CALIFORNIA CANNING PEACH ASSOCIATION

CLING PEACH REVIEW

Winter/Spring 2016

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California Canning Peach Association

94th Annual Meeting • January 19, 2016

STATE OF THE ASSOCIATION SPEECH

Rich Hudgins
President and CEO

Good afternoon and welcome to the Peach Association's 2016 Annual Meeting.

Today marks our 94th Annual Meeting and we can be proud of the legacy that generations of peach growers have worked hard to build and maintain. During the past 94 years, the Peach Association has faced many challenges and has continued our longstanding tradition of industry leadership. Simply put, we can be proud of our past accomplishments, but there is no such thing as a neutral gear in agriculture – you are either moving forward or you are moving backward. Today our challenge is to continue moving forward on the right path. In many respects, we've come a long way in the last two years and it appears that the cling peach industry is beginning to see some light at the end of a long dark tunnel.

Last year our above average crop yields coupled with a record price of $460/ton and a tight supply/demand position resulted in a profitable year for both peach growers and processors. We are also seeing signs of much needed new plantings of cling peach orchards in response to the $500/acre planting incentive payments currently being offered by all three canners along with 20-year contract terms. As these new plantings come into production, we can anticipate being able to better meet the future U.S. market demand with domestically produced canned peaches. Without question, 2015 was a much needed good year for peach growers, but let's not spend too much time patting ourselves on the back. There is more work to do in 2016.

In my 2015 Annual Meeting speech I noted that one year doesn't make a trend and that we must continue to keep pace with rising labor costs in order to be successful in the future. In order to maintain the peach grower's 2015 profit margin for the coming year, we must be able to offset the increased 2016 labor costs due to the 11% increase in California's minimum wage which took place on January 1st this year and our anticipated 2016 yield reduction through a corresponding increase in our raw product pricing this year. For the first time in the past three years, we have not reached a price agreement for the coming crop prior to the Association's Annual Meeting. Our goal has been clearly stated and the Board's direction to management regarding our 2016 crop pricing is unmistakable – "It's better to get the right agreement instead of the early agreement." We will keep working to get the right agreement for 2016.

In his remarks this afternoon, Dan pointed out that success in this business comes when you get a hundred different things right. For us, that means more than simply having the right figure for our 2016 raw product price. We must do all we can to deliver the right quality so that California canned peaches can continue to command a price premium vs. low cost imports from China. While California peach growers are the best in the world at producing fruit with the highest levels of food safety, quality, and traceability, we cannot match the selling prices offered by Chinese processors who operate with a much different level of regulatory oversight and traceability while paying their workers less per day than a U.S. cannery worker earns in one hour.

While this is certainly not a new theme, it has resurfaced this Fall with reports of multiple California school districts opting to purchase canned peaches from China instead of U.S. products grown and packed within a few hours drive from their school. Following the Peach Association's objection to school purchases of Chinese peaches in early November, this issue caught the attention of lawmakers in Washington D.C. and Sacramento who have strongly criticized the districts for their failure to follow the Buy American provisions of the National School Lunch Act. I would specifically like to recognize the efforts of Congressman John Garamendi and State Senator Cathleen Galgiani on our behalf.

Continued on page 4

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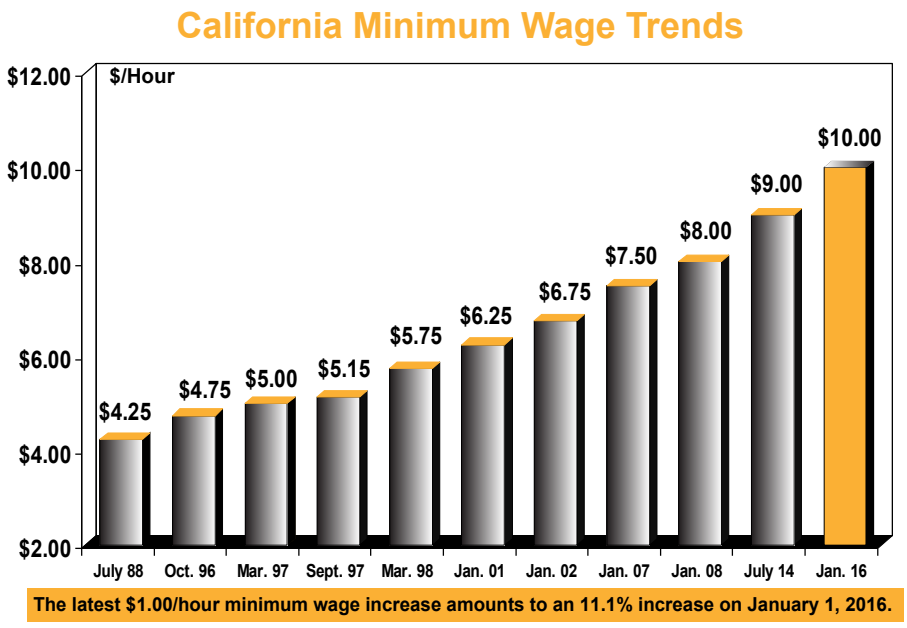
President's Report - 94th Annual Meeting

Continued from page 3



At this point, we've only won the first round. However, the key is better USDA enforcement and we all need to work towards this goal. In the coming months, the Peach Association will continue to be engaged on this issue along with nearly 50 other agricultural organizations across the country. Together we will seek to strengthen the USDA's monitoring and enforcement of the Buy American provision for schools.

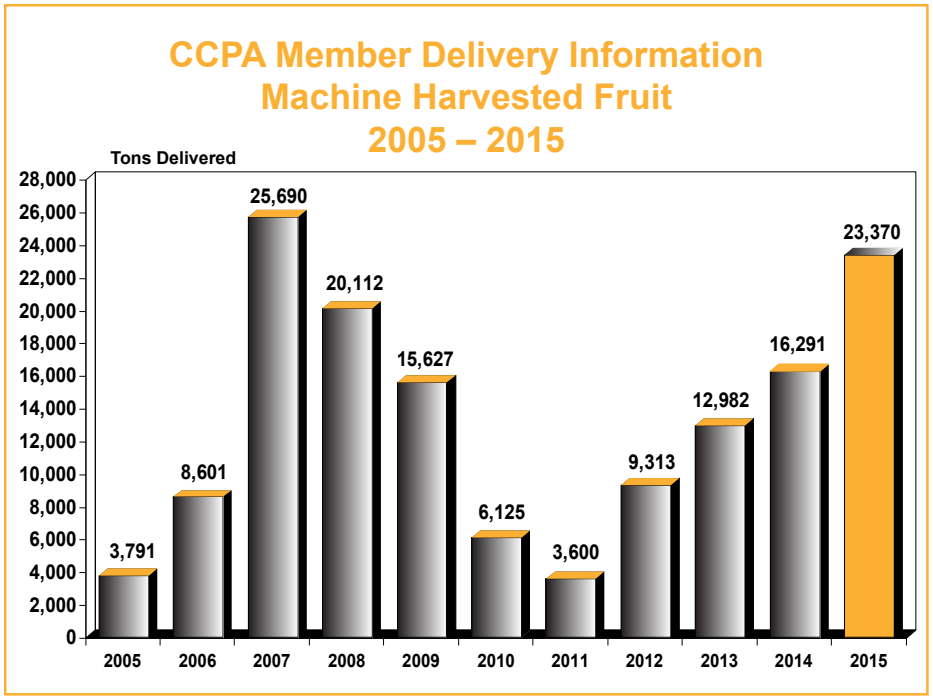
As we move further into 2016, labor will continue to be one of our greatest challenges. We must deal with the reality that labor costs will rise even further and that our ag labor supply will continue to decline. During the past year, not only did we see fewer farm laborers, even the trucking industry was impacted due to a shortage of drivers. While there is no substitute for fruit quality, we've got to use our available labor force in the most efficient manner possible. Our canner customers have recognized this challenge and during the past year, CCPA members delivered 43% more machine harvested fruit with total deliveries of nearly 24,000 tons. While this represents a large increase over prior years, it still represents only 10% of total CCPA member deliveries. We must continue finding ways to increase our machine harvest delivery volume in 2016.

We must deal with the reality that labor costs will rise even further and that our ag labor supply will continue to decline.

Looking ahead, it's a safe bet that consumption of canned fruit in the U.S. will continue to gradually decline. When you stop to think about it, the industry's current tight supply position is not due to our growth in sales, instead it has occurred because our acreage has declined at an even faster rate than the decline in consumption. The challenge we all face today is replacing older orchards with new plantings while not overshooting the underlying demand for our product five years from now. Our goal should be to always supply just one case less than the underlying market demand.

As we talk about the need to replace the 1,600 acres of orchards 18 years and older, it is also becoming increasingly important for us to balance our deliveries throughout the entire harvest. As I mentioned during our Fall district meetings, nearly 60% of the industry's 2015 plantings consisted of just 3 out of our 31 commercial varieties – Ross, Late Ross, and Stanislaus. These same three varieties accounted for just under half of our total 2015 delivery volume. It's not a mystery why this is happening. All three varieties are capable of producing high yields of good quality fruit and are relatively easy to pick. However, it is in the best interest of both growers and processors to develop a more balanced delivery curve in future years so we can avoid spikes in our labor requirements to harvest the fruit and we can avoid having processors put even more fruit into cold storage to be run later with lower case yields. We can reach this goal via two different approaches – either by speeding up the development of new higher yielding varieties or by introducing variety-specific premiums to incent growers to plant more of our existing varieties to fill in the gaps in our delivery curve.

I am very proud that the Peach Association



continues to be a highly respected organization. In my opinion, this is no accident, it's due to the strong leadership shown by generations of growers serving on our Board of Directors. Our greatest asset has always been the dedication, ingenuity, and tenacity of growers working together in the best interests of the cling peach industry. In the current market environment, this cooperative mindset can occasionally be challenged by a short term focus. There is always a temptation for someone to be a "free rider" and to enjoy the benefits of a cooperative's efforts without being a member of the organization. In peach industry terms, today any peach grower can get a processor contract and the raw product pricing is the same for CCPA members and nonmembers alike. However, peach growers can't afford to make decisions based on a short term outlook when dealing with a peach orchard which will produce over a 20 year lifespan. We all recognize that the supply/demand pendulum swings both directions in farming and that the peach industry has experienced more years of surpluses than shortages. An individual peach grower has little chance of influencing the market, impacting industry pricing and terms of sale, or influencing legislation. Generations of peach growers have understood that strength, whether at the bargaining table, in the political arena, or in the marketplace, comes from our collective force working together for a common goal and have chosen to be members of the Peach Association. Simply put, it boils down to one word – commitment! Commitment to the cooperative business model can't be a fleeting thing. It's having the perseverance to stick together whether prices and markets are booming or times are tough and the outlook is bleak. This is the type of commitment that has defined the Peach Association's membership for 94 years and it's what will define us over the years and the generations to come.

While there has been no shortage of news stories in the last month about the latest Star Wars movie, I'm sure that the last thing that anyone expected to hear from me this afternoon was a "Star Wars" analogy, but just hear me out on this. In the fictional Star Wars universe, the Force is an energy field which gives a Jedi Knight his power. Jedis use the Force for knowledge and defense through what is referred to as the "light side." However, the Force also has a destructive aspect called the "dark side" which feeds off emotions such as fear, anger, greed, pride, and jealousy. It is embraced by the Jedi's opponents who are called the Sith as a source of their power. The development and use of these Force abilities requires considerable discipline and concentration and the Force is naturally stronger in some people than others. The storyline throughout the entire Star Wars movie franchise revolves around the conflict between the light side and the dark side and the need to find balance between these opposing Force users. In fact, the line "May the Force be With You" has become one of the most famous movie lines ever.

In many ways, this balancing of the Force could also describe the challenges faced by a bargaining association in concluding any price negotiation. Success involves finding the right balance between two competing powerful forces – with one side wanting to be paid more while the other side wants to pay less. For the past 94 years we've succeeded in finding the balance point between these two competing forces.

While I was writing my Annual Meeting speech two weeks ago, I mentioned to my son that I had even managed to work a Star Wars theme into my remarks. He quickly informed me that any decent Star Wars analogy needed to include a reference to the "Evil Empire."

Continued on page 18

There is always a temptation for someone to be a "free rider" and to enjoy the benefits of a cooperative's efforts without being a member of the organization.

Annual Meeting Presentation

Dan Vincent
President and CEO
Pacific Coast Producers

California Canning Peach Association

94th Annual Meeting • January 19, 2016

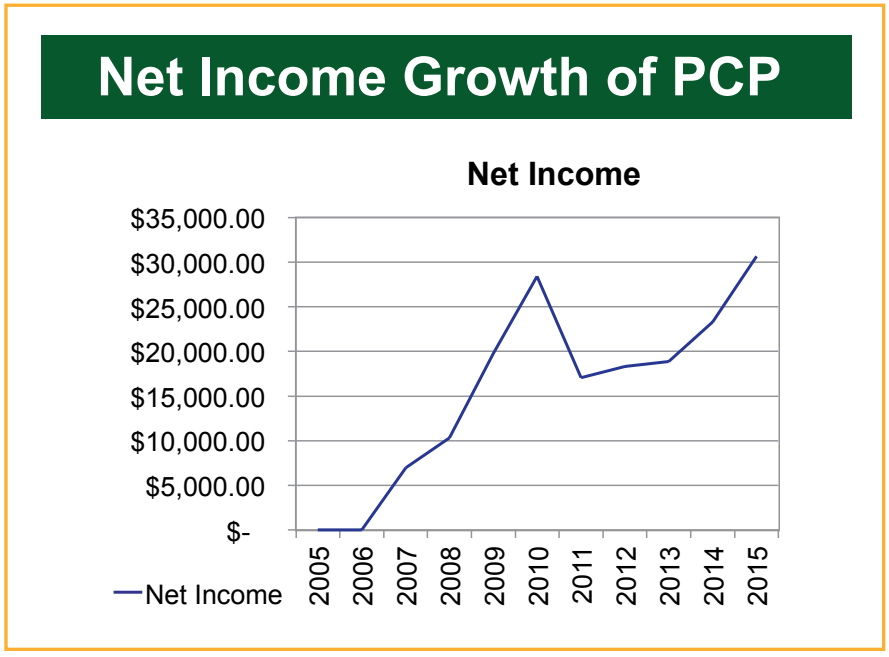
KEYNOTE ADDRESS

Today I would like to share with you some of the guiding principles that we at Pacific Coast Producers follow, how they helped us get where we are today, and hopefully how they may apply to how you and your own operations.

Our cooperative was founded in 1971. As many of you know, it came out of the Stokely-Van Camp Company when they decided to exit their West Coast operations. Our original mission statement was to just provide our growers a home for their crops, it didn't even have to be a commercial return at that time, just find a home. Along the way our mission expanded from just providing a long-term home, but providing a consistent commercial return as well. For us, the path we chose to achieve this mission has been in serving the needs of the private brand retail and food service markets. Since our founding, we have had significant stability in management, with only three CEO's in our 45 year history. But even of more importance, we have had great stability in our board and the leadership through three generations of ownership. In fact today, the board just nominated a 3rd generation member to our board, Justin Micheli, and many of you knew his father John and his grandfather Justin. So I really believe what has helped our cooperative get to where we are today in terms of our revenue and our margins has been a consistent strategy throughout that whole period, and I give much of the credit to the board for supporting management in their guidance and support.

Here is a summary of our net income for the past 10 years, with growth from essentially break-even to north of $30 million. This period reflects my service as CEO and when we converted to a commercial based income statement. Prior to that period, like many cooperatives, we had a complex economic-value model which didn't line up with our commercial competitors. I personally don't believe in economic-value income statements, as they have the potential to mask what is really going on within the cooperative. With that said, last year we had a record year in terms of both revenue and net income, and we're pretty much tracking in this direction this year as well.

I'd like to talk about how we got to where we're at today, some of the big things we've done and little things we've done to get us where we are at, and at the very end of this, I want to share with you a video we put together that I think really does a good job in wrapping up what we've been doing into a nice 8-minute package. What it reflects is there are a number of guiding principles, some big and thousands of little ones. I think some of these can be helpful to you in your own operations.



Understand Your Challenges

- **Long-Term Challenges**
  - Labor – Cost and Availability
  - Compliance Burdens
  - Declining Categories – Price of Goods
  - Impact of Strong Dollar
  - Growth of Imports

So let me start out with what we do every year, and that is to understand where we're at in terms of our challenges in our strategy development, which we evaluate at the beginning of each the new fiscal year. This is our first guiding principle – to understand our near-term and long-term challenges. We face many of the same challenges as you do, our biggest ones the past few years, have been cost challenges: steel, energy, raw product price inflation, labor increases, cost of compliance – it's a long list. Now it looks like we're going to go into a period of deflation, which sounds good, but I think as a business it's easier to manage inflationary costs than a deflationary environment mainly because the customers have significant expectations of price-cuts when there is deflation. For our industry, deflation is being driven by issues related to the slowing global economy and the strong dollar, impacting costs for steel, energy and even raw product. And like you, this list of challenges only grows from here. We have to manage our overheads – short crops kill us, long crops lead to product surpluses. Every year we need to understand the requirements of our customers and the challenges in our competition.

We need to understand our supply, wherever it's coming from. We need to understand how our competition is doing. Our competition has really boiled down on the fruit side, but we have a number of tomato competitors in our space and we also have competitors who import their products. Our customers are changing in terms of who they are and who they sell to. I was chatting with someone recently about Walmart closing some stores. I was asked if that is going to hurt PCP's Walmart business. Well, they have 3,800 stores, so I don't think the decision to close 268 express stores is going to hurt us, but it is an indication of the pressures our customers are under right now on their margins. All our customers are under incredible pressure and we need to help them.

Labor cost and availability is a huge issue for us, just like it is for you. Our biggest issue really isn't cost, its availability, having enough people to do the job and having the right people to do the job.

And then regulatory compliance is just an on-going headache for us. Not only do we have to deal with the Water Board, we have to deal with the Air Board--it just never ends, but it's our reality and we have to deal with it. And we have to have a game plan when we put together our strategy.

The next thing we need to focus on is our use of the money we make. A guiding principle we integrate into our strategy is that it is one thing to make money, but we have to use this money wisely. I can list a whole string of co-ops who have made money but then failed because they didn't use their money wisely. They got into businesses they shouldn't have, they made poor investments, or they overpaid growers. So it's just as important when we look at our challenges that we are also looking at our investments, and making sure we're making wise investments, and using our money wisely.

Now when I look at your farming operations, you have the same issues as we do — compliance, agricultural risk, overhead allocation. The first step is to get these challenges down on paper and understand their implications, both in the near-term and the long-term. Once these are understood, and we then can take positive steps to building strategy to address these challenges. And I think one specific challenge for the peach industry – and many of our California agricultural products – is the strong dollar. For walnuts, almonds and wine grapes, the challenges will be to exports. For the peach industry it will come in increased pressure from imports. Another challenge I consistently hear of at our many grower meetings is labor – both in cost and availability. This is a challenge that is not going away, and is something we need to work together as an industry in seeking a solution.

Labor cost and availability is a huge issue for us, just like it is for you. Our biggest issue really isn't cost, its availability, having enough people to do the job and having the right people to do the job.

Continued on page 18

Grower Profile

Eric Spycher

On-farm Research

Aimed at Advancing Mechanization in the Peach Industry

By Robyn Rominger

Merced County peach grower Eric Spycher of Spycher Farms Inc. in Ballico is evaluating several different orchard-production systems in an effort to meet the challenges of a labor shortage in California's canning-peach industry.

His on-farm research may lead to less dependence on hand labor and more mechanization in the future, similar to what occurred 50 years ago in the canning tomato industry.

The agricultural labor force has been declining as farmworkers are aging out, among other factors.

"That's the issue in the peach industry right now, and that's the reason we started this experimental block, to try and mechanize or use less labor," Spycher said.

Spycher, 53, is a third-generation California farmer who grows peaches as well as almonds. His grandparents, Fred and Idy Spycher, were dairy farmers in Switzerland. They immigrated to the United States in the 1930s and established a dairy in Delhi, a small town near Ballico and Turlock. They also grew almonds and other crops. Their son, Hartley, decided to pursue a farming career and built a very successful farming operation. He continues to help his sons Eric and Kurt, who now run the family operation.

"I've been growing almonds my whole life," Eric Spycher said. "My grandfather had almonds that he planted early in his career, probably in the 1950s. We previously had walnuts but we haven't had those for years." After graduating from college in 1982, Spycher began growing peaches too, and today he has contracts with several canneries.

He is also active in the industry, serving as Vice Chairman of the California Canning Peach Association.

Spycher enjoys farming and wants to help pave the way for the next generation. He and his wife, Sheri, have one son and two daughters, all of whom have graduated from college and are pursuing careers in the agricultural industry. Their son, Bryce, works for the Modesto-based Almond Board of California, their eldest daughter, Lyndzie, works for E. & J. Gallo Winery, and their youngest daughter, Kaisa, works for Spycher Farms. Kurt's son Derek also works for the family farm.

To that end, Spycher is looking for ways to meet the challenges of modern farming.

The annual production costs for cling peaches are driven mainly by the labor costs of pruning, thinning and harvesting. The shrinking agricultural labor force is a critical problem for growers of peaches, apricots, cherries and other crops that are hand-harvested.

"We're trying to find a balance of acreage that we can handle with our labor force," he said. "Unfortunately, it's not what it used to be. Our acreage is down by about a third from our high point due to labor, and we're going to reduce more this year. We have to find a way to mechanize if we want to stay in this business."

"The farmgate price of peaches has increased, making it more attractive--it's just the labor challenges," he added.

In the past 10 years, the number of tons delivered to processors dropped from 481,000 tons in 2005 to 335,000 tons in 2015. As statewide production of canning peaches has declined and labor costs have risen, the price has increased from $287 per ton in 2005 to $490/ton in 2016.

In 2010, Spycher established a relatively large experimental orchard on 20 acres that include

"We're trying to find a balance of acreage that we can handle with our labor force," he said. "Unfortunately, it's not what it used to be."

size-controlling rootstocks and branch-training systems. It was designed to improve tree pruning as well as harvesting efficiency, whether harvesting by hand or machine.

The rootstocks include Empyrean and HBOK cultivars. The scions are four varieties developed by the University of California, Davis: one in the late category and the other three in the extra-late category.

"The labor for pruning has been less with a size-controlling rootstock," Spycher said.

In terms of harvesting, Spycher noted that the smaller trees improve hand-harvesting efficiency. "The trees are not very tall, so the workers don't have to go high up the ladder and they can pick faster," he said.

Also, with a smaller tree, the ripe fruit does not fall as far and get bruised compared to the standard-sized trees.

"We were trying to find a tree that was smaller in stature, and our thought was that if we machine-harvested that tree, the fruit wouldn't fall very far, so the fruit wouldn't get damaged," he explained. "So with these size-controlling rootstocks, I think we accomplished our goal of reducing tree size."

In addition, "We were looking for fruit that would hang longer in the tree so we would have more time to pick them," he said.

Another goal was to change the tree structure to accommodate blossom-thinning and fruit-harvesting machinery. A string thinner is used to remove blossoms from the trees as a way to manage peach tree cropload. "We were looking for trees that were more suitable for being machine thinned and machine harvested, basically to cut labor out of those two processes," Spycher said.

Three different training systems were established: the single V, where the tree has two main branches (primary scaffolds); the double V, also known as the quad V, where the tree has four main branches; and the hex V, where the tree has six branches.

The single V has 403 trees to the acre (spaced every 6 feet in the row, with each row planted 18 feet apart); the double V has 269 trees per acre (9 feet by 18 feet); and the hex V has 202 trees (12 feet by 18 feet).

"So far the best production is the single V," Spycher said.

In all three training systems, the trees were shaped by hand-pruning. In addition, bamboo stakes were used to train the single V trees to grow in a uniform manner that is conducive to blossom-thinning machinery as well as harvesting machinery.

"On our two-scaffolds, we trained them two different ways as per what we saw at the university's Kearney Ag Center. We tried to train them with pruning shears in the tree row. And we trained with bamboo stakes, which was highly labor-intensive and expensive, but it has turned out to be the best producer so far. You train the branch up the stake in the true angle of your tree, so they're all exactly the same," he said.

Due to the uniformity of the trees, "The string thinner adapts to the bamboo-staked trees the best," he noted.

While the trees are smaller, there is a drawback. "The trees are fragile," Spycher said, explaining that the tree branches are susceptible to splitting or breaking off during machine-harvesting. As a result, the fruit must be hand-harvested.

"The issue is, when we pull the props ahead of the pickers, the trees break," he said. "We

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Eric Spycher

Continued on page 19

Spotlight Album Annual Meeting

Oberthier Quality Award Winner Rajinder Chohan & award presenter Marjorie Bishop

Domestic peach samples

Sarb Johl, Ron Schuler, and Kulwant Johl

Monte Griffith visits with Tom Gradziel about new varieties
Photo courtesy of CFBF

Bill Winterberg and Kevin Voss

Photo courtesy of CFBF

Gurnam Pamma

Dan Vincent & Rich Hudgins

Imported peach samples

Dave Strand & Katy McNinch

Brien Smith, Brent Barker and Michelle Barker

Meeting attendees

Karm Bains and Matt Strong

Ajayab Dhaddey & Gary Darpinian

Welcome Incoming Board Members

Dave Dulai

Sarb Johl

Steve Lagorio

Suki Rahul

Keynote Speaker

Dan Vincent

Continued from page 7

So once we identify and collect these challenges... once you get this pile of stuff to figure out, what do you do, near-term and long-term? For our company, we put together a consistent strategy. I say consistent because I think there's nothing worse than putting together a strategy that is the flavor of the year or flavor of the month. These challenges we face, are in general fairly consistent and predictable. Some are more important than others. Some are more urgent. We need to have a consistent strategy that is dealing with this reality and adapt. The way we do it is, every year we take those challenges, and we will say, OK, we started from a point, our earnings last year, and we put this pile of issues on our company, what is it going to do to us? What is it going to do to earnings if we don't do anything? Sometimes it is shocking. We can say last year we made $31 million after tax... if we don't do anything we will lose $10 million or something. Every year we face this long list of challenges, and every year we have to craft a unique strategy to address these challenges, but always following a consistent approach. You have to come up with a strategy that reflects your unique challenges and unique resources. So that's what we really do. We work to fill the gap every year. We say, are our strategies correct, are they helping us fill the gap? And it's not just financial measures – it reflects non-financial measures for customer service, compliance, personnel development, investing in our foundation. Everything counts – whether financial or non-financial.

This approach I've described is reflected for our company every year in a strategy book that we use internally that has probably 350 sub-strategies in it, all the way down to $10 savings all the way up to multi-million-dollar projects. We break all our strategies into these broad categories, we have a pricing strategy every year, we have hundreds of continuous-improvement projects, we have internal initiatives which are basically process, how we're going to do things differently. Yesterday we picked out a big project on supply chain. We have 28 warehouses, we think there's $3 million in just moving stuff around in the wrong manner that we need to take out of the system. That's a process system and we need to take a look at that. Revenue, that's doing more with what we have, selling more to more customers. We also have this big thing called the balance sheet that we have a lot of borrowing capacity on, and we need to use that to do the right thing with investments. Because I think when you look at that revenue chart, and that margin chart, and you say why are we doing better now? It's because of these two. We made some good investments and we expected returns out of those. And those returns compound and they build. A good example of an external investment was our attempt to acquire Seneca's fruit operations last year. Unfortunately this didn't work out, but we need to keep looking for this kind of external investment.

The other thing is that the strategy framework is visible for our people. They know what their job is, they know what their strategy is, and they know that the company has a plan.

The other thing is that the strategy framework is visible for our people. They know what their job is, they know what their strategy is, and they know that the company has a plan. It gives our team, thousands of employees, confidence that there is a plan and if you methodically plow through it, you'll be fine."

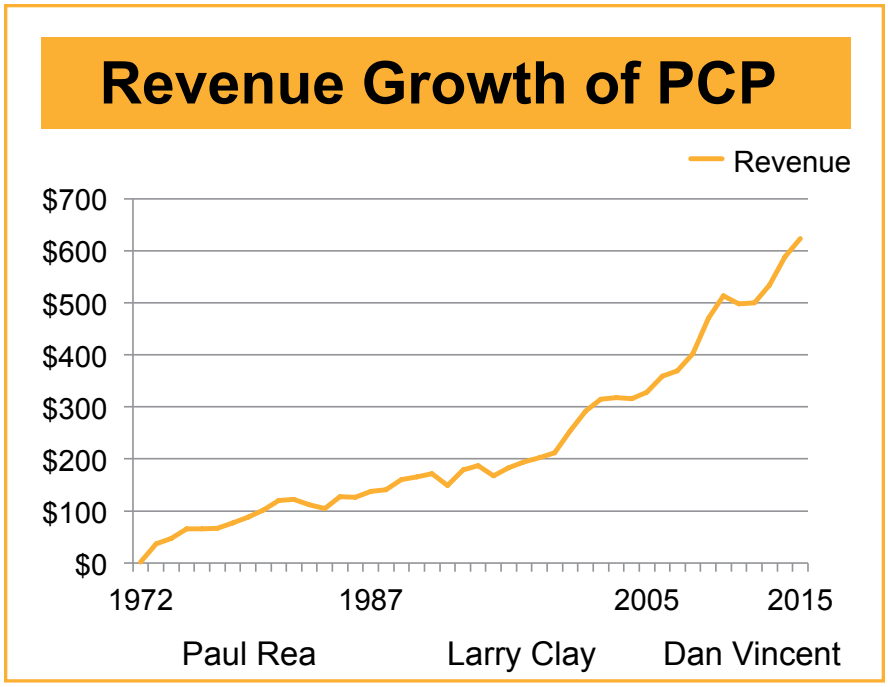
For your own operations, I think this concept of visible and specific metrics is essential. It's amazing in our company....there's this weird magic thing that you get what you ask for. If I say our number is going to be to make $34 million this year, somehow we make $34 million....what's interesting is that everyone focuses on it, whether it's a ratio or a rate... people focus on numbers, and if you can give them measurable tools, and I think in your own operations it's the same thing, you need to know where you want to go and how you're going to get there."

"I do want to say one thing. I don't want to be presumptuous. Everybody here runs a very good operation, so I'm just sharing some of PCP's strategies and planning processes to be

helpful. I'm not trying to tell you how to run your business, I know you guys do a great job, but I do think these things are helpful. And I think what has made the difference in the past 10 years, everybody has a part to play in this... the real point I want you to take away from this video, the people working on our lines, the sales people, the customer service reps, they know why we're doing what we're doing, and they're focused on that. I think that applies to your operations as well—including people, helping people understand why doing certain things, makes all the difference."

The next guiding principle is to always serve our customer. It's really important you know who your customer is, but it's just as important to know who is not your customer. For us we have a customer called retail, private-label, store brand, and we have a customer called food-service, broadline distributor: Sysco and US Food Service. There are customers we don't have, like Del Monte brand and Little Caesars chain business. There is all kinds of business in our category that we are really good at, and there is some that I guarantee we would be really bad at. So our job is to always say, let's focus on what are we good at, and let's be the best that we can, and what we are not good at, let's let the national brand food companies be good at that. Or let the Morningstars of the world be good at filling other sales channels. So this is a really important thing and something we have to resist internally because everybody always wants to do something different and exciting, and we need to stay focused on our foundation.

So, once we know our customer, we have to figure out what they need. That sounds obvious, but you always have to be asking, because you don't want to find out they need something and then you start losing orders. And basically help them find a way to be successful. It's very easy to help them succeed and then go bankrupt in the process. We can do a really good job on service, quality and price, and not make any money. So the real balance is, how do we do all those things and still return a dividend and profits to our growers, our owners and invest in our assets? I think it's really how do we differentiate, how do we add value? For us, it's really been a lot of the things that we've succeeded with.



For example, our alliances, our supply chain, we have 28 warehouses around the country, we have a huge product line, we do over 170 SKUs, we're always going to import new items, we're really focused on a consistent supply, this is really key, because when our retailers and food service customers are out of stock, we can lose sales for months. And then the focus on quality and personal service... it all comes down to this, I think I can take anyone off the street and train them to be an excellent sales person if they have one attribute, and that is empathy. They have to care about the customer, and the customer picks up on that in two seconds...you have to care about them, and that's why we try really hard with our sales people, are they empathetic? Do they care? And that equates to, do I get it? What is the customer all about and how am I helping them? I would say it's very similar if not identical to what you are doing. Growers also have a customer, in many cases it's us or Seneca or Del Monte or Sunsweet or Blue Diamond, and your job is, just like mine, is to say, how do I help my customer? If you were going to ask me as a customer how you can help us...we are driven by cost, the better the quality, the better through-put we have, the better yield we have, the better customer acceptance. We need to sell products. I know what you're about too. You need higher returns at your farmgate, so working together, the lower we can drive costs through quality raw product, the more returns we can get and the more we can return to our owners, meaning our growers.

Continued on page 14

So our job is to always say, let's focus on what are we good at, and let's be the best that we can, and what we are not good at, let's let the national brand food companies be good at that.

Keynote Speaker

Dan Vincent

Continued from page 13

It's incredibly difficult to find trained welders and trained electricians, and we're not getting them, so we need to start stepping out and helping to locate people with the right set of skills. That means mentoring and outreach...

And then...have the right people...Our company has been going through a generational shift, but the big thing is, we need people to succeed, we need people in our company. The reality is, the younger people today are different. Their values are different, and in some ways they are better. When I started out you worked 80 hours a week, your job was everything. This generation is, I think, more balanced, which I think is a good thing. On the other hand, they are very similar to us...I think everyone wants to belong to something and create something of value, and that's our job, to help them understand what their role is and how they can play a part in that.

The important thing is, we just really need to be creative. I know this is something you growers are looking at too. We have a huge issue in our skills. It's incredibly difficult to find trained welders and trained electricians, and we're not getting them, so we need to start stepping out and helping to locate people with the right set of skills. That means mentoring and outreach...We even had an ad in the Lodi-Tokay yearbook about go to college and come back. So we just need to be thinking about this as an industry. How are we going to get more young people in and more skills in? And the reality is, if you want the right people, you have to pay them, but also if they're not contributing, you either make them better or move them on. Because at the end of the day they are filling a spot that's valuable and needs to be filled to help you reach your goals.

The one thing that growers have that we don't have is a huge resource called your family. I just see it again and again in our co-op, how important this generational transfer is. I just look at your businesses. I think 5, 7 years ago I'd go to grower meetings and there would be no young people there, everybody would be complaining that 'my kids don't want to farm, nobody wants to do this.' Well, guess what—the recession changed everyone's mind. And thank God. Today, more young people want to come back and be a part of this. So I think that's a huge resource you in this room have. I think just like we target specific people, the up-and-comers in our industry, I think you need to target your family members—it makes sense. Your job is to help them move along and give them the skills and experience that they need, and then take over your business. And then you have to be willing to pay them, even though they are family.

This is the last point I want to share--this is a big one. I think it's at the core of our co-op: diversifying risk. The way we diversify risk in our co-op is through the revenue line. If you look back at our revenue line, 15 years ago it was fairly flat, we were basically depending on our foundational revenue, our fruits and tomatoes, even though those generate a lot of overhead coverage for us and some earnings, there is a lot of risk in that. If markets decline, if there is agricultural risk, that impacts the whole focus of our business, which is the co-op's income statement. We don't manage peaches or tomatoes or pears, we manage PCP. So we need to find a way to insulate PCP so we can generate a return for all our owners. And this is what we've really done over the past 10 years, was to think of new ways to expand our revenue base. And we have in a couple of ways. One is through our alliances. We have a big alliance with Morningstar where we market all of their canned tomatoes. So between our two companies, we're the No. 1 food service tomato supplier in in the country now. We have a big alliance with Del Monte up in Yakima. Together it basically doubled the business of that facility. A couple of years ago we bought a company called Liberty Foods, which is an import company. We do about $100 million in imports, mainly tropical fruits and bowls. We did that primarily to support our existing product lines. If our buyer is buying canned peaches, it adds value if we can add canned pineapple to that product or mandarin bowls. So we bought that business and that's a 4 percent margin business, so that's a really solid

business. But the important thing is, it looks like our business now. We see people in our plants, we manage the supply chain.

What we're doing a lot of work on now are supply-chain partnerships, working with other people in our space, how can we ship product together, how can we deal on ocean freight containers better? And when I say growth, when you think of where PCP will be in 5 years, will we be doing more peaches or tomatoes? Probably not, hopefully we'll be doing about the same, but our growth will probably be in acquisitions, or in leveraging some of the things we already have in that space, again seeking that top goal of diversifying risk.

Even within our markets, we try to diversify risk as well. There are many places you could sell our products. What we try to do is, we have a pie chart that says, traditional supermarkets are X percent, supercenters are X percent, organics are X percent. That's about what our representation is in the markets. What this approach provides is that it keeps us balanced and diversified in our revenue sources – not only at the product level, but at the market level. This applies to retail, where we sell supercenters, traditional retailers, limited assortment and dollar stores. It also applies to food service, where we predominately serve broadline distributors like Sysco and US Foodservice, but also serve program accounts and direct small chains.

A Yuba City grower told me a few years ago he wasn't going to grow peaches anymore, he was just going to grow walnuts. I said, 'OK, if I were you, I'd seek diversity. I would balance my risk across crops.' Now that walnuts aren't doing well, don't go the other way and plant all peaches and no walnuts. But the value of diversity, just like your retirement account, like your stocks and bonds, no one can outsmart the markets, especially these kinds of markets. I just think the more balanced you are, the more you moderate risk, just like we do in our markets. I mentioned services, one thing I think long-term, there will be more mechanical opportunities. I can see people in this room saying, 'we're going to invest in the right kind of systems to do this,' and make big capital investments, but that will be a service they provide, and that may be a way to diversify income as well.

So these are our key guiding principles. Know what you're all about. Know what you're up against. Get a plan of action and make sure your people know what your plan of action is. Know who you're selling to and make sure you're taking care of them. Have the right people to get the job done. And make sure the plan gives you some level of risk diversification.

Your guiding principles that you apply are going to be unique to your operation. Peaches may be just one small part of your business. You may have many different markets. Your business objectives could be totally different from your neighbor. Your goal may be how do I get my son or daughter to succeed? Or you may be saying, how do I exit this business and move to Palm Springs? Or you may be saying, I want to do something different and grow in a whole new way, and diversify.

I did want to share with you that this year we added another strategy: providing a path to generational transfer. I started going to more grower meetings and seeing the third generation of people coming to the grower meetings. People who I went to UC Davis with – their sons and daughters came to the meetings, and that's a great sign. So that made me think, there's a change coming in the generations. The reality is...we are getting older and we would not be good stewards of the assets we've been given and the businesses we've been given, if we are not taking care of the next generation. So for us, what does that look like? We're spending a lot energy on our assets, making sure they're prepared for the next generation, a lot of this is compliance, we're dealing with the issues such as declining labor supply...we have to leave a balance sheet that has the capacity to grow. It doesn't do us any good to pass on a balance sheet that has no new borrowing capacity.

As part of this generational change, you may have heard we're buying down our members' retain investment. You may be wondering why we're doing that. We're going from a 7-year revolvement cycle to a 3-year cycle, with my caveat every year that I need approval from the bank, and I need cash flow to do that.

Continued on page 18

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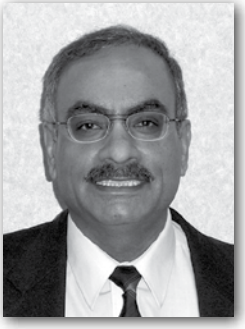

Ajayab Dhaddey

Brian Sowden

Northern District

Here in the Yuba/Sutter area we are experiencing what we could call a normal winter season so far. The winter storms have been cold and wet which everyone, especially growers, are welcoming with open arms. Although lake levels are on the rise we have a long ways to go. The snow pack so far is looking promising as well; it is good to once again see the snow on the mountains from the valley. However, water availability within our irrigation districts will continue to be an issue in the months to come. California's drought is far from over, but we will take what we can get this year and hope that normal rainfall returns for the following years as well.

With this winter being much colder than last year our chilling hours are much improved. As of February 1st, we have acquired 799 hours of chilling while last year we were at 623 hours. We are using the new Verona cumulative chilling hour's station data to replace the old Nicolaus chilling station. Cling peaches require a minimum of 800 chilling hours from November 1st to the end of February in order to satisfy the basic chilling requirements for a cling peach tree.

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Out in the orchards growers have been pruning and shredding when they can between the storms. However, labor is an increasing issue. Labor availability is there for pruning, but the labor supply is growing smaller every year. Gowers are more concerned with labor availability when thinning and harvest time comes. CCPA members delivered 43% more machine harvested fruit in 2015 and are expecting to further increase their mechanically harvested deliveries in 2016. Our labor costs will also be higher this year due to the 11% increase in California's minimum wage that occurred on January 1st.

With 2015 behind us, the northern district has pulled 833 acres out of 1,136 acres state wide. For 2016 we are estimating around 1,200 acres will be planted in the state. If you are interested in planting in 2017, contact your canner and nursery early to order trees. All canners are currently offering 20-year contracts and two are offering $500 per acre planting incentive payments. However, we suggest that growers check with your canner beforehand for the incentive details.

As of February 1st, the 2016 base price has been set at $490 a ton with Seneca Foods, which is a $30/ton increase from last year. This early pricing will give growers more certainty when planning for 2016.

In closing, we would like to thank everyone that attended the 94th annual meeting on January 19th in Sacramento and we look forward to what could be an interesting 2016 season.

Modesto & Kingsburg Districts

Steve Mobley

With rainfall more closely resembling normal levels, the main issue facing our peach growers this year is the supply and cost of labor for pruning, thinning and harvesting the 2016 crop. California's minimum wage has gone up 11% this year and combined with other cost increases such as health insurance and worker's comp, and new payment rules for non-productive time, the gains realized through recent raw product price increases are quickly being erased.

So far this winter, it appears the rain has returned to central California. The Modesto area currently has received over 9.44" of rain to-date compared to 7.4" last year and 7.06" for normal to-date as of February 4. The Kingsburg area currently has received 5.47" of rain to-date which is just above the normal to-date amount of 5.35" and well above the 3.16" of rain received last year as of February 4. The snowpack in the Central and Southern Sierra amounts to greater than 100% of normal to-date levels which will provide for much needed runoff for our reservoirs in the coming months. With more rain and snow on the way, growers are hopeful for more surface water deliveries this year.

Chilling hours have been good so far this season. As of February 1, the Kingsburg area has accumulated 918 hours compared to 1,032 hours last year to-date. Modesto is actually ahead of last year's chill hours with 856 recorded as of February 1 compared to just 676 last year at this time.

Pullouts following the 2015 season have significantly dropped due to improved cling peach pricing coupled with softening prices for both walnuts and almonds. This year Kingsburg has only 28 acres of pullouts compared to 225 acres in 2015. The Modesto area has only 275 acres pulled compared to 665 acres last year. The Modesto area continues to have the highest percentage of orchards 16 years and older with the lowest percentage of nonbearing vs. bearing acres. Processors are offering 20-year contract terms for new plantings and two processors are offering $500/acre planting incentive payments for 2016 and 2017 plantings. If interested, growers should check with your canner for more details. There is an urgent need for more plantings of varieties other than Ross, Late Ross, and Stanislaus. New plantings in the Modesto/Kingsburg area are estimated to be in the 300-400 acre range for 2016.

Having an early 2016 price agreement in place should allow growers plenty of time to adjust their pruning and thinning practices in response to changes in our terms of sale for excess No. 2 peaches. The 2015 season resulted in the smallest fruit sizes since 2007, hopefully 2016 will be a much better sizing year!

I look forward to working with all our Modesto and Kingsburg growers in the coming months.

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Keynote Speaker

Dan Vincent

Continued from page 15

I feel fortunate to be a part of this great industry that we're in.

But we're at 6 right now, and the reason that we're doing that is, in talking to a number of our growers, that retain was a hurdle to generational transfer. A lot of our owners looked at the retains as part of their retirement. For someone just taking over the farm, to be able to come up with 105 percent of crop value, which is what a 7-year retain is, and borrow it from a bank or plow it into a new farm or pay off their parents, for many of our growers, it's just not possible. So we're trying to bring down the retains, use the cash-flows that we have today, and allow it so that we've provided that path. I think it's important that we focus on the people who are making our co-op work today...I would say you probably have the same things in your own business, when you look at that asset which is your family. How do you help them pass on to the next generation? This really excites me as a manager, as someone who has been in this industry a long time... I believe that we have a new generation of young people and it's exciting for me to say we've worked so hard to get where we are today, and I really believe we're passing on something of value. That makes it worth coming to work every day.

I feel fortunate to be a part of this great industry that we're in.

President's Report - 94th Annual Meeting

Continued from page 5

The truth is that we have a great story to tell on the nutrition front. ...Simply put, fresh, canned, frozen or dried – it's all equally good for you.

So to complete the Star Wars segment of my remarks today, the Evil Empire faced by the Peach Association is not made up of Death Stars or TIE fighters, but instead it consists of those who continue to portray canned or frozen fruit as somehow inferior to or less nutritious than fresh produce. The "light side" forces must continue fighting back by using sound science to refute these misperceptions. The truth is that we have a great story to tell on the nutrition front. Multiple University studies have demonstrated that canned and frozen fruit is nutritionally equivalent to fresh and many of our products offer a lower cost-per-serving than fresh. Two weeks ago the final 2015 Dietary Guidelines were jointly released by USDA and the Department of Health and Human Services. The new Guidelines include the longstanding advice to consume more fruits and vegetables in our diets and continue to make no distinction between fresh, canned, frozen, or dried forms. Simply put, fresh, canned, frozen or dried – it's all equally good for you.

Just as the Star Wars storyline continues to be written, this battle between fresh and processed fruits and vegetables will continue to be fought and the Peach Association will continue to be on the front lines. May the Force be with us as well!

No Annual Meeting speech would be complete without recognizing the members of the team who serve as the staff of the California Canning Peach Association. They truly are the backbone of the organization and I am very proud of their accomplishments and dedication to meeting the needs of our members.

Will Rogers once said, "Farmers have to be optimists or they wouldn't be farmers." As you leave this meeting tonight, it is my hope that you leave with a renewed sense of optimism regarding the cling peach industry's outlook for 2016.

In closing, it is both a pleasure and a privilege to serve as your President. Our mission is clear – to enhance grower returns in a strong and stable cling peach industry. There is no doubt in my mind that we will continue to build on our legacy of industry leadership as we work on your behalf in the coming year.

Best wishes for a successful 2016.

Grower Profile

Eric Spycher

Continued from page 9

put props under the trees to hold the limbs up because of the weight of the limb. As the pickers come through you have to move the prop and when you do, a lot of the limbs break just from the weight of the fruit. My thinking so far is that it won't make sense to use the machine because I can't get in there with props--the trees break."

"Another issue that we have on my ranch is bacterial canker, and some of these size-controlling rootstocks have been very susceptible to bacterial canker," he added.

Eric reports that yields on most of his experimental orchard have been at least as good as his conventional orchards with excellent fruit quality. He adds that his per acre pruning costs are about the same as conventional orchards (more trees/acre) and that while he pays the same rate per bin in all his orchards during harvest, the pickers can move more quickly through the experimental orchards so they earn more money per day. He does realize significant labor cost savings during thinning as his conventional orchards required $1,200/acre to thin this year while the experimental orchards were approximately 50% less expensive to thin.

Despite the challenges, Spycher is hopeful that research will lead to mechanization in the peach industry.

"The canners have been very interested and involved in this," Spycher said. He grows for Del Monte, Seneca and Dole. Peaches in the experimental block will go to Del Monte in Modesto. "All of them have been interested."

Spycher was also a research cooperator for blossom-thinning studies recently conducted by Roger Duncan, UC Cooperative Extension farm advisor in Stanislaus County, and retired Merced County farm advisor Maxwell Norton.

"Some varieties require a lot of hand-thinning," Duncan said, noting that experiments were conducted on Spycher's Loadel peach trees. The advantages of string blossom-thinning is that it reduces hand labor and it improves the fruit size by reducing the crop load earlier in the growing season. Duncan explained. "The bottom line is, a peach grower wants to make as much or more money with alternative practices."

"We're going to continue to find ways to mechanize orchards. We have to in order to compete in the world."

Regarding the shortage of hand-labor and the lack of mechanization, "That's one of the key reasons that the cling peach acreage is declining," Duncan said. "We have crops such as almonds and walnuts that are highly mechanized, which reduces stress for the grower. If we could make stonefruit industries more mechanized, it would make those crops more attractive and maybe more growers would stay in the business."

CCPA President & CEO, Rich Hudgins says "This experimental orchard was established following the creation of the Canned Peach Mechanization Research Fund in 2008. This entity, jointly funded by growers and processors, is working to find new ways of reducing the labor costs involved in growing and harvesting cling peaches by funding research works and demonstration projects under 'real world' conditions. I am very pleased that Eric was one of the first growers to step up and volunteer to try some new ideas. We look forward to working with more growers and equipment manufacturers in the coming years to meet the mechanization challenges in the cling peach industry."

Despite the challenges, Spycher is hopeful that research will lead to mechanization in the peach industry.

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