FISCAL Q4 and FULL-YEAR 2007
EARNINGS CONFERENCE CALL

September 20, 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 investor conference call and webcast to review the financial results of our fiscal fourth quarter and full-year 2007, which ended July 31.

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 Eastern Time on September 27, 2007. The dial-in number to access the replay is 1-800-642-1687 from the U.S. or Canada, and 706-645-9291 elsewhere. The conference ID required to access the call, regardless of the number you have dialed, is 150-75540. 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 the call today will be Gary Ford, our Chief Operating Officer, Seth Halio, our Chief Financial Officer and Andrew Burke, our Senior Vice President of Marketing.

Last September we targeted total net sales growth for the 2007 fiscal year of five to eight percent, North American retail sales growth of fifteen percent, and doubling our snack sales to 80 million dollars. We also projected an improvement in gross margins to fifteen percent and $0.50 and $0.55 in non-GAAP EPS.

Today we are very pleased to report that we have met, or exceeded, every one of these targets. And, we did so while continuing to build brand equity and make significant long-term investments in our business.

In the two years since the IPO, we are well on our way to transforming Diamond from a commodity-based agricultural cooperative to a consumer-oriented, packaged foods company that can, and will, deliver strong top and bottom line growth.

In reviewing our snack business for the year:

- We expanded distribution of our smoked almond, trail mix, and proprietary glazed walnut products. We also launched three unique oven roasted bold-flavored peanut items;
- We achieved significant market share gains in grocery, and made encouraging progress in non-scanning channels such as club;
- We repositioned the Harmony product line as a produce snack lifestyle brand under the Emerald umbrella;
- And we developed a nationally acclaimed advertising campaign that continues to expand the equity of the Emerald franchise.

With regards to the culinary business:

- The Diamond brand posted nine percent growth during the fiscal year, and continued to grow faster than the category;

- Culinary growth was particularly strong in the club channel, adding nearly 18 million dollars in new sales vs. last year.

In our Ingredient and food service businesses, we made excellent progress in reducing the amount that we sold in lower margin venues, and we'll continue to do more of this as we shift our mix to more profitable value-added products.

To summarize the 2007 fiscal year, we achieved top line growth of 10 percent and non-GAAP net income growth of 22 percent – demonstrating that we can invest in our future <u>and</u> deliver strong results at the same time.

Look for more of this in the future. We finished the year with a lot of momentum and expect it to continue in fiscal 2008.

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

Gary Ford:

Thanks Michael and good afternoon everyone. Today I'm going to focus my remarks on our new products' performance during fiscal 2007.

- Our new peanut snacks are off to a great start and have been well received by the trade. Our proprietary double-roasting process ensures "mess free" on-the-go snacking, and it gives us a compelling product quality advantage for our BBQ, Chipotle and Wasabi flavors.

- Emerald's trail mixes are also off to a very strong start. Again, like peanuts, we're offering something that is a significant improvement in both taste and nutritional value versus standard trail mixes. During the last three months, our trail mixes grew 12-times faster than what is already a fast-growing category.

- Also on the new product front, we've repositioned the Harmony portfolio as a natural produce section offering under the Emerald label. We've re-focused the line to feature 35 high-quality items in four categories: nuts & seeds, trail mixes, dried fruits and sweet snacks. This initiative is an important part of our snack strategy, which is to expand our presence, not only into new stores and channels, but also in high-traffic out-of-aisle locations within existing stores. We estimate this market is at least one billion dollars, and is growing faster than snacks in general.

Now, I'll provide some details about our snack sales.

- Total snack sales grew 58 percent during the quarter to a record level of 26 million dollars. In U.S. food stores, sales grew 37 percent, bringing our market share of snack nuts up to 5.1 percent, and our market share of tree nuts up to 6.6 percent.

The Emerald brand is clearly driving the category's growth. During the quarter, Emerald accounted for 70 percent of the category's growth, and over 100 percent during the last 4-week period. The data also points to the brand's increasing momentum: in each of the last eight months reported, Emerald has gained share, and during six of the same eight months, the brand has posted year-over-year growth in excess of 30 percent! And remember, the food store snack numbers do not include either Emerald's trail mixes or the produce snack items.

- Late in the fiscal year we began to make meaningful progress in both club and mass merchandisers. Examples of this include:

  - In one major club, Emerald's Smoked Almonds were featured in all stores nationwide in July, including the club's national mailer. In certain regions of this club, we're selling FruitNola trail mix and our Spicy Southwest mix;
  - In another major club, Emerald Glazed Pecans were featured in 370 stores throughout the summer;
  - At two of the larger retailers in the mass merchandiser channel, we secured multiple front-end placements at checkout of our single serve snack items;
  - And we have developed our first-ever Emerald bilingual packaging for Q1 shipments to Mexico for a division of a major U.S. club.

Now Seth Halio will cover some of the financials.

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, including our fiscal 2008 outlook.

- During the fourth quarter culinary sales were 37 million dollars, snack sales were 26 million dollars and in-shell sales were 4 hundred thousand dollars. Total North American retail sales were over 64 million dollars, up 19 percent from last year.

- For the full-year: culinary sales grew 9 percent to 207 million dollars, snack sales grew 95 percent to 80 million dollars, and in-shell sales grew 4 percent to 46 million dollars. Total North American retail sales grew 21 percent to 333 million dollars.

- During the quarter, our non-retail business declined 9 percent, and for the year it declined 6 percent. This decline was consistent with our strategy to shift more sales to higher margin products. As a result, the mix of retail business has moved from about half to two-thirds of total sales in the last four years.

- Total sales for the quarter were up 5 percent to 112 million dollars, bringing our full-year sales to 523 million dollars, which was 10 percent above last year.

- Our gross margin for the quarter improved to 14.8 percent, reflecting continued favorable mix as well as our cost-reduction efforts. Gross margin per pound shipped increased 6 percent to 44 cents per pound in the fourth quarter.

- For the full year, gross margin was 15.0 percent compared to 14.3 percent last year, and gross margin per pound shipped increased 3 percent to 37 cents per pound.

- SG&A expense for the quarter was 10 million dollars, or 9 percent of sales. The full-year SG&A expense was 43 million dollars, or 8 percent of sales. Compared to last year's level, we had higher Sales and Marketing costs, reflecting our investments in top line growth, including expanding our sales and marketing team.

- Advertising expense for the quarter was 4.8 million dollars compared to 1.7 million dollars last year. This increase reflects our strategy to advertise and promote our snack brand throughout the year in order to take advantage of the many snacking occasions that exist.

- During the quarter we recorded substantially all non cash charges of 1.4 million dollars to complete the termination of a pension plan. As previously communicated, the full-year charge was 3 million dollars, and should generate about 1 million dollars in savings every year.

- Non-GAAP EPS for the quarter was five cents per share, compared to last year's 12 cents. The decrease was primarily due to the increase in advertising, which more than offset the higher sales, improved gross margin and lower SG&A expense.

- Non-GAAP EPS for the year was 56 cents per share, up 22 percent from 2006.

- Cash on hand at the end of the quarter was 34 million dollars with no short-term debt. On a year-to-date basis, cash generated by operations was 4 million dollars, and capital spending was 7 million dollars.

- We also paid a three-cent per share dividend on July 30.

We finished fiscal 2007 with a lot of momentum, and are in a good position for fiscal 2008. For 2008, we expect the following:

- North American Retail sales growth of at least 19 percent, driven largely by snack sales growth of between 50 and 65 percent;
- Total sales for the year of between 530 and 550 million dollars;
- We expect gross margins of about 100 basis points over 2007’s 15.0 percent;
- Advertising expense is targeted to be between 20 and 22 million dollars;

- We will maintain our 38 percent effective tax rate, excluding discrete items;
- Stock-based compensation is expected to be 25 to 27 cents per share on an after tax basis.
- As a result, EPS is expected to be 80 and 90 cents per share.
- Capital spending is targeted to be between 8 and 10 million dollars and EBITDA is expected to be between 36 and 39 million dollars. Note that we added back equity compensation to EBITDA since it is non-cash.

For the first quarter of fiscal 2008, we expect:

- Total sales of between 170 and 180 million dollars;
- Advertising expenses in Q1 will be approximately 1 million dollars higher than last year, or 4 million dollars in total, which is consistent with our strategy to advertise throughout the year;
- And EPS of between 42 and 48 cents.

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

Michael Mendes:

Thanks, Seth. Now that we have laid out our near-term financial targets, I'll try to provide an overview of the opportunities and challenges we see for fiscal 2008.

Emerald is the fastest growing brand in the snack nut category – it has 84 percent ACV distribution and is not just gaining share, but <u>driving</u> the entire category along with it. We are very confident that this business can exceed 200 million dollars in revenue within the next 3 to 4 years, and as it scales up, its margin structure will improve dramatically.

In fiscal 2008 we have three main snack priorities:

- The first is to build out the distribution of our base product line. This base line features our core on-the-go canisters, trail mixes, bold-flavored peanuts, and proprietary glazed products. By increasing the distribution of these core items that demonstrate clear product superiority, we can feature them as part of our consumer campaign;

- The second priority is channel expansion, particularly in the club and mass merchandiser area.

- Our third priority is to increase our sales velocity within existing channels. This will include new products, increasing off-shelf display activity and penetrating other aisles at retail.

Like other consumer goods companies, we face challenges from higher energy and raw material costs.

Higher cost of energy impacted us in many ways, including packaging, freight and utilities.

The commodity price environment was particularly challenging during fiscal 2007 when almonds, walnuts and pecans were at, or near, historical high levels. This put pressure on margins, so we were very aggressive in improving efficiency, and thereby reducing operating costs.

For the 2007 harvest, the objective almond crop estimate projects a 20 percent increase in production as compared to 2006, and this has lead to a softening in almond prices. The outlook for the pecan crop indicates a 40-50 percent increase as compared to last year. For walnuts, however, the State has estimated an 8 percent decline in tonnage, and given that industry-wide inventories are at low levels, prices are increasing this calendar year. Fortunately, we were able to anticipate the walnut crop decline and pass on price increases and reduce plant cost in order to protect our margins.

There is no doubt in our mind that crop sizes will grow due to increases in acreage and yield. As a result, we expect to have an ample supply to meet our future growth objectives.

We are very optimistic about the future.

We project the following through fiscal 2011:

- Average total sales growth of 6 to 8 percent;
- North American Retail Sales growth of 14 to 18 percent;
- Annual snack sales of 200 to 250 million dollars by fiscal 2011;
- Gross margin of 20 percent and operating margin of 10 percent by fiscal 2011;
- Average EPS growth of 40 to 50 percent per year;
- And EBITDA growth of approximately 30 percent per year.

The company’s ability to generate free cash flow is substantial, and even though we are investing heavily to support our growth, we do have the ability to provide a more immediate cash return for our shareholders. Therefore, our Board has authorized a 50-percent increase in our dividend.

With that I’ll turn the call over to Andrew Burke.

Andrew Burke:

Thanks, Michael.

The mission of our marketing activities revolves around one single theme: “Enabling consumers to incorporate nuts into their everyday lives”.

We are well positioned to deliver on this goal given the strength of our brands. Our research indicates that Emerald is a platform that appeals to the broader snack category. The reason for this is the attributes that consumers relate to Emerald – qualities like – innovative, contemporary, high quality, unique and portability. This appeal spans generations, and Emerald is attracting not only the traditional 45+ snack nut consumer, but also bringing new 25-40 year old consumers into the category. According to the most recent NPD Snacking Study, Emerald indexes 61 points higher among 24-35 year-old consumers than the leading national brand.

Our Diamond brand is the clear leader in the culinary and baking category. Known for its high quality and recipe ready packages – it is a staple in both the gourmet home, as well as what we call the "Speed Scratch" home. Speed Scratch consumers are those who want the goodness of home cooked meals for their family, but don't have the time.

We have identified several marketing strategies to drive our business in fiscal 2008 and beyond:

The first is Retail Activation. This means bringing the brand to life in store during the "moment of truth" – when the consumer is making their purchasing decision. It is about creating display vehicles that grab shoppers' attention. It is also about creating compelling snack and meal solutions by partnering with national brands that are natural complements to our products. Examples of these partnerships are: the Emerald and Anheuser Busch "Bud Bowl" promotion during this year's Super Bowl (where we placed nearly 15,000 displays). This holiday season, the Diamond brand will be co-promoted with the Hershey & Eagle brands where we will deliver simple, delicious recipes on over 5 million packages.

The second is expanding distribution. Here we focus on both new outlets, as well as further penetrating current stores.

In addition to club and mass merchandise stores, we are also focused on driving distribution into convenience and alternative outlets that are great trial-driving venues that generate exposure for the brand across a broad demographic. Emerald is now in 18,000 convenience stores in the U.S. with our 2 – 2.5 ounce immediate consumption packages. We have also penetrated college campuses with our relationship with Sodexho, where we'll be selling Emerald in over 400 college cafeterias throughout the U.S. this fall.

We will expand into Produce with our Emerald/Harmony Produce Snacks and into Front End checkout sections with our Emerald immediate consumption packages. Retailers and consumers are looking for more nutrient dense offerings outside of just candy, gum and mints for their checkout displays. In culinary, we will expand distribution outside of the baking aisle to Produce – with the placement of over 50,000 displays during the holidays, and partnerships which we are developing with other produce complements.

We will continue our successful "natural energy" campaign and attach Emerald to those times of the day when consumers' energy is low and bad things can happen. In addition to our broad media vehicles, we will also utilize time-based media such as banner ads, search engine advertising and desktop programs, like screensavers, to make sure we remind consumers of Emerald Nuts' many benefits during these low energy periods.

For Diamond, we are in the process of overhauling our web site to create an easy-to-use resource that enables consumers to make quick, delicious meal solutions at home. We plan to generate awareness of this resource through a variety of on-line and off-line media.

Product innovation is the cornerstone of our Snack business. As I said in the beginning of my remarks – Emerald is a vibrant brand that can transcend categories. Snack Nuts compete within the much broader 30 billion dollar snacking segment with large, adjacent categories such as popcorn, granola bars and chips. Given this, we have recently developed a concept where we combine the nutritional benefits of nuts delivered in a light, delicious chip. It is a product we call Emerald Nut Chips. They are baked, contain 50 percent less fat than regular potato chips, are made with whole grains, and contain the good monounsaturated fats for which nuts are known. Consumer and customer reaction has been strong and we expect to launch in fiscal year 2008.

Now, Gary has a few things to add about our operations plans.

Gary Ford:

Thanks, Andrew.

As we said earlier, we are well on our way to transforming Diamond to a consumer-oriented packaged foods company that will deliver strong top and bottom line growth. We talked about top line growth earlier; now I will focus on opportunities to improve the bottom line.

- We are restructuring our receiving, storage and processing operations to increase efficiency. We eliminated two offsite receiving facilities and consolidated California in-shell processing into one location. This has allowed us to reduce overall staffing, and related costs associated with the closed facilities.

- We are also driving efficiencies in our operations to reduce overall unit costs. For example:

  - After analyzing our utilization history, we have defined a number of opportunities to optimize staffing and production scheduling. In addition, we have several opportunities to reduce our utility expense, such as retrofitting our plant lighting and replacing our refrigeration units with energy efficient equipment.

  - With the continued growth of our snack business, we will be able to capitalize on economies of scale. We have negotiated greater discounts from suppliers. We have reduced material handling steps, as well. As mentioned in our last call, we installed our first integrated packaging line in California, and it is now handling 80 percent of our glazed products. Our objective is to have 60 percent of our snack production running through integrated packaging lines enabling us to realize benefits in throughput, labor costs and quality.
  - We spoke earlier about a focus on expanding core products. This enables us to achieve longer production runs by reducing the frequency, and duration, of production line changeovers. Also, we are installing a new packaging line that will reduce costs associated with PET containers for our club and food service customers.

- In the supply chain, we are in the late stages of a project focused on identifying and implementing efficiencies in our distribution network between our plants in California, Indiana and Alabama, and third party forward warehouse locations and customers nationwide.

We believe that these initiatives and others will give us the ability to reduce snack production unit costs by over 10 percent this year.

Michael Mendes:

Thanks, Gary.

With that, I'd like to open the call for questions.

[Q&A]

Michael Mendes:

Thank you for joining our call.

We’ll be attending a CAGNY lunch in New York City on October 3. We look forward to meeting with some of you then.

* END OF PREPARED REMARKS *