

**CHARTER OF THE
COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS OF
DIAMOND FOODS, INC.**

As adopted March 10, 2005

I. PURPOSE

The Compensation Committee (“*Committee*”) of the Board of Directors (“*Board*”) of Diamond Foods, Inc., a Delaware corporation (“*Company*”) through delegation from the Board, has principal responsibility to evaluate, approve and review executive officer and director compensation arrangements, plans, policies and programs maintained by the Company, and to administer the Company’s cash-based and equity-based compensation plans.

This charter (“*Charter*”) sets forth the authority and responsibility of the Committee for evaluating and approving such executive officer and director compensation arrangements, plans, policies and programs maintained by the Company, and for administering the Company’s cash-based and equity-based compensation plans for employees, whether adopted prior to or after the date of adoption of this Charter.

II. MEMBERSHIP

The Committee will consist of two or more members of the Board, with the exact number determined from time to time by the Board. Each member of the Committee will be:

- an “independent director” as defined under the applicable rules and regulations of The NASDAQ Stock Market, as amended from time to time (“*Rules*”), except as may otherwise be permitted by such Rules;
- a “non-employee director,” as defined in Rule 16b-3 under Section 16 of the Securities Exchange Act of 1934, as amended (“*Exchange Act*”); and
- an “outside director” under Regulation Section 1.162-27 promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended.

All members of the Committee will be appointed by, and will serve at the discretion of, the Board. Committee members will serve during their respective term as a director, subject to earlier resignation or removal by the Board. Unless a chairperson is elected by the Board, the members of the Committee may designate a chairperson by majority vote of the Committee members.

III. RESPONSIBILITIES AND DUTIES

The principal duties of the Committee in carrying out its responsibilities are set forth below. These duties are set forth as a guide, with the understanding that the Committee may supplement them as appropriate and may establish policies and procedures from time to time that it deems necessary or advisable in fulfilling its responsibilities.

The Committee will:

1. Annually review and approve the corporate goals and objectives to be considered in determining the compensation of the Chief Executive Officer (“**CEO**”) of the Company or any subsidiary of the Company and the Company’s executive officers as defined under Section 16 of the Exchange Act and the rules promulgated thereunder (“**Executive Officers**”), and evaluate the performance of the CEO and Executive Officers in light of these goals and objectives. Based on this evaluation, including an evaluation of the Company’s performance, the Committee will have the sole authority, subject to any approval by the Board which the Committee or legal counsel determines to be desirable, to make decisions respecting (i) salary paid to the CEO and other Executive Officers, (ii) the grant of all cash-based incentive compensation and equity-based compensation to the CEO and other Executive Officers, (iii) the entering into or amendment or extension of any employment contract or similar arrangement with the CEO and other Executive Officers, (iv) the entering into or amendment or extension of any CEO or other Executive Officer severance or change in control arrangements, and (v) any other CEO or other Executive Officer compensation matters; provided that the Committee may take account of the recommendations of the Board with respect to CEO and other Executive Officer compensation. The Committee also may take account of the recommendations of the CEO with respect to other Executive Officers for each of the foregoing items. The CEO may not be present during voting or deliberations regarding the CEO’s compensation.

2. Annually review and make recommendations to the Board with respect to adoption and approval of, or amendments to, all cash-based and equity-based incentive compensation plans and arrangements, and the cash amounts and aggregate numbers of shares reserved for issuance thereunder after taking into consideration the Company’s strategies with respect to cash-based and equity-based compensation.

3. Administer and interpret the cash-based and equity-based compensation plans and agreements thereunder. The Committee may from time to time delegate authority to subcommittees when appropriate. The Committee may delegate to the CEO the authority to approve cash awards or make equity grants to employees of the Company or of any subsidiary of the Company who are not directors of the Company or Executive Officers, provided that in the case of equity grants, the price per share of any grant is no less than the fair market value of the Company’s common stock on the date of grant.

4. Meet with the CEO at or about the commencement of each fiscal year to discuss the incentive compensation programs to be in effect for the Executive Officers and other employees of the Company or any subsidiary for such fiscal year and the corporate goals and objectives relevant to those programs and performance targets applicable to Executive Officers and, where appropriate, other employees of the Company or any subsidiary.

5. Adopt or amend plans or arrangements covered under the Employee Retirement Income Security Act of 1974, as amended (collectively, the “**Designated Plans**”), and delegate the routine administration of the Designated Plans to an administrative committee consisting of employees of the Company named by the Committee;

6. Have the sole authority to recommend to the Board the form and amount of cash-based and equity-based compensation to be paid or awarded to the Company's non-employee directors, including compensation for service on the Board or on committees of the Board.

7. Prepare an annual report on executive compensation to the Company's stockholders for inclusion in the proxy statement for the Company's annual meeting in accordance with the rules and regulations of the Securities and Exchange Commission (the "**Commission**"); provided that the Company is subject to the periodic reporting requirements of the Exchange Act.

8. Review the Company's compliance program relating to restrictions on and reporting of securities transactions by the Company and its Executive Officers and directors.

9. Periodically review the Company's procedures with respect to employee loans. The Committee shall not approve any arrangement in which the Company, directly or indirectly, extends or maintains credit, arranges for the extension of credit or renews an extension of credit, in the form of a personal loan to or for any director or Executive Officer. The Committee will assist the Board and management of the Company in complying with this prohibition.

10. Review and reassess the adequacy of this Charter periodically, and recommend to the Board any changes the Committee determines are appropriate.

11. Evaluate the Committee's composition and performance on an annual basis and submit a report to the Board.

12. Have the authority and right, at the expense of the Company, to retain legal and other consultants, experts and advisers of its choice to assist the Committee in connection with its functions. The Committee will have the authority to approve the fees and other retention terms of such advisers. The Company will provide for appropriate funding, as determined by the Committee, for:

- payment of compensation to any advisers retained by the Committee;
- ordinary administrative expenses of the Committee that are necessary and appropriate in carrying out its functions; and
- the commission of any necessary studies or surveys concerning the levels of executive compensation payable in the industry in which the Company is engaged and in other related industries or obtaining recommendations from outside consultants concerning comparable compensation programs.

13. Perform any other activities required by applicable law, rules or regulations, including the rules of the Commission and any exchange or market on which the Company's capital stock is traded, and may perform other activities that are consistent with this charter, the Company's Certificate of Incorporation and Bylaws, and applicable laws, rules or regulations as the Committee or the Board deems necessary or appropriate.

IV. MEETINGS AND MINUTES

The Committee will meet at least twice per year or more frequently, as determined appropriate by the Committee. The Committee will report to the Board from time to time with respect to the activities of the Committee. A quorum of the Committee for the transaction of business will be a majority of its members. Meetings may be held telephonically. The Committee may also act by unanimous written consent in lieu of a meeting. The Committee will maintain written minutes of its meetings and copies of its actions by written consent, and will file such minutes and copies of written consents with the minutes of the meetings of the Board.