



CALIFORNIA CROP

Season Off to a Late Start

May and June were not kind to California's tomato crop. Winter-like temperatures and late rainfall delayed transplanting and slowed the development of seedlings.

As a result, harvesting began about two weeks behind schedule. Harvesters didn't enter the fields in the northern areas until almost August.

Tomatoes planted for delivery in the early part of the season were hit the worst. The cool, damp spring proved a hospitable environment for bacterial disease. Pressure from disease caused the plants to drop foliage and struggle to set their crowns.

By the end of August, harvesters worked through the difficult fields at the beginning of the crop and now growers are finding excellent stands in their fields. Moderate summer temperatures have allowed later season tomatoes to develop and yields are near expectations.

Despite its late start, the season will end near the same time as in past years. To decrease the pack size, processors had planned to finish about two weeks earlier than normal. Instead the season was shortened on the front end, instead of the back. California's late crop has been strong the last several years.

SUMMARY

Unlike 2009, the 2010 crop suffered inclement weather around the globe. Worldwide forecasts have fallen as major production regions began their harvests weeks later than planned.

Even through the crop will fall below forecasts, production is still expected to exceed demand and no one foresees a shortage.

VOLUME EXPECTED

Officially, California's 2010 crop expectations are only 7.5% below last year's bumper crop. The May release of California Processing Tomato Report forecasts 12.3 million ton crop.

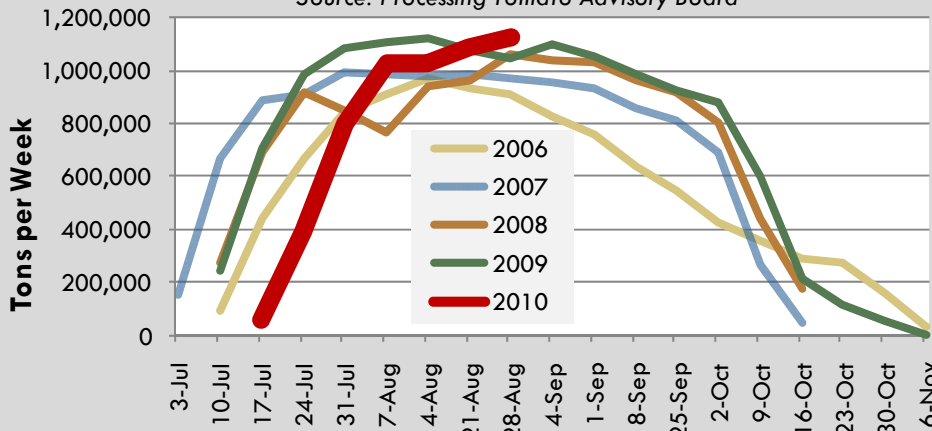
But with only 269,000 acres contracted, an unlikely record yield of 46 tons per acre is required to meet that volume. Given the disease pressure and a poor start, the crop is more likely to average 40 tons per acre. This would bring in a crop closer to 11 million tons.

TOMATO PRICE SETTLED

While the first harvesters were entering the fields in mid-July, the California Tomato Growers Association and processors finally agreed to a field price of \$65 tons per acre. The drop is 18.7% below last year's record price of \$80 per ton. It's the first price drop growers have taken since 2005.

Weekly Deliveries of California Tomatoes

Source: Processing Tomato Advisory Board



SALES TEAM

Kelly Haywood 530-473-3626
Paul Maxon 209-827-5518
Keith Rigby 209-827-5522
Karolina Splinter 209-829-5090
Becky Wahlberg 209-827-5508
Robert Young 209-827-7830

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)

INTERNATIONAL CROP

Unfavorable Weather Harms Crop Globally

Conversion Note: 1 metric ton = 1.102 short tons

Weather around the world has not cooperated with the tomato growers. Forecasts are down from the spring, according to the World Processing Tomato Council's July 30 report.

The global crop forecast of 38.055 million metric tons is 10.5% below last year's production.

Most of the decline was planned in response to excess supply after last year's 42.5 million MT bumper crop, but the inclement weather is creating greater decreases.

China

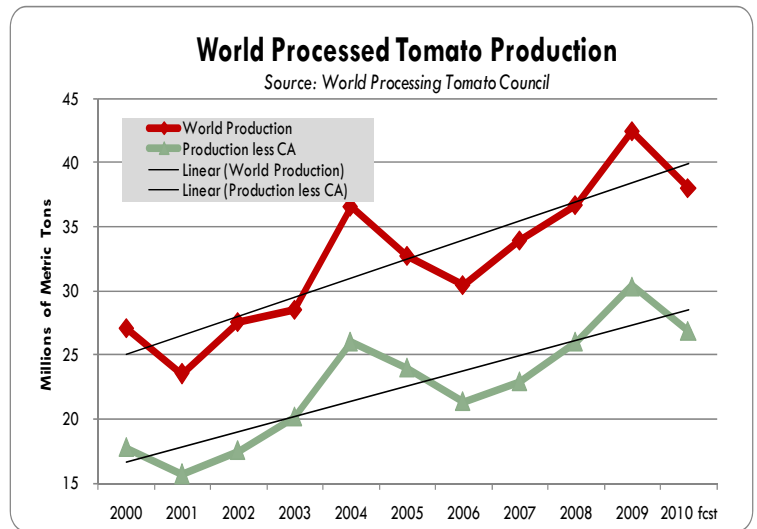
The most drastic weather reported comes from the Xinjiang region of China. For 10 hours in the middle of May, snow fell on the Yanqi basin (southern Xinjiang province) which produces 16% of the total Chinese crop.

Although the most drastic example, this is not the only challenging weather faced by Chinese growers. Cold and rain throughout most of the planting season delayed the Chinese crop and may create bunching.

China's forecast is 7.65 million MT down 12% from last year's 8.7 million MT.

Italy

Fields in northern Italy were battered by high volumes of rain during transplanting in May. Then in the middle of June winter arrived, bringing cold temperatures, rain and some hail.



In July, summer hit with a vengeance. Northern Italy suffered under a heat wave that withered vines, causing some blooms to drop. As a result, the crop's harvest was delayed several weeks and not running at capacity by the end of July. Some are guessing that the volume will be down 15-20% in the region.

The country's paste production is concentrated in the northern region so the harsh weather will effect global supplies of paste. Italy's forecast is at 4.8 million MT, down 16% from last year.

COLLEAGUE PROFILE

Going into the Fields to Lead Our Industry

At Morning Star, we strive to lead our industry. To us, being the industry leader is not about the size of the company or its age. Leadership means that you innovate, challenge what is considered standard, and drive your industry forward. You question everything, looking for ways to improve and to gain efficiencies.

As industry leader, Morning Star delivers results to the product's quality and savings to our customer's bottom line.

Our active view of leadership has taken us outside the factories and beyond the tomato hauling we've done since 1970. We've gotten into the fields and become partners with our growers. We help them transplant in the spring and harvest in the summer.

It began in 1995, when Morning Star was building Williams, its second factory, from the ground up. While most of California's tomatoes are grown in the south, the large Williams factory is the most northern tomato facility in the state.

Morning Star needed to encourage more growers to plant tomatoes up north. Contract harvesting would eliminate a potential start up cost for new growers while allowing Morning Star better coordination over the flow of tomatoes into the factory.

In 1995, California Sun Harvesting was born with Peter Lomanto and Cameron Tattam starting up the operations. By 1999, Cal Sun was harvesting all the tomatoes processed by the Williams factory.

In 2000, Peter moved south to start Lucero Farms as a harvesting and farming division for Morning Star's southern operations. This season, Lucero Farms will harvest 96% of the crop for Morning Star's two southern factories.

In 2004, Lucero Farms began doing transplanting as increasing seed prices made transplants a more affordable option for growers than direct seeding. We now transplant in both the north and south and are designing an automated transplanter to save on labor costs.

Our "in-field" operations are so successful that we harvest and transplant for farmers who are growing for other processors.



CAMERON TATTAM—California Sun
An Australian native, Cameron came to the United States for an agricultural exchange program in Minnesota. Finding the Midwest winters a bit too snowy, he moved to California and began working for a tomato grower and then FMC. In 1995, he helped start the California Sun harvesting operations for Morning Star.

PETER LOMANTO—Lucero Farms
Peter grew up in Hollister, just down the road from Los Banos. He helped start up Cal Sun Harvesting in 1995 then moved south in 2000 to start up Lucero Farm's harvesting operation. The company operates 40 harvesters and picks most of the tomatoes for the Los Banos and Santa Nella Morning Star factories.



JONATHAN GOBEL—California Sun Harvesting
Jonathan came on board for Cal Sun's second season in 1996. But he also works on his family's cattle and rice farm in Maxwell. Jonathan built a prototype pull-behind harvester which was tested last year. An outside company was contracted to build several more during the off-season. For 2010, these stripped down, relatively cheap harvesters are surpassing the through-put of their larger, traditional counterparts.



ROBBY FORCE AND DAN RAMOS—Lucero Farms
Robby began scheduling harvesters for Lucero Farms in the summer of 2003. This year he worked with a programmer to create Toma-toStar, which tracks equipment, yard inventory, and dispatching for the harvesting and trucking operations. Dan came from his family farm in Los Banos in 2005 to help Lucero Farms with transplanting and farming operations.



MARKET ANALYSIS

Processors Moving Tomato Inventories

After several years of global shortage, last year's bumper crop shifted the market into a surplus environment. Processors around the world planned to pack less in 2010, but the numbers look nowhere near low enough to balance supply.

The tough planting and growing season should decrease the crop even further; but until the final numbers are in, there is no way to tell if supply will be balanced.

In the United States, tomato processors moved a record 12.6 million fresh equivalent tons of product from their warehouses, but still had a record inventory as of June 1, according to the California League of Food Processors' Stock-



on-Hand report.

With more than half of California's crop to be harvested into the unreliable fall months, any surplus will shrink but it's unlikely to disappear.

Santa Nella
 12045 S. Ingomar Grade
 Los Banos, CA 93635
 209 826-7100

Los Banos
 13448 Volta Road
 Los Banos, CA 93635
 209 826-8000

Williams
 2211 Old Highway 99
 Williams, CA 95987
 530 473-3600

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