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DOMESTIC CROP

Records for Tomato Price and Crop Outlook

Pricing

For the fourth consecutive year, California's packers will pay substantially more for raw tomatoes. After a protracted negotiation, growers and processors settled at \$80 per ton in late March. This year's contract price represents a record increase of 14.3% over last year's \$70.

Processors and California Tomato Growers Association agreed that the price of tomatoes would increase for 2009, the difficulty came in deciding on an appropriate increase.

From a grower perspective, the 2009 price needed to make up for losses in 2008. After contracting for a record high price of \$70 per ton in December 2007, growers watched their profit margins deteriorate as input costs spiked. The unexpected inflation of fuel and fertilizer added \$200 per acre (\$5 per ton) to grower expenses

between January and June 2008, according to the CTGA.

In an effort to recoup income lost, the CTGA announced in October an aggressive offer of \$95 per ton for the 2009 crop. But processors were unwilling to pay such a drastic increase as prices for fuel, fertilizer, and alternative crops plummeted off their highs in July.

After months of negotiation, the CTGA finally settled on \$82.25 with two processors in late February, and it seemed the price was set. Usually once one processor agrees to a price, the rest follow. Not this year.

After another month of negotiations, the CTGA still hadn't signed with any of the remaining processors. Morning Star and the other packers held out for a better price, eventually getting an \$80 per ton agreement in late March.

Although growers did not get their initial price, raw tomato prices have risen 60% since their 2005 price of \$50 per ton. This increase reflects growth in input costs and prices for other crops growers could plant.

Price Increases through March 2009 since

	Jan 2008	Jan 2005
Processed Tomatoes	14%	60%
Growing Inputs		
Herbicides	20%	30%
Mixed Fertilizer	34%	174%
Nitrogen	-27%	17%
Potash and Phosphate	90%	225%
Diesel: Bulk Delivery	-37%	11%
Alternative Crops		
Rice	65%	124%
Feed Grains & Hay	-1%	81%
Corn	-10%	46%
Wheat	-40%	70%

Sources: CTGA, USDA-NASS, IMF

Forecast

Despite the high price of tomatoes, processors are contracting for additional acres. Tomato contracts are at a record 13.3 million tons, according to the January California Agricultural Statistics Service release.

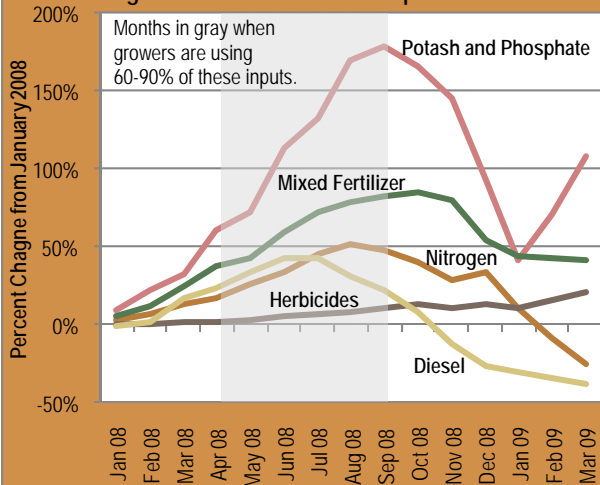
Although it's thrilling to think about a crop 25% above the 10-year average, in reality California's processors and growers expect a much smaller crop. **A more likely volume sits between 12 and 12.5 million tons.**

Crop Conditions

Growers are busily transplanting seedlings and conditions in the fields are favorable. Southern growers began transplanting in February with northern growers following in March. Planting will continue until June. The only setback being freezing temperatures in early March which damaged some freshly planted seedlings.

Although rainfall has been close to normal, water allocations continue to be minimal, as reservoirs and snowpack are still below average. Yet using subsurface drip irrigation, conservation and ground water, California's growers are resourceful at getting water to their fields.

Input costs rose during peak usage for growers, falling after most of the 2008 crop was harvested.



Source: USDA-NASS

INTERNATIONAL CROP

Record World Crop Needed to Meet Demand

Conversion Notes:
 1 metric ton (MT) = 1.102 tons
 1 hectare = 2.47 acres

In response to a shortage created by increased processed tomato consumption globally (see our Market Analysis section on the next page), the world's tomato crop is expected to increase 10% in 2009. The World Processing Tomato Council (WPTC) forecasts world production reaching a record breaking 40.1 million metric tons (MT). This is 18% above the average of the prior five years.

Removing California's exuberant crop forecast shows less growth anticipated in other countries. Outside the United States, international expectations are up a smaller 8.7% (2.2 million MT) above last year.

China creates half of the 2.2 million MT ton growth. China's forecast is up 20% to 7.7 million MT which is 67% greater than the country's 5-year average production. Last year China officially produced 6.4 million MT, shattering a barrier of 5 million MT it hadn't been able to break through.

In the last few years Chinese producers have added additional capacity, especially in small scale factories, but 7.7 million MT seems optimistic and closer to the capacity than actual production ability.

Production from the **AMITOM** group of countries is expected to only increase 4%. Its biggest member and the world's third largest producer of tomatoes is Italy. **Italy** seem content to process about 5 million tons of tomatoes as it has for the past few years. The country is focused more on canned items rather than bulk and importing paste to make other products.

Other members of AMITOM are looking to increase their production. **Spain** hopes to increase production 21% to 2.1 million MT. After years of decreases, **France** is looking to bring its production up to levels seen earlier this decade. **Greece**, which had moved away from tomatoes in the post subsidy environment, has increase production 27%.

Turkey has come off its upward production swing and expects to decrease 22% to 2.1 million MT. Yet this production expectation is 15% above the country's 5-year average.

Exporting southern hemisphere countries — **Chile, Argentina, and Australia**— have upped their production. Their product will be available before the larger crop in the northern hemisphere allowing them to capitalize on the high prices created by the shortage.

WORLD PRODUCTION In 1000s of Metric Tons	2008	2009 Forecast	Percent Change	Percent Share	5 Year Average	% Change Average
Total AMITOM	14,955	15,583	4%	39%	14,502	7%
Italy	4,900	5,000	2%	12%	5,100	-2%
Spain	1,730	2,100	21%	5%	2,022	4%
Greece	670	850	27%	2%	817	4%
France	125	230	84%	1%	145	59%
Turkey	2,700	2,100	-22%	5%	1,825	15%
Other Northern Hemisphere (less CA)	7,893	9,168	16%	23%	6,208	48%
China	6,405	7,680	20%	19%	4,601	67%
Total Southern Hemisphere	3,015	3,361	11%	8%	3,308	2%
Argentina	350	410	17%	1%	354	16%
Australia	151	240	59%	1%	262	-8%
Chile	510	700	37%	2%	663	6%
International Total (less CA)	25,863	28,112	9%	70%	24,018	17%
California	10,720	12,066	13%	30%	10,007	21%
World Total	36,583	40,178	10%	100%	34,025	18%

MARKET ANALYSIS

Record Crops Should Barely Balance Supply

With the arrival of new supplies this summer, prices for bulk tomato products will fall from the dizzying spot prices seen after the 2008 pack. Still, California packers' opening prices for 2009 bulk products are higher than in 2008. **Prices are being driven by the increased cost of raw tomatoes and expectations tight supplies globally.**

Single season contracts for 31% NTSS paste in bins are expected to be around 47¢ per pound, an increase of 5¢ from opening prices last year. Bulk diced in 300 gallon bins is selling for 20¢ cents per pound, a penny above 2008's opening prices. Customers continue to pay a 3¢ premium for more expensive drum packaging.

Raw Tomato Price Effect

Since raw tomatoes compose about 56% to the cost of bulk tomato paste, a record high \$80 per ton is driving up manufacturing costs. **Paying \$10 per ton more for tomatoes adds 3.3¢ per pound to processors' costs.**

Growing Worldwide Consumption

Raw tomato prices are just part of what is driving the price of domestic bulk products. Supply and demand economics are also at work. Worldwide there is a shortage of processed tomatoes. For several years, production has not kept up with growing demand, according to the World Processing Tomato Council.

This shortfall is driving paste prices. **Despite the record crop forecasts, tight supplies are still anticipated after the 2009 pack.**

GLOBAL SUPPLY OUTLOOK	
In Metric Tons (Millions)	
2009 Production Forecast ¹	40.2
2009 Est. Global Demand ²	38.2
Difference	2.0*
*Less than a month supply left over ³	
1. WPTC, Feb. 15, 2009	
2. Consumption of 36.0 million MT in 2007 times 3% growth for 2 years. Source: WPTC	
3. Average of 3.2 million MT consumed monthly	

As the table above reflects, 40 million MT will just barely cover the expected demand for the 2009 pack. And, as an additional caveat, production is likely to fall below expectations. The US and China —both forecasting the largest increases— are unlikely to be able to process their projected volume. As a result, it's probable that the **global production will total closer to 39 million MT, leaving supplies tight again.**

Global Competitiveness

Movement (demand) of US tomato stocks is up 16% from June 2008 to March 2009 over the same period last year, according to the California League of Food Processors.

This increase is driven mostly by soaring international demand. From July 2008 to January 2009, exports of US paste were up 110% over this same period last year. (See graph at right.) This is remarkable since the US exported a record volume last year.

It's likely that exports of paste will slow in the coming pack year as economics cut into the US's price competitiveness. The dollar has strengthened off its lows last summer and California packers' costs are up more than other exporting countries due to the raw tomato price.

With that said, **there still seems to be ample opportunity for US paste in the global market.** Italy is not forecasting significant increases in its production and Turkish expectations are down. China has forecast a big crop but is notorious for falling short of its expectations. Expect US exports to hold near the current high levels and not returning to pre-2007 volumes.

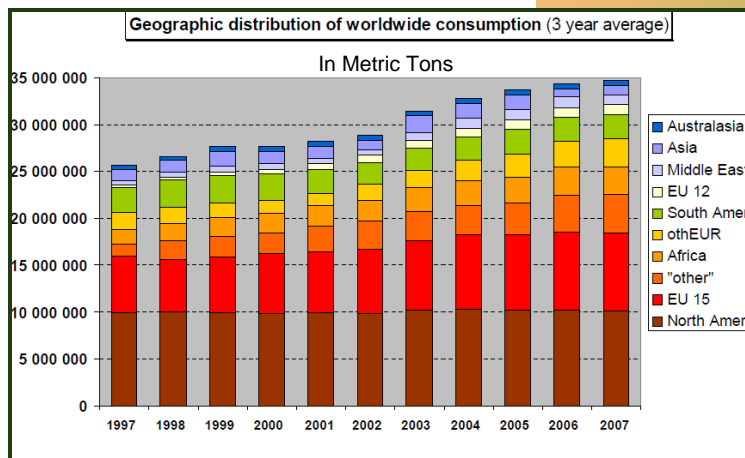
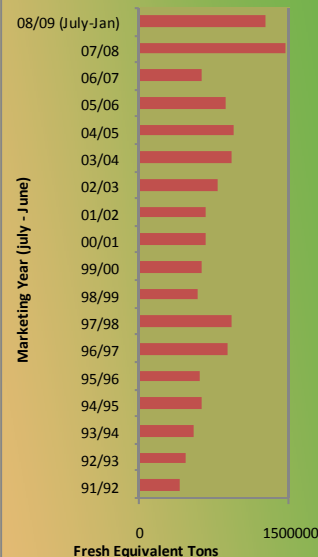
Wrap Up

Despite the free-fall of the global economy, consumption of processed tomatoes is not showing signs of weakening. Processed tomatoes are one of those items people seek out when purse strings are tight.

Processed tomatoes are a flexible food, packed with flavor. They make an affordable extender to recipes and add numerous health benefits people's diets. Additionally tomatoes are plentiful in popular, economical foods, like pizza, pasta and ketchup.

Tomato Paste Exports

Source: USDC-Bureau of the Census



Source: World Processing Tomato Council, June 2008

OUR PRODUCTS

Hot Break Tomato Paste
(28% and 31% NTSS)

Organic Hot Break Paste
(31% NTSS)

Cold Break Tomato Paste
(31% and 37% NTSS)

Organic Cold Break Paste
(31% NTSS)

Concentrated Crushed
(26% and 28% NTSS)

Diced Tomatoes
(3/8", 1/2" and 3/4" cut)

Fire Roasted Diced Tomatoes
(1/2" and 3/4" cut)

Organic Diced Tomatoes
(1/2" and 3/4" cut)

Ground Tomatoes in Puree
Tomato Puree (1.07)

Chili Sauce

Ketchup

Custom Formulated Products

CONTAINERS

300-gallon aseptic bag-in-box

55-gallon aseptic drum

StarPak
(four 75-gallon bags-in-box)

OPERATIONS UPDATE**A Generous Helping of Plant Improvements****Liberty**

- Added capability to run hot break and cold break paste simultaneously. Improves the consistency of the hot break paste because sort outs from dicing go directly into cold break product stream.
- Added another 130 tons per hour of capacity and more specialty evaporation equipment. Plant can now handle 800+ tons per hour of fresh tomatoes, up 25% from last year.
- Increased diced capacity another 40 gallons per minute. Improves capacity 10%.
- Added a "SuperVac" across the whole stream of unprocessed tomatoes entering the plant. The equipment uses a vacuum to remove materials other than tomatoes (MOT) before the tomatoes enter into the hot breaks or peelers.

Los Banos

- Added another 90 tons per hour of capacity. At 620 tons per hour, our eldest factory has 2.5 times more capacity than when built in 1990.

Williams

- Is experimenting with color sorting technology to remove MOT from the stream entering the facility.
- Upgraded flash cooler to drop temperatures down further before filling. Improves the color and Bostwick.



Williams factory at night.

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