

**DIAMOND FOODS, INC.  
Q3 Fiscal 2010 Earnings**

**Q&A**

Operator: At this time if you would like to ask a question, please press star followed by the number 1 on your telephone keypad.

Our first question comes from Bill Chappell with SunTrust. Your line is open.

Bill Chappell: Good afternoon.

Michael Mendes: Hello Bill.

Bill Chappell: I guess first just on the quarter, is there any way to quantify the impact on slotting fees had on gross margin? It was certainly lower than I would have expected and I know slotting happens every quarter but this seemed like abnormally a big quarter for it.

Steve Neil: We normally don't call that out Bill. You are right; slotting was a big number in the quarter as we realized increased distribution. The other thing that impact sales as well is the promotional - trade promotion spending. And if you remember we started off the quarter in the Super Bowl and we had some activity around March Madness and Easter, so those had an impact

Timing of our price increases to offset some of the corrugate and paper and commodity prices; that has an impact as well.

So in my comments, you'll note that I commented really on the year-to-date number which is actually a year-on-year improvement. And when you look at that you kind of get away from the seasonality of the quarter or one quarter a little bit higher slotting costs versus another quarter.

So I think that's a better indication of how we look at our performance year-on-year.

Bill Chappell: Got it. But as we look to the July quarter and I would assume slotting starts to ease?

Steve Neil: Not necessarily. We continue to put new products in. We noted that we had some new distribution for actually all of our brands. So it really depends on the timing of each retailer. Now we'll launch a product at a particular time period but not all the retailers take it all at the same time. So unfortunately, it's not smooth and I would say from an accounting perspective not overly predictable. It's as the product gets slotted. But we would expect to continue to see some pretty aggressive slotting.

Michael Mendes: I think also that our practice has been to not pay an extra fee to cut products in outside of the normal reset cycle of our retail partners. So that does take the timing a bit out of our control. The one thing I think you will note, though, is our item per store is going to continue to increase as we gain distribution and particularly some very interesting higher margin items for example in our snack portfolio with the 100 calorie pack to our new trail mix items.

I think it's really going to be additive to the average margin structure of our snack portfolio.

Bill Chappell: and I guess in that same line of thought, did we see any incremental slotting for Kettle in this quarter or is that still kind of more of a push to 2010 where you're trying to really push it the main snack aisle?

Steve Neil: That would be correct.

Bill Chappell: So their growth is really just kind of off of existing programs and what was going on for the core business?

Steve Neil: Correct.

Bill Chappell: Okay. And then just switching over a little bit to the Pop Secret win, I imagine you're not going to tell me exactly where but can you tell me where either of these mass customers places where Pop Secret has historically been in before?

Michael Mendes: Yes, that's correct. We really think it's very critical for us to push through in that channel.

You know microwave popcorn is a product that I think consumers see as an attractive value for them when they're looking at different choices of at-home snacking. The mass merch channel, and consumers who shop through the mass merch channel, is particularly well positioned for that kind of value positioning of microwave as a category. We felt that we were under-represented in that channel and I think you will note that we'll have a much more appropriate representation of on the go-forward periods.

Bill Chappell: And was there any one thing that broke that through - why a given retailer wanted to have more than one or two brands?

Michael Mendes: Well I think that there were some decisions made 18 to 24 months ago to reduce the number of brands. And, during that period, we spent a significant amount of resources investing in Pop Secret in revitalizing the brand with new television, a lot of demo activity, a lot of work to try to stimulate interest in the brand and the category and those results were seen in the scanner data at other retail partners, so I think that that demonstration of our equity investment resulting in

higher velocity. And when you take the last four-week period for example, when we were able to drive in all channels double-digit topline growth, when the national brand recorded double-digit declines I think that shows the indication of the power of brand and why it needs to be on the shelf.

Bill Chappell: And just one last one, on the 2011 numbers I know you'll give more color after next quarter, but are you still kind of assuming that any synergies you find are reinvested back in the business in terms of the bottom line results.

Michael Mendes: That's correct Bill. You know we're looking at again sales synergies and the topline synergies. We've not factored in any cost synergies at this point.

Bill Chappell: Great. Well congratulations.

Michael Mendes: Okay, thank you.

Operator: And our next question comes from the line of Mitch Pinheiro with Janney Montgomery Scott. Your line is open.

Mitch Pinheiro: Hey, good afternoon.

Michael Mendes: Hi Mitch.

Mitch Pinheiro: In terms of the pricing, what are we talking about in pricing expectations if you could share that with us.

Michael Mendes: Related to what?

Mitch Pinheiro: To the tree nuts and...

Michael Mendes: What we saw across the tree nut portfolio that we source is on average an upward pricing pressure and what we've done is in our culinary line we have passed on pricing that has covered that commodity cost pressure in wholesale retail price adjustments.

And on our snack portfolio we've basically eased back on our promotional spending, not really reducing our support of the brand, but reducing the frequency and the depth.

Fortunately we just came from a period where we were introducing some of our new items and we were having more of a surge to support those brands. So easing back really is what we had in mind based on the business and our guidance reflects any margin relation to that aggregate pricing effect.

Mitch Pinheiro: So I was just a touch confused - you're easing back on – or you're taking a positive net price realization here. But you also talked about a record, you know, tree nut crop coming. So then do you just turn around and use that if it does come to fruition, use that newfound margin to spend back on the business?

Michael Mendes: Well that would be the opportunity. I think at this point we feel confident that we shouldn't see additional upward pressure in input costs, but we've not factored in any significant cost savings on that front. You know, I think the crop size and the exchange rate situation - there's some tree nut commodities such as almonds that 80% of the product is exported and the biggest market is Europe.

The exchange rate has impacted that dramatically. Nobody really knows what it's going to have on pricing back to the U.S.. But I would say that the macro issues would not support those commodity prices increasing and so we've assumed that all looking flattish for next year.

Mitch Pinheiro: Okay. In terms of looking at the potato chip market, it looks like certainly Frito Lay has become a little more aggressive. Is that something that you're seeing - are you seeing that? Is this a competitive response just to keep Kettle, you know, at bay a little bit here - make it a little more difficult to expand let's say eastward. And if that's in fact true. And then how do you see that - the potato chip market - competitively shaping up in the next couple of quarters?

Michael Mendes: Well I think probably the most instructive way to look at that is what's happened in other categories that we've entered.

When we came to the snack nut category, the category was declining. The retailers were reducing the amount of space dedicated to snack nuts and it was becoming a lower interest category in retail for our retail partners.

When we came in the category we brought innovation. We stimulated consumer interest, we brought new flavors, we brought new packaging and that resulted in us gaining share and driving growth in the business. And if you look at the snack nut market today in the recent periods, we're looking at nearly double-digit growth for the category in snack nuts. We're growing, the national brand is growing, we're growing faster than the national brand but the national brand is growing, not coming at the expense of them.

The retailer's brands are not losing ground; they're gaining a bit of ground. And I think that, you know, strong brands that bring differentiated products that stimulates consumer interest is good for the category.

So we feel that the potato chip market that there are a lot of opportunities to drive incremental consumption opportunities. Both Kettle and Frito did well in this last period. A lot of other folks didn't, and I think that we're committed to try to be additives in the category.

So we're very confident in our ability be additive to the category to grow our business, to bring consumers to the segment, and to do that in a way that really isn't going to be of a nominal impact to the national brand in this set. There's a lot of other players who have undifferentiated offerings who are regional competitors who have brand and cost dis-efficiencies. And I think we have an opportunity to satisfy a need for our retailers and our consumers that's not being satisfied right now.

Mitch Pinheiro: Okay thank you, one last question. Could you talk about the impact on peanuts on both sort of the revenue and sort of on margins. I mean the mix the peanuts did specifically?

Michael Mendes: Yeah, peanuts is a great addition to our portfolio. When you take a look at peanuts as a raw material versus tree nuts, the raw material value is maybe a third of what on average tree nut's raw material value is. So, just as a matter of the math behind it, when you add volume with peanuts that average price per pound is going to reflect that.

You know when you look at our Emerald performance ex our peanuts which was our peanut growth in the period is something like 100% versus last year, we're still growing on a scanner basis a little bit below 40%. So our tree nut Emerald business ex peanuts is really growing great guns. Obviously peanuts is in the area that as it's new in the portfolio we've looked to support.

Mitch Pinheiro: So peanuts may have been - they would have been a little dilutive to the gross margin?

Michael Mendes: I think any item that is being newly introduced and we have demos against that to get people into the brand, in that period given that extraordinary front-end cost, that will have an effect on the margin structure a bit.

As we've designed the item as we've built out the everyday selling price and our long-term promotional cycle, I don't think that peanuts are going to be in any way dilutive to our average margin structure, particularly given the channels that we're selling them in.

Mitch Pinheiro: Okay, thank you very much.

Michael Mendes: Thank you.

Operator: And our next question comes from Ken Zaslów with BMO Capital Markets. Your line I open.

Ken Zaslów: Hi guys.

Michael Mendes: Hi Ken.

Ken Zaslów: gong back to just the Kettle, the Pop Secret, and the Emerald brands, I know each of them have different distribution channels where they're strong. Can you talk about where the opportunity is for each of them in the different channels and, you know, how quickly you'll be able to realize that? Does that make sense?

Michael Mendes: Sure. I'll try to hit some of the areas and then maybe you can double back with a question if I miss an area in particular you're interested in.

When you look at the Emerald business, we've really made some progress in one of the large mass merch customers this year, significant new distribution. The product is moving well, that's been a real nice opportunity.

The other major mass merch customer in the segment has a few of our items but they don't have our core snack nut items. So that's an obvious opportunity.

I think in the Club area we are still quite underdeveloped. You know, we have got Cocoa Roast Almonds in a large frame pack. It's doing very, very well in one of the Club customers. I think that that's a channel that over time, particularly with differentiated items, we have an opportunity to grow. I think we're a bit under-exposed there.

There's no doubt that in the convenience store side of things, that's an area where a lot of snack nuts are sold. Historically we have not had as good access to that channel as some of our competitors who do service that. Now with the addition of Kettle and some distribution capabilities we're going to have there, we might be able to better access that channel. But I still think that the final thing is there are some other areas like the, you know, Breakfast on the Go, getting that product in traditional grocery, that's an area we haven't - we've not penetrated.

We have five items that we're developing and we're going to look to go into grocery to that other aisle. You know, we are very strong in grocery and we want to leverage that. So that's some of the areas for Emerald that are interesting.

On the Pop Secret front, you know, we've made some progress on the Club front. I think that the reality is though we don't have big distribution in the Club front so there is a lot of white space there. I think that when it comes to traditional grocery our distribution is good there. But in our unpopped kernel offering, for example, that's a new item that unpopped kernel is that SKU for our competitor is the single largest selling SKU in the combined microwave and unpopped kernel category.

So we have a new item there that we're looking to build up distribution. And also while not a massive category, it would be substantial as a proportion of our offering. So that's an area we're going to get after.

I think that, our new distribution in mass merch has been critical for us in Pop Secret. I think that's going to be a nice driving force for 2011.

And I think innovation is going to be important for us. We have worked very hard on Pop Secret on doing things that provide immediate gratification and things that are more long-term investments. And, you know, I'm hoping that as we're talking a year from now, we'll be able to share some examples of the benefits of our hard work to develop some new offerings and some - to improve our offering in the eyes of the consumer and our retail partners in the category that this lead time opportunity. So I think that's a little bit on that front.

On the Kettle side of things, you know, I think there's no doubt that when you look at the 30-year history of Kettle Foods, for 28 years of that history they had one production facility, in Salem, Oregon. Geographically that is a long ways away from the eastern markets.

Now when you look at the development of the brand in markets such as Northern California where Kettle has a 14 plus share compared to East of the Rockies where the share is around 2%, you really can see that there's an opportunity to get after that central eastern market, particularly as we augment our capacity to better service the eastern market. So I would say the traditional grocery in the East and the Central part of the country is an opportunity we're looking to get after.

You know Kettle is more clearly developed in the natural channel and a lot of these retailers who are interested in exploring the opportunity to service consumers who have an appeal for an all-natural chip but who are looking for a product in the snack aisle which generally is not where Kettle is geographically placed, I think that's a big opportunity.

The final thing is the impulse items, the single-serve items is an area we've not developed much in the U.S.

And we turn the page to our UK division, we are really pleased with the brand equity that has been established with Kettle in the UK. But it does have a very focused appeal to an adult demographic. And our new offering, the ridge chip which has been positioned to appeal to a younger snacking demographic and which is really quite differentiated in that market versus any other offering that Kettle has, we think really could open us up into a channel that we're currently not servicing. So I think that's the biggest opportunity there as well as the multi-pack area.

So sorry for the long answer Ken, but I just wanted to try to be complete.

Ken Zaslow: No, I appreciate it. Two quick ones - is there any seasonality to the Kettle chip?

Michael Mendes: You know, that's interesting you say that. We were actually quite pleased. The seasonality counters our seasonality. Summer is a much bigger period. And so it works nicely for us in that they'll have bigger summer periods and whereas we have more fall focus on some of our other categories.

Ken Zaslow: So the most recent month - I mean I came to about \$23 million of sales this quarter. Is that something that we can annualize or not I guess is kind of - because it's a little bit higher than I would have thought.

I think I was using a base of like 260 and that comes out to be about 280 - 275.

Michael Mendes: Yeah, it is a little stronger period ...

Ken Zaslow: All right, so we should skip with the 260 - not annualize this number?

Michael Mendes: Yeah, I think that's right.

Steve Neil: Shipments in April, early may go for the Memorial Day holiday and that's the first start of the summer as you know. So I think that's a good guidance.

Ken Zaslou: Okay. And then my last question is did you guys reduce the 2010 tax rate to 36.5 or 35? I misunderstood, I'm sorry.

Steve Neil: In 2010, we're estimating the fourth quarter to be about 35%, a little bit less than what we've seen year-to-date because there was some discreet items, the transaction cost - some weren't deductible and your rate was a little bit higher. So that will average us to about 36-1/2% for the year.

And a little bit early but we're looking at 2011 and we've got to put it all together. But we think 2011 will be in that 36% to 37% range as well.

Ken Zaslou: Great, I appreciate it. Thank you.

Michael Mendes: Thanks Ken.

Operator: And our next question comes from Heather Jones with BB&T Capital Markets. Your line is open.

Heather Jones: Good evening, how are you doing?

Michael Mendes: Good, thanks Heather.

Heather Jones: I was going back to this gross margin question. As far as for Q3, last year the Q3 had an extraordinarily strong gross margin. But I'm wondering how much of this nut cost true-up plays into it because I think this quarter with looking thru the Q in this quarter it looks like it was roughly

\$1 million decline whereas in the year ago quarter it was close to a \$10 million true-up given what happened to walnut costs during the quarter.

I was just wondering if that -is sort of a one-time issue, but as far as the comparison, is that one of the big comparison issues for this quarter?

Michael Mendes: Yeah, that's right Heather. You know I would say that this year we were much closer to accurate in our current estimation although it's still an estimate.

Heather Jones: Okay. So looking at Q4 '10 versus Q4 of '09, it looks like your gross margin - because your guidance would imply a lower year-on-year gross margin.

But I believe in Q4 of last year - I don't know, wasn't there some manufacturing efficiencies? Like you had some scrap material or something that you were able to - you didn't have to - I can't remember what it was. But wasn't there something that benefitted that quarter that's not likely to repeat in Q4 of '10?

Steve Neil: Yeah Heather - we don't get anything past you, your memory is very good.

As we cracked out the crop last year, Mother Nature was good to us and we actually got a higher yield. The meat of the total tonnage that we got was higher last year as we ended out and we cracked out the crop last year. This year what we've seen to date is Mother Nature hasn't been as nice. Last year's yield of meat was much higher, in fact the highest in recent memory. This year it was actually below average.

If you recall last fall we had rains during the harvest time, etcetera. So there was certainly a nice opportunity that we got in the fourth quarter last year. We did bring it up just because you can't

expect that to happen every year and so that would be one of the factors affecting the comparability in the fourth quarter margins.

Heather Jones: So would it be fair to say that Q4 is probably going to be more in the 24% to 25% range? Because you do have the benefit of Kettle which is higher gross margin but yet you're not - you don't have that benefit again this year.

Steve Neil: We don't think we're going to have or we haven't projected that we'll have that benefit from the yield. Certainly mix will play in. You have Kettle, we have some new distribution for Pop Secret; those are certainly higher margin. If you look quarter-on-quarter, you know, the price increases that we did take will take affect in the fourth quarter, so there are some positive things that are happening.

What I would the one-time or the kind of unusual benefit or detriments for that matter, we haven't anticipated for the quarter. We really didn't give guidance on the overall margin because I think there's really a number of items - mix, product mix, etcetera that could impact it.

Heather Jones: Okay. Going to Euro exposure, if I remember correctly roughly, a little more than half of your earnings - or not Euro exposure, sorry the pound exposure - more than half of the Kettle earnings come from the pound.

And I understand the idea of the cost in pounds - revenues in pounds, so that minimizes the cost. But don't you have to translate those back into dollars? And, you know, it's a pretty profitable business so I was just wondering how you're addressing hedging that exposure?

Steve Neil: You're talking about a translation risk as opposed to a transaction risk. And so yes, we could hedge it but that's effectively hedging your balance sheet. The most effective hedge that you have is that your revenues and your costs are in the same currency. So when you translate, what

will end up happening is let's assume that you've got a decline or a strengthening of the dollar. So your revenue that you translate will be less, but correspondingly your costs will be less so your margin structure will stay the same.

So when you get down to the impact on earnings there should be a nominal earnings impact because both your revenue and your costs are impacted. What we also did as we were setting up the transaction is some of our debt is pound based debt, so some of our debt service is there as well. So really if you lined up in effect your balance sheet on your receivables or your assets that are driven in pounds and your liabilities which would be your debts and your costs, they virtually offset each other so you have a natural hedge.

So we actually don't have to go and (sorry for your currency side of your shop there), but we really don't have to go out and buy a hedge because we're naturally hedged on the asset and liability or from the P&L perspective, the revenue and expense.

So yes, the absolute dollars will be more or less than translation but the margin structure will stay the same.

Heather Jones: All right. But if you kept - let's call it a 20% margin there. Say you made 20 million pounds but you're translating 28 - 20 million pounds. And at a currency translation that's 10% less. So doesn't that mean 10% less dollars that are going to flow through your P&L?

((Inaudible)) it makes the domestic margin structure stays the same but isn't it less dollars coming in?

Steve Neil: It could be less dollars - I'll make it complex a little bit here - but the effective tax rate in the UK is 10% less than in the U.S., so we have some tax offset there as well. So I think when we

looked at the overall impact on the P&L and the fact that your debt service - your interest expense - is also denominated so that's actually favorable, right?

Heather Jones: Mm-hmm.

Steve Neil: So when we looked at it on a dollar reported basis as well as a margin basis, the impact of currency - and for us that's predominately the pound - it has a nominal impact on earnings.

So again if our business skewed to 80% pound and we didn't have as much debt service on pound to offset that exposure, could it have more material impact to us, certainly, but in our situation, it's nominal.

Heather Jones: Okay, excellent. Finally moving on to the nut cost side, you mentioned the dollar appreciation just don't expect costs to accelerate further from here. But wondering on the walnut side, we understand that there was a drought in China; demand had been fairly strong there and so that caused some of the cost pressures. And just wondering what your view is on that at present? Has that demand ebbed some and just if you could give us some color on that.

Michael Mendes: Yeah, we definitely have seen stabilization I would say, on that front. You know we're in probably the lowest usage period, and this is always an anxious time for people, because on one hand, they want to stage inventory to get ready for the big fall season but they don't want to find themselves sitting on inventory that could be more expensive than what they could buy from the new crop harvest.

So we're starting to see people being prudent on that front. So I would definitely say that things have abated on that front.

And, you know, I think that long-term is better productivity. The good news I would say during this somewhat boom cycle in some of these tree nuts is a lot of these growers have been prudent in planting more productive varieties that are going to have the ability to yield higher volume which they can be profitable on a lower per-pound farm gate return but a higher per-acre gross dollar return. And so I think that's probably going to be the evolution of that.

But at this point in time we're not assuming much relief on our cost front, but we're not also projecting increases from what we know today.

Heather Jones: Okay. And then my final question is on Kettle. I think back when you announced the acquisition you had pointed to about 10% topline growth - 10% plus topline growth as being sustainable. I'm just wondering if you have any updated view on that front.

Michael Mendes: Sitting here today we are very, very pleased with the quality of the brand, the quality of the distribution, and probably more optimistic about the opportunities for growth.

It's a different business in interesting ways. I would say the puts and the takes are probably more positive than negative in terms of the differences and in my opinion is an opinion of one. I would say that unlike a product like some of our other portfolio of items where you have longer shelf life and raw material that has a year's shelf, that's an annual crop. The potato chip business is different in that your capacity is not just a full year capacity concept. It's really capacity per month.

So I would just have to say that growth has to be managed more carefully and you need to be prudent to be sure that as you're looking to grow the business that you map that growth with your capacity on a per month basis.

So I am really pleased with the way consumers view the brand. I'm excited with the people that we've been able to acquire as part of the acquisition. And I think that the customers have shown a lot of enthusiasm; I think the opportunities are big.

I do think that, we are going to keep trying to augment the product line. I think there's some opportunity in the "better-for-you" subset of the chip category and we're excited about opportunities in that front.

Some of those things might require a little more capital than we have today to service, and so the growth in some of those areas may require some capital.

But when it comes down to the base business, we're feeling good about our projection that we laid out earlier.

Heather Jones: Okay. So you still think 10% plus is achievable?

Michael Mendes: Yes.

Heather Jones: Okay, thank you very much.

Michael Mendes: Thank you.

Operator: And our next question comes from Tim Ramey with DA Davidson. Your line is open.

Tim Ramey: Good afternoon. Let me add my congratulations on a great quarter.

Michael Mendes: Hey, thanks Tim.

Tim Ramey: Two questions - one, Steve I'm a little slow on the uptake sometimes on these tax rate issues. But, if we go off the operating number it looks like it's roughly about an 8% tax rate in the quarter. Do those adjustments relate to being able to look back on previous quarters with some of the benefits from the Kettle deal, how should we think about the relatively low tax rate for the 3Q?

Steve Neil: Yeah Tim, I'll pull your leg and I don't think you're ever slow on the uptake. But I'm glad you focused on this and taxes are so complicated and I try to for myself to understand it, dumb it down so if I understand it maybe hopefully you can as well.

What is required is every quarter you project what you think the effective tax rate is for the year. And if that effective tax rate for the current quarter is different than the prior quarters then you have to record in the current quarter the impact that that different tax rate had on those prior quarters. So what happened for us - and I'm going to be off a little bit here - but we had I think it was, a 37.9% or around 38% effective tax rate through two quarters and because of the influence of the tax jurisdiction that Kettle operates in, they have a lower overall effective tax rate, I mean just looking at England's 28% and over here our average is 38%.

So that will lower effective tax rate we had apply to the first half of the year. And as you know, the first half of the year we make more than 50% of our earnings so it's a bigger earnings pool, so yes. So what we factored is about 5 cents of the EPS in the quarter was in a sense a catch-up for the lower rate and how it would be applied on the first half earnings.

Tim Ramey: Got you, okay. And then one item I thought was pretty impressive was the sales performance of Culinary.

And if you glossed over - not gloss, if you went over that I apologize. But can you kind of come back and hit the high points of that because the sales line was certainly stronger than I thought it would be.

Michael Mendes: You know on a number of those fronts we were able to have found some pricing in some of the value channels more quickly and we had some benefit on that front.

On our base Culinary business - this is on kind of our scanner channels, the nice thing that is happening there is that we're stabilizing our business there while we have quite in effect passed on pricing, which it's tough to pass on pricing in this environment no matter what your reason is and we've been able to continue to see a positive up-clip in the last four week period with that pricing.

And we're seeing the all other and private label brands which were growing at a north of double-digit clip, drop down to a low single digit clip. So I think probably the most encouraging thing for me about that set is that we're seeing brands and our brand in particular, do well relative to the non-brand private label segment.

So we were pleased with the quarter but I would say that, you know, most of my focus here is kind of looking out. I'm really healthy - I'm really pleased with the health of the brand, particularly in our grocery segments - grocery and mass merch segments which I think keep performing solidly for us to go forward.

Can you add any more color on that?

Steve Neil: Yeah, I'll give you a little bit of color. The reported growth in sales was 11% and again we had two low margin Club skews that we elected to discontinue last June.

And if you take them out of the prior year, the sales dollar growth was actually 29%. And when you look under that, while there is pricing obviously year-to-year mix, etcetera, when you take those two SKUs out, our volume was over 10% growth as well. So it's not all pricing, there is actually some volume in the quarter.

So, yeah, overall we were very pleased with our performance in Culinary.

Tim Ramey: Yeah, that's great. And then just to circle back on the new mass distribution, Steve from your comments it sounds like you might get like a month's worth of shipments in the fourth quarter. Is that right?

Andrew Burke: It's going to start next month, Tim, is when it will actually to ship through and it's going to flow out. So we're not exactly sure when exactly it's all going to come but it will start next month.

Tim Ramey: Got you. Okay, thanks so much guys.

Steve Neil: Good enough, thanks Tim.

Operator: And our next question comes from Akshay Jagdale from KeyBanc. Your line is open.

Akshay Jagdale: Good afternoon, congratulations.

Michael Mendes: Thank you Akshay.

Akshay Jagdale: I just wanted to focus on your long term targets a bit, specifically on Emerald. You've had Kettle now for a month and I'm assuming you've gone through some strategic conversations with your go-to-market and management team at Kettle. How has your plan for Emerald changed whatsoever in germs of trajectory, absolute dollars, and then the sales profitability, etcetera?

Can you just give us some insights into the master plan there, given that now you have this other brand to deal with and not, you know, twice as many sales people for example?

Michael Mendes: Thanks Akshay. You know, it's a little early for us to say that we're remapping our Emerald plan. I would say that early on I do feel even more confident in our ability to help Emerald realize its potential in context of our broader snack portfolio. I would say that when you add to our basket of goods Kettle chips, we're a very interesting manufacturer for our convenience store, impulse store, front-end retail partners and we're excited about that.

We've merged the Kettle and U.S. sales teams just, an intent to try to realize those opportunities as soon as we can.

I think that at this stage of the game to say we are changing our strategy in Emerald would probably not be accurate. But I would say that I do feel more confident in our ability to achieve the growth potential of Emerald more rapidly and maybe a bit more cost efficiently than I did prior to having Kettle though and we'll try to give a little more color on that on our end of year call.

Akshay Jagdale: That's very helpful. And just can you give us a little more color into just the integration process and what maybe your fears were or, you know, some of your concerns were going in and how you feel about those now that you've had some conversations with them?

Michael Mendes: Yeah, we have very actively been integrating the leadership team. You know, really enthusiastic about the quality, the caliber, and the cultural disposition of the employees with Kettle that now are Diamond employees.

And we had a sales leadership team kind of an all hands on deck meeting just last month. We brought in all of the Operations and Finance and Supply Chain leads for both Diamond and

Kettle. We spent a week together learning about each other's business, building the kind of connection - you know I always feel that the org chart and the structural bonds, those things are easy to do.

But when you can actually try to get people to connect and aggressively share information and create the kind of transparency that allows you to identify the real economic opportunities, those things aren't easy to do. And I'm really pleased at the progress we've made on that front.

I think that our UK business is very, very healthy; very enthusiastic leadership in the UK. I've had an opportunity to meet with all of our employees in the UK and to vet our plans. And I feel like we are on good track and we've got some very interesting innovation that we're working to pursue there.

On the U.S. side I think everyone recognizes the scale opportunity we have on the customer-facing front to be one company. And that's why we merged Sales and Marketing groups and that's gone very, very well.

So I would say on the concerns I think probably the concerns there were some issues related to the health of the business with our customers. Were there any concerns about the quality of our production facilities, any concerns about, you know, some unknown liabilities that hadn't been ((inaudible)).

And to be candid with you, nothing has shown up that we didn't vet in the due diligence process.

So right now, I give Kettle a very clean bill of health and a great part of our organization.

Akshay Jagdale: That's great. And just a couple for Steve and maybe Andrew but Steve, can you just talk a little bit more about fiscal '11 interest rate. I mean you didn't give a specific guidance for

that but can you give us some range of what that may look like given what you said about the interest rate swaps and - so if you could start with that.

Steve Neil: Yeah actually I met with one of your banking executives this morning and he was going to tell me the exact certainty of that LIBOR yield curve so I could give you a perfect answer. But no seriously, our credit agreement requires a portion of our term loan to be fixed and so that we're looking at obviously - so we'll fix that portion.

The question is whether you want to fix the more than the amount required in the agreement.

If you look at the yield curve, the yield curve shows LIBOR interest rates increasing and it depends on whether you think it's going to be a slow build or a more aggressive build. In the current market today where LIBOR is, debt is quite cheap. I think we'll end up locking a portion of the debt and frankly just look at the markets.

You know we're really blessed to have quite a few really nice banks. They all don't agree in what's going to happen to the market, but they really help us take a look at what the currency impact is.

The nice thing that we have going for us is as we indicated earlier on the currency we have a portion of it is denominated in pounds and a portion is denominated in dollars from a debt service perspective so we can manage the currency exposure there.

I would say on a macro basis, interest rates are going up. The question is when and how much. But, again, I would say our financing being a bank syndicated facility today is an advantage from an interest rate perspective as opposed to going to say the high yield market and locking in a portion of fixed debt even if we locked in a portion of our variable rate debt via interest rate swaps.

So at this point in time I'm not going to estimate what the interest rate is although we do - basically have used an average yield curve in the expectation of what's going to happen next year.

And certainly I would say year-on-year you're going to see an increase in the overall interest rate. The offset of course is if we can get our leverage ratio down and pay down debt, it mitigates whatever increases in interest rates are going forward.

Akshay Jagdale: Okay and then one last one on Advertising, you gave guidance for 2010 and you did mention that two components to your increase in guidance for next year - one was a base tax rate and the other is base business. But what are you modeling there for Advertising? Is it going to be up and if it is, by how much?

Michael Mendes: If you recollect, historically we've given our full year guidance at the end of our fourth quarter which would be end of September. The reason we started to give a look to 2011 earnings earlier has been because of this transaction. So we've not been giving elements of our guidance.

We will be giving our Advertising guidance in September. I will just broadly tell you this, it will be up. Right now, we're doing two things as we evaluate next year's Advertising plan. The first is what's the best medium to and what's going to be the strategy on the marketing against this new brand which we have acquired which is going to be an important part of our decision process.

And the second issue is going to be which sub-brands or product lines which are in the portfolio are we going to look to promote. When we make that decision that will map back on our Advertising program quite dramatically and that will give us the ability to guide, we think, quite effectively on Advertising.

All I can tell you is it will be up next year. How much, you know, we can't say right now.

We are very, very exacting in evaluating our spend in Advertising. You know one thing I'm proud of Andrew Burke and our Marketing team is they spend every dollar like it was their last. And so our goal is to have the most effective Advertising program possible and to do that cost effectively.

So I would say we will spend more. I would say we hope to be a lot more effective and not spend proportionately more. So, my challenge to Andrew and our Marketing team is to get some scale leverage costs so as we get bigger and to try to have larger programs in the future but to have them be more cost efficient and we'll talk more about that in September.

Akshay Jagdale: Great, I'll pass it on. Thanks again.

Andrew Burke: Thanks Akshay.

Operator: and our next question comes from the line Mark Argento with Craig-Hallum Capital. Your line is open.

Mark Argento: Yeah, hi guys, good afternoon.

Michael Mendes: Hello Mark.

Mark Argento: Just some quick questions. Did you - and I haven't gotten to the Q yet of course, but did you guys actually break out what Kettle contributed in the quarter in terms of revenue?

Steve Neil: Yes, we did. There is a requirement, it's \$22.7 million in sales. We didn't articulate the earnings because it wasn't determinable as we've merged the operations.

Sales though, at least in the month, we didn't have any cross-promotions and such so that was kind of a pretty much pure number. So we were able to articulate that in the Q.

Mark Argento: Great, that's helpful. And then can you talk a little bit - there's a lot of moving parts here but could you talk, if you could, about kind of organic growth of the snack segment and maybe Emerald in particular.

I know you've provided in the Press Release some Nielsen data of 55% dollar growth in the Grocery category. Can you just talk a little bit about what you see that business growing kind of organically what your expectations are for that business?

And then if you saw any kind of growth in Pop Secret on a dollar basis?

Michael Mendes: Yeah, let me start with Pop Secret and go back to Emerald.

Pop Secret, again we're seeing some nice movement. The last four-week period just as a nice flash, we saw nearly 10% growth on the scanner data on Pop Secret, one of the nicest growth pops we've had in four weeks in some time. So we're really starting to see that move in the right direction.

On the Emerald front, for the Grocery channel ex peanuts we - our scanner data on a 12-week period showed about 37% growth. And during the last 12-week period, food, drug and mass with peanuts we saw 58% growth. So Emerald is doing quite well. We are really excited about the pipeline of products we have coming to the market there. We really have some opportunities to build out our distribution of our base items and we're working hard on that front. So we're pretty excited about Emerald, where it is today in our opportunities here in the next 12 to 18 months.

Mark Argento: In terms of Emerald I know you guys talked about kind of dialing back the promotions a little bit. I think you did that in the quarter.

How did you like sell through in some of the particular maybe higher priced skews? Did you make it sticky for the customer or did some of that fall off?

Michael Mendes: The last 12-week period we saw this 58% sales growth and, I think the thing to keep in mind is we elected not to take a wholesale price increase on Emerald which we probably could have supported given some of the commodity cost pressure.

So you know, I would say that our product's value for the customer is attractive and I don't think that we're letting up there.

I just think in context of the value environment given that there was some commodity cost pressure, we elected to keep the wholesale price consistent and to just ease back on the promotional spend. Just we're not seeing the depth in the frequency of promotion.

So in aggregate we're not taking our foot off the gas on Emerald at all.

Mark Argento: Great, that's it. Thank you.

Steve Neil: Thanks Mark.

Operator: And our next question comes from Bryan Spillane with Bank of American-Merrill Lynch. Your line is open.

Bryan Spillane: Hi, good afternoon guys.

Michael Mendes: Hi Bryan.

Bryan Spillane: Just two follow-ups to some earlier questions. First on Heather's question regarding currency translation, just so I understand it, the preliminary earnings range that you've given for 2011 does or does not contemplate currency translation?

Michael Mendes: It does contemplate the currency environment. And again recollect as Steve characterized that, our costs are pound denominated and also a portion of our debt is pounds.

So the effect there is nominal but we are guiding consistent with the current exchange rate environment

Bryan Spillane: Okay great, that's helpful. And then, you know, in terms of Kettle in capacity, you know, some of the feedback we've got from some of your retail customers on the baked product especially is just - has been very positive. You've got a real point of differentiation with that product. And so I'm just curious to know, because that one especially is a different production process, you know, do you feel like you've got enough capacity there to do, you know, an aggressive roll out.

Are you going to have to hold back in terms of your distribution plans in order to, you know, have capacity catch-up? I'm just trying to get a feel for whether or not you've got enough capacity for the potential demand?

Michael Mendes: First of all, thanks for your feedback on the product. We share your retailer's review assessment and we're excited about the product. We think it's going to be a very important part of our offering.

You know on the "better-for-you" platform we really are approaching that in a couple of tiers.

We think that there's a reduced fat universe that we're going to try to approach with a little different product that's more of a full-flavor product that doesn't quite have the health profile of a baked item. Then there's the baked item which you're looking at.

We're going to get after that "better-for-you" segment. I will tell you that we will not compromise flavor. We will not compromise the natural positioning, and that may slow the speed of the growth in the short-term.

Do I think by back of fiscal 2011 our capacity will be there to enable us to really spike the growth? I do. In the short-term we may be somewhat limited by our capacity, though.

Bryan Spillane: And then, Michael, in terms of adding capacity is it just a matter of adding equipment to your existing production facilities or is it building a new production facility someplace else or is it signing up co-pack or - I'm just trying to get an understanding of how complicated it is for you all?

Michael Mendes: Well with the current solution that we have, it would be taking the current building framework we have and adding equipment. We're also exploring some other options that are even more cost efficient and a lower barrier to production. So given our current technology and our current process we'd be doing that on a current sites because there's a whole potato sourcing situation. We're not looking to build. There may be a future where we're going to green field another plant in the east. But at this point in time our plan would be to augment Beloit or Salem and so that would be equipment addition and hopefully over time, we can improve the process to find ways to improve our cost efficiency.

Because Baked is a more expensive item to produce but the margins are attractive because the consumers are willing to pay a price for the differentiated product.

Bryan Spillane: Okay great, thank you.

Michael Mendes: Thank you.

Operator: We have no further questions at this time.

Bob Philipps: Okay, thank you operator. I guess we'll conclude now.

Before we turn the line off, let me just mention that we plan to participate in several upcoming investor conferences during the next few months including conferences hosted by Craig-Hallum Capital, RBC, and Jeffries. For a complete list and schedule of these conferences please visit our Web site.

We thank you all for joining us today and this will conclude our call.

Operator: That concludes today's conference call. You may now disconnect.

END