



GROWING OUR
PORTFOLIO OF BRANDS





Diamond's breadth of product offerings, national marketing support and comprehensive supply chain capabilities have made it the leading culinary nut brand in the world.



In 2008, Diamond acquired Pop Secret—a leader in microwave popcorn and a well-known brand with innovative products that appeal to a broad snacking demographic.



Emerald has a proven track record of attracting new consumers to snack nuts. The brand's growth is driven by investments in national television advertising, headline sponsorships of health-centric events and constant innovation in products and packaging.

DEAR FELLOW STAKEHOLDERS,

In 2008, despite an environment of record high input costs, Diamond achieved an 89 percent increase in operating income, while driving strong retail growth and expanding our retail platform through new products and a strategic acquisition. Diamond's net sales exceeded \$531 million, generating profits of \$14.8 million and expanding earnings per share to \$0.91, an increase of 72 percent from last year. Our strong retail performance has increased the proportion of this value-added segment of the business to 70 percent of total sales, up from only 49 percent in 2005. The reduction of less strategic, low-margin business, coupled with the effective implementation of cost reduction initiatives, has further increased our intrinsic earnings power.

The snack business continues to grow through the introduction of exciting new products and improved distribution of Emerald core snack offerings. Innovative new snacks such as Emerald Cocoa Roast Almonds, Sea Salt & Pepper Cashews and Breakfast on the Go, a premium trail mix featuring our proprietary glazed walnuts, appeal to consumers' desire for nutritionally rich products with distinct flavor, texture, and contemporary yet convenient packaging. While we continue to strengthen our distribution in the traditional grocery channel, we have also made distribution gains in non-measured channels, which make up over two-thirds of the \$3 billion snack category we serve in the US. As an illustration of this channel expansion, Breakfast on the Go now can be found in over 3,000 mass-merchandise outlets, and Cocoa Roast Almonds will be featured in over 500 club stores by the end of 2008.

The Diamond culinary business recorded significant growth in 2008, increasing 16 percent for the year and far outpacing the category. We have expanded sales in the club and mass channels as the economy weakened in the second half of the year and consumers began favoring more in-home meal preparation. Diamond's ability to effectively pass along pricing and sustain distribution in light of unprecedented high commodity cost illustrates the strength of the brand and the ability of our management team to react rapidly in a very challenging and fluid business environment.

While our primary path to growth has focused on the organic expansion of our business, we do evaluate strategic acquisitions with rigor and discipline through clearly established filters. Among the many criteria we evaluate in making a "build or buy" decision, we assess if the business has a strong consumer franchise, can leverage our infrastructure, is compatible or additive to our supply chain, and ultimately is accretive to earnings. In September we concluded a transaction that met our criteria, with the acquisition of the Pop Secret microwave popcorn business.

Pop Secret is an established brand that commands a 25 percent market share and immediately strengthens our footprint in the snack aisle. The addition of the line will help us operate a more efficient supply chain and



expand the breadth of our snack offering to retail buyers and our target consumers. As we look to stimulate consumption and energize consumers, we have already initiated our first flight of national television advertising, going on air in less than 40 days after the closing of the acquisition. Once effectively integrated into our business, we believe that Pop Secret will enhance profit margins and significantly contribute to earnings and cash flow growth in the future.

Innovation is a critical part of our corporate culture and is a key driver to our organic growth. We have several new products in our development pipeline that will go to market in 2009, including a portion control line of products and a new offering better suited for the peanut segment, which has been a modestly developed area for the Emerald brand to date. While we will continue to evaluate strategic acquisition opportunities in 2009, our primary focus will be on Pop Secret integration and organic growth to avoid compromising the successful tactical execution that is critical to achieving our long-term objectives.

As we enter into a difficult economic period, Diamond enjoys strength and stability, which we believe will allow us to capitalize on opportunities that may arise in periods of economic volatility. As a company that was founded in 1912, Diamond has endured many challenges that have imparted wisdom and experience we can draw upon as we move into this uncertain future. We take the responsibility of the stewardship of this company very seriously. We recognize not only our duty to preserve and enhance the equity value of shareholders, but also the reliance of our growers, employees, suppliers and customers on the company's enduring prosperity in the future. Our commitment is to carefully and deliberately manage the risk of our business, and we will strive to maintain a strong trajectory in the future.

Michael J. Mendes
President and Chief Executive Officer

November 2008



POP SECRET
EXTRA BUTTER

POP SECRET
HOMESTYLE

POP SECRET
MOVIE THEATER BUTTER

POP SECRET
HOMESTYLE

POP SECRET
EXTRA BUTTER

POP SECRET
100 Calorie Pop

POP SECRET
HOMESTYLE

POP SECRET
MOVIE THEATER BUTTER

POP SECRET
HOMESTYLE

POP SECRET
EXTRA BUTTER

POP SECRET
KETTLE CORN

POP SECRET
BUTTER

POP SECRET
HOMESTYLE

POP SECRET
HOMESTYLE

POP SECRET
BUTTER

POP SECRET
KETTLE CORN

POP SECRET
BUTTER

POP SECRET
HOMESTYLE

POP SECRET
HOMESTYLE

POP SECRET
BUTTER

EMERALD
Trail Mix

EMERALD
Trail Mix

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Trail Mix

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EMERALD
Breakfast on the Go!

EMERALD
100 Calorie Packs

EMERALD
100 Calorie Packs

EMERALD
100 Calorie Packs

EMERALD
100 Calorie Packs

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100 Calorie Packs

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100 Calorie Packs

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100 Calorie Packs

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100 Calorie Packs

EMERALD
100 Calorie Packs

EMERALD
Sea Salt & Peppery Cashews

EMERALD
Cocoa Roast Almonds

EMERALD
Cocoa Roast Almonds

EMERALD
Mixed Nuts

EMERALD
Mixed Nuts

EMERALD
Sea Salt & Peppery Cashews

EMERALD
Cocoa Roast Almonds

EMERALD
Cocoa Roast Almonds

EMERALD
Mixed Nuts

EMERALD
Mixed Nuts

EMERALD
Sea Salt & Peppery Cashews

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Mixed Nuts

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Since 1912, Diamond has focused on building quality brands that retailers and consumers recognize and trust.





BERRY BLEND
Dried Blueberries, Dried Strawberries, Glazed Walnuts, Roasted
Peanuts, Dried Cranberries, Yogurt Raisins, and Granola Clusters
6 - 2.25 OZ (64 g) BAGS NET WT 13.5 OZ (383 g)

BREAKFAST BLEND
Apple Chips, Dried Cranberries, Glazed Walnuts,
Glazed Almonds, Yogurt Raisins, Granola Clusters
6 - 2.25 OZ (64 g) BAGS NET WT 13.5 OZ (383 g)

EMERALD
100 Calorie Packs
7 Packs
Natural Almonds
Excellent Source of Vitamin E
7 - 0.83 OZ (11g) BAGS TOTAL NET WT 0.41 OZ (12g)

NEW!
EMERALD
100 Calorie Packs
7 Packs
Natural
Walnuts and Almonds
Contains 740mg Omega-3
7 - 0.56 OZ (16g) BAGS TOTAL NET WT 0.22 OZ (12g)

NEW!
EMERALD
100 Calorie Packs
7 Packs
Cocoa Roast Almonds
DARK CHOCOLATE
Nutritious snacking just got a little sweeter!
7 - 0.83 OZ (11g) BAGS TOTAL NET WT 0.41 OZ (12g)

EMERALD
Breakfast on the Go!
TRAIL MIX
6 Pouches
BERRY BLEND
Dried Blueberries, Dried Strawberries, Glazed Walnuts, Roasted
Peanuts, Dried Cranberries, Yogurt Raisins, and Granola Clusters
6 - 2.25 OZ (64 g) BAGS NET WT 13.5 OZ (383 g)

NEW!
EMERALD
Breakfast on the Go!
TRAIL MIX
6 Pouches
BERRY BLEND
Dried Blueberries, Dried Strawberries, Glazed Walnuts, Roasted
Peanuts, Dried Cranberries, Yogurt Raisins, and Granola Clusters
6 - 2.25 OZ (64 g) BAGS NET WT 13.5 OZ (383 g)

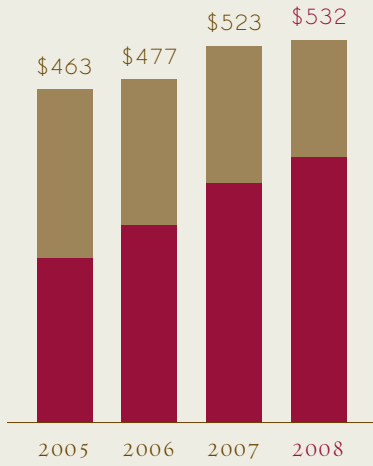
NEW!
EMERALD
Breakfast on the Go!
TRAIL MIX
6 Pouches
BREAKFAST BLEND
Apple Chips, Dried Cranberries, Glazed Walnuts,
Glazed Almonds, Yogurt Raisins, Granola Clusters
6 - 2.25 OZ (64 g) BAGS NET WT 13.5 OZ (383 g)

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Breakfast on the Go!
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6 - 2.25 OZ (64 g) BAGS NET WT 13.5 OZ (383 g)

We bring excitement to the snack category with innovative products that appeal to healthy, active lifestyles.

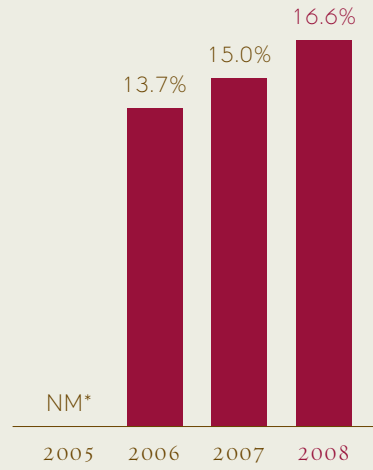


Diamond's history of quality commitment and dedication to providing consumers with nutritious, great tasting food sets the stage for future growth.

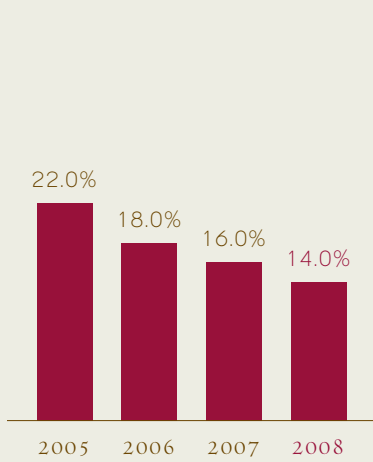


NET SALES (IN MILLIONS)

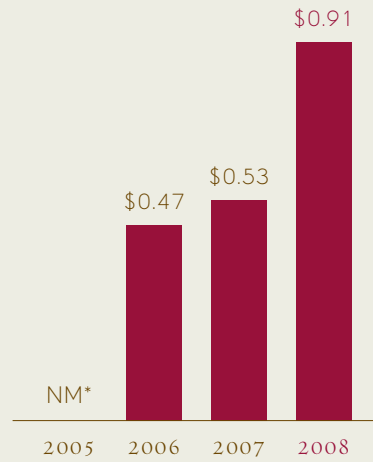
■ Non-retail Sales
 ■ North American Retail Sales



GROSS MARGIN (% NET SALES)



DEBT/EQUITY



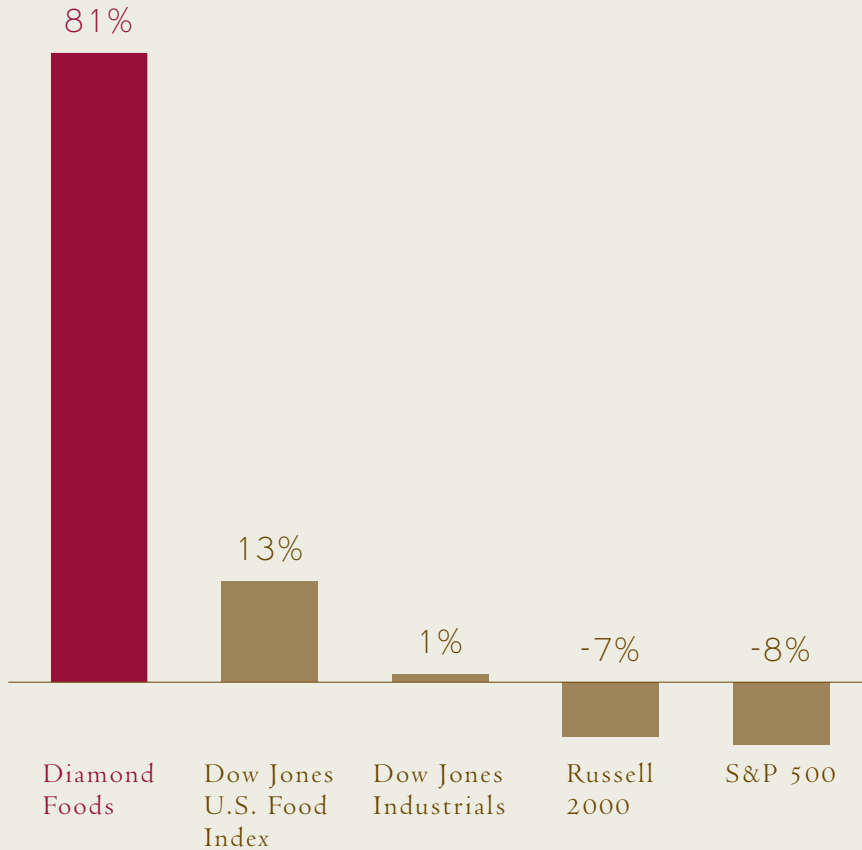
EARNINGS PER SHARE (DILUTED)

*Not Meaningful

FINANCIAL HIGHLIGHTS

Fiscal year ended July 31, (In thousands, except per share and percentage data)	2008	2007	2006
Net sales	\$531,492	\$522,585	\$477,205
North American retail sales	370,411	333,117	274,879
Gross profit	88,002	78,640	65,396
% of net sales	16.6%	15.0%	13.7%
Selling, general and administrative expense	43,613	42,541	37,046
Advertising expense	20,508	20,445	17,977
Other operating expense	—	3,039	3,442
Income from operations	23,881	12,615	6,931
% of net sales	4.5%	2.4%	1.5%
Interest and other expenses, excluding income tax expense	1,040	1,389	605
Income tax expense (benefit)	8,085	2,793	(1,010)
Net income	\$ 14,756	\$ 8,433	\$ 7,336
Earnings per share—diluted	\$ 0.91	\$ 0.53	\$ 0.47
BALANCE SHEET DATA			
Cash and equivalents	\$ 74,279	\$ 33,755	\$ 35,614
Trade receivables, net	46,256	50,662	49,536
Inventories	88,526	90,619	99,177
Property, plant and equipment, net	34,606	33,936	34,291
Total assets	273,267	236,403	253,032
Current liabilities	99,193	83,585	110,273
Long-term obligations	20,204	20,345	20,000
Total liabilities	127,044	111,062	142,206
Stockholders' equity	\$146,223	\$125,341	\$110,826
Current assets/current liabilities	2.2	2.2	1.8
Total debt/stockholders' equity	14%	16%	18%
CASH FLOW DATA			
Purchases of property, plant and equipment	6,583	6,790	8,354
Depreciation and amortization	6,420	7,561	5,532
Stock-based compensation	6,893	5,859	3,992

CUMULATIVE TOTAL RETURN (July 2005–October 2008)



Based upon initial investment of \$100 on July 21, 2005 and terminal value of October 6, 2008 with dividends reinvested.

A \$100 investment in Diamond Foods stock at the time of the July 2005 initial public offering would have grown to \$181 by October 2008, including the reinvestment of dividends. During the same period of time, similar \$100 investments in other widely known indexes such as the Dow Jones U.S. Food Products Index, Dow Jones Industrial Average, Russell 2000 and S&P 500 would have yielded far lower returns.

CORPORATE INFORMATION

BOARD OF DIRECTORS

John J. Gilbert, Chairman
Laurence M. Baer
Edward A. Blechschmidt
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, Chief Operating Officer
Lloyd J. Johnson
Executive Vice President, Chief Sales Officer
Steven M. Neil
Executive Vice President, Chief Financial and
Administrative Officer
Andrew Burke
Senior Vice President Marketing
Samuel J. Keiper
Vice President Corporate Affairs
Stephen Kim
Vice President General Counsel and Human Resources

LOCATIONS

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

CORPORATE HEADQUARTERS

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San Francisco, California 94111
(415) 912-3180
diamondfoods.com

INVESTOR RELATIONS

Robert Philipps
Vice President Investor Relations, Treasurer
(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 2008.

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, Emerald and Pop Secret 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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DIAMONDFOODS.COM

