DIAMOND FOODS, INC.
Fiscal 2008 Second Quarter Earnings release Conference Call Q&A

March 11, 2008
1:30 pm PT

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question during this time, simply press star followed by the number 1 on your telephone keypad.

We'll pause for just a moment to compile the Q&A roster.

Our first question is from the line of Diane Geissler with Merrill Lynch.

Diane Geissler: Good afternoon.

Michael Mendes: Hello Diane.

Diane Geissler: I just - did you give a top line expectation for snack in the third quarter? I may have missed it.

Michael Mendes: No, we did not.

Diane Geissler: Okay.

Any hints there about the flow of product in the third quarter versus fourth quarter on snack?

Michael Mendes: I think that proportionality generally would match up with last year outside of the timing of some this new distribution.

We talked about this product shipping to Home Depot and to Blockbuster. We expect more of that to actually ship in Q4, but it's going to be - these are 2.25 ounce items, so they're not the largest items.

We've got 250 clubs that are taking a pallet each of the Cocoa Roast. That will ship this quarter.

So I would say that, you know, using a proportionality of our Q3 versus Q4 last year would probably be a good starting point, Diane. And as we get later in the call, if I can think to add more color to that, I will.

Diane Geissler: Okay, perfect.

And I - presumably the new distribution you have with Blockbuster, Home Depot, and the Cocoa Roast club would all be no slotting?

Michael Mendes: Correct.

Diane Geissler: Right, okay. I just wanted to clarify that.

On the culinary, which had a better quarter than I had been estimating – can you give us some idea about the sustainability, obviously 17% growth, I think you had a pretty good 7% in the first quarter.

I know you're lapping some business in terms of getting the bake center back, et cetera. But could you give us an idea about kind of long term what your expectations are on the culinary side? Long term, maybe next couple of years.

Michael Mendes: Okay.

One thing is that we did get the benefit of some pricing obviously given the stronger pricing commodity environment that's underpinning walnuts right now is one of our sub-products, but at the same time almonds were a bit softer.

I would say overall the tree nut commodity prices were stronger. I would say that that is a trend that will - over time, moderate a bit, so maybe there might be some price deflation a few years out.

I don't know if I see that as an imminent trend, though.

The almond crop this coming year - this year was the on-crop in almonds. Next year should be an off-crop. However, the bearing acreage is increasing dramatically. So I think there's a big question mark with almonds. The prices today for almonds are in the probably mid $2 level compared to walnuts and pecans that are in the $4 to $5 level.

So I don't know if there's a lot of price deflation in almonds. I think they're an attractive value and they're also going to be bolstered by the weak dollar as about maybe 70% to 80% of all almonds are export and a big part of that goes to Europe.

So I think that naturally you would think there might be a little bit of price deflation, but as far as on the pricing volume, I don't think it's going to be as dramatic as some people think.

On the volume side, we have some real nice opportunities to improve our - increase our volume in culinary. There are a number of national retailers that have an opportunity to increase the number of SKUs. And also as we grow our non-walnut business in club and mass merchant and culinary, we think that's a growth opportunity.

So I think that that business has some nice growth opportunity for us, maybe faster than center store baking, but maybe not as fast as we saw this year given that, you know, we're getting some incremental benefit of pricing.

Now I would say sort of steady state 5% growth is I think sort of the intrinsic growth rate of that business. It may be a little better than that if we can get more distribution gains than I'm anticipating.

Diane Geissler: Okay.

And then I guess on the cost side, some of the comments you made about cost of goods increasing because of the raw commodity prices increasing, I know we had a record crop in almonds this year. We had a pretty good crop in pecans, walnuts not so much so.

Is there an expectation that you'll be - it sounds from your last comments that you don't expect in the near term to be seeing much benefit from lower commodity costs?

Obviously it's too early to talk about the 2008 crop, but given that this is an off year and factoring in the increased acreage and kind of where stock levels are now, is there any expectation over the course of the next 12 months that you see some benefit on the cost side from lower tree nut prices? I don't want to misconstrue your comments.

Michael Mendes: I think when you aggregate the tree nut universe, there are some trends that expose themselves that I think that we are - that might speak to your questions even better than my projections.

Let me just talk about some of the things we're observing that we are assessing and drawing conclusions.

The first thing is on pecans, the pecan crop this year was very large. It was 320 million pound pecan crop. It was the on-year for pecans. Last year, it was in that 200-million pound range.

This coming year, it's expected that the pecan crop will be bearing in that 200 million pound range. However, the pecan crop carryout will be large, quite a bit larger than last year coming into the year.

Walnuts are trading at a very high price right now, actually higher than pecans. Historically pecans are generally priced $1 a pound on a kernel basis higher than walnuts. And when they are more at parity with walnuts, there tends to be some shift of demand, which results in adjustment of the that pecan price.

So I think that the shipments of pecans for the balance of the year will impact that price level. And even though next year the pecan price is supposed to - should - the pecan crop should be smaller next year, if shipments this year aren't strong, I mean, the pricing in pecans this year have maybe stayed $1 a pound higher than people would've expected because of the high walnut prices and a lot of demand in China. There was maybe 25 million to 40 million pounds of pecans that shipped from the US and Mexico to China, which drained the swamp a bit on supply this last year.

All that being said, there's still significant inventory going in, so I would say that that is a question mark in pecans of whether that can hold this pricing level going even if the crop is shorter next year.

Almonds with something like 60,000 net producing acres coming into production -- that’s what some people are projecting -- and a very good bloom does have potential to put on quite a large crop this year even though last year was supposedly the on-crop.

So, you know, I think we’ve seen a little bit of weakening in almond crop pricing in the spot market in the last two to four weeks. I don’t know what that bodes for the future. I think there’s a question mark there.

` And then on walnuts, walnuts are at the highest prices in history. Next year could be the on-crop. I would think that maybe in the back half of next year, there might be some moderating in walnut pricing.

But I wouldn’t bank on that and I wouldn’t bank on it happening early because the carrying inventory this year will be by far the lowest walnut carry in history.

When the walnut crop gets harvested in say, you know, in earnest in October and people start shelling the crop, they have not shelled any significant volume until probably the end of November and a lot of the fall demand has been satisfied or needs to be shipped by then.

So I think if there’s any price moderating in walnuts, if there’s going to be price moderating, it would be more a second half of the year phenomenon.

So that's a little bit of the broad strokes on the commodities, Diane. Hopefully that's a little bit helpful

Diane Geissler: Okay. :

And just to clarify when you say next year, you're referring to fiscal 2009, which would actually crop year 08…

Michael Mendes: Correct.

Diane Geissler: …on walnuts? Okay.

Michael Mendes: Yes.

Diane Geissler: Just needed to clarify that.

Michael Mendes: Yeah, sorry. Thanks.

Diane Geissler: And then the other just one final question on the equity comp, I think with this year you'll be rolling off the three-year vesting from the IPO. Is that not this year that that ends in the end of fiscal 08?

Michael Mendes: Yes.

Diane Geissler: So I'm just curious about the 25 cents to 27 cents in equity comp, how much of that will go away as we move into fiscal 09? Presumably you already have a plan in place that you kind of roll over, if you could just quantify that?

Michael Mendes: Yeah.

I think it's probably 7 cents to 10 cents should be the fall-off.

Diane Geissler: Okay.

Michael Mendes: In terms of the delta. Obviously it was a small grant, but I think the net effect will be 7 cents to 8 cents. On a steady state basis, I would imagine the equity comp charge will, be 7 cents to 8 cents or more, lower next year than this year.

Diane Geissler: Okay.

Michael Mendes: We have also moved from a three-year vesting cycle in our equity grants to a four-year cycle, which also will have an impact of reducing that expense, so.

Diane Geissler: Okay. All right. Thank you very much.

Michael Mendes: Okay, thank you, Diane.

Operator: Our next question is from the line of Ken Zaslow with BMO Capital Markets.

Ken Zaslow: Hello.

Management: Hello Ken

Ken Zaslow: Can you just help us out a little bit with what snack products do you consider the low margin ones that you are rationalizing? Are they product lines? Are they sizes? What are they that you're rationalizing?

Michael Mendes: You know, I would say right now we're spending a little more time on the Harmony side of the business. We had some items there that we had picked up

that either the volume of the products going through the channel is not of scale or the quality is not consistent with our brand image, or finally that maybe it doesn't have the supply chain characteristics.

You know, Ken, we do have some confection items that are part of that mix that in some of those channels really don't move cost effectively through our supply chain and we don't think we're really kind of on trend with our growth prospects or did we think that we were maybe the best player to distribute some of those products.

So - and a lot of this was a lot of small SKUs on that Harmony side that were items that we thought might be good items but we really needed to try them out and try to develop them before we could really make that determination.

Ken Zaslow: But within the Emerald side, you're not discontinuing any lines at this point? Or are you rationalizing? I mean, I think there was a point in time when I think there was like the cocoa-dusted walnuts. I mean, what is - what - is there another level of what you're doing on the Emerald side that's coming out of the portfolio that we should think about?

Michael Mendes: Yeah, well, I would say as far as, you know, we really like our Glazed line. We do think that our core items, our original Glazed Walnuts and Pecan Pie are sort of the top two; and want to have those as part of our core set any place we go.

The other items we think really need - we need to map them against the demographic in a region. So if we do think that, for example, you know, an apple cinnamon walnut and almond product might not be better suited for a region, we might be better to come in with something like a Cocoa Roast Almond. We might switch those items out.

But by and large on the Emerald items, we're not really doing a pure elimination of items. It's more of a trade-out for maybe what we think might be a better performing item.

More of the pure rationalization is more that produce, snack side of things.

Ken Zaslow: Okay.

And you think that you could - in terms of going after both spectrums of the snack nut category, both the high end and the low end, can you just discuss, you know, what you think about that strategy because that strategy has historically not been, you know, I guess it has not always been successfully implemented.

And maybe the phraseology of what you did on the report may - on the press releases may be overstating it, but can you just talk about how you're going after both sides of the market?

Michael Mendes: Are you talking about the value channel versus the more high/low traditional retail?

Ken Zaslow: You said in the press release that the - on both sides of the spectrum you're getting a share, both the mixed nuts and then the peanuts.

Michael Mendes: Oh, I apologize.

Ken Zaslow: And is that really part of your strategy to go after that, you know, the peanut category? I always thought that was not part of your strategy. I just was surprised by that.

Michael Mendes: Well, you know, I think in every product, there are different strata of consumers. I would say within that peanut category, there is a subset of that group that matches up with our demographic. And I think that the item that we have offered has not been really optimal for that set.

So, again, I don't think that peanuts are going to be a massive part of our portfolio. I think it will be a bigger part of our portfolio in the future, though. And I think it adds to our offering as a full-line solution vis-à-vis the national brand. I think we need to have an answer on that front.

So I would say we're building a better mousetrap with our PET item that we're developing, but I concur with you. We are not going to dumb down the brand or we're not going to diminish our quality.

Because generally I think the big compromise is, you know, I think is that people are diminishing quality in order to hit price points. We won't do that, Ken. I agree with you 100%. But I still think we can do better in that category by having a little better offering that's maybe more in caring with the set.

Like - and as I said on our last call - on our last web cast, you know, for us to sell an 11-ounce peanut in a rigid package and against a competitive base that's selling a 16-ounce peanut in a rigid package, we have a cost per ounce on packaging that is more prohibitive than I think it needs to be. So we're just trying to re-frame our offering and maybe build out our footprint there.

So I think, again, I think that, when you look at our growth opportunities, you know, last year our snack business came in at $80 million in sales. You know, we're looking to grow to north of $200 million.

There's going to be a few large channels that are going to contribute to that and there's going to be a lot of small channels that are going to contribute to that.

And I think doing a few more million dollars in peanuts by bringing better value and better packaging is just part of those many small paths that's going to get us there.

Ken Zaslow: And my last question is, you know, you talk about the commodity environment being high and it sounds like it's going to be high for a little bit. Can you meet your long-term growth objectives in this current environment?

Michael Mendes: Absolutely, Ken.

I think that if there's one thing that gets me excited about how we've be able to handle the difficult periods has been the pricing power of our brands and the ability for us to drive costs out of the system.

You know, we've done - you know, we're a company that's been in existence for 97 years, but, I think as we've really had quite an incentive to drive greater profitability here as we've converted to a for-profit, publicly-traded company and to drive those values to the bottom line by not destroying value for either our vendors or our consumers. And it's been exciting for me, as we look at the efficiency by, you know, we had this infusion of capital in the operation.

When you look - you go in our production facility and you see our in-line roasting/packaging operation in a - where in the past we might've - we had bins and forklifts and people moving parts around because we didn't have the capital to improve our unit costs, we're doing some very exciting things that are going to improve our cost efficiency.

We’re doing some things in our facility right now, two projects on the capital front side, one is a refrigeration replacement project in our Stockton facility, one is a lighting retrofit which is actually a very nice green initiative, but is also very cost efficient, projects that have a 20% to 40% IRI. That is going to really drive bottom line improvement and improve our service to our customers in the long run.

So I do feel that, while the commodity environment is not giving us anything, Ken, it's not - because obviously there's not a lot of upside we’re receiving there, I think we’re dealing with it effectively. And I feel very confident in us achieving our plan.

Ken Zaslow: Great, thank you.

Operator: Our next question is from the line of Heather Jones with BB&T Capital Markets.

Heather Jones: Good evening.

Michael Mendes: Hello Heather.

Heather Jones: Oh, hello.

I have a few questions and I hopped on the call a little late so I apologize if you’ve already said this, but how much were your - what is your volumes due for the quarter?

Michael Mendes: Yeah, you know, we didn’t talk about specifically volumes. Are you talking about dollar volumes for a certain segment?

Heather Jones: Well, no, like volume versus sales, because, I mean, you mentioned pricing. I was wondering how much of your sales how much pricing was - (unintelligible) -I'm just trying to figure out what volumes did for the quarter as opposed to…

Michael Mendes: Yeah, again, I would say most - a lot of our growth was based on pricing, was - most was pricing, particularly on the culinary side.

Heather Jones: Okay.

And was wondering - you spoke about almond export trends being strong, in particular with the weak dollar. I was wondering if you've seen an acceleration in those export trends over the last couple of months?

Michael Mendes: Well, it's interesting.

The receipts, though, are still higher than the shipment growth. So the almond industry is tracking towards an increase in carryout inventory at the end of this year versus last year. And, you know, I think that that's just something to monitor as you go through the periods.

The almond board reports those numbers. You know, I think that the thing that bodes well for the almond industry, though, is that a lot of these products are being shipped to Europe and the dollar value just continues to make almonds a very attractive purchase for them.

And I think that's going to take some of the sting out of that increased inventory position out of the almond industry by potentially having stronger demand in Europe.

Heather Jones: Mm-hm.

Michael Mendes: But I would say the gap between receipts of the crop and exports is I would say that the receipts might be 10% stronger at this moment in time. But there's still a lot of time on the clock to see how that…

Heather Jones: (Okay).

Michael Mendes: …finalizes towards the end of the year. They did have a - I would say the thing that's affecting spot prices a bit now as they did have a very good bloom period in the almond crop and pricing sometimes does reflect a little bit of that. And so I think the good news is there should be a very good almond crop given the natural bearing nature of the commodity.

Heather Jones: Okay.

And in the third quarter, snack sales I believe were down 8%. Do you know roughly what proportion of that was due to the rationalization of these Harmony SKUs as opposed to Emerald sales declines?

Michael Mendes: Yeah, I think most of it is we were lapping an in-and-out promotion in the value channel last year that we elected not to conduct this year. That would probably be the biggest contributor.

And I think that the rationalizing of SKUs is having a modest impact on the second quarter and we'll see a little bit more of that in the third and fourth quarter.

Heather Jones: Okay.

And what's your level of confidence with your new '08 snack sales guidance?

Michael Mendes: We're very confident. We still need to do things. We need to do things, new things in distribution that we haven't done so it's not, you know, that's the thing about a growth business is obviously you're needing to project forward on things you haven't secured.

But we feel very good about the progress we're making on all of those new distribution objectives and we feel good about hitting that number. And more importantly, we feel very good about some of the lead indicators of the business like our (IRI) data and how the product's moving off the shelf.

Heather Jones: So this new $85 million to $95 million, I heard you mention Blockbuster, Home Depot, the pallets to the club stores, et cetera. Hitting the $85 million to $95 million, does it assume that you first of all secure all of those pieces of business, but also win new business?

Michael Mendes: Yes.

Heather Jones: Okay.

And then finally, I was just wondering - someone alluded to this question earlier, but just wondering if you could explore in greater detail, I think you reaffirmed your 2011 goal of reaching $200 million to $250 million in snack sales…

Michael Mendes: Yes.

Heather Jones: …which is roughly 2-1/2 times what you're guiding to this year. And just wondering if you could give us some sense of how you're going to progress against that?

Are we going to see a big jump in fiscal 09 and then another big jump in 2010? Or - and how you foresee - what channels do you think you're going to penetrate the most to get to this, just if you could talk to that more.

Michael Mendes: Yeah, okay, Heather.

Let me try to talk about the broader category we're competing in and talk about our methodology and I think - and hopefully it'll give you some more confidence as we're feeling.

First of all, when you look at the measure channels, nutritional food, the food segment, the measure channels represents about $1 billion in sales. So one share point gain in that channel would generate approximately $10 million in sales for us, okay?

I think that's one thought. So you've got to ask yourself, you know, if we're sitting here with 5%, 6% share right now, if we could get up to a 10% share, that can be another $50 million in sales from that channel.

Secondly, when you look at the non-measured channels -- club, mass merch, drug -- and then all of these other snack venues that we've talked about -- c-store, nontraditional channels -- that's probably another $2-plus billion sales opportunity in those channels.

So we see our four constructs that are going to be driving us from the business today to this $200-plus million. The first is increasing our distribution of the

items in channels we currently service. And that's things like, for example, our core products.

We have 87% distribution in US food, but the highest single item has distribution in the 60% range. And when you get to our sixth item, it has distribution in the 40% range.

So if you can just see if we take our top eight items and got them fully distributed, that's one very - we think a very good way to not only grow our business, but also improve our profitability because we can get more promotional effectiveness, so one component is improving the distribution in the channels that we currently scan.

A second thing is driving velocity, you know, basically moving more product off the shelf and moving product more efficiently in our promotional windows.

If you look at the Northeast markets where we are periodically driving market shares north of 10% during promotional windows, we are getting much more effective and efficient in merchandising our products.

We've gone from having off-shelf displays at the shipper to having mod displays to pallet displays. And the pallet displays are - these mod shippers have 40 display cases on about a half pallet. It's placed on the shelf of the retailer.

The actual display unit is our shipping case, so it's a real winner for us because you've got scale of a lot of product on the floor. Your incremental cost is virtually nil because the shipping unit is the display unit with our

shrink-wrap displayable case. And that is a great way - that off-shelf display activity is a tremendous way for us to drive velocity.

We - in our CAGNY presentation with the deck, which you'll find in our - on our site, we actually show our lift tables that illustrate that the snacks that will get something like a 400% lift when they do a feature, a promotion, a display whereas Emerald's getting a lift of 800%. So that increasing velocity would be element number two.

Element number three is new products. You know, new products is I think important in terms of who we are as a brand and what we bring to the retail partner in terms of excitement to the category.

I think that we've had some very good ideas on the new product front. I think we execute very rapidly with new products. And I think that we have a big opportunity to bring some real incremental volume to our set through new products and we've got some nice things in the pipeline.

And the fourth thing and probably the most ample volume opportunity would be new channels like mass merch and club, which are more traditional snack channels, and then other channels I've mentioned like Blockbuster and Home Depot.

We have - we're quite underdeveloped in the mass merch and club channel relative to where we are with our culinary business. And when you look at our culinary business, we have tripled the size of our club and mass merch business over the last six years.

So we have a track record of servicing that channel effectively and rapidly growing there. So if we can perform at a fraction of the success level we have

historically in culinary in those channels, I think we have a lot of paths to help us get to o our $200-plus million in sales.

Heather Jones: So going back to your balance sheet cash position, so acquisitions don't play into this at all?

Michael Mendes: I think it's a build-or-buy-question. I would definitely not rule out acquisitions. We feel very fortunate to have someone like Steve Neil join our organization, which I think is a massive infusion of skill set to help us explore some of those concepts.

One of my challenges to Steve is to explore these opportunities, not only to just help us grow and hit these scales, but - the scale objectives that we have, but also to see if we can look at opportunities that makes us a better company.

And I think that those opportunities tend to be limited, but we - but if you look at the market today versus 18 months ago, I think it's a much better time for a strategic acquirer like Diamond to explore an opportunity and to maybe be able to look at something at a value that would - makes good economic sense for us versus 18 months ago when we thought things were just overpriced in the market.

Heather Jones: Okay. All right, thank you.

Michael Mendes: Thank you.

Operator: Our next question is from the line of Mark Churchill with Piper Jaffray.

Mark Churchill: Hey guys.

Michael Mendes: Hey, hello Mark.

Mark Churchill: I think on the last call, Gary had mentioned that you guys were about 25% completed on the (PET) packaging line that was going to eliminate some co-packers. Can you give us an update where that stands and what kind of a margin lift or how much that's helping you with your gross margin expansion right now?

Michael Mendes: Well, I answered the first half of the question and I'll speak to the second part on that.

We are very happy to report that line is up and running. We're very, very pleased with the line and I would say that it's going to quite effectively achieve our needs in terms of a high quality product having a continuous roast right to the pack line.

And so all of the elements that we feel that intrinsically makes it a very cost-effective unit is established. We just started running it and so we are not at the point to really talk about that kind of benefits.

But just the fact that our co-packer, obviously we had some profits in that process and we had to take snack products, put it in bins, ship it to a co-packer, ship it back, we'll definitely seeing some benefits on that. And a bit of that is baked into our numbers for the current fiscal.

Mark Churchill: Okay, that's helpful.

Can you talk a little bit about the timing of your advertising because certainly it's shifted in the first half of this year.

Michael Mendes: You know, the thing about being a small company, which is very committed to quality support of its brands, is we are constantly evaluating the best way to move the brand forward. And when we launched the brand -- I think we discussed this a bit at one of our earlier calls -- the initial thrust was brand recognition.

We were trying to get people to register Emerald and we wanted to get them to get a visual reinforcement of our trade dress and that it was a snack nut.

And we were trying to appeal to a younger demographic. We're trying to bring these younger snackers into the set. We thought that made us quite valuable as a new player in the snack category.

As we've now established an 87% distribution, meaning at least one item scanning in 87% of the US food stores, we felt that we were now at the next stage of our evolution trying to build a reason for being for the brand.

And we really are trying to own this concept that people generally snack - our research has shown that people snack on nuts between meals, not really during meals, and the most popular time is that period between lunch and dinner.

Given the great health attributes of snack nuts versus other snack choices, we've tried to position Emerald as this natural energy snack, which is a better choice to make at that time, at 3 o'clock when you're looking to make a snack choice and we're a better choice.

We do feel that to try to entertain while we inform is very effective, particularly when people enjoy food. You know, a big construct about our company is we sell food that people enjoy. This is not a neutraceutical company first. It's a great-tasting food company first. It's nutritional second.

And we're very excited we've got products that taste great and bring a lot of nutritional benefit. So we felt that our media buy and our media creation could be quite instrumental in helping us drive that next generation of the vision of the brand.

So when we looked at the Super Bowl as a great launch tool, which we're very pleased in terms of helping us get that resonating with a lot of people to recognize the brand, we felt somewhat limited given the episodic nature of that event to really have a more subtle message as we were trying to deliver.

So we elected to shift our media plan and to still do Super Bowl commercials in terms of our promotions, in terms of our retail program, and we had a nice Super Bowl retail support program, but to spread our media dollar more evenly throughout the year. And that was the result of the campaign this year.

So I think you'll see more of that in the future, Mark, where we will try to provide more air support for the brand in effect and basically have more consumer pull media dollars spent in more weeks throughout the year.

Mark Churchill: And can you give any guidance how it's going to be spent through the rest of the year? I mean, third quarter weighted or fourth quarter weighted?

Michael Mendes: You know I'm not really prepared to give that outside of what we've already done. And I think kind of as a rule of thumb, Mark, I, you know, generally take last year's guided control for the specific change that we have advised.

But one part of our spending is - that advertising is demos and so we will be doing some demos in the third or the fourth quarter.

The actual timing of that depends on when our product ships in, so there's a little noise around the timing on that. And I apologize. I can't give you more color on that.

Steven Neil: Mark, we did say - this is Steve.

We did say that it should normalize. What you saw is a heavier spend here in the second quarter. Last year, there was a heavier spend in the third quarter. So it should normalize around the third quarter.

And then the fourth quarter, again, would be comparable percentage-wise to the balance of the year, $20 million to $22 million for the full year.

Mark Churchill: Okay, thank you.

Operator: Our final question comes from the line of (Sarah Lester) with Sidoti & Company.

Sarah Lester: Good afternoon.

Management: Hi Sarah.

(Sarah Lassiter): I wanted to just go back to packaging. I think you've talked about introducing some different packaging sizes or styles. Is that going to be some additional equipment that you're going to use? Or is that going to be outsourced for now?

Michael Mendes: On the packaging front, we were looking at leveraging our PET concept, this clear single-wall barrier packaging for peanuts versus our multi-layered green packaging, which is sort of that 11-ounce peanut size.

And so what we're really trying to accomplish is to get a larger frame package, but the idea was to leverage our PET equipment. So our plan is to do that in-house and really to use that strictly for peanuts.

If it works well on peanuts, we may use that for some of our value partners for a few other nuts. But it's intended for peanuts. It's intended to be a PET pack.

One thing about a PET package is it's a pre-made package, but it is - it has one wall of a - on the - one layer in the package versus our traditional canister, which is a multi-layered film, which is - which has - which is less permeable and has a better shelf life.

Our thought process on this peanut item is it still gives us very good shelf life, but given the turns of that product, this might be a better cost-efficient package and a larger-size package.

(Sarah Lassiter): Okay. That's great. That's all I have. Thank you.

Michael Mendes: Great, thank you.

Operator: There are no further questions at this time. Are there any closing remarks?

Michael Mendes: Yes, if I could just - before we conclude our call today, we want to remind you of a few upcoming events.

We are presenting at the at the Sidoti conference in New York in March and the Piper Jaffray conference in New York in June. For more information about these and other investor events, please check our investor calendar on the Diamond web site.

And also, if you're looking for some exercise that's a bit more ambitious than ranking the leaves this weekend, we invite you this Sunday to join us for the Emerald Across the Bay 12K, which is recognized as one of the best bridge runs in the America.

So if you've never had a change to run or walk across the Golden Gate Bridge, we invite you to join us for this event and then enjoy some of our healthy Diamond and Emerald products when you cross the finish line.

Thanks for joining our call today.

Operator: Ladies and gentlemen, this concludes the Diamond Foods Fiscal 2008 Second Quarter Earnings conference call. You may now disconnect

END