

2009 CALIFORNIA ENGLISH WALNUT CROP

CY 2009 Edition 4 .

MARKET UPDATE

December 28, 2009

To: Domestic Buyers and Sales Representatives

As we enter the initial stages of offering annual contract volumes, we would like take this opportunity to update you with current supply, crop characteristics and demand indications for the 2009 California Walnut Crop.

Supply

The crop supply and quality is now more evident, as harvest is now finished and we have had the opportunity to shell significant volumes of in-shell to determine costs and see what we have to market for the remainder of the year. The crop size we believe will be close to the N.A.S.S. Objective September Measurement of 415,000 in-shell short tons. This will put us in the range of about 6-8% less product than last year on an in-shell basis. The actual 2009 crop volume will be announced by NASS in late January. (see fig.1 graph below). We estimate that the edible crack out will be down about 8%-10% from last years crop levels a well, resulting in a smaller kernel volume conversion from the in-shell than anticipated earlier.

California Walnut Crop Size

In-Shell Basis

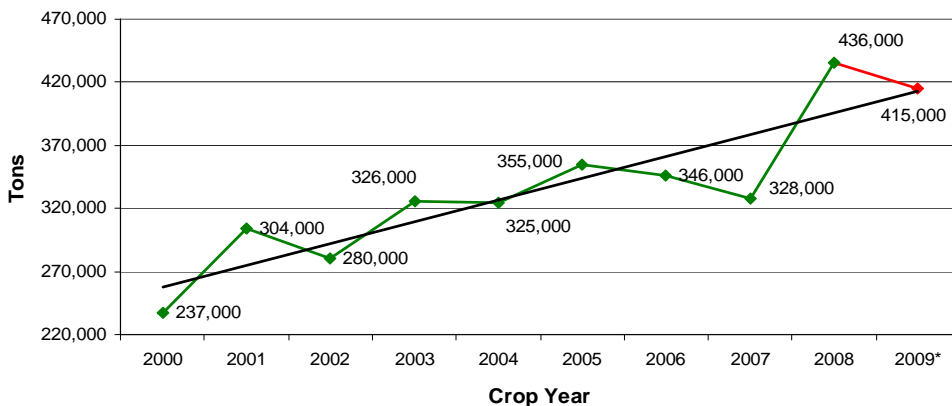


Fig.1



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Supply (Cont'd)

As you know, California was hit in mid-October by a large Pacific storm front that was the remnant of a Japanese Typhoon that was carried to the U.S. by the Jet Stream. The storm dropped heavy rains in California and snow in the Rockies as it moved East. The rainfall totals in the Sacramento Valley were about 1.5 inches which is not that unusual, but the San Joaquin Valley growing regions had 2-3 inches of rainfall. Growers were not able to get back into the fields for a week or more to continue to harvest. We can now see that this had a significant impact to kernel color and overall utility of this year's harvest.

Market Update

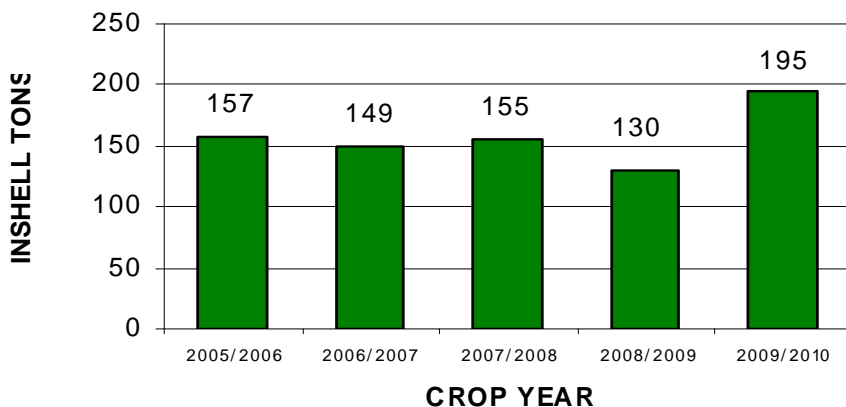
Shipments for the 2008/2009 marketing year, ending August 31, 2009, was a record 415,342 in-shell ton equivalent. The resulting 58,000 ton carry-in, was primarily comprised of kernel products.

When the early export market for in-shell walnut sales opened in September, the season started out with in-shell prices opening significantly higher than prices for the equivalent walnuts shelled. This was anticipated due to the fact the market was void of any in-shell carry-in. Normally, if there is significant disparity between the in-shell market prices and the kernel market prices, the markets will move together with in a couple of weeks or as soon as the old crop is sold. This year has been much different and pricing for the two types have not yet joined. This means that the net value has been higher to sell walnuts in the shell rather than as kernels.

As a result of the disparity in value of the raw product, it has taken us a little longer to develop kernel prices for contracting due to the fact that we have to compete for the same raw product as other companies that sell their product as in-shell. Since the in-shell market is a spot market, it does not have the same pricing components as the kernels which are held for longer periods to supply customers with year-round needs.

As the value of the Dollar continued to weaken through harvest, the export demand picked up as the season progressed. By the end of October, industry sales hit record levels for both kernels and in-shell. As of the end of November 2009, approximately 41% of the California supply of walnut products had shipped to market. With shipments continuing to be strong, we anticipate that 55-60% will have shipped by the end of December.

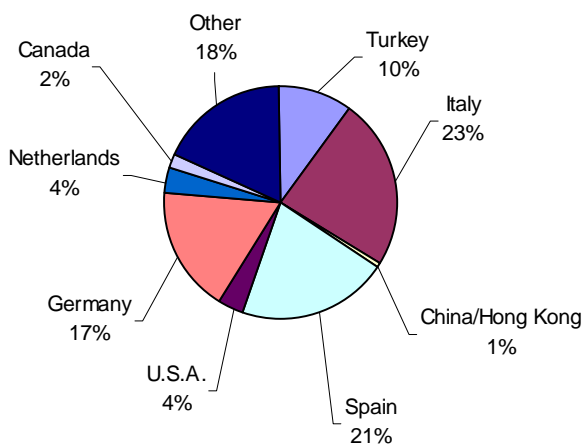
CALIFORNIA WALNUTS SHIPMENTS SEPT - NOV



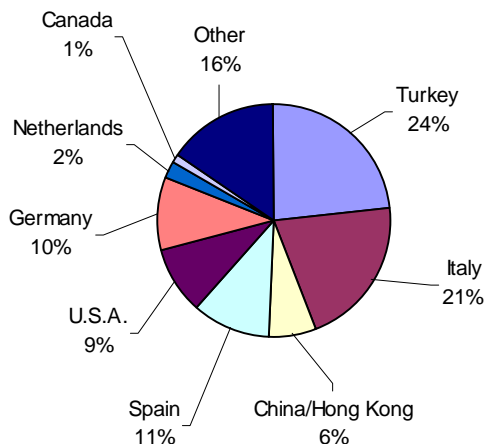
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Early In-Shell Markets

Shipments of in-shell California walnuts have been very good to date, with shipments up approximately 52% from last year for the same period. Demand from Spain and Germany are down about 15% year to date, but Italy is up more than enough to make up the difference with traditional Western European buyers. Shipments to Turkey to date are equivalent to all of last year and China looks like it may be a significant buyer of in-shell walnuts again this year as well. The Turkish market last year became the largest single market for California in-shell walnuts. This year's YTD shipment volume to Turkey is at a new record level and is on pace to double that of last year. China/Hong Kong looks like it may be a significant buyer of in-shell walnuts again this year as well. Last year, China was the second largest buyer of California in-shell walnuts and at present they are on track to quadruple that volume based on current shipments to date. Recent reports from China indicate that the Chinese walnut crop is down about 20% in volume from last year and Chinese buyers have been buying in-shell stock to make up for the shortfall.



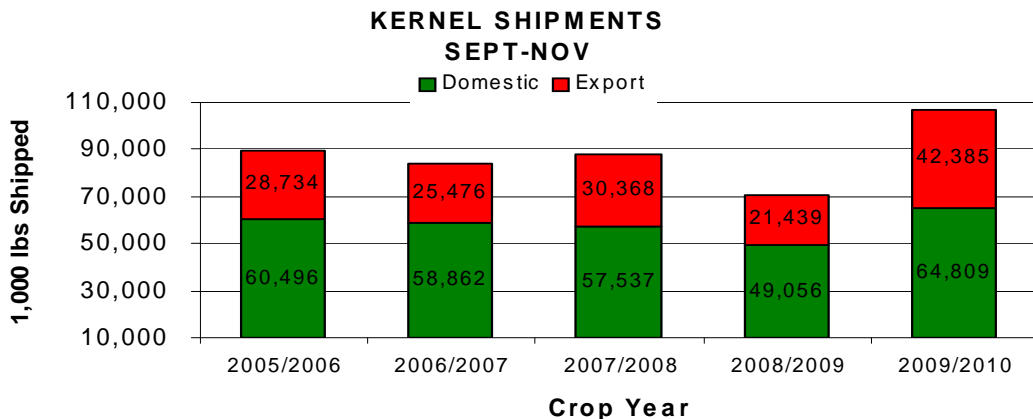
2008 YTD IN-SHELL SHIPMENTS



2009 YTD IN-SHELL SHIPMENTS

Shelled Walnut Market

After reviewing the California Walnut Boards shipment figures through the end November, Industry sales for the marketing year to date (September-November) have been very good as well with about a 50% increase in shipments.



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Conclusion

In September, when the new crop harvest started, the quality of the crop was average and the volume was consistent with early N.A.S.S. estimates. The outlook was for a smooth transition with pricing remaining fairly comparable to last year's ending pricing.

By mid-December, the crop had all been delivered for processing, and we have just concluded our inventory review as we enter the traditional Fall contracting period for industrial walnut users. Though we are about two weeks later than normal in starting our contracting, the crop quality has been more variable than normal due to the weather related issues, and the markets remain unsettled, both critical factors to establishing costs of production and annual prices for kernels.

Though Crain Walnut Shelling, Inc. is not an in-shell seller of walnuts, we do have to compete for the same growers that sell to both shellers and in-shell processors. With the higher demand and lower total saleable volume, current price levels are higher than previously anticipated and the market will likely remain firm throughout the year.

As we start the New Year, we will be reviewing customer needs and providing quotations accordingly. If either Vicki or I can be of further assistance, please give us a call. Thank you and we would like to wish you all a Very Happy and Healthful New Year!

Chuck Crain

Crop and shipment statistics compiled from information published by the California Walnut Marketing Board and the California Agricultural Statistical Service (C.A.S.S.)