

Monitor

64th Annual Membership Meeting Special Edition

The Board of Directors and staff would like to thank the members and guests who attended our 64th Annual Membership Meeting in Sacramento on November 21st.

President's Report **2007 Crop Marketing Year**

The FRC 2007 crop average return was \$16.23 per cwt or \$9.71 per cwt over the applicable USDA Price Support Loan value, inclusive of the average dividend. In addition, FRC paid approximately \$3.8 million in premiums for special varieties. FRC also provided a full package of member program benefits which will be discussed later.

The 2007 crop marketing year started with a manageable inventory given the reasonable carry-in from the 2006 crop and approximately 43 million cwt of 2007 production. Prices at the end of the 2006 marketing year were at the highest levels in several years and at the 2007 FRC Annual Meeting, FRC projected they would likely go higher.

During the first half of the marketing year, our stated position on supply and demand remained constant; supplies were extremely tight while demand remained strong. In the midst of strong supply and demand fundamentals we believed prices would continue to strengthen and that FRC was well positioned to take advantage of the impending opportunities.

Early in the marketing year, we did participate in the World Trade Organization (WTO) mandated export markets of Japan, Korea and Taiwan. We sold approximately 20% in this segment. FRC's participation in this segment was relatively limited considering the total size of the market. This limited participation was due to our view at the time that prices were going to continue to strengthen and we deemed other markets as higher value. While the WTO markets are crucial for California rice, they are still a relatively generic market that typically doesn't provide additional value for quality and service.

In early March 2008, Egypt, California's largest medium grain competitor, announced an export ban which significantly tightened the available medium grain supply for the world. This followed export bans in Vietnam, Thailand and India which also tightened available world rice supplies and increased world prices three fold seemingly overnight.

FRC's market mix was well positioned for the appreciated values and we led the charge in all markets given the new dynamics presented by the export bans. In the consumer products market, where we sold approximately 55% of our supply, we managed our inventories effectively to insure our long term customers maintained normal supplies. Sales were brisk throughout the marketing year despite very elevated prices.

Commercial exports accounted for approximately 25% of our total sales. Typically in this market sector quality, service and relationships are particularly important to the customer. This complex business was sold at relatively higher prices to customers primarily in the Middle East and the South Pacific. Our marketing department maintained existing and established new relationships with end users and frequently marketed in FRC brands. This business was shipped almost exclusively in ocean-going cargo containers which involve additional logistics and documentation versus a standard break-bulk cargo sale. The good news for FRC is although the business is more complex and costly, the customers are willing to pay higher prices for all the benefits of quality and service.

The results of the 2007 crop marketing year were a product of a well defined and executed marketing strategy. In addition, cost effective-minded employees throughout FRC teamed up and took on the challenge of the new market environment and the new complex requirements. Lastly, FRC members' investment in our production facilities provided us the ability to flex our market mix and achieve incremental value.

2008 Crop Prospects

Every marketing year presents a new set of challenges and dynamics and this year is no different. We finished the 2007 crop at record levels, however, the 2008 crop is projected to sell even higher and with no doubt at unprecedented levels. At press time of this FRC Monitor, FRC milled rice prices are at levels in excess of the highest cash rice sales to date.

Future prices are always difficult to predict, especially the further out you project, however market factors which influence direction do provide an indication of the future. Here are the current factors, outlined in a Bears and Bulls format, which give us an indication of the general market forecast:

The Bears:

- * The significant price differential between Calrose rice and the rest of the rice world. As of press time of this FRC Monitor, milled Calrose is selling for approximately \$1,100 per metric ton (very good price) versus U.S. Long grain at \$650 per MT, Thai 100% B at \$550 per MT and Vietnamese Long grain at \$400 per MT

- * Competing commodity prices of corn, wheat, soybeans and Thai 100% B rice have all dropped approximately 50% from their previous highs. All are a risk to Calrose in the form of substitution by customers and more rice production by producers.

- * Unfortunately for U.S. export business, the U.S. dollar has strengthened versus many foreign currencies by approximately 25% over the last few months, which is effectively making U.S. rice more expensive to our export customers.

- * There have been reports that both China and Egypt could lift their export bans after the first of the year. This could have a dramatic effect on the supply side of the equation.

- * The financial market turmoil and the ailing economy are having a negative effect on demand. While it is very difficult to quantify, less discretionary income by consumers will have some effect on many spending habits, including eating at Japanese restaurants.

- * Hard to say today, but if we receive ample rainfall, 2009 California rice acreage is likely to increase over the 2008 plantings, especially due to the unattractiveness of competing crops.

The Bulls:

- * Egypt's export ban is still in place and may continue into the near future. When the ban is lifted, most observers believe the ban would be lifted gradually, minimizing the flood of rice into the market. China's ban may continue due to their food security issues.

- * Australia's drought continues which will reduce this year's production to extremely low levels. This devastating drought has persisted for most of the last ten years and the situation there doesn't appear to be getting any better.

- * The European Union rice production, primarily in Spain and Italy, was down approximately 25% for the 2008 crop. This reduces the medium grain supply on the world market.

- * The Southern U.S. medium grain crop is down an estimated 30% versus last year. This also reduces the available medium grain supply in the world.

- * The California 2008 crop carry-in is the second lowest in ten years. This combined with a 43 million cwt crop equates to a very manageable inventory. Given the projected demand, we will likely go into the 2009 crop with very little carry-in.

- * The uncertainty of the water situation for 2009 crop plantings. Plantings in California could be reduced considerably if we don't have a normal to above normal precipitation.

We believe the BULLS currently outweigh the BEARS for the 2008 crop prospects. We also concur with USDA forecasters that this crop will clear with very minimal carryover and we will add "at very elevated prices". While it is too early to make return projections, we do expect ours to be competitively high and we trust the FRC membership will be pleased with the results.

2008 Programs Add Extra Value To Your Membership

We acknowledge the final return is the traditional benchmark for a member in determining value in a marketing cooperative. We further acknowledge it is our job to maximize your return on a sustainable basis. At FRC, our unique member programs add incremental value to your total membership package. We have highlighted the major programs for your information. 2009 programs will be released in February, 2009.

Early Season Advance (ESA)

All members who have planted rice for FRC are eligible for the advance. Some of the benefits members enjoy are:

- * \$300 per acre upon receipt of a signed acreage survey (much earlier than FSA certification)
- * Interest free to the member

Early Final Payment (EFP)

The Early Final Payment Program was established for those who **defer** their new crop proceeds into the next calendar year.

- * Up to \$300 per acre upon receipt of a signed acreage survey (much earlier than FSA certification)
- * Interest free to the member
- * Members will estimate the **net** value of the remaining proceeds for the 2007 crop. In October, the final payment will be reconciled with the Early Final Payment

Domestic Production Activities Deduction (DPAD)

A Federal tax deduction for FRC which is passed on to the membership, the owners of the cooperative. In calendar 2008, members are projected to receive a deduction of approximately \$.70 / cwt.

Special Varieties

- * M-401 - \$.04 / # Head Rice (\$2.40/cwt)
- * S-102 – Agronomic advantages
- * Cal Mochi - \$1.50/cwt over Calrose plus Full Green Freight
- * Akita - \$6.75/cwt over Calrose plus Full Green Freight
- * Koshi - \$7.25/cwt over Calrose plus Full Green Freight
- * Organic - \$25.50/cwt average with potential ups

Immediate Harvest Payment

Upon delivery to an FRC drier or upon receiving a Paddy Storage Receipt, members receive the Immediate Harvest Payment. This allows for members to receive payment on their crop prior to appraisal or warehouse receipts. Program has averaged \$5-\$7 per cwt over the last couple of years

FRC Driers

FRC offers high quality service to drier patrons at competitive rates.

- * Competitive drying and storage rates
- * Extended operating hours
- * Green freight programs (\$.30 - \$.45 / green cwt)
- * FRC pays entire freight bill and carries balance interest free until the final payment (Approximately 1 year)
- * Web site access to weights and moistures on a daily basis

FRC Seed

FRC offers quality seed at competitive prices.

- * High quality Registered and Certified seed
- * \$.75 /cwt discount for payment by March 31
- * \$.50 /cwt discount for payment within 30 days of invoice
- * Interest free deferral of payment until the initial harvest payment (approximately \$.50/ seed cwt savings)
- * Satellite soaking facilities

FRC Grower Trucking

Members may utilize their trucking equipment by shipping dry rice from the up-country warehouses to the mill throughout the year.

- * FRC grower truckers haul 45% of all the up-country weight
- * FRC grower truckers haul an average of 120% of their eligible weight

Member Equity Requirement Reduction Program (MERRP)

- * Goal of reducing the equity requirement by 50%
- * Goal of eventually reducing the revolve in and revolve out periods
- * Initial MERRP with the 2007 crop



FRC Chairman Herb Holzapfel addresses the FRC membership at the 64th Annual Meeting at the Radisson Hotel in Sacramento.

Communications

While difficult to determine an individual's direct financial benefit, numerous informational and interactive meetings do provide important value to FRC members.

Value of a well informed and engaged membership is to help make well informed financial decisions for your operations.

Leadership Activities

Our political leadership in California industry organizations, the state legislature and Washington, has been well chronicled and highly successful. Our market leadership may be less transparent to most members, but it provides value by working to achieve our primary objective of maximizing your return on a sustainable basis.

Once again we realize a marketing cooperative's return is the ultimate measurement of value, however we believe our return complemented with a wide range of member programs presents an overall total package value that enhances membership in FRC.



FRC Director Frank Torres, who retired from the FRC Board of Directors in October, received a plaque at the 64th Annual Meeting in recognition of his 18 years of service on the Board of Directors.

Looking Forward

Looking forward to the 2009 crop and beyond, there will be many factors that will influence supply and demand. We believe California rice market conditions are likely to become significantly more volatile.

Demand continues to increase, particularly from developing countries. These countries are improving their standard of living and are demanding higher quality and larger quantities. Substitution of commodities by both consumers and producers will further intensify the market

volatility. On the supply side, all commodities, including rice are likely to remain extremely tight with very limited room to expand production.

This volatility will induce change in the California Rice Industry. Marketers will need to be more flexible in their marketing strategies and milling capabilities. On the producer side, accurate and timely information along with strong relationships will be needed to optimize all opportunities. For both marketers and producers, we will likely see significant differences in annual returns and may also see some consolidations.

FRC is well positioned to succeed in this new environment. We have a flexible marketing mix of business, strong financials and banking relationships, a knowledgeable and skilled staff and a loyal and committed membership base. With this foundation it has never been a better time to be a member of FRC, especially as California transitions into the new environment.

In closing we are very optimistic about the 2008 crop and will continue to be cautiously optimistic for the 2009 crop. As we have presented there are many factors we will be watching and analyzing in the coming months. FRC will again be conducting Pocket Meetings after the first of the year and will continue to keep the membership informed of the 2008 crop marketing progress.

We wish you and your families a very Happy Holiday Season!

Best Regards,

Michael Sandwick



California Rice Commission President and CEO, Tim Johnson addresses the FRC membership.

California Department of Food and Agriculture (CDFA) is currently holding a referendum vote to continue the ten year old Rice Commission. Ballots have been mailed to all growers and handlers and the voting period ends on December 19, 2008. FRC supports the activities of the California Rice Commission and we encourage all members to vote.