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8
9 UNITED STATES DISTRICT COURT
10 NORTHERN DISTRICT OF CALIFORNIA

11
12 SECURITIES AND EXCHANGE COMMISSION,
13 Plaintiff,
14 v.
15 DIAMOND FOODS, INC.,
16 Defendant.

Case No.
COMPLAINT

17 Plaintiff Securities and Exchange Commission (the “Commission”) alleges:

18 **SUMMARY OF THE ACTION**

19 1. This case involves financial reporting fraud and earnings management at
20 Diamond Foods, Inc. (“Diamond”), a San Francisco-based snack food company. One of
21 Diamond’s businesses involved buying walnuts from its growers and selling those walnuts to
22 retailers. As a result of a scheme by Diamond’s Chief Financial Officer Steven Neil to
23 fraudulently manipulate and delay appropriate recording of the costs paid to walnut growers,
24 Diamond reported inflated earnings during fiscal years 2010 and 2011.

25 2. During 2010, CFO Neil faced pressure to meet or exceed the earnings estimates of
26 Wall Street stock analysts. At that time, Neil and Diamond encountered sharp increases in
27 walnut prices. Diamond’s largest commodity cost was walnuts. Diamond would need to pay
28 growers higher prices for their walnuts in order to maintain the company’s longstanding

1 relationships with its growers. Yet Diamond could not increase the amounts paid to growers for
2 walnuts without decreasing Diamond's net income as reported to the investing public.

3 3. Faced with these two competing demands, Neil orchestrated a scheme to have it
4 both ways. In August of 2010, Diamond made a final installment payment to growers for the
5 2009 walnut crop. The final installment brought the total payments to growers close to market
6 prices. But instead of recording the final installment accurately as a cost of acquiring walnuts for
7 fiscal year 2010, Neil instructed his finance and accounting team to treat a portion of this amount
8 – referred to as the “continuity” payment – as an advance payment for a future, as yet
9 undelivered, walnut crop. According to Neil, the portion labeled the “continuity” payment
10 would “close the gap” between the recorded walnut cost and the market prices, but was not
11 recorded as a cost of walnuts acquired during fiscal year 2010. By delaying the recognition of a
12 portion of the cost of walnuts acquired into later fiscal periods, Neil materially underreported the
13 cost of acquiring walnuts and overstated earnings by \$10.5 million in fiscal year 2010.

14 4. Neil devised a similar, but even larger, payment (which Diamond personnel said
15 would “make up” for a low final price) when Diamond growers were paid for walnuts delivered
16 the following fiscal year. Neil treated this payment, labeled a “momentum” payment, as an
17 advance for future crops and did not recognize the payment as a cost of the walnuts Diamond
18 acquired in that fiscal year. By again delaying the recognition of a portion of the cost of walnuts
19 acquired into later fiscal periods, Neil materially underreported the cost of acquiring walnuts and
20 overstated earnings by \$23.6 million in fiscal year 2011.

21 5. Diamond materially misstated its financial results in multiple SEC Forms 10-Q,
22 10-K, and 8-K from at least February 2010 and ending in September 2011. In this timeframe,
23 Diamond reported artificially inflated earnings per share (“EPS”) that beat Wall Street earnings
24 estimates on a quarterly and yearly basis, and its stock price reached a high of over \$90 per share
25 after filing the last of its materially false financial statements in September 2011. Diamond also
26 successfully raised approximately \$181 million through a stock offering, and reached an
27 agreement to acquire a major potato chip brand with Diamond's stock as consideration.

28 6. Following media reports questioning the “momentum” payment, Diamond

1 conducted an internal investigation and concluded that its financial statements for fiscal years
2 2010 and 2011 incorrectly excluded the “continuity” payment and “momentum” payment as
3 costs of acquiring walnuts in those periods, respectively. Diamond’s stock price dropped from
4 approximately \$90 per share in September 2011 to \$17 per share in November 2012 after the
5 filing of its restatement. The stock drop represented a market capitalization loss of
6 approximately \$1.7 billion.

7 **JURISDICTION AND VENUE**

8 7. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the
9 Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b), 77t(d)] and Sections 21(d) and
10 21(e) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d), 78u(e)].

11 8. This Court has jurisdiction over this action pursuant to Section 22 of the
12 Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

13 9. Defendant, directly or indirectly, made use of the means or instrumentalities of
14 interstate commerce, or of the mails, or of the facilities of a national securities exchange in
15 connection with the transactions, acts, practices and courses of business alleged herein.

16 10. Venue in the Northern District of California is proper pursuant to Section 22 of
17 the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]
18 because acts and transactions constituting the violations alleged in this Complaint occurred
19 within the district, because the relevant offer or sale of securities took place in the district, and
20 because the Defendant resides or transacts business in the district.

21 **INTRADISTRICT ASSIGNMENT**

22 11. Under Civil Local Rule 3-2, this civil action should be assigned to the San
23 Francisco or Oakland Divisions, because a substantial part of the events or omissions which give
24 rise to the claim occurred in the City and County of San Francisco.

25 **DEFENDANT**

26 12. **Diamond Foods, Inc.** (“Diamond”) is a Delaware corporation with its principal
27 place of business in San Francisco, California. The company was founded as a walnut
28 cooperative in 1912 and issued publicly-traded stock in 2005. During the time period of the

1 conduct alleged in this complaint, Diamond's stock was registered with the Commission
2 pursuant to Section 12(b) of the Exchange Act and was listed on NASDAQ.

3 **FACTUAL ALLEGATIONS**

4 **A. Background**

5 13. Diamond was originally formed in 1912 as a walnut grower cooperative. As a
6 cooperative, Diamond's principal business involved buying walnuts from California-based
7 growers, processing the walnuts, and reselling the walnuts through various channels to retailers.

8 14. Diamond converted from a walnut grower cooperative into a public corporation in
9 2005, issuing stock priced at \$17 per share through an initial public offering. Following this
10 initial stock offering, Diamond expanded into other snack food businesses through a series of
11 acquisitions, including the acquisition of businesses involved in the sale of microwave popcorn
12 and potato chips. By 2010, Diamond was becoming a large snack food conglomerate.

13 15. In 2010 and 2011, Diamond's walnut business, while no longer the sole focus,
14 still represented a significant part of its revenue, and the cost of acquiring walnuts was its largest
15 commodity cost. Any recorded increase in the walnut price Diamond paid to growers (also
16 referred to as the "walnut cost" or "final crop price") would decrease the company's reported
17 earnings, and would decrease the company's reported earnings per share ("EPS"). At the same
18 time, Diamond needed to pay a competitive walnut price in order to maintain longstanding
19 relationships with its growers and to avoid losing walnut supply to competitors.

20 16. During the time of the conduct alleged in this complaint, Diamond reported EPS
21 that consistently beat the forecasted expectations of Wall Street stock analysts. In this
22 timeframe, Diamond's stock price increased from approximately \$39 per share at the time of the
23 filing of SEC Form 10-Q for the second quarter of 2010 (filed on February 25, 2010) to
24 approximately \$90 per share after the filing of SEC Form 10-K for the 2011 fiscal year (filed on
25 September 15, 2011). Diamond registered two stock offerings during the relevant time period,
26 including (1) a successful \$181 million offering of Diamond stock priced at \$37 per share in
27 March 2010; and (2) a June 20, 2011 registration statement for an issuance of stock pursuant to
28 an agreement to acquire a potato chip business unit from a major snack food company.

1 **B. Determining and Accounting for the Walnut Cost**

2 17. Diamond was required to prepare financial statements in conformity with
3 Generally Accepted Accounting Principles (“GAAP”), and disclosed in its SEC Forms 10-K
4 annual reports filed with the Commission that its financial statements were prepared in
5 conformity with GAAP. In its SEC Forms 10-K for fiscal years ended July 31, 2010 and July
6 31, 2011, Diamond disclosed the following accounting policy regarding the accounting for
7 walnut crop payments:

8 We have entered into long-term Walnut Purchase Agreements with growers,
9 under which they deliver their entire walnut crop to us during the Fall harvest
10 season and we determine the minimum price for this inventory by March 31, or
11 later, of the following calendar year. This purchase price will be a price
12 determined by us in good faith, taking into account market conditions, crop size,
13 quality, and nut varieties, among other relevant factors. Since the ultimate price to
14 be paid will be determined subsequent to receiving the walnut crop, we must
15 make an estimate of price for interim financial statements. Those estimates may
16 subsequently change and the effect of the change could be significant.

17 18. GAAP required Diamond to record walnut inventory and any payables to growers
18 at acquisition cost in the period in which the walnuts were purchased, and to recognize the cost
19 of selling the walnut inventory in the period in which the walnuts were sold. Pursuant to GAAP,
20 Diamond was required to record all payments used to acquire the 2009 crop in FY2010 (when
21 the crop was purchased and mostly sold), and all payments used to acquire the 2010 crop in
22 FY2011 (same). The “walnut cost” – i.e., the term that Diamond used to refer to the final price it
23 paid growers for a given crop – had financial effects on several line items on Diamond’s
24 financial statements, including value of inventory, payables to growers, and cost of goods sold.

25 19. During the relevant period, Diamond’s practice was to accept delivery of a walnut
26 crop in the fall after the harvest, and then to determine the final walnut price it would pay to
27 growers by fiscal year-end (i.e., July 31 of the next calendar year following the harvest).
28 Because walnuts were being acquired and sold throughout the year and before the determination
of the final crop price, Diamond recorded the costs of walnuts in its quarterly financial
statements using a walnut cost estimate. According to the disclosed accounting policy, the
walnut cost estimate was supposed to reflect the best estimate of the final walnut cost Diamond
intended to pay its growers.

1 20. Diamond’s contracts with its growers discussed the determination of the final
2 crop price: “The Final Price will be determined in good faith, taking into account market
3 conditions, quality, variety, and other relevant factors.” Similar guidance appeared in Diamond’s
4 internal accounting controls, other accounting policies in effect during the relevant time period,
5 and publicly-disclosed accounting policies contained in Diamond’s SEC Forms 10-K and 10-Q.
6 Pursuant to the contracts, Diamond issued a series of installment payments to growers, with the
7 final payment accrued at fiscal year-end. These installment payments totaled the final crop price
8 paid for the walnut crop acquired during that fiscal year.

9 21. At all relevant times, CFO Neil supervised both Diamond’s finance and
10 accounting team (“Finance Team”), and Diamond’s team dealing with growers (“Grower
11 Relations Team”). Diamond’s Finance Team provided information to Diamond’s independent
12 outside auditors justifying the quarterly walnut cost accrual estimate and final walnut cost.

13 **C. Understated Walnut Cost in Diamond’s 2010 Financial Statements**

14 22. As noted above, Diamond’s critical accounting policy and contracts specified that
15 the walnut cost would be determined in “good faith, taking into account market conditions, crop
16 size, quality, and nut varieties, among other relevant factors.” However, during the relevant time
17 period Diamond did not maintain adequate internal accounting controls to reasonably ensure
18 Diamond complied with this standard. In the absence of adequate controls governing the walnut
19 cost, Diamond understated the recorded walnut cost in its financial statements in fiscal year 2010
20 by (1) improperly adjusting the walnut cost accrual estimates in certain quarters to hit EPS
21 targets, and (2) improperly excluding a portion of the final walnut cost for the 2009 crop from
22 fiscal year-end financial statements. As a result of the understated walnut cost, Diamond
23 materially misstated its financial results from the second quarter of fiscal year 2010 through the
24 fourth quarter of fiscal year 2010, and failed to keep and maintain accurate books and records.

25 1. Manipulation of the 2009 Walnut Cost to Meet EPS Targets

26 23. Diamond began understating its walnut cost, and thereby overstated earnings and
27 EPS, in financial statements prepared for the second quarter of 2010 (ending January 31, 2010).

28 24. As of the quarter ending October 31, 2009, Diamond had received the 2009

1 walnut crop from growers and had recorded an average walnut cost of 82 cents per pound in
2 Diamond's financial statements based on the estimated walnut price of 82 cents.

3 25. In February 2010, Diamond CFO Neil instructed members of the Finance Team to
4 adjust the walnut cost to hit an EPS target for the second quarter. Members of the Finance Team
5 provided Neil with a walnut cost estimate that would result in reported EPS that would be higher
6 than the consensus analyst estimates of \$0.47 per share for the quarter. Based on these
7 calculations, Neil reduced the existing walnut cost estimate of 82 cents per pound by 10 cents per
8 pound, to 72 cents per pound. Diamond's quarterly financial statements for the second quarter of
9 2010, as well as its books and records, accounted for the walnut cost at the adjusted estimate of
10 72 cents per pound.

11 26. On or about February 25, 2010, Diamond filed an SEC Form 10-Q with the
12 Commission that included the second quarter 2010 financial statements. The same day,
13 Diamond filed an SEC Form 8-K reporting EPS of \$0.48, beating consensus analyst estimates.
14 A week later, on March 1, 2010, Diamond filed an SEC Form 424B5 prospectus related to a
15 proposed stock sale to pay a portion of the acquisition costs associated with Diamond's recent
16 acquisition of a snack food company, and the prospectus incorporated the Form 10-Q for second
17 quarter of 2010. This offering closed on March 8, 2010, and Diamond raised approximately
18 \$181 million.

19 27. On March 10, 2010, Diamond filed an SEC Form 8-K, which attached an investor
20 presentation touting Diamond's EPS record of "Twelve Consecutive Quarters of
21 Outperformance" from Q3 2007 through Q2 2010.

22 2. Extraordinary "Continuity" Payment Excluded from the 2009 Walnut Cost

23 28. In March 2010, Neil and others at Diamond began determining the final crop
24 price and final payment for the 2009 crop (which related to fiscal year 2010, ended July 31,
25 2010). At the time, Diamond's practice was to issue an individualized statement to each grower
26 projecting a "final minimum price," a number meant to communicate the guaranteed lowest price
27 that the grower would receive for the 2009 crop. The estimated "final minimum price" was on
28 average 71 cents per pound (further reduced from the Q2 2010 estimate of 72 cents per pound).

1 29. Neil was aware that growers were dissatisfied with Diamond's estimated "final
2 minimum price" of 71 cents per pound, and that other walnut handlers who purchased walnuts
3 from growers for resale were paying approximately 87 cents per pound. Neil was informed by
4 his Grower Relations Team that walnut growers expected Diamond to pay walnut prices that
5 were within five to seven cents per pound of what other handlers were paying for the 2009 crop.
6 Neil instructed the Grower Relations Team to tell growers that Diamond would "close the gap"
7 with other handlers' prices through its final payment.

8 30. From March 2010 through July 2010, Neil and others at Diamond discussed an
9 extraordinary payment to walnut growers that they termed a "continuity" payment. During these
10 discussions, Neil proposed excluding the "continuity" payment from costs recorded in
11 Diamond's financial statements for fiscal year 2010. However, Neil knew, or was reckless in not
12 knowing, that the payment should be treated as a cost of acquiring the 2009 crop and thus
13 recognized in fiscal year 2010. Ultimately, Neil caused Diamond to record the final walnut cost
14 for the 2009 crop using an average cost of 71 cents per pound, and excluded the "continuity"
15 payment (equal to \$20 million, or approximately 10 cents per pound) from the recorded walnut
16 cost at the end of fiscal year 2010 (July 31, 2010) in its financial statements for fiscal year 2010,
17 and its books and records.

18 31. In justifying the unusual accounting treatment for the "continuity" payment, Neil
19 instructed his Finance Team that the payment was an "advance" for the crop to be delivered in
20 the fall of 2010. Neil knew, however, that some growers believed that the payment was part of
21 the payment for the already-delivered 2009 crop. During visits to certain growers in July 2010,
22 Neil and others at Diamond assured the growers that they would receive a competitive price for
23 the 2009 crop and discussed specific final prices that were higher than Diamond's communicated
24 "final minimum price" of 71 cents per pound. Neil also knew that the "continuity" payment,
25 when added to the crop price for the 2009 crop, brought growers within competitive range of
26 market prices.

27 32. In August 2010, Neil authorized the Grower Relations Team to issue the
28 "continuity" payment together with the final grower payment in one check and accompanied by

1 one statement. The statement sent to growers accompanying the single check was titled, “Final
2 Payment 2009 Crop.” The additional payment amount was approximately 10 cents per pound
3 above the final minimum price of 71 cents per pound already communicated to growers, but
4 appeared as a lump sum payment for the 2009 crop. Neil also approved and reviewed a letter to
5 growers that accompanied the final payment and “continuity” payment. This letter did not
6 explain the purpose of the “continuity” payment, did not separate the amount of the payment that
7 constituted a “continuity” payment, and did not identify the payment as an advance payment for
8 the 2010 crop.

9 33. Though Neil instructed his Finance Team to account for the “continuity” payment
10 as an advance on the 2010 crop, and told Diamond’s independent auditors that the payment was
11 an advance to growers for the next year’s deliveries, Neil did not instruct the Grower Relations
12 Team to issue the payment to only those growers that were under contract or otherwise expected
13 to deliver the 2010 crop. As a result, Diamond issued over \$400,000 in “continuity” payment
14 amounts to growers who delivered a 2009 crop but were not under contract to deliver the 2010
15 crop, and another \$450,000 in “continuity” payments to growers who delivered a 2009 crop but
16 did not ultimately deliver the 2010 crop.

17 34. Growers generally understood the “continuity” payment to be a 2009 payment.
18 The payment, if considered in conjunction with the previous installments and final payments,
19 would have totaled 82 cents per pound as the final walnut cost for the 2009 crop. The 82 cents
20 per pound would have brought Diamond closer to the walnut prices paid by other handlers for
21 the 2009 crop (approximately 87 cents per pound) and in some cases, what Diamond had
22 promised growers for the 2009 crop.

23 35. Diamond filed its SEC Form 10-K for the year ended July 31, 2010, on October 5,
24 2010. As a result of the walnut cost understatement, the Form 10-K reported EPS of \$1.91,
25 above consensus analyst expectations between \$1.84 and \$1.88. That same day, Diamond filed
26 an SEC Form 8-K attaching an earnings release, which touted its 52% growth in earnings during
27 fiscal year 2010 and raised its EPS guidance for fiscal year 2011.
28

1 **C. Understated Walnut Cost in Diamond’s 2011 Financial Statements**

2 36. In fiscal year 2011, Diamond still lacked adequate internal controls governing the
3 walnut cost, grower payments, and financial reporting. Diamond continued to understate the
4 recorded walnut cost, and thereby overstated earnings and EPS, in its financial statements in
5 fiscal year 2011, by (1) manipulating the walnut cost accruals in certain quarters to hit EPS
6 targets, and (2) improperly excluding a portion of the final walnut cost for the 2010 crop from
7 fiscal year-end financial statements. As a result of the understated walnut cost, Diamond
8 materially misstated its financial results from the first quarter of fiscal year 2011 through the
9 fourth quarter of fiscal year 2011, and similarly falsified its books and records.

10 1. Manipulation of Walnut Cost for the 2010 Crop to Meet EPS Targets

11 37. During fiscal year 2011, Neil continued to manipulate costs of acquiring the 2010
12 walnut crop to meet EPS targets. As a result of Neil’s walnut cost adjustments, Diamond
13 reported EPS that met or exceeded consensus analyst expectations for every quarter in 2011. In
14 addition, Diamond continued to file SEC Forms 8-K with earnings releases touting its earnings
15 and EPS record throughout 2011.

16 38. Diamond’s stock price was central to its proposed acquisition of a major potato
17 chip business unit in the spring of 2011. According to registration documents filed with the
18 Commission, Diamond agreed, pursuant to the agreement between Diamond and the potato chip
19 unit’s parent, to issue 29 million shares of its stock to the parent company. The agreement also
20 included a payment of \$850 million to the parent of the potato chip business unit, with a
21 provision that Diamond would pay additional amounts if its stock dropped below a certain price.

22 2. Extraordinary “Momentum” Payment Excluded from Walnut Cost for the
23 2010 Crop

24 39. In the spring of 2011, Neil and others at Diamond began considering the final
25 crop price for the 2010 crop. Neil was aware that other walnut handlers had paid other growers
26 approximately \$1.00 to \$1.20 per pound for the 2010 crop. He also knew that Diamond’s
27 growers were concerned about Diamond’s small first installment payments for the 2010 crop,
28 which were an average of only 57 cents per pound. Neil assured the Grower Relations Team that

1 Diamond was on track to pay a competitive price close to \$1.00 per pound for the 2010 crop.

2 40. In the summer of 2011, Neil and others at Diamond began determining the final
3 payment and final price for the 2010 crop. Neil decided to issue a final payment of
4 approximately eight cents per pound, and an extraordinary and unusual payment, termed the
5 “momentum” payment, of 30 cents per pound. At fiscal year-end for 2011 (July 31, 2011),
6 Diamond recorded the final walnut cost for the 2010 crop as 74 cents per pound. Diamond did
7 not record the “momentum” payment as part of the costs of acquiring the 2010 crop in FY2011
8 in its financial statements for fiscal year 2011 or books and records. Rather, the Finance Team
9 treated the “momentum” payment as advance for the crop to be delivered in the fall of 2011.

10 41. Neil knew that the final price for the 2010 crop, not including the “momentum”
11 payment, was approximately 40 cents per pound below prices being paid by other handlers for
12 the walnut crop that year. This gap would have been unusual and unprecedented. At least some
13 growers were told by Diamond personnel that the purpose of the “momentum” payment was to
14 “make up” for the low final payment made only a few days earlier.

15 42. The “momentum” payment was issued to all growers who delivered walnuts to
16 Diamond for the 2010 crop approximately two days after the final payment for the 2010 crop.
17 The grower letter accompanying the final crop payment and the “momentum” payments did not
18 identify the “momentum” payment as an advance for the 2011 crop. The amount of the
19 “momentum” payment for each grower was calculated using the pounds of walnuts that they had
20 delivered for the 2010 crop.

21 43. By failing to limit the “momentum” payment to growers that were under contract
22 or otherwise expected to deliver a 2011 crop, Diamond issued more than \$3 million in
23 “momentum” payments to growers who delivered a 2010 crop but were not under contract to
24 deliver a 2011 crop, and another \$5.8. million in “momentum” payments to growers who
25 delivered a 2010 crop but did not ultimately deliver the 2011 crop.

26 44. Diamond filed its SEC Form 10-K for the year ended July 31, 2011 on September
27 15, 2011. As a result of the walnut cost understatement, the Form 10-K reported EPS of \$2.61,
28 above consensus analyst expectations of \$2.49. That same day, Diamond filed an SEC Form 8-K

1 attaching an earnings release, which touted its 37% increase in EPS during fiscal year 2011.

2 **D. Diamond Restates its Financial Statements to Correct Walnut Costs**

3 45. On November 1, 2011, Diamond filed with the Commission an SEC Form 8-K,
4 disclosing that the Audit Committee of the Board of Directors would be initiating an internal
5 investigation with respect to walnut crop payments.

6 46. On February 8, 2012, Diamond filed with the Commission an SEC Form 8-K,
7 disclosing that the Audit Committee of the Board of Directors determined that the company's
8 financial statements for fiscal years 2010 and 2011 did not correctly account for certain
9 extraordinary walnut payments and would need to be restated. The Form 8-K announced that the
10 company's CEO and its CFO Neil had been placed on administrative leave.

11 47. On November 14, 2012, Diamond filed with the Commission an SEC Form
12 10-K/A, which included restated financial results for fiscal years 2010 and 2011. The restated
13 financial results reported the extraordinary walnut payments as a prior period walnut cost,
14 thereby increasing cost of goods sold, value of inventory, and payables to growers in fiscal years
15 2010 and 2011. By improperly excluding the true cost paid related to walnut acquisitions,
16 Diamond's original financial statements materially misstated its financial results in multiple SEC
17 Forms 10-Q, 10-K, 8-K, and S-4 starting in at least February 2010 and ending in September
18 2011, as listed below:

- 19 a. SEC Form 10-Q for Q2 FY2010 (filed 2/25/10);
- 20 b. SEC Form 8-K and attachments thereto (2/25/10);
- 21 c. SEC Form 424B5 prospectus (filed 3/1/10);
- 22 d. SEC Form 10-Q for Q3 FY2010 (filed 5/27/10);
- 23 e. SEC Form 8-K and attachments thereto (filed 5/27/10);
- 24 f. SEC Form 10-K for FY2010 (filed 10/5/10);
- 25 g. SEC Form 8-K and attachments thereto (filed 10/5/10);
- 26 h. SEC Form 10-Q for Q1 FY2011 (filed 12/8/10);
- 27 i. SEC Form 8-K and attachments thereto (filed 12/8/10);
- 28 j. SEC Form 10-Q for Q2 FY2011 (filed 3/8/11);

- 1 k. SEC Form 8-K and attachments thereto (filed 3/8/11);
- 2 l. SEC Form 10-Q for Q3 FY2011 (filed 6/2/11);
- 3 m. SEC Form 8-K and attachments thereto (filed 6/2/11);
- 4 n. SEC Form S-4 (filed 6/20/11), with amendments filed on 8/4/11 and
- 5 9/16/11;
- 6 o. SEC Form 10-K for FY2011 (filed 9/15/11); and
- 7 p. SEC Form 8-K and attachments thereto (filed 9/15/11).

8 Diamond's stock price dropped to \$17 per share after the filing of the restatement in November
9 2012 from its high of approximately \$90 per share after the filing of its SEC Form 10-K for
10 fiscal year 2011 in September 2011.

11 48. From at least February 25, 2010 through September 15, 2011, Diamond
12 understated the reported walnut cost in its financial statements for the purpose of improving EPS.
13 As a result of the understatement of the walnut cost, Diamond met or exceeded analyst
14 expectations on EPS every quarter during the relevant timeframe. Diamond acted with scienter
15 in issuing materially false and misleading financial statements, earnings releases, and other
16 documents filed with the Commission because Neil, in his capacity as Diamond's CFO, knew or
17 was reckless in not knowing that the statements contained in these documents were false.

18 49. Diamond's financial statements prepared for each quarter and each year-end
19 during the relevant time frame understated the walnut costs, and overstated earnings, by a
20 material amount, and the accurate reporting of the costs and earnings, including EPS, would have
21 been material to a reasonable investor. Diamond's reported EPS for the fiscal year 2010 was
22 overstated by more than 65 percent, and Diamond's reported EPS for the fiscal year 2011 was
23 overstated by more than 89 percent.

24 50. Diamond failed to devise and maintain an adequate system of internal controls to
25 ensure the accuracy of its books and records. Among other things, Diamond did not implement
26 any policies to ensure the accuracy of the reported walnut cost, the accounting for walnut
27 payments, and the manner in which the walnut cost was incorporated into the financial
28 statements. The controls and policies in place were insufficient to prevent the manipulation of

1 walnut costs to meet EPS targets or the delayed recognition of walnut costs in incorrect fiscal
2 periods. The absence of adequate internal controls enabled Neil to falsify Diamond's books and
3 records regarding its walnut cost, earnings, EPS, and other financial information.

4 **FIRST CLAIM FOR RELIEF**

5 **Violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5**

6 51. Paragraphs 1 through 50 are re-alleged and incorporated herein by reference.

7 52. By engaging in the conduct described above, Diamond, directly or indirectly, in
8 connection with the purchase or sale of securities, by the use of means or instrumentalities of
9 interstate commerce, or the mails, with scienter:

10 (a) Employed devices, schemes, or artifices to defraud;

11 (b) Made untrue statements of material facts or omitted to state material facts
12 necessary in order to make the statements made, in the light of the circumstances
13 under which they were made, not misleading; and

14 (c) Engaged in acts, practices, or courses of business which operated or would
15 operate as a fraud or deceit upon other persons, including purchasers and sellers
16 of securities.

17 53. By reason of the foregoing, Diamond has violated and, unless restrained and
18 enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and
19 Rule 10b-5 [17 C.F.R. § 240.10b-5].

20 **SECOND CLAIM FOR RELIEF**

21 **Violations of Sections 17(a)(1), (2), and (3) of the Securities Act**

22 54. Paragraphs 1 through 50 are re-alleged and incorporated herein by reference.

23 55. By engaging in the conduct described above, Diamond directly or indirectly, in
24 the offer or sale of securities, by use of the means or instruments of transportation or
25 communication in interstate commerce or by use of the mails,

26 (1) with scienter, employed devices, schemes, or artifices to defraud;

27 (2) obtained money or property by means of untrue statements of material fact or by
28 omitting to state a material fact necessary in order to make the statements made,

1 in light of the circumstances under which they were made, not misleading; and
2 (3) engaged in transactions, practices, or courses of business which operated or would
3 operate as a fraud or deceit upon purchasers.

4 56. By reason of the foregoing, Diamond violated and, unless restrained and enjoined,
5 will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

6 **THIRD CLAIM FOR RELIEF**

7 **Violations of Section 13(a) of the Exchange Act**

8 **and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13**

9 57. Paragraphs 1 through 50 are re-alleged and incorporated herein by reference.

10 58. Based on the conduct alleged above, Diamond violated Section 13(a) of the
11 Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder [17
12 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, 240.13a-13], which obligate issuers of securities
13 registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78I] to file with the
14 Commission periodic reports, including annual reports, with information that is accurate and not
15 misleading, and unless restrained and enjoined, will continue to violate such provisions.

16 **FOURTH CLAIM FOR RELIEF**

17 **Violations of Section 13(b)(2)(A) of the Exchange Act**

18 59. Paragraphs 1 through 50 are re-alleged and incorporated herein by reference.

19 60. Based on the conduct alleged above, Diamond violated Section 13(b)(2)(A) of the
20 Exchange Act [15 U.S.C. § 78m(b)(2)(A)], which obligates issuers of securities registered
21 pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78I] to make and keep books, records,
22 and accounts which, in reasonable detail, accurately and fairly reflect the transactions and
23 dispositions of the assets of the issuer, and unless restrained and enjoined, will continue to
24 violate these provisions.

25 **FIFTH CLAIM FOR RELIEF**

26 **Violations of Section 13(b)(2)(B) of the Exchange Act**

27 61. Paragraphs 1 through 50 are re-alleged and incorporated herein by reference.

28 62. Based on the conduct alleged above, Diamond violated Section 13(b)(2)(B) of the

