

Walnut Marketing Board

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WALNUT MARKETING BOARD MEETING MINUTES

Friday, February 22, 2008

Carmel Valley Ranch

Carmel, CA

A meeting of the Walnut Marketing Board was called to order by Chairperson Dr. Jerome Siebert at 10:00 a.m. The roll was called by Mr. Dennis Balint, Executive Director. Mr. Balint advised Chairperson Siebert that a quorum was present. The following members and alternates were present:

Members:

William Carriere

Al Bonturi

Earl Lindauer

Jack Mariani

Jim Frazier

Jerome Siebert

Jerry Moore

William Waggershauser

Sam Keiper

Alternates:

Donald Norene

Walter Deardorff

Phil Short

Pete Turner

William Tos

Michael Petz

Jack Gilbert

Board Member Earl Perez was absent, as were Board alternates Stephen Giovannoni, Karen Klonsky and Gary Ford. Alternate William Tos filled in for Mr. Perez. Also in attendance were Mr. Duane Lindsay, CWC Technical Advisor; Dr. David Ramos, WMB Research Director; Mr. Vic Tolomeo of CASS; Mr. Martin Engeler of USDA/AMS; and Mr. Dave deBernardi, CPA, of Gilbert Associates.

Chairperson Siebert called for a motion to approve the minutes of the September 14, 2007 Walnut Marketing Board meeting as mailed. Mr. Carriere so moved and Mr. Keiper seconded. The motion carried unanimously.

Chairperson Siebert then gave an update of the Distinguished Service Award. At the banquet the previous evening, the award was presented to Ms. Margaret Torme of the public relations firm Torme Lauricella. Ms. Torme was recognized for her outstanding contributions that she and the firm have made to the walnut industry, particularly in consumer outreach on the health and nutrition benefits of walnuts. On behalf of the Walnut Marketing Board, Chairperson Siebert again thanked Ms. Torme for the work that she and her firm do for the walnut industry.

The next item on the agenda was the Crop Report to be presented by Mr. Vic Tolomeo of the California Agricultural Statistics Services (CASS). Mr. Tolomeo indicated that the forecast presented in September was 320,000 tons. This number was derived from the objective measurements taken from 700 samples in the field from August 1st to 25th. The latest information from the receipts from handlers indicates that the crop is at 323,082 tons, about 1 percent above the forecast.

Mr. Tolomeo presented slides that showed the objective measurement versus the final production, the yield per acre and the conditions during the 2007 growing season. He indicated that the acreage survey that tracks acreage, county, year planted and variety has begun and the report will be released at the end of May.

Chairperson Siebert thanked Mr. Tolomeo for his presentation and introduced Mr. Balint to present the next agenda item, Current Walnut Supply and Demand. Mr. Balint showed a series of overhead slides, beginning with the current monthly management report. It indicates that the export marketing continues to show growth overall, with Germany, Spain and Italy up for the year in shelled exports. Israel's shelled shipments are down slightly, as are Japan and Korea which is not surprising given the high prices.

The inventory situation is no surprise, with inventories down from a year ago given the production numbers and the shipments we have experienced so far this year. County numbers are following a pattern, with San Joaquin, Butte and Tulare being the biggest producers and production by variety has not varied much in the past couple of years with Chandlers leading the production followed by Hartley. The production of Serr, Howard and Tulare varieties have grown steadily over the years.

Mr. Balint indicated that 82 percent of the inshell shipments are going to the export market with shelled export shipments continuing to grow. This year is at an all-time high with 34.3 percent of the shelled product going to the overseas market.

In looking at the percentage of inshell shipments after the 1st of January, the past two years has been 13.5%. Shelled shipments averaged about 50% before January 1st and 50% after for the past two years. In foreign walnut production there are no real surprises. China is reporting a 2007 crop of 507,000 metric tons of which they will consume about 92 percent.

The final chart that Mr. Balint presented was the walnut supply and utilization projection. He indicated that we would finish the year down slightly from last year, but ahead of what was originally projected, with an ending inventory at 40,250 tons.

Chairperson Siebert thanked Mr. Balint for his presentation and introduced Mr. Jack Mariani, Chairperson of the Walnut Marketing Board Market Development Committee, to present the committee report.

Mr. Mariani began by introducing Ms. Jennifer Getz, Assistant Marketing Director and the newest member of the Walnut Marketing Board staff. Ms. Getz comes to the Board from the marketing department of the Sacramento Ballet Company. Mr. Mariani then gave a brief overview of the recent activities of the Market Development Committee. He indicated that because of excellent recommendations from both the PR agency, Torme Lauricella and the hard work of staff, we now have some of the top speakers in the U.S. working for us now, including Drs. Oz and Roizen. Dr. Oz is a regular guest on *Oprah* and he and Dr. Roizen co-authored the "You" series of bestselling books. We were fortunate to have Dr. Roizen be part of the media tour that we conducted this past fall.

We also have an association with dietician and health expert Joy Bauer. Ms. Bauer is a frequent contributor to the *Today Show* and she consistently touts the benefits of walnuts as a super food.

Mr. Mariani commented that we did not have any major health studies published in the past year. There were three small studies that published that Ms. Sloan will speak about later. Despite the lack of publications, our media impressions continue to grow. Internet hits also continue to grow, with an increase of about 30 percent over last year. This past fall we had some great media coverage through magazines such as *Family Circle*, *Relish*, *Shape* and *Men's Fitness*. Mr. Mariani showed a clip of a walnut piece from nutrition editor Madeleine Fernstrom that was on the *Today Show/iVillage*. He also mentioned that we continue to work with Ellie Krieger, a popular Food Network celebrity. We conducted a recipe contest in the fall where the winning prize was a trip to New York to spend a day cooking with Ellie Krieger. The activity generated over 500,000 visitors to our website.

Mr. Mariani turned the presentation over to Ms. Getz to expand on some of this year's activities and discuss upcoming marketing activities. Ms. Getz stated that the media tour that Mr. Mariani mentioned included 35 media and guests and showcased the bounty of California's harvest through the Central Valley's cuisine. Guests were taken on a harvest demonstration and tour and Dr. Roizen spoke on nutrition and health issues. Harvest coverage reached nearly 30 million impressions, including mentions on the *Prevention* website, *Raley's Something Extra* magazine and the Bay Area News Group.

Ms. Getz explained that our outreach to the media has included a holiday stuffing recipe with walnuts, a Heart Smart outreach for heart month (February), and a Super Bowl make-over. We had a recipe featured in *Woman's Day* magazine and *Parade* magazine mentioned omega-3 fatty acids in walnuts in a feature article. Music.com did an article on stopping memory loss that mentioned walnuts and information.com ran a piece on walnuts ranking high in nutrition scales. Drs. Oz and Roizen have mentioned walnuts in appearances on *Oprah* and *Good Morning America*. Ms. Getz showed video clips of the shows.

Our impressions for the first quarter of the marketing year went up 48 percent. We have seen a big jump in web impressions and we are working on a new method of tracking them that should capture web impressions better.

Upcoming events include a Smart Salad campaign that will debut in April with a kick-off media tour in San Francisco. Chef Charlie Ayers and Dr. Roizen will be in attendance. After the tour we will kick off a recipe contest on our website, urging viewers to submit a smart salad recipe for walnuts. We also have a Healthy Snacking Campaign in the works, and we did a Test Kitchen Outreach with a fire roasted walnut recipe as a suggested ingredient for salads. Our website has also seen some improvements with the addition of a healthy snack food section which includes some recipe suggestions. We are partnering with Highbush Blueberries for a summer time press release that will be distributed nationally. It will include two recipes; a salad recipe and a dessert with frozen yogurt, walnuts and blueberries.

This concluded Ms. Getz's report of the Market Development Activities. Mr. Mariani commented that anyone interested in the upcoming International Tree Nut Council Congress being held in Chile, May 9-11, can get in touch with him after the meeting.

Hearing no questions for Ms. Getz or Mr. Mariani, Chairperson Siebert asked Mr. Balint to present the next agenda items, Copy Approvals/AMS and Board and Commission Joint UES Application. Mr. Balint gave a brief history of the issues. For many years, the lines in Washington were drawn clearly on advertising and label approval; FDA was in charge of food labels and health claims, FTC was responsible for advertising and public relations. Now, however, there is new legislation that will expand the influence over what we do overseas and

everything we produce including public relations, point-of sale material, B-roll footage, and information provided by a university in promoting a new health study. Everything will need to be approved by USDA. FTC and USDA have elected to use FDA guidelines for reviewing not only labels and websites, but all communications of federal marketing orders, including press releases.

We have been working with Torme Lauricella to review all our press releases and publications to make sure they will follow the guidelines. In order to alleviate some of the pressure on the Board, we are asking the Board to delegate authority to staff to jointly apply with the Commission for Market Access Program (MAP) money. This would allow us to shift certain Walnut Marketing Board activities to the CWC, and in turn, the Board would take on certain responsibilities of the CWC. The CWC has more latitude in some areas and this would provide us with more flexibility.

Mr. Balint asked Mr. Martin Engeler of USDA/AMS if the federal marketing order final ruling for the changes to the order has been published. Mr. Engeler stated that it has not yet, though he anticipates that it will within the next couple of weeks. Mr. Balint stated that when the final ruling is published, the revisions to the marketing order will go into effect and the Board will have more tools at its disposal and the capability to do things that only the Commission could do in the past.

With regard to the joint UES application, Mr. Balint stated that there are still some issues to be worked out, but staff is currently working on them. They include the timing issue (fiscal year versus marketing year), how we may apply reserve funds, copy approval process if the Board assumes some responsibility for advertising abroad and record keeping which would become more complicated.

Mr. Lindauer made a motion to delegate the authority to the Walnut Marketing Board Executive Director and staff to apply for Market Access Program (MAP) funds through the UES process with a joint application with the California Walnut Commission. Mr. Moore seconded the motion and it carried unanimously.

Chairperson Siebert introduced Ms. Carol Sloan to present the next agenda item, Health Research Update. Ms. Sloan gave a brief update of the studies that published this year, the studies that are pending publication and the studies still in progress.

During the first quarter of calendar year 2007, we had a bone study from Penn State that published this year as an offshoot of a study that was published in 2004. They found that subjects who ate walnuts had less loss of bone, possibly due to the omega-3 content. Another side study of the original Penn State study also published during the first quarter, this one having to do with inflammatory markers of cardiovascular disease. In April, we attended the Weil Conference in San Diego which was very successful. In early summer, the first results from Dr. Emilio Ros' PREDIMED project published. We did not financially fund this project, but we did provide the walnuts.

Also during the summer, we attended the Nurse Practitioners Conference in Indianapolis, hosted the Scientific Advisory Council meeting where over 30 researchers from all over the world got together to discuss current research and share new ideas, and attended the School Nutrition Association meeting in Chicago. In October, we attended the American Dietetic Association's Food and Nutrition Exposition and Conference. Dr. Jim Joseph and dietician Heidi Diller spoke on our behalf about whole foods and how they can prevent aging.

Ms. Sloan stated that we have had 18 published studies starting with the first one from Dr. Sabaté in the *New England Journal of Medicine* in 1992. Thirteen are in the area of heart disease, two are for diabetes, one is melatonin, one is bone health and one is weight

management. Currently, we have 11 studies that are pending publication. The drafts have been completed and the studies are being submitted to various journals.

Ms. Sloan stated that there are 13 studies currently in progress. These include: a diabetes project from Dr. Linda Tapsell; a sub-study from Dr. Ros' PREDIMED project on alpha linolenic acid; a project from Dr. Frank Hu on the association between walnut consumption and risk of developing type 2 diabetes; a pregnancy study from Dr. Janet King that will evaluate the effect of walnut consumption during pregnancy and lactation; a project from Dr. Christos Mantzoros of Harvard on the effects of walnut consumption on metabolic syndrome; an antioxidant study from Dr. Diane McKay and Dr. Jeff Blumberg of Tufts University; an animal study on Alzheimer's disease from Dr. Abha Chauhan; 10 additional sub-studies from the PREDIMED project from Dr. Ros; an animal study from Dr. Paul Davis looking at gender related cancers such as prostate and breast cancer; a diabetes study, this one from Dr. David Katz at Yale Griffen Prevention Research Center; a project from Dr. Penny Kris-Etherton on the effects of walnuts on inflammation and endothelial function; a breast cancer study from Dr. Jack Vanden Heuvel which is being co-funded by the AICR; and finally, a breast cancer project from Dr. Elaine Hardman also being co-funded by the AICR.

There are four new proposals to go before the Market Development Committee in March. They include one project on breast cancer, two on cognitive function and one on metabolic syndrome. Ms. Sloan stated that the next Scientific Advisory Council meeting will be held in August 2008 in Tahoe and we are hoping for another excellent turnout from the researchers.

Ms. Sloan mentioned a new proposal from Dr. Frank Hu to review all of the walnut research between 1985 and 2008, similar to the meta-analysis review done in 2002. This will be a very important analysis to add to the huge database of nut and walnut research. Dietary guideline changes are coming up in 2010 so we need to be prepared with documentation as to why walnuts should be a part of the food guide and dietary guidelines. The LSRO study that Mr. Balint commissioned in 2002 is consistently used as a reference for scientists and researchers. Mr. Balint will be discussing this project later in the California Walnut Commission meeting.

Chairperson Siebert thanked Ms. Sloan for her presentation and introduced Mr. Earl Lindauer, Chairperson of the Research Committee, to give the committee report. Mr. Lindauer stated that all the research projects for 2007 have been completed. In January, the University of California held its annual Walnut Research Conference in Bodega Bay and several members of the Research Committee attended. The Committee will meet in a several weeks to review the projects that were presented at that conference and determine which to support. Mr. Lindauer mentioned that there is a new university website dedicated to the walnut research projects for the past 40 years and CDs of the research projects for the past few years, including the current year, are available from the Walnut Marketing Board.

Mr. Lindauer made a motion for the Board to delegate authority to the Production and Post-Harvest Research Committee to recommend projects directly to the USDA. Mr. Waggerhauser seconded the motion and it carried unanimously.

Chairperson Siebert asked Mr. Duane Lindsay, CWC Technical Advisor, to present the next agenda item, Section 18 Update. Mr. Lindsay indicated that the Section 18 for Manex has been requested and it is his understanding that it will be issued by the end of February. There has been some indication from EPA to Dupont and the Department of Pesticide Regulation (DPR) that there is hope of receiving a Section 3 for Mancozeb. Mancozeb has been extensively researched and it has been found to be every bit as effective as Manex, if not better.

Chairperson Siebert asked Mr. Lindsay to continue with the Update on UN/ECE Activities. Mr. Lindsay presented some slides showing the current UN/ECE tolerance levels that have been in use since 2001. He indicated that Dr. Bickelman of the German delegation has

taken issues with the tolerance numbers because she feels they are too high and wants to cut them down at the expense of the marketplace. The California Walnut Commission funded a study a year ago in Germany that verified we have 93 percent acceptance of our product in the German marketplace. However, Dr. Bickelman is not satisfied and has presented her proposal with the provisions for defects allowed in inshell walnuts and tolerance levels allowable for defective product by number or weight. She has put all tree nuts into the same standard which we have tried to explain will not work as all tree nuts are different and have different criteria. Mr. Lindsay explained that the tolerances for mold as well as decay, damage by pest, rotting and deterioration would remain unchanged, because we won that battle with her.

Mr. Lindsay stated that we have until the end of the year before the new regulations are put into place unless we can keep them from being implemented. The U.S. only has one vote on the UN/ECE committee. We do have the support of France, Turkey and Italy, so we are hoping that it will not pass committee.

Chairperson Siebert presented the next agenda item, update on PRAC. He indicated that the Production Research Advisory Council (PRAC) was established a couple of years ago. The purpose of PRAC is to be an advisory committee for the Production and Post-Harvest Research Committee, chaired by Mr. Lindauer, and to provide long-term, strategic evaluation, analysis and advice, similar to the way the Scientific Advisory Council does for health research for the Commission. The Production and Post-Harvest Research Committee of the Board makes the final decisions in terms of production research.

PRAC consists of five workgroups: genetic improvement, orchard management, pomology, pathology and post-harvest. There are four industry people on PRAC: Bill Carriere, Brent Barton, Jim Frazier and Sam Keiper. The full PRAC committee met in December to hear the workgroup reports from their meetings held in the summer and fall. A summary report will be presented to the Research Committee at their meeting on March 20th in Sacramento.

Chairperson Siebert asked Dr. Ramos to say a few words about PRAC. Dr. Ramos stated that he encourages industry participation in the working groups, because those groups are the key to the success of the process. One example of success is the genetic improvement group. They recommended about 18 months ago that the Walnut Marketing Board begin to seriously look at mapping the walnut genome. After a lot of discussion between the working group, PRAC and the Research Committee, a project that will develop the molecular tools through mapping the genome in order to speed up efficiency in the breeding program, was approved last year. It is a very intensive effort which is a first for nut crops worldwide and among horticultural groups in the research community.

Dr. Ramos mentioned that the U.C. breeding program recently held a crack out to look at new varieties. There will be another crack out at the end of April and growers are encouraged to attend. The university is also looking for five- or ten-acre blocks for test plots for new varieties and interested growers should contact Dr. Ramos.

Chairperson Siebert asked Mr. Balint to comment on the next agenda item, Establish Research Conference. Mr. Balint stated that the Board has been, at the suggestion of some members of the industry, considering conducting a research conference similar to the one the Almond Board holds every December. He is looking for feedback from the Board as to whether or not to pursue such a conference. Mr. Keiper commented that he has been involved in both the almond industry and the walnut industry for sometime. He believes that the Walnut Marketing Board Production and Post-Harvest Research Committee, along with PRAC and the university have developed a close working relationship, however, they may not be reaching out to the larger community like the Almond Board does with their conference. He thinks it may be worth looking into.

Chairperson Siebert asked Mr. Lindauer if the Research Committee has had any discussions about holding an industry-wide conference. Mr. Lindauer stated that the committee has not discussed it. However, it could be considered at the next committee meeting on March 20th. Chairperson Siebert, hearing no dissention, deferred the issue to the Research Committee for discussion at their next meeting.

Ms. McNeil presented the next agenda item, Strategic Plan Update. She explained that the Board and Commission held a Strategic Planning meeting in January 2007 and adopted a strategic plan. Ms. McNeil asked for a recommendation from the Board to go forward with the plan or have a meeting to revisit it. Mr. Balint explained that the last meeting was very successful and it is his belief that we do not need a full meeting at this time, however, staff could develop a recommendation for the next meeting if there are things in the strategic plan that need to be addressed. Hearing no objection, Chairperson Siebert deferred the issue to staff to develop a recommendation.

Chairperson Siebert asked Mr. Balint to present the next agenda item, Compliance Plan. Mr. Balint stated that the compliance plan was approved by the Board in September, however, Mr. Martin Engeler of USDA, pointed out a couple of items in the plan that need updating. The changes are on pages 9 and 10 of the Compliance Plan and they are as follows: In Section 1.1 the word "perspective" was changed to "prospective"; in Section 1.2 details of how documentation will be sent to USDA has been added ("via registered mail, Federal Express, or other similar means that documents delivery and receipt, and track such information"); in Section 2.2 the sentence "Maintain a summary log of handlers not properly completing their reports, and follow up to maintain compliance" was added; in Section 2.4 the sentence "Maintain a summary log of handler visits" was added.

Mr. Balint asked for a motion to adopt these changes to the existing compliance plan. Mr. Mariani so moved and Mr. Bonturi seconded. The motion carried unanimously.

Mr. Balint stated that the next agenda item, Budget Review, does not need to be addressed at this time because our crop came in higher than we expected. We do not have the deficit situation that was anticipated at the time this agenda was created.

Chairperson Siebert introduced Ms. Heather Donoho to address the next agenda item, Review of the Annual Audits. Ms. Donoho stated that all Board members were recently mailed copies of the annual statements, a copy of the management letter that was issued by Gilbert Associates and a copy of our response to that letter. Our audits were again conducted by Gilbert Associates and the financial audit is the only one we had this year. Ms. Donoho introduced Mr. Dave deBernardi, CPA, of Gilbert Associates to provide an overview of the audit outcome.

Mr. deBernardi explained that there were two Gilbert Associates working on the Board audit, with oversight from Mr. deBernardi, the manager. To conduct the audit, they look at invoices and contracts and apply analytical procedures to make sure everything looks right. This year's Board audit included some new auditing standards that enabled Gilbert to look more closely at some things and to hold the accountability of accounting to a higher standard in terms of controls. There were only a couple of adjustments necessary as a result of the audit and the bottom line is the accounting is being done well. In 2008, there will be some new auditing standards in place that will result in more internal controls and higher audit fees. Gilbert Associates is also pleased with the Board's formation of an Audit Committee.

Chairperson Siebert thanked Mr. deBernardi for his report and asked Mr. Balint to present the next agenda item, the Report from the CWC. Mr. Balint gave a report of the Issues Management Committee of the Commission for informational purposes. There are some ongoing regulatory issues that the committee is involved in, including continued negotiations on

UN/ECE standards, as mentioned by Mr. Lindsay earlier; the critical use exemption (CUE) for methyl bromide which is an annual application submitted to EPA; support for the specialty crop provisions in the Farm Bill; monitoring and commenting on minimum residue level (MRL's) on a country-by-country basis; and the Section 18 on Manex that was also covered earlier by Mr. Lindsay. Trade Policy issues that the committee is involved in are the inshell access to Korea; the Free Trade Agreement with Korea that will reduce the duty from 30% to 0% in five years once it is passed by Congress; the World Trade Organization discussions which have been stalled for some time; and the lowering of the duty in Japan which would only occur within the framework of a WTO agreement. Mr. Balint indicated that the Issues Management Committee is making its annual trip to Washington D.C. at the end of April.

Chairperson Siebert asked Mr. Balint to comment on the next agenda item, the Update on the Marketing Order Revision Progress & Planning Cycle. Mr. Balint stated because the changes to the marketing order will be final soon, the Chairperson needs to reappoint the Marketing Order Revision Committee (MORC) for the purpose of reviewing the new order and making recommendations on informal rulemaking. In order to complete this discussion, Chairperson Siebert moved to agenda item Q(2) Marketing Order Revision Committee. He explained that at the last Board meeting, the Board gave him the authority to reappoint the Marketing Order Revision Committee and direct them to begin discussions about informal rulemaking. He stated that the members of the MORC will remain the same: Jerry Siebert, Committee Chair; Jack Gilbert; Sam Keiper; Bob Lea; Earl Lindauer; Jack Mariani; Donald Norene; and Phil Short.

Under the next agenda item, New Appointments, Mr. Balint mentioned that the Audit Committees for both the Board and Commission have been established. Martin Mariani has been appointed Treasurer for both the Board and Commission. The members of the Walnut Marketing Board Audit Committee are Bob Lea, Donald Norene and Michael Petz. The Commission Audit Committee consists of David Skinner, Bill Crain and Pete Turner. Staff will put a plan together to engage the Audit Committee in the review of financials as soon as possible.

Chairperson Siebert stated that he had already commented on agenda item Q(2), so he moved on to item R, the Report of the CWC MDC Predictor Market Research Project. He introduced Mr. Steve Rose and Mr. Brad Rose of Rose Research to give the report.

Mr. Steve Rose explained the history of the methodology of Predictor, a system that he helped create over 30 years ago. He has used this method of research in over 3,000 studies, with the major objective being to predict or estimate how much money you gain or lose if something changes in a marketing plan. The system has been proven to be statistically a 95 percent confidence level. Rose Research has used it for the California Walnut Commission before and for many other commodity groups.

What they set out to do in the CWC predictor study was determine what would happen if we increased advertising dollars across a number of countries. The countries studied were Germany, Japan, Spain and the United States and there were two separate cells of samples, a control cell and an experimental cell. The control cell respondents were not exposed to any advertising at all. In the experimental cell, the respondents were shown a communication: a TV ad in Japan; in Germany and Spain a print ad; and in the U.S. it was public relations. All of the respondents had to have bought walnuts in the past year and they were screened to make sure they had not seen any walnut advertising in the past six months. The study begins by asking the respondents some questions up front, showing them the communication and then having them go into a mini-store that is set up in each market to spend their own hard-earned money on anything they want.

Mr. Brad Rose then presented the findings of the CWC predictor project. He explained that they conducted the studies during times when inshell walnuts were either not available or were readily available in order to see what effect advertising or PR would have on the purchase of shelled walnuts. This helped to determine how best to extend the shelled walnut purchasing season. He showed a slide of the mini-store in Germany where there were only one or two products on the shelves that were inshell walnuts. Everything else was shelled walnut products, along with competitive nuts and snacks and other packaged foods with walnuts, such as cereals, chocolate, yogurt, cheese, and bakery breads.

The first behavioral measure was the in-store trial where the respondents can purchase anything they choose in the mini-store, or nothing at all. In terms of the differences in the control cell and the experimental cell, the biggest shifts took place in the U.S., Spain and Korea. While the numbers in Germany and Japan are strong in terms of trial, we did not see any differences between the control and experimental cells. Mr. Steve Rose commented that this is important because the data is telling us that the impact of increasing expenditures in Germany and Japan are not really moving the sales units.

The second measure was impulse purchasing. Again, there were similar patterns in Korea, Spain and the U.S. In Germany and Japan there was no movement between the two cells. After seeing communication, over 3 in 10 of the shelled walnut purchasers in the U.S., Japan, Korea and Spain reported that they would buy shelled walnuts more often. In Germany, only 12 percent responded that they would change future purchasing behavior.

Purchasing intent produced similar results with the biggest shift between the control cell and the experimental cell in the U.S., Korea and Spain. The comparison of walnuts to competitive nuts, in which walnuts are perceived to be better than or just as good as other nuts, also had positive results in those three countries. Mr. Steve Rose commented that it is not that the numbers are poor in Germany and Japan, just that we see better performance in Korea, Spain and the U.S.

Mr. Brad Rose stated that the advertising/PR awareness was high among the respondents in all countries. These results came from showing the consumers a series of advertisements or magazine articles (PR) and then asking them if they remembered the information about California Walnuts. The awareness of communication was extraordinarily high in Japan.

Japan, Korea, Spain and the U.S. had very strong health message awareness, whereas, Germany had more versatility message awareness. In terms of importance of believability, three-fifths of the consumers felt the message, advertising or PR information about California walnuts was believable. Various walnut health characteristics were likely to be learned among consumers, especially in Korea and the U.S. including walnuts are good for the heart, contain omega-3 fatty acids, lower cholesterol and promote good health and nutrition. Versatility was also important in the U.S.

Mr. Brad Rose stated that the CWC predictor project concluded that the U.S., Spain and Korea offer the CWC the greatest opportunity to grow the shelled market as a result of increased advertising. In addition, shoppers in those countries are more likely to buy walnuts on impulse. Future purchase intent was also positive as indicated by a greater number of consumers, exposed to ads and PR, who stated they would be more likely to buy walnuts in the future.

Based on the findings from this research, Mr. Brad Rose presented estimates for each of the markets: in the U.S. a \$1.4 million increase in consumer related advertising/PR would result in \$465-480 million in total shelled walnut dollar volume; in Spain a \$500,000 increase in advertising/PR spending would result in \$27-30 million in increased volume; in Korea, a

\$500,000 increase in spending would result in \$34.5-38.5 million in increased volume if home shopping continues at current levels; in Japan, a \$750,000 increase in advertising/PR would result in no change in total shelled walnut dollar volume; and in Germany, a \$500,000 increase in advertising/PR spending would also result in no change in shelled volume.

Chairperson Siebert thanked both gentlemen for their report and asked for questions to be reserved until the lunch break.

The next item on the agenda was Meeting Schedules for 2008 and Beyond. Mr. Balint commented that last year was the first year we held three full Board and Commission meetings. A May meeting was added in order for the budgets to be reviewed and submitted to USDA early enough to get USDA approval prior to the beginning of the marketing year. In order to accomplish an early budget planning, we use the previous year's actual crop number to determine the assessments and budgets. Only one year into using this new system and we were faced with a rather tenuous situation with the short crop this year. So the questions before the Board are, do we want to continue using the previous year's actual crop in planning for the coming year or do we want to go back to using the September estimate? One downside to using the previous year's crop is that next year we will be looking at a higher assessment level on the Board. The CWC has a one-cent cap.

Mr. Mariani asked if we needed to, can we re-adjust our budget in September without a lot of red tape. Mr. Engeler stated that the budget can be re-adjusted throughout the year, as well as the assessment rate, it just take a little time and a Board action. Mr. Balint commented that a Board action on budgets or assessments would require a face-to-face meeting of the full Board.

Mr. Lindauer suggested that we continue the current system in place for a couple of years and see how it works out. Mr. Poindexter stated that if we based the assessment on the estimate and the estimate came in short, we would be in the same boat. Hearing no dissent, Chairperson Siebert stated that the Board will stay with the current system in place.

There was no Executive Session necessary and Chairperson Siebert stated that the time and the place of the next meeting would be at the call of the Chairs of the Board and Commission. Hearing no further business, he adjourned the meeting at 12:40 p.m.

I HEREBY CERTIFY that the above is a full, true and correct copy of the minutes of the meeting held on February 22, 2008, in Carmel, California, by the Board of the Walnut Marketing Board.

Date

Dennis Balint, Executive Director