DIAMOND FOODS, INC.
FISCAL Q3 2007 EARNINGS CONFERENCE CALL

June 4, 2007, 1:30 PM PT
Chairperson: Bob Philipps, VP Treasury & Investor Relations

Bob Philipps:

Thank you operator and good afternoon everyone. Welcome to the Diamond Foods conference call and webcast to review the financial results of our fiscal third quarter 2007, which ended April 30.

Let me review several housekeeping items before we get started.

- First, a printed copy of our prepared remarks is currently available on our website www.diamondfoods.com under the section titled "Investor Relations" followed by "Earnings Releases".

- Second, we've arranged for a taped replay of this call which may be accessed by telephone. This replay will take effect approximately two hours after the call's conclusion, and will remain available until midnight Pacific Time on June 11th, 2007. The dial-in number to access the replay is 1-800-642-1687, or for international callers, 706-645-9291. The conference ID required to access the call, regardless of the number you have dialed, is 9753521. In addition, this call is being webcast live with a replay also available on our website.

- Third, I want to remind you that during the course of this call we will make projections, or forward-looking statements, that are subject to many risks and uncertainties that could cause actual results to differ materially from expectations. A detailed discussion of the risks and uncertainties that affect our business is contained in our SEC filings under the heading "Risk Factors".

Our projections and forward-looking statements are based on factors that are subject to change, and therefore these statements speak only as of the date they are given. We do not undertake to update projections or forward-looking statements.

- Now I'd like to turn the call over to Michael Mendes, President and Chief Executive Officer of Diamond Foods.

Michael Mendes:

Thanks Bob. Good afternoon everyone and thank you for joining us. Participating with me on today's call will be Gary Ford, our Chief Operating Officer and Seth Halio, our Chief Financial Officer.

Today we are pleased to report strong third quarter financial results, as we achieved total sales growth of 43 percent. For the period, North American retail sales grew 64 percent, bringing the fiscal year-to-date growth rate to 22 percent. Based on this performance, we are increasing the full-year guidance for our North American retail business.

The retail growth for this period was led by the snack segment, which nearly tripled from the third quarter last year, and is up 121 percent to 53 million dollars for the fiscal year-to-date. Emerald snack sales, as measured by IRI, continue to gain momentum. Snack sales grew 28 percent – four times faster than the category – during the 12-weeks ended April 22. As a result, our market share increased by almost 20 percent, to 4.3 percent of the snack nut category.

We are very encouraged by the progress we are making in the mass merchandiser and club channels. We have experienced strong consumer take-away from the items we have in trial distribution in the mass merchandiser channel. Our key distribution expansion in the 4th quarter was driven by the initial shipments of four new snack items to the two major U.S. club retailers. While these items are only in limited regional distribution or part of a special national promotion, their success should serve as a critical foothold as we establish a permanent snack presence in the club channel.

Although we have had an intensive focus on our new snack line, we continue to build a vibrant culinary nut business. Culinary sales increased 35 percent for the quarter, driving a year-to-date growth rate of 11 percent. We anticipate that this business will benefit from the continued growth of the culinary nut consumer demographic, which is growing twice as fast as the overall population. As the category leader with a market share four times larger than the number two brand, we have the scale and resources to outpace the category growth in the future.

Now I'd like to turn the call over to Gary Ford.

Gary Ford:

Thanks Michael. Today I would like to provide some insight into how we're integrating Emerald into our produce section strategy for snacks, and then I will discuss some of the investments we're making in our retail business.

- First, we continue to go through a rigorous process in repositioning the Harmony product line – improving quality, identifying which SKU's are strategic (that is, profitable, branded and have strong distribution), and then placing these items under the Emerald brand umbrella. This provides us with a produce snack platform that leverages the national brand recognition and consumer excitement that Emerald has generated, while positioning Harmony as a lifestyle sub-brand in the produce section. In Wal-Mart, we've replaced Harmony's Golden Stream products with the new Emerald-Harmony packaging, and in Safeway, we have secured distribution of 10 of these items nationally.

- Second, let me take a few moments to review some of the investments we're making in snacks.

A series of fifteen and thirty second versions of the “natural energy” television spot, featuring Robert Goulet, began running nationally over three flights from April through June. These spots highlight some of our new products, such as oven roasted bold-flavored peanuts and smoked almonds.

As part of this integrated advertising campaign, we’re running regular internet banner ads to support the “natural energy” program on health pages such as The New York Times and CNN, as well as search ads on Yahoo! and Google. This is all incremental support compared to last year.

As our snack business continues to grow, we look for opportunities to leverage key partners to activate our business in store. As we discussed previously, we’ve had great success partnering with Anheuser-Busch around the Super Bowl. Today, we’re announcing a joint summer promotion with Coca-Cola. With Coke’s market presence, we will have a significant number of incremental displays in stores.

Finally, in non-traditional channels, we continue to build critical mass. Key distribution milestones include Home Depot, Valero, Circle-K, Exxon-Mobil, Fast Track and Sunoco. This is a brand new channel for our company, and we’re pleased with our progress.

Now I'd like to turn the call over to Seth.

Seth Halio:

Thanks Gary and good afternoon everyone. Since many of our financial results were included in today's press release, I'll review some highlights, and then close with our fiscal 2007 outlook.

- In the third quarter, our revenue by product line was as follows: culinary sales were 40 million dollars, snack sales were 17 million dollars and in-shell sales were half a million dollars, for total North American retail sales of over 57 million dollars. This represented a 64 percent increase for our North American retail sales during the quarter, with the growth evenly split between snack and culinary.

- Snack sales tripled during the quarter, which brings the fiscal year-to-date sales to 53 million dollars, an increase of 121 percent from last year's nine-month results. With the new national distribution in Safeway's produce sections, the new national and regional club distribution and other Q4 activities we can see a clear path to our fiscal year revenue target of 80 million dollars.

- As Michael said, our culinary business posted an exceptionally strong growth rate during the quarter of 35 percent, and increased in all channels. This brings our year to date growth in culinary to 11 percent.

- Looking at our North American Retail sales by channel for the quarter, sales to grocery and drug stores were 41 percent of the mix, club was 47 percent, and mass merchandisers were 12 percent. Compared to last year's quarter, the mix shifted from club to grocery and mass merchandisers.

- Ingredient and international sales totaled 39 million dollars, up 21 percent from last year. However, on a year-to-date basis, this business is tracking below last year, which reflects our strategy to right size this business and improve margins.

- Total sales for the quarter were 97 million dollars, 43 percent above last year, bringing our growth for the fiscal year to 11 percent.

- Our gross margin for the quarter was 14 percent compared to 12 percent last year. This reflects the impact of better snack margin performance, as well as higher pricing in our other product lines.

During the quarter, gross margin per pound shipped increased 6 percent to 37.4 cents vs. 35.4 cents during last year’s quarter. For the nine months ended April 30, gross margin per pound shipped increased 7 percent to 35.9 cents vs. 33.6 cents. The 2006 year-to-date amount is on a non-GAAP basis.

- SG&A expense for the quarter was 9 million dollars. Compared to last year's level, we had higher Sales and Marketing costs, including staffing.

- Advertising expense for the quarter was 7 million dollars compared to 5 million dollars last year. As we said last quarter, this reflected the Super Bowl and post-Super Bowl advertising and internet activity in support of Emerald’s “natural energy” campaign.

- Last quarter we said that we expected to record a 6 million dollar non-cash charge during the second half of fiscal 2007 associated with the termination of our administrative pension plan. During the quarter we booked about 4.6 million dollars in charges, and we expect the remaining 1.3 million dollar balance to be booked in the fourth quarter. This offsets the 3 million dollar gain we recorded at the time of curtailment in the first quarter, so that on a full-year basis, we expect the net impact to be a one-time, non-cash charge of 2.9 million dollars.

- Non-GAAP EPS for the quarter was a loss of nine cents per share, compared to last year's twenty cents loss. This improved performance is reflective of higher sales and better margins than last year.

- Cash on hand at the end of the quarter was 2 million dollars and we had 5 million dollars of short-term debt. On a year-to-date basis, cash used in operations was 36 million dollars.

- Year-to-date capital spending was 5 million dollars, and we paid a three cent per share dividend on April 26.

- We've updated our outlook for full-year fiscal 2007 as follows:
  - We've increased our previous projection of 15 percent North American Retail sales growth to between 18 and 20 percent
  - Snack sales are projected at about 80 million dollars
  - Overall sales growth, previously projected to be 5 to 8 percent, is now expected to be 6 to 8 percent
  - Gross margins are still expected to be about 15 percent
  - And due to the impact of discrete tax items, GAAP EPS guidance has increased to 43 to 48 cents per share. Non-GAAP EPS guidance remains at 50 to 55 cents per share. Both estimates include between 19 and 21 cents per share in equity compensation.

  Regarding our tax rate for the year, in the third quarter we reduced our effective tax rate, before discrete items, to 38 percent from 42 percent. This results in an approximately 3 cents per share impact to the bottom line, which we've elected to reinvest in the business.

  For example, in addition to the Q4 activities Michael and Gary mentioned, we have significantly increased our investment in trial-driving activities, such as sampling and demos across the club channel.

With that, I'd like to turn the call back to Michael.

Michael Mendes:

Thanks Seth.

At this time, we'd like to open the call for questions.

[Q&A]

In summary:

- We had a very solid quarter on all fronts;
- We continue to invest in brand building and quality, sustainable distribution;
- We continue to shift more of our business towards more profitable segments, and maintain our focus on our core segments which will enable to achieve improved profitability through greater volume leverage in the future.

Later this week, we'll be attending the Piper Jaffray Consumer Conference in New York. Hopefully, we'll have the opportunity to meet with some of you at that time.

Thank you for joining our call.

*** END OF PREPARED REMARKS ***