>		<u>6.8%</u>	<u>7.1%</u>		<u>7.8%</u>		<u>9.6%</u>		
<b>October</b>										
Net Sales:										
Consumer Products	\$566.5	(3)%	\$584.4	\$673.5	+7%	\$629.1	+5%	\$599.4		
Pet Products	327.0	+57	208.8	208.8	(4)	217.5	+13	192.2		
Total	<u>\$893.5</u>	<u>+13%</u>	<u>\$793.2</u>	<u>\$882.3</u>	<u>+4%</u>	<u>\$846.6</u>	<u>+7%</u>	<u>\$791.6</u>		
Operating Income:										
Consumer Products	\$52.6	(17)%	\$63.7	\$71.7	(7)%	\$76.7	+7%	\$71.8		
Pet Products	53.7	+65	32.5	33.3	-	33.2	(8)	36.4		
Total	106.3	+10	96.2	105.0	(4)	109.9	+2	108.2		
Corporate	(3.2)	-	(12.6)	(12.6)	-	(12.0)	-	(9.0)		
Total Income	<u>\$103.1</u>	<u>+23%</u>	<u>\$83.6</u>	<u>\$92.4</u>	<u>(6)%</u>	<u>\$97.9</u>	<u>(1)%</u>	<u>\$99.2</u>		
Operating Margin:										
Consumer Products	9.3%		10.9%	10.6%		12.2%		12.0%		
Pet Products	16.4		15.6	15.9		15.3		18.9		
Total	11.9		12.1	11.9		13.0		13.7		
Corporate	(0.4)		(1.6)	(1.4)		(1.4)		(1.2)		
Total Income	<u>11.5%</u>		<u>10.5%</u>	<u>10.5%</u>		<u>11.6%</u>		<u>12.5%</u>		

(Continued)

**Table 2: Continued (a)**

	F2007 (d)		F2006 Cont. Ops. (c)	F2006	F2005	F2004		
<b>January</b>								
Net Sales:								
Consumer Products	\$551.0	(2)%	\$562.3	\$651.2	+2%	\$638.3	+5%	\$608.8
Pet Products	356.2	+57	227.3	227.3	+2	223.0	+10	202.3
Total	<u>\$907.2</u>	<u>+15%</u>	<u>\$789.6</u>	<u>\$878.5</u>	<u>+2%</u>	<u>\$861.3</u>	<u>+6%</u>	<u>\$811.1</u>
Operating Income:								
Consumer Products	\$54.3	(9)%	\$59.6	\$70.2	(5)%	\$74.2	(11)%	\$83.6
Pet Products	82.3	+81	45.4	46.3	+13	41.1	(9)	45.2
Total	136.6	+30	105.0	116.5	+1	115.3	(10)	128.8
Corporate	(13.9)	-	(12.5)	(12.5)	-	(7.6)	-	(6.5)
Total Income	<u>\$122.7</u>	<u>+33%</u>	<u>\$92.5</u>	<u>\$104.0</u>	<u>(3)%</u>	<u>\$107.7</u>	<u>(12)%</u>	<u>\$122.3</u>
Operating Margin:								
Consumer Products	9.9%		10.6%	10.8%		11.6%		13.7%
Pet Products	23.1		20.0	20.4		18.4		22.3
Total	15.1		13.3	13.3		13.4		15.9
Corporate	(1.5)		(1.6)	(1.5)		(0.9)		(0.8)
Total Income	<u>13.5%</u>		<u>11.7%</u>	<u>11.8%</u>		<u>12.5%</u>		<u>15.1%</u>
<b>April</b>								
Net Sales:								
Consumer Products			\$573.4			\$626.6	(8)%	\$683.4
Pet Products			225.8	225.8	+2	220.4	(5)	232.5
Total			<u>\$799.2</u>			<u>\$847.0</u>	<u>(8)%</u>	<u>\$915.9</u>
Operating Income:								
Consumer Products			\$59.1			\$62.1	(33)%	\$92.4
Pet Products			41.1	41.1	(16)	48.9	(17)	59.1
Total			100.2			111.0	(27)	151.5
Corporate			(13.3)			(12.4)	-	(8.5)
Total Income			<u>\$86.9</u>			<u>\$98.6</u>	<u>(31)%</u>	<u>\$143.0</u>
Operating Margin:								
Consumer Products			10.3%			9.9%		13.5%
Pet Products			18.2	18.2		22.2		25.4
Total			12.5			13.1		16.5
Corporate			(1.6)			(1.5)		(0.9)
Total Income			<u>10.9%</u>			<u>11.6%</u>		<u>15.6%</u>

(a) Pro forma for Heinz acquisition. Excludes nonrecurring items. (b) 14 weeks.

(c) Continuing operations. Reflects sale of soup and infant feeding businesses.

(d) Includes acquisitions of Meow Mix from May 19 and Milk-Bone from July 2, 2006.

**Table 3: Del Monte Foods Company - Quarterly Operating Profit Margins**

	F2007	F2006 Cont. Ops. (a)	F2006	F2005	F2004 Cont. Ops.	F2004	F2003	F2002	F2001
<b>July</b>									
	(b)								
Consumer Products	6.1%	7.1%	7.3%	8.8%	8.3%	8.3%	12.6%	15.2%	-
Pet Products	14.4	11.7	12.1	9.7	16.8	16.0	18.0	16.5	-
Total	9.3	8.6	8.7	9.1	10.6	10.5	14.1	15.6	17.0%
Corporate	(2.3)	(1.8)	(1.6)	(1.3)	(1.0)	(0.9)	(0.8)	(0.7)	(0.7)
Total	7.0%	6.8%	7.1%	7.8%	9.6%	9.6%	13.3%	14.9%	16.3%
<b>October</b>									
Consumer Products	9.3%	10.9%	10.6%	12.2%	12.0%	11.9%	10.3%	9.5%	-
Pet Products	16.4	15.6	15.9	15.2	19.0	16.4	20.2	19.0	-
Total	11.9	12.1	11.9	13.0	13.7	13.1	13.1	12.4	15.9%
Corporate	(0.4)	(1.6)	(1.4)	(1.4)	(1.2)	(0.9)	(0.9)	(1.1)	(0.6)
Total	11.5%	10.5%	10.5%	11.6%	12.5%	12.2%	12.2%	11.3%	15.3%
<b>January</b>									
Consumer Products	9.9%	10.6%	10.8%	11.6%	13.7%	13.7%	12.7%	12.6%	-
Pet Products	23.1	20.0	20.4	18.4	22.3		21.1	17.4	-
Total	15.1	13.3	13.3	13.4	15.9		14.9	13.9	15.0%
Corporate	(1.5)	(1.6)	(1.5)	(0.9)	(0.8)		(0.4)	(0.9)	(0.6)
Total	13.5%	11.7%	11.8%	12.5%	15.1%		14.5%	13.0%	14.4%
<b>April</b>									
Consumer Products		10.3%		9.9%	13.5%		10.8%	9.2%	
Pet Products		18.2		22.2	25.4		19.5	19.8	
Total		12.5		13.1	16.5		13.1	12.4	
Corporate		(1.6)		(1.5)	(0.9)		(0.2)	(0.8)	
Total		10.9%		11.6%	15.6%		12.9%	11.6%	

(a) Reflects divestiture of soup and infant feeding businesses. (b) Includes acquisitions of Meow Mix on May 19 and Milk-Bone on July 2.

## Analyst's Certification

I Robert J. Cummins certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other Del Monte Foods reports issued by me are: 3/4/05 (\$11) – Strong Buy – Target \$13-\$14; 7/20/05 (\$11.20) – Strong Buy – Target \$13-\$14; 9/29/05 (\$10.70) – Strong Buy – Target \$13-\$14; 12/7/05 (\$10.20) – Strong Buy – Target \$13-\$14; 1/12/06 (\$10.4) – Strong Buy – Target \$13-\$14; 3/30/06 (\$11.90) – Strong Buy – Target \$14-\$15; 6/15/06 (\$11.30) – Strong Buy – Target \$14-\$15; 7/26/06 (\$10.50) – Strong Buy – Target \$14-\$15; 9/15/06 (\$10.20) – Strong Buy – Target \$14-\$15, 12/7/06 (\$11.25) – Strong Buy – Target \$14-\$15.

## Important Disclosures

### Guide to Investment Ratings and Target Prices:

**Strong Buy ("1").** The stock's total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

**Buy ("2").** The stock's total return is expected to exceed the average total return of the analyst's industry coverage universe over the next 12 months.

**Hold (Neutral) ("3").** The stock's total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

**Sell ("4").** The stock's total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

### Analyst's Ratings Distribution

		% Investment Banking
Buy*	71%	0%
Hold	29%	0%
Sell	0%	0%

\*Includes companies rated "Strong Buy" and "Buy."

Unless otherwise specified, the time frame for price targets included in this report is 12 months.

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.

The principal risks to the achievement of our price targets, in addition to general market trends, are disappointing earnings and a lower than expected price/earnings ratio.

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