UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 000-51439

DIAMOND FOODS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-2556965**
(State of Incorporation)	*(IRS Employer Identification No.)*
600 Montgomery Street, 17th Floor San Francisco, California	**94111-2702**
(Address of Principal Executive Offices)	*(Zip Code)*
415-912-3180	
(Telephone No.)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☑

Number of shares of common stock outstanding as of October 31, 2008: 16,366,095

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Quarterly Report regarding our future financial and operating performance and results, business strategy, market prices, future commodity prices, plans and forecasts and other statements that are not historical facts are forward-looking statements. We use the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “seek,” and other similar expressions to identify forward-looking statements; many of which discuss our future expectations, contain projections of our results of operations or financial condition or state other “forward-looking” information. We have based these forward-looking statements on our assumptions, expectations and projections about future events only as of the date of this Quarterly Report.

These forward-looking statements also involve many risks and uncertainties that could cause actual results to differ from our expectations in material ways. Please refer to the risks and uncertainties discussed in the section titled “Risk Factors.” You also should carefully consider other cautionary statements elsewhere in this Quarterly Report and in other documents we file from time to time with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K and other Quarterly Reports on Form 10-Q filed by us during our 2009 fiscal year. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

DIAMOND FOODS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share information)
(Unaudited)

	October 31, 2008	July 31, 2008	October 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 4,885	$ 74,279	$ 1,703
Trade receivables, net	123,422	46,256	115,587
Inventories	212,147	88,526	189,233
Deferred income taxes	7,387	7,387	4,805
Prepaid expenses and other current assets	3,816	4,261	3,921
Total current assets	351,657	220,709	315,249
Property, plant and equipment, net	51,681	34,606	33,882
Deferred income taxes	5,227	5,802	5,092
Goodwill	80,416	5,432	5,432
Other intangible assets, net	100,523	3,473	3,649
Other long-term assets	4,499	3,245	4,096
Total assets	$ 594,003	$273,267	$ 367,400
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable	$ 83,250	$ —	$ 3,775
Current portion of long-term debt	11,250	—	—
Accounts payable and accrued liabilities	86,860	42,251	57,327
Payable to growers	135,740	56,942	143,920
Total current liabilities	317,100	99,193	205,022
Long-term obligations	111,425	20,204	20,288
Other liabilities	7,831	7,647	7,240
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; 16,548,985, 16,340,076 and 16,109,695 shares issued and 16,366,095, 16,180,771 and 16,025,625 shares outstanding at October 31, 2008, July 31, 2008 and October 31, 2007, respectively	16	16	16
Treasury stock, at cost: 182,890, 159,305 and 84,070 shares held at October 31, 2008 , July 31, 2008 and October 31, 2007, respectively	(3,816)	(3,203)	(1,436)
Additional paid-in capital	114,819	112,550	102,996
Accumulated other comprehensive income	1,392	1,584	2,230
Retained earnings	45,236	35,276	31,044
Total stockholders' equity	157,647	146,223	134,850
Total liabilities and stockholders' equity	$ 594,003	$273,267	$ 367,400

See notes to condensed consolidated financial statements.

DIAMOND FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended October 31,	
	2008	**2007**
Net sales	$195,526	$184,537
Cost of sales	154,457	154,988
Gross profit	41,069	29,549
Operating expenses:		
Selling, general and administrative	15,772	11,388
Advertising	5,850	4,356
Total operating expenses	21,622	15,744
Income from operations	19,447	13,805
Interest expense	1,449	351
Other (income) expense, net	898	—
Income before income taxes	17,100	13,454
Income taxes	6,404	5,112
Net income	$ 10,696	$ 8,342
Earnings per share:		
Basic	$ 0.66	$ 0.52
Diluted	$ 0.64	$ 0.52
Shares used to compute earnings per share:		
Basic	16,308	15,994
Diluted	16,656	15,994

See notes to condensed consolidated financial statements.

DIAMOND FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended October 31,	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,696	$ 8,342
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,175	1,545
Stock-based compensation	1,093	1,569
Deferred income taxes	575	—
Changes in assets and liabilities:		
Trade receivables	(75,483)	(64,925)
Inventories	(115,711)	(98,614)
Accounts payable and accrued liabilities	37,410	30,844
Payable to growers	78,798	86,803
Other, net	1,296	483
Net cash used in operating activities	(59,151)	(33,953)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	5	—
Purchase of property, plant and equipment	(2,061)	(1,401)
Acquisition of Pop Secret business	(191,734)	—
Net cash used in investing activities	(193,790)	(1,401)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Note payable borrowings	83,250	3,775
Proceeds from issuance of long-term debt	125,000	—
Payment of long-term debt	(22,557)	(75)
Debt issuance costs	(1,973)	—
Other, net	(173)	(398)
Net cash provided by financing activities	183,547	3,302
Net decrease in cash and cash equivalents	(69,394)	(32,052)
Cash and cash equivalents:		
Beginning of period	74,279	33,755
End of period	$ 4,885	$ 1,703
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 895	$ 329
Income taxes	$ 3,618	$ 181
Non-cash investing activity:		
Accrued capital expenditures	$ 160	$ 127
Liabilities related to Pop Secret acquisition	$ 7,000	$ —

See notes to condensed consolidated financial statements.

DIAMOND FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the quarters ended October 31, 2008 and 2007
(In thousands, except share and per share information)

(1) Organization and Basis of Presentation

Diamond Foods, Inc. (the “Company” or “Diamond”) processes, markets and distributes culinary, in-shell and ingredient/food service nuts and snack products. The Company obtains its walnuts from growers who are located in California and through July 26, 2005, were members of Diamond Walnut Growers, Inc., a cooperative association. The Company obtains its other nuts from independent suppliers. Diamond sells products to approximately 900 customers, including over 150 international customers. In general, the Company sells directly to retailers, particularly large, national grocery and club stores, mass merchandisers and drug store chains, and indirectly through wholesale distributors who serve independent and small regional retail grocery store chains and convenience stores.

The accompanying unaudited condensed consolidated financial statements of Diamond have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial reporting and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements at and for the year ended July 31, 2008 and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments necessary for the fair presentation of the Company’s financial condition at October 31, 2008, and the results of the Company’s operations and cash flows for the three months ended October 31, 2008 and 2007. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s 2008 Annual Report on Form 10-K. Operating results for the three months ended October 31, 2008 are not necessarily indicative of the results that may be expected for the year ending July 31, 2009.

Total comprehensive income was $10,504 and $8,339 for the three months ended October 31, 2008 and 2007, respectively.

(2) Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, “*Disclosures about Derivative Instruments and Hedging Activities*.” SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that SFAS No. 161 will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “*Business Combinations*,” and SFAS No. 160, “*Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*.” SFAS No. 141(R) will significantly change current practices regarding business combinations and would be applied prospectively by the Company to acquisitions after the effective date. SFAS No. 160 will change the accounting and reporting for minority interests, reporting them as equity separate from the parent entity’s equity, as well as requiring expanded disclosures. SFAS No. 141(R) and SFAS No. 160 are effective for the Company beginning on August 1, 2009. Accordingly, both SFAS No. 141(R) and SFAS 160 did not impact the Pop Secret acquisition completed on September 15, 2008. The impact of SFAS No. 141(R) and SFAS No. 160 on future acquisitions, results of operations and financial position can not be determined at this time.

(3) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, “*Fair Value Measurements*.” SFAS 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. SFAS No. 157 requires new disclosures that establish a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. In February 2008, the FASB issued FASB Staff Position No. 157-2, “*The Effective Date of FASB Statement No. 157*,” which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This includes fair value calculated in impairment assessments of goodwill, indefinite-lived intangible assets, and other long-lived assets.

Effective August 1, 2008, the Company adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company's results of operations, cash flows or financial position.

The carrying value and estimated fair value of the Company's financial instruments (interest rate swap liability) as of October 31, 2008 are $205.

SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed based on the following criteria:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

At October 31, 2008, the derivative interest rate swap fair value is a level 2 instrument.

The Company has elected to use the income approach to value the derivative, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates, and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. Under SFAS No. 157, the fair value measurement of an asset or liability must reflect the nonperformance risk of the entity and the counterparty. Therefore, the impact of the counterparty's creditworthiness when in an asset position and the Company's creditworthiness when in a liability position has also been factored into the fair value measurement of the derivative instruments and did not have a material impact on the fair value of the derivative instruments. Both the counterparty and the Company are expected to continue to perform under the contractual terms of the instruments.

Effective August 1, 2008, the Company adopted SFAS No. 159, "The *Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*." SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on these items will be reported in earnings at each subsequent reporting date. The adoption of SFAS No. 159 did not have a material impact on the Company's results of operations or financial condition.

(4) Stock Plan Information

The Company uses a broad based equity incentive plan to help align employees and director incentives with stockholders' interests, and accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *"Share-Based Payment."* Beginning with the adoption of SFAS No. 123(R) in August 2005, the fair value of all stock options granted subsequent to July 20, 2005 is recognized as an expense in the Company's statement of operations, typically over the related vesting period of the options. SFAS No. 123(R) requires use of fair value computed at the date of grant to measure share-based awards. The fair value of restricted stock awards is recognized as stock-based compensation expense over the vesting period. Stock options may be granted to officers, employees and directors. As required under SFAS No. 123(R), the Company continues to account for stock-based compensation for options granted prior to August 1, 2005 using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*." Since those options were granted at market price, no compensation expense is recognized.

Stock Option Awards: The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model. Expected stock price volatilities are estimated based on the Company's implied historical volatility. The expected term of options granted and forfeiture rates are based on assumptions and historical data to the extent it is available. The risk-free rates are based on U.S. Treasury yields, for notes with comparable terms as the option grants, in effect at the time of the grant. For purposes of this valuation model, dividends are based on the historical rate. Assumptions used in the Black-Scholes model are presented below:

	Three Months Ended October 31, 2008	2007
Average expected life, in years	6	6
Expected volatility	36.00%	30.00%
Risk-free interest rate	3.77%	4.57%
Dividend rate	0.68%	0.98%

The following table summarizes stock option activity during the three months ended October 31, 2008:

	Number of Shares (in thousands)	Weighted average exercise price per share	Weighted average remaining contractual life (in years)	Aggregate intrinsic value (in thousands)
Outstanding at July 31, 2008	1,510	$17.74		
Granted	33	28.03		
Exercised	(48)	17.72		
Cancelled	(4)	17.13		
Outstanding at October 31, 2008	1,491	17.97	7.3	$16,790
Exercisable at October 31, 2008	1,199	17.34	7.0	$14,256

The weighted average fair value per share of stock options granted during the three months ended October 31, 2008 was $10.86 (there were no grants in the three months ended October 31, 2007). The fair value of options vested during the three months ended October 31, 2008 and 2007 was $6.53 and $5.96, respectively.

Changes in the Company's nonvested stock options during the three months ended October 31, 2008 are summarized as follows:

	Number of Shares (in thousands)	Weighted average grant date fair value per share
Nonvested at July 31, 2008	298	$ 6.74
Granted	33	10.86
Vested	(35)	6.53
Cancelled	(4)	4.07
Nonvested at October 31, 2008	292	7.27

As of October 31, 2008, there was approximately $1.4 million of total unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted average period of one year.

Restricted Stock Awards: As of October 31, 2008, there were 432,827 shares of restricted stock outstanding. Restricted stock activity during the three months ended October 31, 2008 is summarized as follows:

	Number of Shares (in thousands)	Weighted average grant date fair value per share
Outstanding at July 31, 2008	332	$17.74
Granted	178	25.87
Vested	(60)	17.45
Cancelled	(17)	19.62
Outstanding at October 31, 2008	433	21.04

The weighted average fair value per share of restricted stock granted during the three months ended October 31, 2008 and 2007 was $25.87 and $17.48, respectively. The fair value of restricted stock vested during the three months ended October 31, 2008 and 2007 was $17.45 and $17.00, respectively. The total intrinsic value of restricted stock vested in the three months ended October 31, 2008 and 2007 was $1,552 and $74, respectively.

As of October 31, 2008, there was $8.0 million of unrecognized compensation expense related to nonvested restricted stock awards, which is expected to be recognized over a weighted average period of three years.

Employee Stock Purchase Plan: Under the Employee Stock Purchase Plan ("ESPP"), full-time employees are permitted to purchase a limited number of Diamond common shares with a look-back option that allows employees to purchase shares of common stock at the lower of 85% of the market price at either the date of enrollment or the date of purchase. There were no shares sold under this plan during the three months ended October 31, 2008 and 2007. The fair value of employees' purchase rights for compensation expense is calculated using the Black-Scholes model and the following weighted-average assumptions:

	Three Months Ended October 31,	
	2008	2007
Average expected life, in years	0.75	0.75
Expected volatility	30.00%	30.00%
Risk-free interest rate	4.01%	4.81%
Dividend rate	0.90%	0.69%

Suspension of the ESPP Program: During the quarter ended April 30, 2008, the Company decided to suspend the ESPP program. For most employees, the final purchase date was May 30, 2008, and for the remainder, the program will cease on November 30, 2008.

(5) Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares and includes the dilutive effect of common shares issuable upon the exercise of outstanding options, calculated using the treasury stock method. Options to purchase 33,000 and 219,884 shares of common stock were not included in the computation of diluted earnings per share because their exercise prices were greater than the average market price of Diamond's common stock of $26.75 and $18.32 for the three months ended October 31, 2008 and 2007, respectively, and therefore their effect would be antidilutive.

(6) Acquisition of Pop Secret

On September 15, 2008, Diamond completed its acquisition of the Pop Secret popcorn business from General Mills, Inc. for a purchase price of approximately $190 million in cash. Pop Secret is the second largest brand in the microwave popcorn category in U.S. grocery stores, where it has a 25% market share. Pop Secret, when combined with Diamond and Emerald branded products, offers the Company supply chain economies of scale and cross promotional marketing opportunities. The assets and liabilities acquired are herein referred to as "Pop Secret."

The acquisition is being accounted for as a business combination in accordance with SFAS No. 141, "*Business Combinations*."

The total purchase price was $190 million, including $2 million in transaction related costs, which has been preliminarily allocated to the estimated fair values of assets and liabilities acquired as follows:

Inventory	$ 7,910
Property, plant and equipment	17,023
Brand intangibles	62,500
Customer relationships	34,900
Goodwill	74,984
Acquisition liabilities	(7,000)
Purchase price	$190,317

Customer relationships of Pop Secret will be amortized on a straight-line basis over an average estimated life of 20 years. Brand intangibles relate to the "Pop Secret" brand name, which has indefinite life, and therefore, is not amortizable.

Identifiable intangible asset amortization expense for each of the five succeeding years will amount to approximately $1,745.

Pro Forma — Financial Information

The following reflects the unaudited pro forma combined results of operations of the Company and Pop Secret as if the acquisition had taken place at the beginning of fiscal year 2008:

	October 31,	
	2008	**2007**
Net sales	$209,035	$210,553
Net income	$ 13,129	$ 7,954
Diluted earnings per share	$ 0.79	$ 0.50

(7) Balance Sheet Items

Inventories consisted of the following:

	October 31, 2008	**July 31, 2008**	**October 31, 2007**
Raw materials and supplies	$ 143,963	$33,501	$ 123,866
Work in process	23,259	19,084	13,600
Finished goods	44,925	35,941	51,767
Total	$ 212,147	$88,526	$ 189,233

Accounts payable and accrued liabilities consisted of the following:

	October 31, 2008	July 31, 2008	October 31, 2007
Accounts payable	$ 60,366	$21,848	$ 36,909
Accrued promotion	11,664	8,695	8,693
Accrued salaries and benefits	5,645	7,886	4,662
Income taxes payable	4,432	—	3,058
Other	4,753	3,822	4,005
Total	$ 86,860	$42,251	$ 57,327

(8) Intangible Assets and Goodwill

Intangible assets and goodwill (gross) consisted of the following:

	October 31, 2008	July 31, 2008	October 31, 2007
Goodwill	$ 80,416	$ 5,432	$ 5,432
Brand intangibles	62,500	—	—
Intangible assets subject to amortization:			
Customer contracts and related relationships	37,300	2,400	2,400
Trademarks and trade names	1,600	1,600	1,600
Total intangible assets subject to amortization	38,900	4,000	4,000
Total goodwill and intangible assets, gross	$ 181,816	$ 9,432	$ 9,432

Intangible assets and goodwill (net) consisted of the following:

	October 31, 2008	July 31, 2008	October 31, 2007
Goodwill	$ 80,416	$ 5,432	$ 5,432
Brand intangibles	62,500	—	—
Intangible assets subject to amortization:			
Customer contracts and related relationships, net of accumulated amortization of $592, $270 and $180, as of October 31, 2008, July 31, 2008 and October 31, 2007, respectively	36,708	2,130	2,220
Trademarks and trade names, net of accumulated amortization of $285, $257 and $171 as of October 31, 2008, July 31, 2008 and October 31, 2007, respectively	1,315	1,343	1,429
Total intangible assets subject to amortization	38,023	3,473	3,649
Total goodwill and intangible assets, net	$ 180,939	$ 8,905	$ 9,081

Identifiable intangible asset amortization expense annually for each of the five succeeding years will amount to approximately $1,979 and will approximate $1,484 for the remainder of fiscal year 2009.

(9) Credit Facilities

On September 15, 2008, the Company replaced its $20 million Senior Notes due December 2013 (the "Senior Notes"), the Credit Agreement dated December 2, 2004 between the Company and Bank of the West, and the Master Loan Agreement dated February 23, 2004, between the Company and CoBank ACB, as amended (collectively called the "Bank Debt"), with a new five year unsecured $250 million Senior Credit Facility (the "Credit Facility"). The proceeds of the Credit Facility were used in part to fund the $190 million purchase of the Pop Secret business from General Mills and for ongoing operational needs, as well as to repay the Senior Notes. An early termination fee of $2.6 million was incurred in connection with the prepayment of the Senior Notes.

The Credit Facility consists of a $125 million revolving credit line and a $125 million term loan. The term loan amortizes at a rate of $10 million, $15 million, $20 million, $25 million and $55 million, per year (due quarterly, commencing October 31, 2008). In addition, there is a provision for annual excess cash flow recapture to pay down the term loan at a faster rate in the event cash flows exceed certain specified levels. The interest rate for the entire Credit Facility is tied to LIBOR plus a credit spread linked to our leverage ratio. As of October 31, 2008, the interest rate was 5.23%.

The Credit Facility subjects the Company to financial and other covenants (including a debt -to-EBITDA ratio) and certain customary events of default. As of October 31, 2008, July 31, 2008 and October 31, 2007, the Company was in compliance with all applicable covenants.

(10) Retirement Plans

Diamond provides retiree medical benefits and sponsors two defined benefit pension plans. One plan is a qualified plan covering all bargaining unit employees and the other is a nonqualified plan for certain salaried employees. A third plan covering all salaried employees was terminated in 2007. The amounts shown for pension benefits are combined amounts for all plans. Diamond uses an August 1 measurement date for its plans. Plan assets are held in trust and primarily include mutual funds and money market accounts. Any employee who joined the Company following January 15, 1999 is not entitled to retiree medical benefits.

Components of net periodic benefit cost for the three-month periods ended October 31 were as follows:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Service cost	$ 148	$ 164	$ 26	$ 25
Interest cost	270	241	71	70
Expected return on plan assets	(265)	(287)	—	—
Amortization of prior service cost	7	7	—	—
Amortization of net loss / (gain)	13	1	(135)	(132)
Net periodic benefit cost / (income)	$ 173	$ 126	$ (38)	$ (37)

The Company recognized defined contribution plan expenses of $120 and $86 for the three months ended October 31, 2008 and 2007, respectively.

(11) Derivatives

In the first quarter of fiscal year 2009, the Company entered into an interest rate swap agreement in accordance with Company policy to mitigate the impact of LIBOR based interest expense fluctuations on Company profitability. The swap agreement, with a total hedged notional of $47.5 million was entered into to hedge future cash interest payments associated with a portion of the Company's variable rate bank debt, which was entered into to finance the Pop Secret acquisition. The Company accounts for derivative instruments and hedging activities in accordance with the provisions of SFAS 133 "*Accounting for Derivative Instruments and Hedging Activities*" and SFAS 138, "*Accounting for Certain Derivative Instruments and Hedging Activities,*" an amendment of SFAS 133. Management has designated the derivative as a hedge of the identified exposure. The Company does not enter into derivative instruments that do not qualify as cash flow hedges as described in SFAS 133 and SFAS 138. The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking the hedge. The Company tests the effectiveness of the hedging relationship both at the inception of the hedge and on an ongoing monthly basis. The Company records all derivatives on the balance sheet at fair market value (see Note 3). All effective changes in the fair value of the designated swap are recorded in comprehensive income (loss) and are released to interest income/expense on a monthly basis as the hedged debt payments are accrued. The impact of any ineffectiveness is recognized in interest income (loss) immediately. For the quarter ended October 31, 2008, the Company recognized comprehensive loss of $192 based on the change in fair value of the swap and approximately $8 for ineffectiveness which was recognized in income in the same period.

(12) Contingencies

In March 2008, a former grower and an organization named Walnut Producers of California filed suit against Diamond in San Joaquin County Superior Court claiming, among other things, breach of contract relating to alleged underpayment for walnut deliveries for the 2005 and 2006 crop years. The plaintiffs purport to represent a class of walnut growers who entered into contracts with Diamond. Diamond intends to defend itself vigorously against these allegations. In May 2008, Diamond argued a motion in front of the judge in the case requesting, among other things, that all class action allegations be struck from the plaintiffs' complaint. In August 2008, the court granted Diamond's motion. The plaintiffs have appealed the court's ruling striking the class allegations from the complaint.

The Company has various other legal actions in the ordinary course of business. All such matters, and the matter described above, are subject to many uncertainties that make their ultimate outcomes unpredictable. However, in the opinion of management, resolution of all legal matters is not expected to have a material adverse effect on the Company's financial condition, operating results or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a branded food company specializing in processing, marketing and distributing culinary, in-shell and ingredient nuts and snack products. Our company was founded in 1912 and has a strong heritage in the walnut market under the Diamond of California brand. On July 26, 2005 we converted from an agricultural cooperative association to a Delaware corporation and completed the initial public offering of our common stock. As a public company, our focus is on building stockholder value. We intend to expand our existing business, and to continue to introduce higher-value branded products in our culinary and snack businesses, including snack products marketed under our Emerald and Pop Secret brand names. The acquisition of Pop Secret is anticipated to provide supply chain economies of scale and cross promotional opportunities with our other brands. Our products are sold in over 60,000 retail locations in the United States and in over 100 countries. We sell products to approximately 900 customers, including over 150 international customers. In general, we sell directly to retailers, particularly large, national grocery store and drug store chains, and indirectly through wholesale distributors who serve independent and small regional retail grocery store chains and convenience stores. We also sell our products to mass merchandisers, club stores, convenience stores and through other retail channels.

Our business is seasonal. Demand for nut products, particularly in-shell nuts and to a lesser extent, culinary nuts, is highest during the months of October, November and December. We receive our principal raw material, walnuts, during the period from September to November and process it throughout the year. As a result of this seasonality, our personnel and working capital requirements and walnut inventories peak during the last quarter of the calendar year. This seasonality also impacts capacity utilization at our facilities, which routinely operate at capacity for the last four months of the calendar year.

A disproportionate amount of our net sales and net income are recognized in the first half of our fiscal year. For example, in both 2008 and 2007, we recognized 60% of our net sales for the full fiscal year in the first six months of the year. In the near term, we expect a higher percentage of our net income to be earned in the first half of our fiscal year because many of our operating costs are fixed and cannot be reduced when net sales are lower quarter to quarter. However, as we continue to introduce new products, such as snack products, we expect net sales and net income to be less seasonal.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies are set forth below.

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, title and risk of loss has transferred to the buyer (based upon terms of shipment), price is fixed, delivery occurs and collection is reasonably assured. Revenues are recorded net of rebates, introductory or slotting payments, coupons, promotion and marketing allowances. Customers have the right to return certain products. Product returns are estimated based upon historical results and are reflected as a reduction in net sales.

Inventories. All inventories are accounted for on a lower of cost (first-in, first-out) or market basis.

We have long-term Walnut Purchase Agreements with substantially all of our growers. Under these agreements, growers deliver their entire walnut crop to us during the Fall harvest season and we determine the purchase price for this inventory by March 31 of the following year. This purchase price will be a price determined by us in good faith, taking into account market conditions, crop size, quality, and nut varieties, among other relevant factors. Since the ultimate price to be paid will be determined each March subsequent to receiving the walnut crop, management must make an estimate of this price for the first and second quarter interim financial statements. Such estimates may subsequently change, and the effect of the change could be significant.

Valuation of Long-lived and Intangible Assets and Goodwill. We periodically review long-lived assets and certain identifiable intangible assets for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "*Accounting for the Impairment or Disposal of Long-lived Assets*." Goodwill is reviewed annually for impairment in accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets,*" or more often if there are indications of possible impairment.

For assets to be held and used, including acquired intangibles, we initiate our review whenever events or changes in circumstances indicate that the carrying amount of intangible assets may not be recoverable. Recoverability of an asset is measured by comparison of its carrying amount to the expected future undiscounted cash flows that the asset is expected to generate. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Significant management judgment is required in this process. We perform the annual goodwill impairment test required by SFAS No. 142 in the fourth quarter of each year. We cannot assure you that a material impairment charge will not be recorded in the future.

Employee Benefits. We incur various employment-related benefit costs with respect to qualified and nonqualified pension and deferred compensation plans. Assumptions are made related to discount rates used to value certain liabilities, assumed rates of return on assets in the plans, compensation increases, employee turnover and mortality rates. Different assumptions could result in the recognition of differing amounts of expense over different periods of time.

Income Taxes. We account for income taxes in accordance with SFAS No. 109, "*Accounting for Income Taxes,*" which requires that deferred tax assets and liabilities be recognized for the tax effect of temporary differences between the financial statement and tax basis of recorded assets and liabilities at current tax rates. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The recoverability of deferred tax assets is based on both our historical and anticipated earnings levels and is reviewed periodically to determine if any additional valuation allowance is necessary when it is more likely than not that amounts will not be recovered.

We also account for income taxes in accordance with FASB Interpretation ("FIN") No. 48, *"Accounting for Uncertainty in Income Taxes."*

Accounting for Stock-Based Compensation. We account for stock-based compensation arrangements, including stock option grants and restricted stock awards, in accordance with the provisions of SFAS No. 123(R) "*Share-Based Payment*." Under SFAS No. 123(R), compensation cost is recognized based on the fair value of equity awards on the date of grant. The compensation cost is then amortized on a straight-line basis over the vesting period. We use the Black-Scholes option pricing model to determine the fair value of stock options at the date of grant. This model requires us to make assumptions such as expected term, volatility, and forfeiture rates that determine the stock options fair value. These key assumptions are based on historical information and judgment regarding market factors and trends. If actual results are not consistent with our assumptions and judgments used in estimating these factors, we may be required to increase or decrease compensation expense, which could be material to our results of operations.

Results of Operations

Net sales were $195.5 million and $184.5 million for the three months ended October 31, 2008 and 2007, respectively. The increase in net sales was primarily due to an increase in snack product sales and higher culinary pricing in all channels, partially offset by lower volume.

Net sales by channel (in thousands):

	October 31,		% Change from
	2008	2007	2007 to 2008
North American Retail (1)	$150,481	$122,065	23.3%
International	31,343	46,461	-32.5%
North American Ingredient/Food Service	12,960	15,252	-15.0%
Other	742	759	-2.2%
Total	$195,526	$184,537	6.0%

(1) North American Retail represents sales of our culinary, snack and in-shell nuts in North America.

The increase in North American Retail sales for the three months ended October 31, 2008 resulted from higher sales of snack and culinary products, which increased by 95.6% and 23.0%, respectively; offset in part by lower sales of in-shell products. International and ingredient sales for the three months ended October 31, 2008 decreased primarily due to lower volume, offset in part, by higher pricing.

Sales of walnuts and other nuts and popcorn products as a percentage of net sales were:

	October 31,	
	2008	2007
Walnuts	57.2%	62.7%
Other nuts and popcorn products	42.8%	37.3%
Total	100.0%	100.0%

Sales to Wal-Mart Stores, Inc. represented approximately 20.6% and 22.4% of total net sales for the three months ended October 31, 2008 and 2007, respectively. Sales to Costco Wholesale Corporation represented approximately 12.0% of total net sales for the three months ended October 31, 2008. Sales to Costco Wholesale Corporation for the three months ended October 31, 2007 were less than 10% of total net sales.

Gross Profit. Gross profit as a percentage of net sales for the three months ended October 31, 2008 and 2007 was 21.0% and 16.0%, respectively. Gross profit for the three months ended October 31, 2008 increased mainly due to favorable product mix, favorable impact of Pop Secret sales and the result of cost efficiency initiatives .

Selling, General and Administrative. Selling, general and administrative expenses consist principally of salaries and benefits for sales and administrative personnel, brokerage, professional services, travel, non-manufacturing depreciation, and facility costs. Selling, general and administrative expenses as a percentage of net sales were 8.1% and 6.2% for the three months ended October 31, 2008 and 2007, respectively. The increase was mainly the result of work force additions and operating expenses associated with the Pop Secret acquisition.

Advertising. Advertising expense as a percentage of net sales was 3.0% and 2.4% for the three months ended October 31, 2008 and 2007, respectively. The increase was primarily due to timing of certain advertising programs and the initiation of Pop Secret advertising.

Interest. Interest expense as a percentage of net sales was 0.7% and 0.2% for the three months ended October 31, 2008 and 2007, respectively. The increase was mainly due to the borrowing used to fund the Pop Secret acquisition.

Other (income) expense, net. Other (income) expense, net as a percentage of net sales was 0.5% for the three months ended October 31, 2008. This includes a payment on early termination of debt of $2.6 million, partially offset by a gain on the sale of emission reduction credits of $1.7 million.

Income Taxes. The effective tax rate for the three months ended October 31, 2008 was approximately 37.5%. The effective tax rate for the three months ended October 31, 2007 was 38.0%. Income tax expense for fiscal year 2009 is expected to be approximately 38.0% of pre-tax income before the impact of any discrete tax items.

Liquidity and Capital Resources

Our liquidity is dependent upon funds generated from operations and external sources of financing.

During the three months ended October 31, 2008, cash used in operating activities was $61.1 million compared to $34.0 million for the three months ended October 31, 2007. The increase was primarily due to working capital associated with the Pop Secret acquisition. Cash required for operating activities is typically higher in our first quarter due to the seasonality of the business and working capital build up from the walnut harvest. Cash used in investing activities was $193.8 million in 2008 compared to $1.4 million in 2007. This change was mainly due to the acquisition of the Pop Secret popcorn business. Cash provided by financing activities during the three months ended October 31, 2008 was $185.5 million compared to $3.3 million for the three months ended October 31, 2007. The increase was mainly due to long-term borrowing to fund the Pop Secret acquisition.

On September 15, 2008, we replaced our $20 million Senior Notes due December 2013 (the "Senior Notes"), the Credit Agreement dated December 2, 2004 between us and Bank of the West, and the Master Loan Agreement dated February 23, 2004, between us and CoBank ACB, as amended (collectively called the "Bank Debt") with a new five year unsecured $250 million Senior Credit Facility (the "Credit Facility"). The proceeds of the Credit Facility were used in part to fund the $190 million purchase of the Pop Secret business from General Mills and ongoing operational needs, as well as to repay the Senior Notes. An early termination fee of $2.6 million was incurred in connection with the prepayment of the Senior Notes.

The Credit Facility consists of a $125 million revolving credit line and a $125 million term loan. The term loan amortizes at a rate of $10 million, $15 million, $20 million, $25 million and $55 million, per year (due quarterly, commencing October 31, 2008). In addition, there is a provision for annual excess cash flow recapture to pay down the term loan at a faster rate in the event cash flows exceed certain specified levels. The interest rate for the entire Credit Facility is tied to LIBOR plus a credit spread linked to our leverage ratio.

The Credit Facility subjects us to financial and other covenants and certain customary events of default. As of October 31, 2008, July 31, 2008 and October 31, 2007, we were in compliance with all applicable covenants in our credit facilities.

Working capital and stockholders' equity were $34.6 million and $157.6 million at October 31, 2008 compared to $121.5 million and $146.2 million at July 31, 2008 and $110.2 million and $134.9 million at October 31, 2007. We have the ability to convert the $83.3 million of notes payable to long-term obligations should we elect to do so.

We believe our cash and cash equivalents and cash expected to be provided from our operations, in addition to borrowings available under our Credit Facility, will be sufficient to fund our contractual commitments, repay obligations as required, and fund our operational requirements for at least the next 12 months.

Contractual Obligations and Commitments

Contractual obligations and commitments at October 31, 2008 are as follows (in millions):

	Payments Due by Period				
	Total	Less than 1 Year (d)	1-3 Years	3-5 Years	More than 5 Years
Long-term obligation	$122.8	$ 7.6	$35.2	$80.0	$ —
Interest on long-term obligations (a)	24.2	5.5	12.3	6.4	—
Operating leases	11.5	1.6	5.1	2.4	2.4
Purchase commitments (b)	1.1	1.1	—	—	—
Other long-term liabilities (c)	6.9	0.2	0.5	0.6	5.6
Total	$166.5	$16.0	$53.1	$89.4	$8.0

(a) Amounts represent the expected cash interest payments on our long-term debt. Interest on our variable rate debt was forecasted using a LIBOR forward curve analysis as of October 31, 2008.

(b) Commitments to purchase equipment. Excludes purchase commitments under Walnut Purchase Agreements.

(c) Excludes $0.4 million in deferred rent liabilities and $0.2 million of non-current FIN 48 tax liabilities.

(d) Represents obligations and commitments for the remaining nine months of fiscal year 2009.

Effects of Inflation

There has been no material change in our exposure to inflation from that discussed in our 2008 Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Note 2 of the condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the first quarter of 2009, the Company entered into an interest rate swap to pay fixed and receive variable payments. This swap was designated as a cash flow hedge and is accounted for in accordance with SFAS 133. See Note 11 for terms of the swap and Note 3 for the fair value of the swap. On a monthly basis, the fair value of the swap is determined based on the income approach using observable level 2 inputs. The fair value of the swap is recorded on the balance sheet as an asset or liability with all effective changes deferred in other comprehensive income and all ineffective changes recorded in interest income/expense. The swap exposes the Company to credit risk in the event that the counterparty to the agreement does not or cannot meet its obligation. The notional amount of $47.5 million is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The loss would be limited to the amount that would have been received, if any, over the remaining life of the swap. On a monthly basis, the counterparty is evaluated for non-performance risk. The Company and the counterparty are both expected to continue to perform under the remaining terms of the agreement.

Item 4. Controls and Procedures

We have established and currently maintain disclosure controls and procedures designed to ensure that material information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and that any material information relating to the Company is recorded, processed, summarized and reported to our principal officers to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In conjunction with the close of each fiscal quarter, we conduct a review and evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial and Administrative Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial and Administrative Officer, based upon their evaluation as of October 31, 2008, the end of the fiscal quarter covered in this report, concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

As of October 31, 2008, there has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We are in the process of integrating the recently acquired Pop Secret business into our operations, but do not anticipate this integration will have a material impact on our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In March 2008, a former grower and an organization named Walnut Producers of California filed suit against us in San Joaquin County Superior Court claiming, among other things, breach of contract relating to alleged underpayment for walnut deliveries for the 2005 and 2006 crop years. The plaintiffs purport to represent a class of walnut growers who entered into contracts with us. We intend to defend ourselves vigorously against these allegations. In May 2008, we argued a motion in front of the judge in the case requesting, among other things, that all class action allegations be struck from the plaintiffs' complaint. In August 2008, the court granted our motion. The plaintiffs have appealed the court's ruling striking the class allegations from the complaint.

We are the subject of various legal actions in the ordinary course of our business. All such matters, and the matter described above, are subject to many uncertainties that make their outcomes unpredictable. We believe that resolution of these matters will not have a material adverse effect on our financial condition, operating results or cash flows.

Item 1A. Risk Factors

There were no material changes to the Risk Factors disclosed in the Company's Annual Report on Form 10-K for the year ended July 31, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total number of shares repurchased (1)	Average price paid per share	Total number of shares repurchased as part of publicly announced plans	Approximate Dollar value of shares that may yet be purchased under the plans
Repurchases from August 1 - August 31, 2008	22,347	$25.86	—	$ —
Repurchases from September 1 - September 30, 2008	—	$ —	—	$ —
Repurchases from October 1 - October 31, 2008	1,238	$27.30	—	$ —
Total	23,585	$25.94	—	$ —

(1) All of the shares in the table above were originally granted to employees as restricted stock pursuant to our 2005 Equity Incentive Plan ("EIP"). Pursuant to the EIP, all of the shares reflected above were relinquished by employees in exchange for Diamond's agreement to pay federal and state withholding obligations resulting from the vesting of the restricted stock. The repurchases reflected above were not made pursuant to a publicly announced plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this report or are incorporated by reference to exhibits previously filed with the SEC.

			Incorporated by reference		
Number	**Exhibit Title**	**Filed with this 10-Q**	**Form**	**File No.**	**Date Filed**
10.01	Offer letter between Lloyd Johnson and Diamond Foods, Inc.		10-K	000-51439	9/25/08
31.01	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.02	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.01	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIAMOND FOODS, INC.

Date: December 3, 2008

By: /s/ Steven M. Neil
Steven M. Neil
Chief Financial and Administrative Officer and duly authorized officer

Exhibit 31.01

Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael Mendes, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended October 31, 2008 of Diamond Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2008

By: /s/ Michael Mendes
Name: Michael Mendes
Title: President and Chief Executive Officer

Exhibit 31.02

Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Steven M. Neil, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended October 31, 2008 of Diamond Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2008

By: /s/ Steven M. Neil
Name: Steven M. Neil
Title: Chief Financial and Administrative Officer

Exhibit 32.01

Certification by the Chief Financial Officer Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U. S. C. Section 1350, I, Steven M. Neil, hereby certify that, to the best of my knowledge, the Quarterly Report of Diamond Foods, Inc. on Form 10-Q for the quarter ended October 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in that Report fairly presents, in all material respects, the financial condition and results of operations of Diamond Foods, Inc.

/s/ Steven M. Neil
Steven M. Neil
Chief Financial and Administrative Officer
Date: December 3, 2008

Certification by the Chief Executive Officer Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U. S. C. Section 1350, I, Michael Mendes, hereby certify that, to the best of my knowledge, the Quarterly Report of Diamond Foods, Inc. on Form 10-Q for the quarter ended October 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in that Report fairly presents, in all material respects, the financial condition and results of operations of Diamond Foods, Inc.

/s/ Michael Mendes
Michael Mendes
President and Chief Executive Officer
Date: December 3, 2008

These certifications accompany this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.