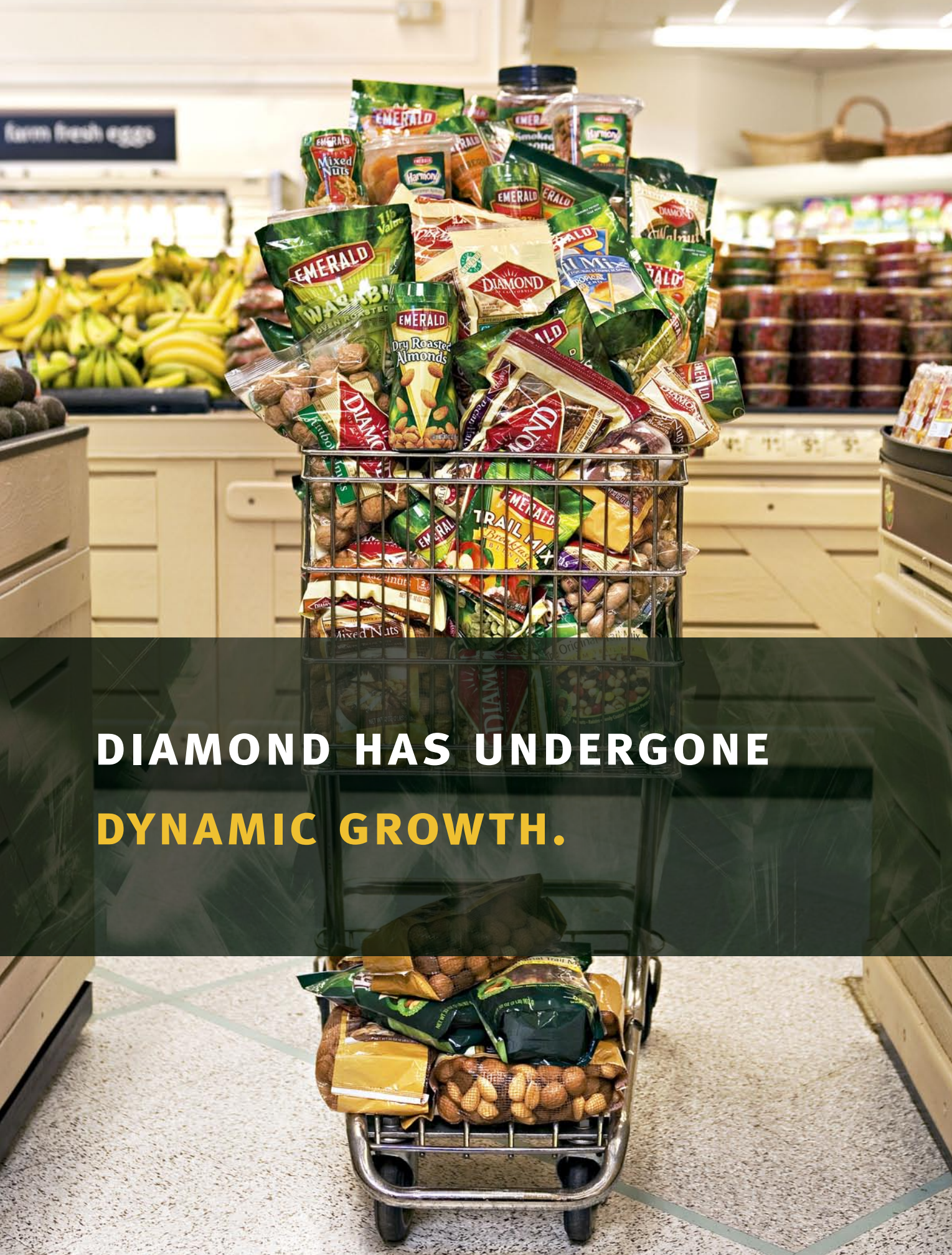




DYNAMIC GROWTH





**DIAMOND HAS UNDERGONE  
DYNAMIC GROWTH.**

# FINANCIAL HIGHLIGHTS:

Fiscal year ended July 31,

(In thousands, except per share, ratio and percentage data)<sup>(1)</sup>

	2007	2006	2005
Net sales	<b>\$522,585</b>	\$477,205	\$462,548
North American retail sales	<b>333,117</b>	274,879	228,522
Gross margin (2007 and 2006)/Proceeds before operating expenses (2005)	<b>78,640</b>	65,396	236,910
% of net sales	<b>15.0%</b>	13.7%	—
Selling, general and administrative expense	<b>42,541</b>	37,046	33,188
Advertising expense	<b>20,445</b>	17,977	22,153
Other operating expense	<b>3,039</b>	3,442	—
Income from operations (2007 and 2006)/Operating proceeds (2005)	<b>12,615</b>	6,931	181,569
% of net sales	<b>2.4%</b>	1.5%	—
Interest and other expenses, excluding income tax expense	<b>1,389</b>	605	7,158
Income tax expense (benefit)	<b>2,793</b>	(1,010)	(8,385)
Net Income (2007 and 2006)/Net proceeds (2005)	<b>\$ 8,433</b>	\$ 7,336	\$182,796
Earnings per share (diluted)	<b>\$ 0.53</b>	\$ 0.47	\$ —
BALANCE SHEET DATA			
Cash and equivalents	<b>\$ 33,755</b>	\$ 35,614	\$ 49,035
Trade receivables, net	<b>50,662</b>	49,536	42,246
Inventories	<b>90,619</b>	99,177	111,270
Property, plant and equipment, net	<b>33,936</b>	34,291	27,658
Total assets	<b>236,403</b>	253,032	252,028
Current liabilities	<b>83,585</b>	110,273	121,424
Long-term obligations	<b>20,345</b>	20,000	20,000
Total liabilities	<b>111,062</b>	142,206	152,566
Stockholders' equity	<b>125,341</b>	110,826	99,462
Current assets/current liabilities	<b>2.2</b>	1.8	1.7
Total debt/stockholders' equity	<b>16%</b>	18%	40%
CASH FLOW DATA			
Purchases of property, plant and equipment	<b>\$ 6,790</b>	\$ 8,354	\$ 10,500
Depreciation and amortization	<b>7,561</b>	5,532	4,717
Stock-based compensation	<b>5,859</b>	3,992	—

(1) As an agricultural cooperative association prior to fiscal year 2006, Diamond derived revenues from its patronage business, which consisted of processing and marketing walnuts on behalf of Diamond members, and its non-patronage business, which consisted of purchasing, processing and marketing nut varieties other than walnuts. The 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. Since August 1, 2005, Diamond's financial statements have been prepared in accordance with GAAP for companies that are not cooperative associations. Diamond was not a public company during fiscal years prior to 2006, thus no earnings per share data is presented for 2005. See consolidated financial statements filed on Form 10-K.



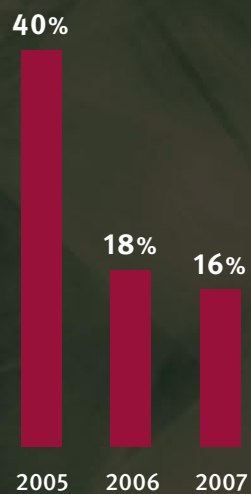
NET SALES (IN MILLIONS)



GROSS MARGIN (% NET SALES)



EARNINGS PER SHARE (DILUTED)



DEBT/EQUITY

\*Not Meaningful

## DEAR FELLOW STAKEHOLDERS,

---

In the two years since our initial public offering, Diamond has undergone dynamic growth as it continues its transformation into a consumer-oriented, packaged foods company.

We generated record net sales of \$523 million in fiscal 2007, led by a nine percent increase in culinary sales and a doubling of our snack sales to \$80 million. Total North American retail sales increased 21 percent to \$333 million, and now represent two thirds of Diamond's total sales.

At the same time, we've made significant strides in building the equity of our brands. In support of the continued expansion of Emerald snacks into new channels, we launched a viral marketing effort to support Emerald's 2007 "natural energy" advertising campaign, which debuted during the Super Bowl. The ad garnered both popular and critical acclaim—after airing, it was replayed on over 100 television news stories, generating 26 million audience impressions. The ad also received 15 honors on *YouTube*, including Most Viewed and Top Rated commercial, while *Advertising Age* gave the ad their highest "4-star" rating. More importantly, the ad resonated with consumers looking for the "natural energy" boost that Emerald provides when energy is low. A series of co-promotions with Anheuser-Busch and Coca-Cola complemented the ad campaign, helping to secure incremental merchandising locations, and expanding Emerald's presence in stores across America. As a result of this integrated approach, by October Emerald sales in U.S. food stores grew over 30 percent versus the prior year in eight out of ten months.

In manufacturing operations, we continue to lower cost and improve quality. During 2007, we constructed an integrated processing and packaging line that efficiently handles our proprietary glazed snacks, delivering fresher, higher quality product at lower unit costs.

Innovation remains at the core of the Emerald brand. We introduced three unique, oven roasted peanut products that feature bold flavors in line with today's consumer trends. We also recently launched a new line of produce snacks under the Emerald/Harmony brand. These products, as well as others that we envision for the future, reflect our commitment to expanding the nut category by attracting new, younger consumers.

Finally, we ended fiscal year 2007 in a strong financial position with nearly \$34 million in cash and no short-term debt. As an indication of our confidence in meeting our long-term financial objectives, the Board of Directors increased the quarterly dividend by 50%.

Looking ahead, we are well-positioned to continue strong retail sales growth. We will expand our footprint in existing retailers, branch into new channels, develop innovative new products, and further drive demand by developing impactful marketing campaigns.

On behalf of the entire Diamond management team and board of directors, we would like to thank our customers, growers, employees and shareholders for their continued support, and we look forward to achieving even greater success in the future.

**MICHAEL J. MENDES**

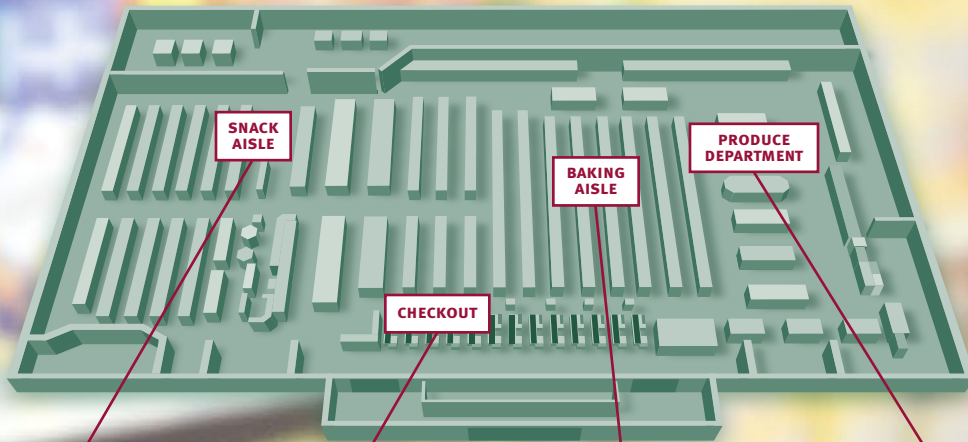
President and Chief Executive Officer  
November 2007



**WE CONTINUE TO EXPAND  
OUR PRESENCE AND DEVELOP  
INNOVATIVE PRODUCTS.**

# FOCUSED ON RETAIL:

## RETAIL STORE PRESENCE:



## INNOVATIVE PRODUCTS:



## ANATOMY OF AN EMERALD CANISTER:



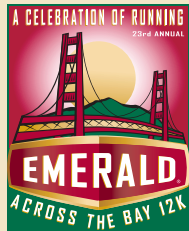
- The secure twist-on lid of our on-the-go canisters measures out a heart-healthy 1/3-cup serving.
- The unique plastic canister packaging is safe, ergonomic and goes anywhere.
- Canister fits in car cup holder.



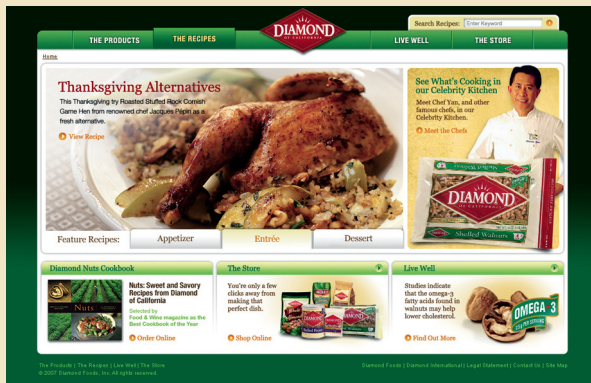
**WE HELP CONSUMERS LEAD  
HEALTHY & ACTIVE LIFESTYLES.**

# CONSUMER COMMUNICATIONS:

## EVENTS & SPONSORSHIPS:



## ADVERTISING & INTERNET:





**EMERALD IS BRINGING NEW  
USERS INTO THE CATEGORY.**



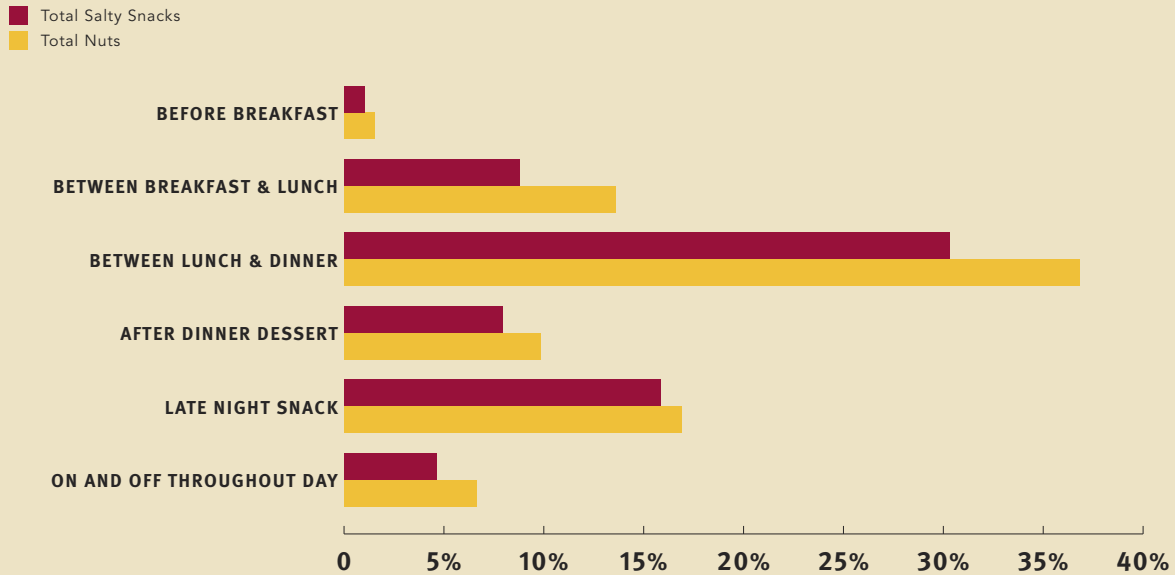
# INVESTING IN THE FUTURE:

## FUNDING CONSUMER RESEARCH

We invest in research that promotes increased nut consumption.

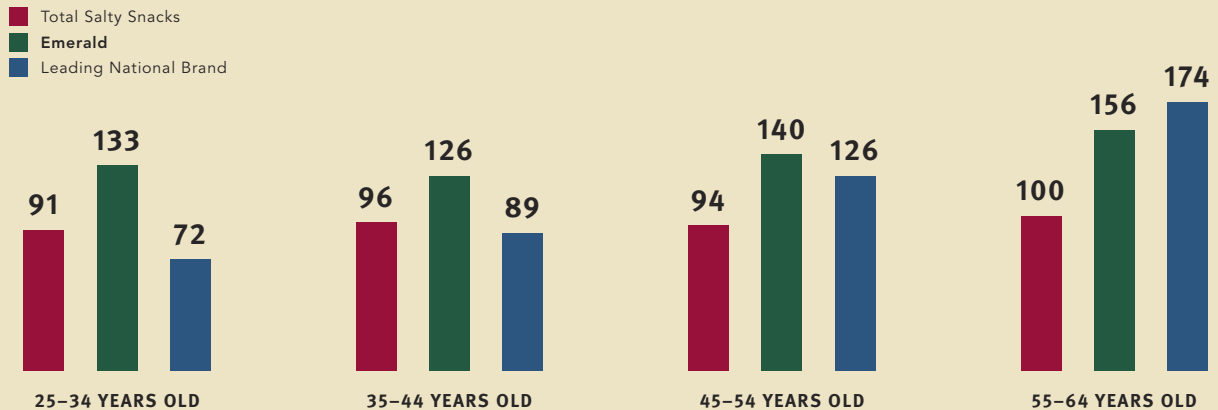
**Consumption by time of day** Consumer's desire to snack is strongest between lunch and dinner. This is true even more so of nuts than of other snacks.

**TYPE OF SNACK BY "SNACK OCCASION" (% OF EATINGS)**



**Consumption by age group** Consumption of nuts increases with age, particularly among the fast-growing baby boomer segment. Emerald has grown in large part by attracting younger consumers to the category.

**CONSUMPTION OF NUTS, SALTY SNACKS BY ADULTS (% OF EATINGS/% OF POPULATION, WHERE 100 = AVERAGE)**



SOURCE: The NPD Group December 2006 2-year In-home Usage Snacking Study

# 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 Corporate Affairs and  
 Human Resources

Andrew Burke  
 Senior Vice President Marketing

Mike Cooke  
 Senior Vice President North American  
 Retail Sales

Frank Morgan  
 Senior Vice President Ingredient and  
 International Sales

Stephen Kim  
 Vice President, General Counsel

## LOCATIONS

California: Stockton, San Francisco,  
 Linden, Live Oak, Visalia and Modesto  
 Indiana: Fishers  
 Alabama: Robertsedale  
 Illinois: Chicago  
 Arkansas: Rogers

## CORPORATE HEADQUARTERS

1050 South Diamond Street  
 Stockton, California 95205-7087  
 (209) 467-6714  
 diamondfoods.com  
 emeraldnuts.com

## INVESTOR RELATIONS

Robert Philipps  
 Vice President Investor Relations,  
 Treasurer  
 diamondfoods.com  
 (415) 445-7430

## 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.

## FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements, including statements of our expectations about future growth and financial results. As a result of many risks and uncertainties, actual results could differ materially from what we anticipate. For information about some of the factors that could affect our results, please see Risk Factors on page 8 in our Annual Report on Form 10-K for fiscal year 2007.

## 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 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.





1050 South Diamond Street  
Stockton, CA 95205-7087

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