



2006 Annual Report



**WALNUTS**

Halves, Shelled, Chopped, Finely Diced, Chips, Ground, Nut Topping

**PECANS**

Halves, Shelled, Chips, Chopped

**ALMONDS**

Whole, Sliced, Slivered

**OTHER CULINARY NUTS**

Hazelnuts: Shelled, Chopped  
Brazil Nuts: Shelled  
Raw Spanish Peanuts: Shelled  
Macadamias: Chopped  
Pine Nuts  
Black Walnuts: Shelled

**INSHELL NUTS**

Walnuts, Mixed Nuts, Pecans, Almonds, Brazil Nuts, Hazelnuts, Peanuts

**SNACK NUTS**

Deluxe Mixed Nuts, Mixed Nuts, Whole Cashews, Cashew Halves & Pieces, Dry Roasted Almonds, Smoked Almonds, Dry Roasted Walnuts, Old Fashioned Honey Roasted Peanuts, Dry Roasted Peanuts, Cocktail Peanuts

**GLAZED SNACK NUTS**

Glazed Walnuts: Original, Butter Toffee, Chocolate Brownie  
Pecan Pie Glazed Pecans  
Glazed Walnuts 'n Almonds: Apple Cinnamon, Backyard Grill  
Honey Dijon Glazed Walnuts 'n Cashews

**TRAIL MIXES**

Breakfast Blend, Berry Blend, Tropical Blend



**SNACK AND TRAIL MIXES**

Country Stream, Island Crunch, Yogurt Raisin Nut Mix, California Mix, Spicy Cha Cha, Sesame Sticks, Oriental Rice Crackers

**DRIED FRUITS**

Farmers Market, Apricots, Banana Chips, Pineapple

**NUTS AND SEEDS**

Whole Cashews, Sunflower Kernels, Deluxe Mixed Nuts, Soynuts

**SWEET SNACKS**

Gummy Bears, Yogurt Pretzels, Yogurt Raisins, Dark Chocolate Almonds  
Milk Chocolate: Maltballs, Raisins, Double Dipped Peanuts, Cashews

**ORGANIC SNACKS**

Gummy Bears, Gummy Worms, Jelly Beans, Fruit Snacks

We are innovators in building quality brands...

Since its founding in 1912, Diamond has focused on building brands that retailers and consumers recognize and trust... brands synonymous with premium quality, versatility and innovation. This brand-focused approach, which is supported by aggressive marketing campaigns and creative in-store merchandising, has generated consumer awareness of 86% and has made Diamond of California by far the nation's leading brand of nuts for all mealtime occasions.

The reputation of the Diamond brand paves the way for acceptance of new products. Retailers quickly embraced the company's Emerald line of snack products when it was introduced nationwide in August 2004. Driven by superior quality, innovative packaging, effective in-store merchandising and targeted television advertising, the nation's consumers have made Emerald the fastest-growing snack nut brand in America. In just two years, Emerald has achieved national brand awareness of 72%.

In May 2006, Diamond Foods added a new brand to its portfolio through the acquisition of certain assets of snack maker Harmony Foods Corporation of Fishers, Indiana. The Harmony acquisition gives Diamond additional capacity to grow its product lines and facilitates expansion into complementary products such as sweet and savory snacks, as well as natural and organic foods. Diamond's snack brand portfolio (Emerald and Harmony) finished the year with net sales of \$41 million.





## ...in **developing** new value-added products,

North American retail sales grew more than 20% in fiscal year 2006 and remain at the core of Diamond's value proposition. Attracting new retail customers by broadening product offerings is essential for growth—and something that Diamond does very well. Since 2004, the Emerald line has grown from 14 to 20 offerings and is now in distribution in over 81% of U.S. grocery stores. With a 60% increase in sales for 2006, Emerald is the nation's fastest growing snack nut brand. Factors that have contributed to Emerald's success include a patented glazing technique that facilitates the development of unique and appealing new flavors and innovative on-the-go packaging that fits consumers' busy, active lifestyles.

The Emerald line was expanded beyond nuts in 2006 with the addition of three varieties of **Emerald Trail Mix**—Breakfast Blend, Berry Blend and Tropical Blend. Two things differentiate Emerald's premium fruit and nut combinations from most other trail mixes: Each features Emerald's sweet glazed walnuts as well as chunky granola clusters. Emerald Trail Mix is sold in reclosable 5.5- or 6-oz. foil pouches, as well as 2.25-oz. pegboard bags that are being marketed primarily to convenience stores. **Emerald Smoked Almonds**, which also were introduced in 2006, boast an irresistible cooked-in flavor and are being marketed in three package sizes: 11-oz. canisters, 2.5-oz. pegboard bags and 38-oz. square plastic jars.



and in **promoting** healthy, active lifestyles.

Over the past few years, nuts have garnered well-deserved praise from nutrition researchers and the news media alike as heart-healthy “fuel foods” that are a natural fit for sensible diets. Nuts are nutrient-rich, loaded with essential unsaturated fats, antioxidants, protein, fiber and a host of vitamins and minerals. Diamond includes health messaging on product packages and in its advertising, and has gone a step further by sponsoring events that promote good nutrition and physical fitness. These events, such as the New York City and Los Angeles marathons and the Emerald Baseball Skills Clinic for youngsters, provide perfect venues for introducing health-conscious consumers to wholesome and delicious Diamond and Emerald products.

The Emerald Bowl college football game, which is televised live by ESPN, provides national in-program brand exposure and an ideal venue for in-stadium product sampling. The 2006 game will be held on December 27 at AT&T Park in San Francisco. The company’s snack brand also sponsors the Emerald Across the Bay 12K over the Golden Gate Bridge, which has been called the best bridge run in America by *Runner’s World* magazine.

Diamond Foods also funds nutrition research. Two studies now under way at the University of California, San Francisco are examining the benefits of nuts as part of a healthy diet. The company also promotes nut nutrition through printed brochures and recipe booklets and on its websites, [diamondfoods.com](http://diamondfoods.com) and [emeraldnuts.com](http://emeraldnuts.com).

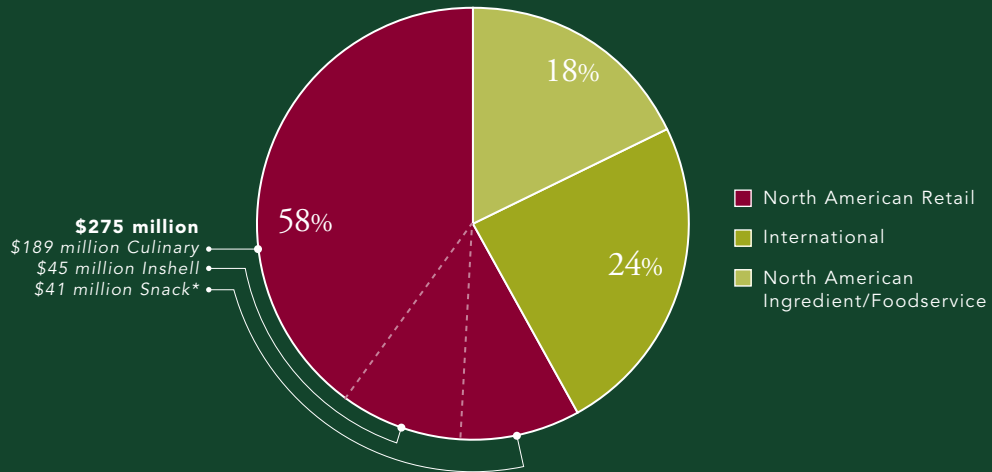
# Financial Highlights



**Net Sales and Other Revenues**  
in millions



**North American Retail Sales**  
in millions



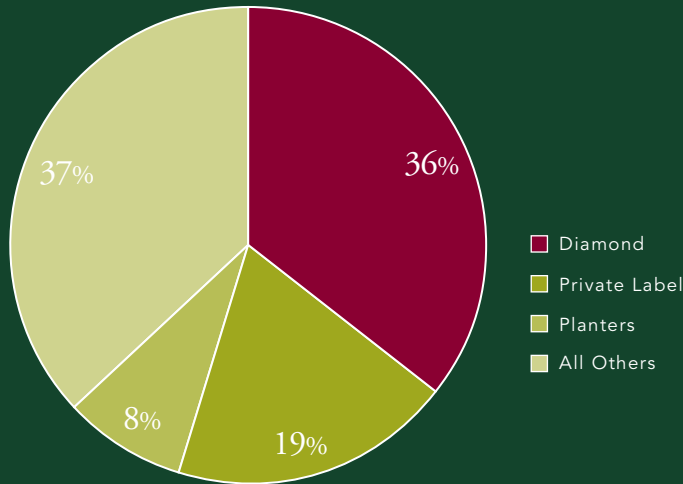
**2006 Net Sales by Channel**

## Selected Financial Data

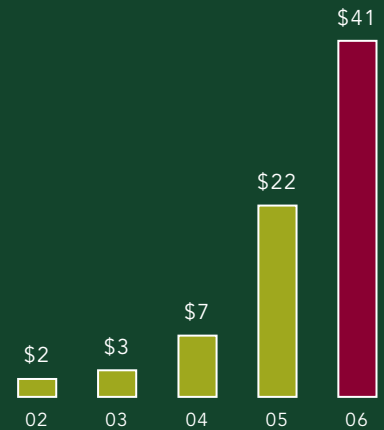
Years Ended July 31, (In thousands, except per share information)	2006	2005	2004	2003	2002
<b>STATEMENTS OF OPERATIONS (2006)/ NET PROCEEDS DATA<sup>(1)</sup>:</b>					
Net sales and other revenues	\$ 477,205	\$ 462,548	\$ 359,683	\$ 308,450	\$ 282,158
Patronage inventory at beginning of period	—	(101,403)	(94,701)	(96,508)	(68,377)
Patronage inventory at end of period	—	67,152	101,403	94,701	96,508
Net sales (2006)/Gross marketing pool proceeds	477,205	428,297	366,385	306,643	310,289
Total cost of sales	411,809	191,387	142,592	111,483	98,495
Gross Margin (2006)/Proceeds before operating expenses	65,396	236,910	223,793	195,160	211,794
Operating expenses:					
Selling general and administrative	37,046	33,188	28,169	26,937	26,317
Advertising	17,977	22,153	14,673	8,744	9,105
Other operating expenses	3,442	—	—	—	—
Total operating expenses	58,465	55,341	42,842	35,681	35,422
Income from operations (2006)/Operating proceeds	6,931	181,569	180,951	159,479	176,372
Interest, net	295	4,433	3,403	3,282	3,353
Conversion costs	—	697	—	—	—
Early extinguishment of debt	—	2,028	—	—	—
Other	310	—	—	—	—
Proceeds before income taxes	6,326	174,411	177,548	156,197	173,019
Income tax expense (benefit)	(1,010)	(8,385)	(43)	1,526	1,396
Net income (2006)/Net proceeds	\$ 7,336	\$ 182,796	\$ 177,591	\$ 154,671	\$ 171,623
Earnings per share					
Basic	\$ 0.47	\$ —	\$ —	\$ —	\$ —
Diluted	\$ 0.47	\$ —	\$ —	\$ —	\$ —
Shares used to compute earnings per share					
Basic	15,634	—	—	—	—
Diluted	15,653	—	—	—	—

(1) As an agricultural cooperative association, we derived revenues from our patronage business, which consisted of processing and marketing walnuts on behalf of Diamond members; and our non-patronage business, which consisted of purchasing, processing and marketing nut varieties other than walnuts. Our financial statements prior to fiscal year 2006 included statements of net proceeds prepared in accordance with GAAP for agricultural cooperative associations, rather than statements of operations. Net proceeds are amounts distributable to member growers from the patronage business. Net proceeds also include net income or loss from non-patronage business. Net proceeds do not include walnut acquisition costs. Effective August 1, 2005, our financial statements have been prepared in accordance with GAAP for companies that are not cooperative associations. We were not a public company during fiscal years prior to 2006, thus no earnings per share data is presented for those years. See consolidated financial statements filed on Form 10-K.

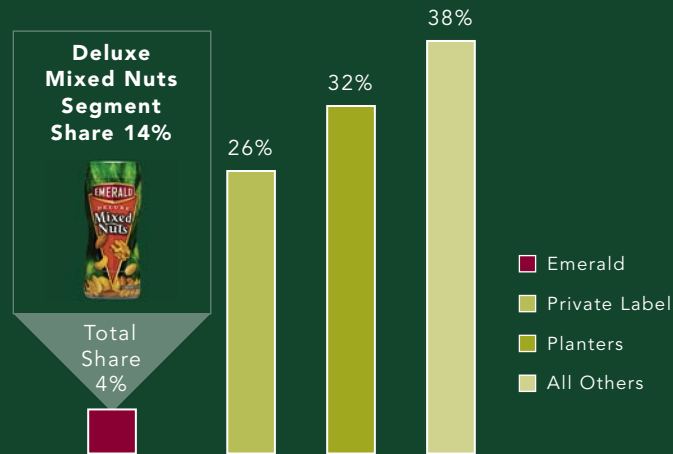
# Financial Highlights (continued)



Share of U.S. Culinary and Inshell Nuts\*



Diamond's Snack Sales  
in millions



Share of Snack Nut Category\*

## Consolidated Balance Sheets

July 31, (In thousands, except share and per share information)	2006	2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 35,614	\$ 49,035
Trade receivables, less allowance for doubtful accounts of \$598 and \$515, at July 31, 2006 and 2005, respectively	49,536	42,246
Inventories	99,177	111,270
Deferred income taxes	4,578	2,726
Property held for sale	1,728	—
Prepaid expenses and other current assets	7,329	5,169
Total current assets	197,962	210,446
Property, plant and equipment	34,291	27,658
Investment in CoBank	2,191	2,269
Deferred income taxes	4,812	5,133
Goodwill	5,077	—
Identifiable intangible assets, net	3,941	—
Other assets	4,758	6,522
<b>TOTAL ASSETS</b>	<b>\$253,032</b>	<b>\$252,028</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable—members	\$ —	\$ 2,119
Payable to members for membership interest	—	17,329
Accounts payable and accrued liabilities	28,371	29,422
Payable to growers	81,902	72,554
Total current liabilities	110,273	121,424
Long-term obligations	20,000	20,000
Other liabilities	11,933	11,142
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$0.001 par value; Authorized: 5,000,000 shares; no shares issued or outstanding	—	—
Common Stock, \$0.001 par value; Authorized: 100,000,000 shares; 15,737,194 and 15,555,506 shares issued and outstanding at July 31, 2006 and 2005, respectively	16	16
Additional paid-in capital	93,962	88,491
Accumulated other comprehensive loss	(36)	—
Retained earnings	16,884	10,955
Total stockholders' equity	110,826	99,462
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$253,032</b>	<b>\$252,028</b>

## Dear Fellow Stakeholders,

We are pleased with the progress made during 2006 as we transition Diamond Foods to capitalize on significant opportunities in the marketplace. As a result of our accomplishments, we are well positioned to generate consistent long-term growth and build on our position as an industry leader and innovator.

Diamond generated record net sales of \$477 million, with Emerald brand sales up 60%. Sales of our culinary and inshell nut products grew at a faster rate than the

**Our North American retail sales, which is our largest, most profitable segment, grew more than 20%.**

overall category, and our North American retail sales, which is our largest and most profitable segment, grew more than 20%. We finished the fiscal year with \$35.6 million in cash. Additionally, we were selected for inclusion in the NASDAQ Global Select Market, a testament to the company's financial strength and size.

To increase production capacity and further expand our snack offerings, we completed the acquisition of certain assets of Harmony Foods, including its processing and packaging equipment, product lines, brand names and its facility in Indiana. The facility is modern, centrally located for national distribution and provides us with enhanced packaging and processing capability. As a result of this transaction, we consolidated our Midwest packaging and processing operations at the Indiana facility and expect to generate substantial operating efficiencies in the years ahead.

With our 94-year history, Diamond is already the established leader in the culinary nut category. During fiscal 2006, we continued to expand distribution. Now, with the continued growth of the Emerald brand during the past year, as well as the Harmony acquisition, we are becoming a force in the snack category as well.

Diamond Foods averaged 28.2 items per store (Diamond and Emerald) at the end of fiscal 2006, compared with just 3.2 items per store in 1997. We are focused on increasing the velocity of our current distribution and are making progress in expanding distribution into additional channels. For fiscal 2007, we believe there is

an opportunity to further expand our business into mass merchandise, club and convenience stores as well as alternate channels.

Our reputation is based on premium quality, innovative packaging, creative marketing campaigns and national support at retail. We continue to utilize our unique roasting and proprietary glazing techniques in development of new products, such as our three new Emerald Trail Mix blends. We anticipate a number of new product introductions in fiscal 2007. We have developed several new Emerald packaging configurations specifically targeted to the convenience and club store channels. Snack enthusiasts and on-the-go consumers have come to recognize and appreciate our premium quality products, sold in reclosable green plastic containers that fit in auto cup holders.

We continue to support our sales strategies with creative marketing and brand awareness campaigns. Our distinct television and print advertising campaigns have helped us establish a strong brand identity. We also successfully promote our brand through investments in corporate sponsorships, community outreach and healthy lifestyle programs that enable product trial and build brand awareness.

Looking ahead, we are committed to continuing our investment in new products, marketing and distribution expansion. As a result of this investment, as well as continued successful execution of our strategies, our goal over the next five years is to increase total net sales by an annual average of 8% to 10% and to generate operating income of at least 10% of sales.

We made great progress in 2006 and are very optimistic about our future. On behalf of the entire Diamond management team and board of directors, we would like to thank our customers, our growers, our employees and our shareholders for their continued support and we look forward to reporting on our progress.



Michael J. Mendes  
President and Chief Executive Officer

# Corporate Information

## BOARD OF DIRECTORS

John J. Gilbert, Chairman  
Laurence M. Baer  
Robert M. Lea  
Michael J. Mendes  
Dennis Mussell  
Steven M. Neil  
Joseph P. Silveira  
Glen C. Warren, Jr.  
Robert J. Zollars

## EXECUTIVE MANAGEMENT

Michael J. Mendes  
President and Chief Executive Officer

Gary K. Ford  
Executive Vice President and Chief Operating Officer

Seth Halio  
Executive Vice President and Chief Financial Officer

Samuel J. Keiper  
Vice President of Corporate Affairs and  
Human Resources

Andrew Burke  
Vice President of Marketing

Stephen Kim  
Vice President, General Counsel

## LOCATIONS

California: Stockton, San Francisco, Linden,  
Live Oak and Modesto

Indiana: Fishers

Alabama: Robertsdale

Illinois: Chicago

## CORPORATE HEADQUARTERS

1050 South Diamond Street  
Stockton, CA 95205-7087  
Phone: 209-467-6000  
Fax: 209-467-6714  
diamondfoods.com  
emeraldnuts.com

## INVESTOR RELATIONS

EVC Group  
San Francisco, CA  
415-896-6820

## TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.  
P.O. Box 43010  
Providence, RI 02940-3010  
800-733-5001  
computershare.com

## INDEPENDENT AUDITORS

Deloitte & Touche LLP  
San Francisco, CA

## LEGAL COUNSEL

Fenwick & West LLP  
Mountain View, CA

## NASDAQ SYMBOL

Diamond Foods stock is traded on the NASDAQ  
Global Select Market under the symbol DMND.

## ANNUAL MEETING

10:00 a.m. Pacific Time, January 16, 2007  
1050 South Diamond Street  
Stockton, CA 95205

## FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements, including statements of our expectations about our future growth and financial results. Actual results could differ materially from what we anticipate, as a result of many risks and uncertainties. For information about some of the factors that could affect our results, please see Risk Factors starting on page 8 of our annual report on Form 10-K for fiscal year 2006.

## PERIODIC REPORTS

The company's annual report on Form 10-K, and its quarterly and current reports on Forms 10-Q and 8-K, are filed with the Securities and Exchange Commission and are available upon request. These reports are also available on the company's corporate website at diamondfoods.com.

## TRADEMARKS

Diamond of California® and Emerald® are trademarks owned by Diamond Foods, Inc. For ease of reading, designations of registered marks have been omitted from the text of this report.



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Stockton, California 95205-7087

[diamondfoods.com](http://diamondfoods.com)  
[emeraldnuts.com](http://emeraldnuts.com)