



CALIFORNIA WALNUT COMMISSION

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CALIFORNIA WALNUT COMMISSION MEETING MINUTES

**Friday, February 27, 2009
Monterey Plaza Hotel
Monterey, California**

A meeting of the California Walnut Commission was called to order by Chairperson Sam Keiper at 1:00 p.m. Chief Executive Officer Dennis Balint called the roll. Mr. Balint informed Chairperson Keiper that a quorum was present. The following members and alternates were present:

Members:

Jim Hudson
Peter Jelavich
David Keyawa
David Miller

Jeb Headrick
Sharon Hertlein
Jerry Moore
Charles Crain

Sam Keiper
Jack Mariani
Jerry Siebert

Alternates:

Donald Norene

Robert Lea
Carl Cilker

Bert Crane
Phil Short

William Crain
William Carriere
Jack Gilbert
Martin Mariani

Commission Members Robert Driver and Ren Fairbanks were absent, as were Commission Alternates Bruce Lindauer, William Tos, Lee Swall and Janet King. Commission Alternate William Carriere sat in for member Ren Fairbanks. Also in attendance were Mr. Duane Lindsay, CWC Technical Advisor; Ms. Janyce Wong of the California Department of Food and Agriculture; Mr. George Soares of the law firm Kahn, Soares and Conway; and Mr. David Ljung, CPA, of Gilbert Associates.

The first order of business was the approval of the minutes of the California Walnut Commission meeting held on September 12, 2008. Mr. Carriere made a motion to approve the minutes as mailed, Mr. Crain seconded the motion and it carried unanimously.

Chairperson Keiper introduced Mr. Charles Crain to give the Market Development Committee Report. Mr. Crain commented that the Committee has not met since September 2008, however, the next meeting will be on March 12, 2009. He stated that the FAS MAP

program funding for the 2009 marketing year totaled \$4.7 million, just shy of last year's \$4.8 million. Year to date, inshell export shipments are up 6.9 percent and shelled export shipments are down about 15 percent. Mr. Crain asked Ms. McNeil to give an update of the export marketing activities.

Ms. McNeil detailed the export marketing activities. In Japan, this past fall we conducted tie-in promotions with major retail markets and bakeries, as well as the annual New Product Development Contest (NPDC) that generated 232 applicants. In Korea, we advertised on subways, conducted a media harvest event, advertised via in-store promotions and held the Product of the Year competition. We began our marketing program in China this past fall by introducing technical and media seminars in Beijing and Shanghai. We had San Francisco chef Boris Portnoy for the technical seminars where he introduced ten new items to show the versatility of California walnuts in baked goods.

Ms. McNeil introduced Ms. Jennifer Getz to present the program activities in the European markets. Ms. Getz stated that in Germany we ran an advertising campaign during the holidays in 13 different publications and also developed point-of-sale brochures which were offered to the trade. PR results for classic media in Germany (not including web impressions) indicate over 160 million in circulation. The \$500,000 spent on PR generated a return in adequate value of \$3.5 million. In Spain, we conducted an inshell print campaign and in-store promotions. We also attended FISCALUD which is the International Health Foundation health fair attended by 55,000 people. Our PR results in Spain show an ad equivalent value of \$2.73 million.

Ms. Getz stated that in Canada, our consumer outreach included a holiday video news release featuring a Canadian Foodnetwork chef and a holiday recipe pitch with traditional recipes and a Chinese fusion recipe pitch. Additionally, two Canadian trade journalists joined the Harvest Media Tour that was held in September. We also have participated in the filming of *How It Is Made* for Discovery Canada television. Health professional outreach included newsletters to dietitians and the participation in two dietitian conferences. We also produced a trade newsletter and redesigned the walnut size and color chart in Canada to be more user friendly. New products being released in Canada include a chocolate walnut bread from Metro Stores and a trail mix from Tim Horton's, Canada's leading coffee chain. PR results in Canada were 175 million media impressions and from the \$415,000 spent on PR, we received in return an estimated value of \$1.97 million.

Ms. Getz turned the presentation back over to Ms. McNeil to present the 2009 timeline. Ms. McNeil stated that she presented the marketing program timeline at the Board meeting held earlier in the day, but would go through it again if anyone requested. Hearing no requests, Mr. Crain asked Ms. McNeil to move forward. Ms. McNeil stated that some important dates to note are: the upcoming CWB/CWC Market Development Committee meeting being held on March 27th; Country Progress Reports due date of March 31st; and the anticipated due date of the UES of mid-May.

Ms. McNeil stated that the next two agenda items, Health Research Update and Attitude and Usage Study, were also covered in the morning meeting of the Board. Hearing no request for the reports to be repeated, she concluded her report of the marketing activities.

Chairperson Keiper thanked Mr. Crain, Ms. McNeil and Ms. Getz for their reports and moved on to the next agenda item, Intra-Industry Communication Committee report. Mr. Jerry Moore, Chair of the Intra-Industry Communication Committee, stated that the committee met on December 4, 2008, to discuss the upcoming grower meeting schedule and presentation. The

Committee decided that Mr. Balint should be present his report at each of the grower meetings and that the presentation should be simplified with fewer graphs and charts.

Chairperson Keiper thanked Mr. Moore for his report and asked Mr. Balint to present the next item, Strategic Planning Update. Mr. Balint stated that staff is recommending two pre-strategic planning meetings: one for the Market Development Committees of the Board and Commission; and the other for the Production and Post-Harvest Research Committee of the Board. After those Committees conduct their meetings, the full Board and Commission will convene for two days in either August or January for strategic planning.

Mr. Mariani made a motion to approve the proposal of pre-strategic planning meetings for the CWB/CWC Market Development Committees and Production and Post-Harvest Committee prior to the full Board and Commission two-day strategic planning event to take place later in the summer or winter. Mr. Carriere seconded the motion and it carried unanimously.

Chairperson Keiper asked Mr. Martin Mariani to present the next agenda item under Financial and Administrative Review, the Report of the Audit Committee. Mr. Mariani stated that the CWB/CWC Audit Committees met on February 4, 2009 to receive the audit report from Gilbert Associates. The Committee also reviewed the new policies and procedures and the employee manual, to assure that they are following best practices. In addition, the Committee agreed to retain Gilbert Associates to conduct the financial audit functions for the current fiscal year 2008/09.

Mr. Ljung stated that his agency, Gilbert Associates, was retained to conduct the independent financial audit of the California Walnut Commission for the 2007/2008 marketing year. He stated that there is one audit process for the Board and the Commission, one set of staff and one set of internal controls. There are two separate Audit Committees that meet concurrently to review and approve the audit process. Mr. Ljung met with the CWB/CWC Audit Committees at their joint meeting on July 15, 2008 to plan the audit and again on February 4, 2009 to present the results of the audit.

Mr. Ljung stated that the results of the audit cover a 13-month period (due to the fiscal year-end change from July 31 to August 31). The audit report resulted in a clean or unqualified opinion. Gilbert Associates reviewed not only the financial aspects of the Commission, but also the internal controls of the organization. The prior audit report identified some weaknesses in those controls and made recommendations for strengthening. All of these recommendations have been addressed by the Commission and have either been corrected or are in the process of being corrected. There were no further recommendations as a result of the 2007/2008 audit. The Commission audit is more extensive than that of the Board, in that the Commission receives MAP funds; about \$4,000,000 of federal money for 2008. The federal government requires additional compliance-type audit procedures and reports for the MAP funds. Gilbert Associates' opinion on the federal audit requirements was also a clean, or unqualified, opinion.

Dr. Siebert made a motion to accept the new policies and procedures as mailed to the Commission and recommended by the Audit Committee. Mr. Crain seconded the motion and it carried unanimously.

Mr. Hudson made a motion to accept the engagement letter for Gilbert Associates for the 2008/2009 audit as recommended by the Audit Committee. Mr. Jelavich seconded the motion and it carried unanimously.

Mr. Carriere made a motion to accept the annual audit review as presented by Mr. Ljung. Mr. Mariani seconded the motion and it carried unanimously.

Chairperson Keiper asked if the auditing firm is satisfied with the collateralization. Mr. Ljung stated that the Audit Committee had a discussion at their meeting on that subject and were going to take some further action to make sure that they felt there was adequate collateralization on the assets. Mr. Carriere asked if the Commission needed to adopt the housekeeping changes for the policy and procedures manual. Mr. Balint stated that the housekeeping changes were on the CWB handbook.

Chairperson Keiper introduced Mr. George Soares, Commission attorney with the law firm Kahn, Soares & Conway, to discuss the next agenda item, Update on CDFA Audits and Communication. Mr. Soares gave a brief history of the Commission. He stated that when Commissions are formed, the Department of Food and Agriculture has certain authority, and the Commission has certain powers and duties to fulfill. The idea is to have a hand and glove relationship between the Commission and the government, because after all, a Commission is a government entity that constitutionally collects mandatory assessments from all growers or handlers.

Mr. Soares then explained the oversight of the CDFA over Commissions. In 2007, the Department issued directives to all Commissions and one of those directives was that they would retroactively audit all programs for a three-year period. It was unclear, however, what auditing standard would apply; the Department reserved the right to review programs to a vague standard. So far, the Department has audited 11 programs and of those, the Department found visible problems with four. Because of that, the Department has now laid out new guidelines so that the remainder of the programs will be audited differently than the eleven programs already audited. In reviewing the proposed guidelines, Mr. Soares was not satisfied with the language used because it has an advisory tone, rather than a directive tone. In response, the CWC and about 12 other Commissions proposed a rewrite of the guidelines that was submitted to the Department the first week of February. Mr. Soares is hoping that the Department will issue a final guideline document that will be in the best interest of both the Department and the industries. As it stands now, the California Walnut Commission and many other commissions do not agree with the proposed guidelines. We agree that the Department has a right to audit, but we want to be audited to clear standards and we need to have time to implement those standards.

Mr. Balint asked if there is a specific action that the Board should take at this time. Mr. Soares stated that is not necessary as long as Mr. Balint and Mr. Keiper, the Commission Chair, have the support of the Commission to go forward with the type of interaction Mr. Soares would like to see with the Department.

Chairperson Keiper thanked Mr. Soares for his input. Mr. Balint asked Ms. Wong if there has been any further consideration by the Department on the rules governing communications. Ms. Wong stated that CDFA is waiting for more information from USDA.

Chairperson Keiper asked Mr. Balint to address the next agenda item, Current Year Budget Change. Mr. Balint stated that, as mentioned at the morning meeting, the California Walnut Board will experience a budget shortfall this year. He asked Ms. Donoho to outline the

anticipated income/expenses and the proposed budget shift. Ms. Donoho stated that the California Walnut Board's budget for 2008/2009 was based on a 375,000 crop if all product was inspected. This would have allowed for \$612,000 to be held in reserves for the first time, as the marketing order revisions now allow for the Board to hold reserves. The original income estimate was \$4.4 million and the new estimate, based on the current inspection trend, is approximately \$3.6 million which puts the Board at just over \$800,000 anticipated in shortfall.

Ms. Donoho explained that the Commission's original 2008/2009 budget projection, based on a crop of 375,000 tons, was \$7.5 million. The current estimated income, based on assessments of inshell product, is almost \$8.7 million, leaving the Commission with over \$1.1 million in additional anticipated revenue. Staff is proposing that the Board shift \$1,000,000 in domestic marketing activities to the Commission, which is approximately the amount remaining to be billed from March through August for the Board. Mr. Balint stated that the projection on revenue is conservative and the budget shift would allow the Board marketing activities to continue uninterrupted without the need to get Board and USDA approval to alter the assessment rate.

Mr. Keyawa asked if the assessments for the Commission are generated by growers. Mr. Balint stated that the handler withholds the assessment from payment to the grower. The handler in turn pays the assessment to the Commission. The Board assessment is based on inspections and is also paid by the handler. Mr. Keyawa expressed concern that we would be shifting liability to the Commission when it is the responsibility of the Board if the funds are short. He wondered whether walnut growers would question why they are paying the Commission and their funds are going to the Board instead. He also asked if the Board will reimburse the Commission at some point. Mr. Balint stated that he does not believe so, but he cannot say with 100 percent certainty that would not happen.

Mr. Keyawa asked how this same situation can be prevented in the future; is there going to be a reserve in place for the Board? Ms. Donoho stated that prior to the marketing order revisions that went into effect last year, the Board was unable to carry a reserve. We had hoped this would be the first year in which a moderate reserve would be built. Mr. Balint stated that with this program activity shift, the Board would have about \$612,000 in reserve available at the beginning of the 2009/2010 crop year.

Chairperson Keiper stated that he views this budget shift as cash flow management, because there will be times that we put some programs under the Commission and then other times those same programs may be under the Board based on the reserves and cash flow of each organization. Mr. Phil Short commented that assuring the continuation of the domestic marketing activities is a benefit to all growers. Mr. Greg Swett commented that as a grower, he sees this as pulling \$1 million from the grower contribution. Mr. Balint stated that he understands Mr. Swett's concern, however, the timing is very important. If we cannot continue the domestic activities and we end the year with no reserve on the Board, it would seem a terrible waste for the industry at a time when we are looking at about 158,000 tons in ending inventory. Further discussion ensued about the Board and Commission expenditures and assessments.

Mr. Keyawa asked if the Board, if needed in the future, would assume some of the Commission's activities. Chairperson Keiper stated that at the Market Development Committee meetings, staff comes prepared with proposals that allocate marketing activities between the two entities. He stated that there is reason to believe that at future meetings there will be healthy discussion on which organization should pick up which activities.

Mr. Crain made a motion that the California Walnut Commission assume \$1,000,000 of California Walnut Board domestic marketing activities from March through the end of August 2009. Mr. Jelavich seconded the motion and it carried unanimously.

Chairperson Keiper asked Ms. Steindorf to comment on the CWC Elections. Ms. Steindorf stated that, as mentioned in the morning meeting, the California Walnut Board elections have begun with the nomination mailing going out to all growers and handlers this week. The Commission will be conducting elections for the 2009/2011 term as well. The Board and Commission elections run concurrently, but staggered, starting with the Board nominations and ballots, followed by the Commission nominations and ballot mailings. The CWC election should be completed at the end of July.

Chairperson Keiper asked Mr. Balint to present the next agenda item, CWC Referendum. Mr. Balint stated that, as many of the members are aware, the referendum for raising the CWC assessment cap from \$.01 per inshell pound to \$.015 per inshell pound that the CWC attempted this past August had to be invalidated due to a misprinting by CDFA of the bar codes on the return envelopes. He commented that the Commission must decide if and when the referendum should be re-run. Unfortunately, the increase in the assessment cap was quite misunderstood based on feedback staff received at many of the meetings attended this past winter. Many industry members thought that the referendum would automatically raise the assessment rate. Mr. Balint stated that we are coming off a very tough year with high inventories and low prices and it is not out of the question that we could be looking at even a larger assessment.

Mr. Balint asked the Commission to consider if they would like to re-run the referendum in the summer, either July or August, or later next spring, either March or April 2010. Mr. Jelavich commented that, under the current climate in the industry, he would prefer to see the referendum in the spring of 2010 after the Commission has a chance to see how the industry deals with moving such a large crop; that would help the Commission decide what the assessment cap should be. Ms. Hertlein expressed her agreement with Mr. Jelavich.

Chairperson Keiper stated that since the Commission would prefer to wait until spring 2010 to re-run the referendum, the issue will be revisited at a later date to discuss the assessment cap.

There was no Executive Session necessary and Chairperson Keiper stated that the next meeting of the full Board and Commission will be on May 18, 2009 at the Rancho Cordova Marriott.

Hearing no further business to come before the Commission, Chairperson Keiper adjourned the meeting at 2:45 p.m.



Export Marketing Update

CWC Winter Meeting, Monterey, CA
February 27, 2009



Report of the Market Development Committee

Chuck Crain

CWC Winter Meeting, Monterey, CA
February 27, 2009



FAS and Funding Update

- January 09 funding
- Received \$4.7 million of the \$5.8 million requested
- Single Allocation



JAPAN



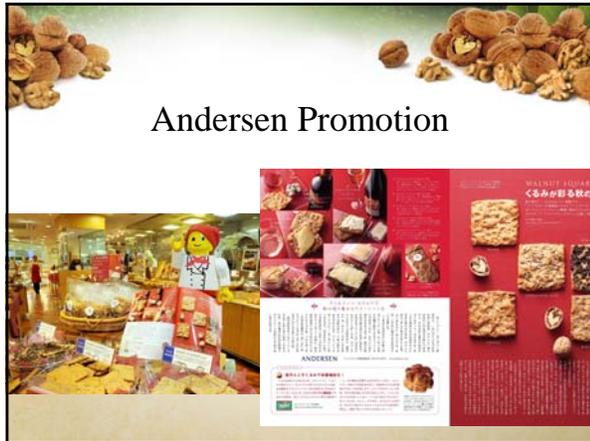
Tie-In with AEON's Deli




GourNavi Sweet & Salads Collection



Andersen Promotion



19th Annual NPDC

- 232 applicants
- 3 products to be launched in coming months
- Grand prize winner
“Walnut Crown”



Media Impressions

Print

- Media Impression: 1,219,495,915
- Media Value: JPY 302,755,510
(Approx. \$3.2 million)

TV

- Media Impression: 36,063,567
- Media Value: JPY 980,267,750
(Approx. \$10.4 million)

KOREA

Advertising



Subway Platform
Screen Door

How to Eat Well Live Well

- Film crew came out during Harvest Tour





Instore Promotions




Product of the Year Award




Product of the Year - Bennigans



Walnut Yogurt
Shrimp Potato



Walnut Mustard
Steak Sauce



CHINA



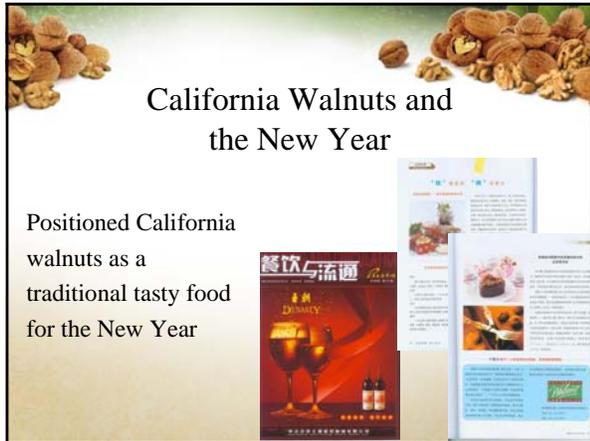
Technical Seminars

- Beijing and Shanghai
- Professional pastry chefs and bakers from bakeries, hotels and restaurants
- San Francisco Chef Boris Portnoy conducted the presentations showcasing the use of California walnuts in baked goods.



Technical Seminars



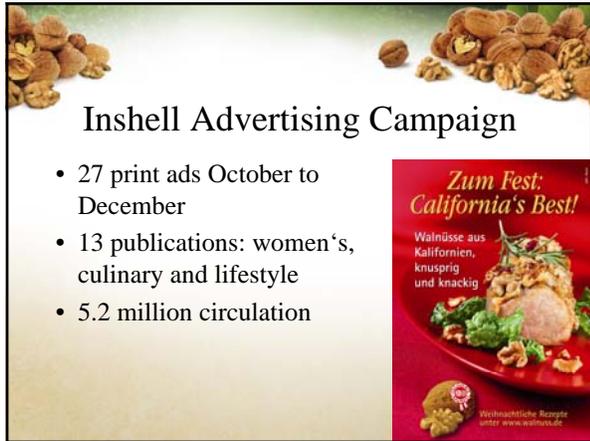


California Walnuts and the New Year

Positioned California walnuts as a traditional tasty food for the New Year

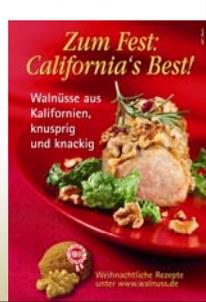
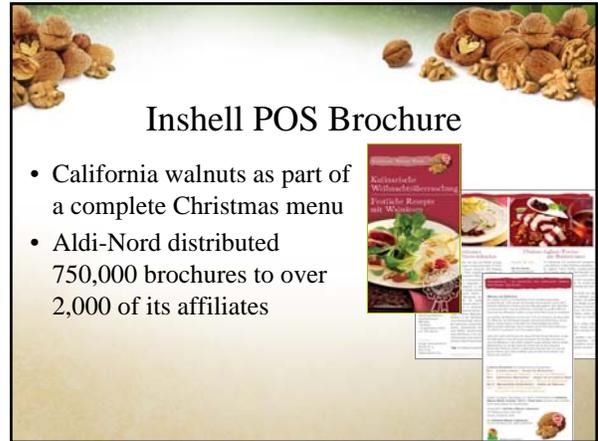



GERMANY



Inshell Advertising Campaign

- 27 print ads October to December
- 13 publications: women's, culinary and lifestyle
- 5.2 million circulation

Inshell POS Brochure

- California walnuts as part of a complete Christmas menu
- Aldi-Nord distributed 750,000 brochures to over 2,000 of its affiliates




PR Results

Classic Media

- 169,238,019 circulation
- Spend \$500,000
- ROI -AEV \$3.35 million




SPAIN

Inshell Campaign - Print

- Newspapers (i.e. 20 Minutos)
- Sunday Magazines (i.e. Pais Semanal)
- Magazines (i.e. Saber Vivir)



Inshell Campaign - Instore

- El Corte Ingles, Carrefour, Carrefour Express, Eroski, Caprabo
- November 12 – January 21
- 500 centers nationally



FISALUD

- Fair organized by International Health Foundation – 55,000 attendance
- Cooking demonstration with Paco Roncero



PR Results

- 366,489,530 circulation
- AEV of \$2.73 million

CANADA

Consumer Outreach

- Holiday Video News Release
 - Featured Chef Massimo Capra
- Holiday recipe pitch
- Chinese fusion recipe pitch



Harvest Media Tour



BAKERS JOURNAL
IN A NUTSHELL

One of the easiest ways to improve one's diet is to eat a handful of walnuts every day," says Rickey Yadin, a food science professor at the University of Guelph, Ont. "Walnut research to date has been very impressive and upcoming studies look very promising, too."

But where do walnuts come from and how do they get to bakers in Canada? That's what the California Walnut Commission of Canada, based in Mississauga, Ont., wanted to illustrate in late September when it took food industry journalists on a walnut harvest tour in northern California, near Sacramento, the state capital.

Health Professional Outreach

- Newsletter for dietitians
- Video News release with Cara Rosenblum
- Participated in Dietitians of Canada Regional Conference at the Metro Toronto Convention Centre
 - Exhibit
 - Sponsored "Walk About Lunch"



California Walnuts
NEWSLETTER FOR DIETITIANS

HEALTH AND NUTRITIONAL BENEFITS OF WALNUTS

Trade



California Walnuts
TRADE NEWSLETTER

FALL/WINTER 2008

CROP UPDATE

NEW RECIPE BOOKLET AVAILABLE

New Products

- Trail Mix Cookie (Tim Hortons)
- Chocolate Walnut Bread (Metro Stores)
- Longo's new 400g pack with our logo
- Date & Walnut Crisps



2008 PR Results

- 175,788,720 media impressions
- Spend \$ 415,000
- ROI – Editorial value of \$1.97 million

2009 Timeline



Key Dates

- Market Development Committee Meeting – March 12
- Country Progress Reports – March 31
- UES Marketing Plan – Mid-May



Thank You. Any Questions?



CALIFORNIA WALNUT BOARD /
CALIFORNIA WALNUT COMMISSION

2008 / 09 PROPOSED BUDGET SHIFT

CALIFORNIA WALNUT BOARD
2008/09 ANTICIPATED INCOME / EXPENSES
Based on 375,000 Ton Crop

• Income	\$ 4,421,250
• Expenses	\$ 3,809,000
• Reserve	\$ <u>612,250</u>
• Surplus / Deficit	\$ 0

CALIFORNIA WALNUT BOARD
2008/09 ANTICIPATED SHORTFALL
Based on 16% Reduction in Shipments From 2007/08

• Previous Income Estimate	\$ 4,421,250
• New Income Estimate	\$ <u>3,600,214</u>
• Anticipated Shortfall	\$ 821,036

CALIFORNIA WALNUT COMMISSION
2008/09 ASSESSMENT INCOME SCENARIO

• Original Projection	\$ 7,500,000
• Current Projection	\$ <u>8,686,020</u>
• Additional Anticipated Revenue	\$ 1,186,020

CALIFORNIA WALNUT COMMISSION
2008/09 NET EFFECT AFTER BUDGET SHIFT

• Additional Anticipated Revenue	\$1,186,020
• Proposed CWB Expense Shift	\$ <u>1,000,000</u>
• Net Income Gain	\$ 186,020