

ACREAGE UPDATE

Spring 2010

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Allied Grape Growers is a winegrape marketing cooperative with over 600 grower members from major winegrape regions of California.

The association exists for the purpose of efficient and competitive marketing of its members' grapes as well as offering marketing services for non-members. Direct lines of year-round communication are maintained with growers and vintners for the better understanding of market conditions and opportunities.



Bunch Counts for 2010 Show Adequate Crop Potential

Earlier this month, Allied Grape Growers completed our annual bunch count survey, by major variety, in the San Joaquin Valley. For each of the varieties, we survey numerous ranches, and each ranch has numerous vines (the same) that we sample annually. The bunch count summary includes the San Joaquin Valley from Lodi to Bakersfield.

We no longer perform bunch count surveying in the coastal regions due to the fact that most growers adjust their crop via thinning throughout the growing season to meet winery expectations for crop load and quality. Included here in the table is a single summary, by variety. However, more detailed information (by region) is available on our website: www.alliedgrapegrowers.org.

In general, the 2010 San Joaquin Valley bunch counts for winegrapes looks similar to 2009 with variances that may be interpreted as more region specific than variety specific. Specifically, Lodi and the northern valley seem to be down slightly from last year's crop (which was generally large), while the central and southern valley seems to be slightly stronger in counts this year.

But keep in mind that, although last year was a large winegrape crop statewide (up 23% from 2008), the central and southern valley areas

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ACREAGE UPDATE

An "Allied Press" Newsletter Publication

*Written for the growers and customers of
Allied Grape Growers*

Bunch Count for 2010

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were only up 4% from 2008 in winegrape production. If we are slightly up from last year in the central and southern interior, it does not imply a huge crop. However, it probably does point toward an above average crop, which may bode well for the supply-hungry lower-end of the wine market.

Looking at specific varieties, Chardonnay counts appear strong for the second year in a row, even though they are down slightly in Lodi. Chenin Blanc counts are off despite last year's mostly disappointing crop size. The French Colombard counts look strong in the central and southern valley, but show some weakness in the north valley. Muscat seems consistent with last year, which is a blessing considering last year's good crop size and very strong demand for the product. Pinot Grigio and Viognier both indicate lower counts than in 2009, and Thompson Seedless is definitely up from last year's small and disappointing crop. In fact, Thompson Seedless counts are right on our 10-year average for the variety, so all expectations are for an "average" size crop.

For the red winegrape varieties, generics Barbera, Carignane and Grenache all seem to be up in the central and south valley.....once again, a good thing considering current demand. Cabernet Sauvignon is definitely down in Lodi from 2009, but indicate stronger counts south of Lodi. Merlot is not far off from last year's counts in the San Joaquin Valley, but is only up slightly in the central and south valley while being down in Lodi and the north valley. Syrah, Ruby Cabernet, Petite Sirah and Rubired counts are all down after last year's relatively large crops on these varieties. And Zinfandel is a mixed bag showing significantly stronger counts in the central and south valley but lighter counts in the north for both red and white fields.

In considering all of these counts, we always say bunch counts are only the first indication of potential crop size. There's a long way to go before harvest, and Mother Nature always has something to say before it's all said and done.

2010 Allied Grape Growers Bunch Count Averages

With Percent Change from 2009

Variety	Average Count (% Change)	
Chardonnay	87.6	(+6.5%)
Chenin Blanc	97.0	(-26.1%)
French Colombard	106.5	(+9.6%)
Muscat of Alexander	61.1	(+1.4%)
Pinot Grigio	83.5	(-11.4%)
Thompson Seedless	34.2	(+16.4%)
Viognier	80.5	(-5.5%)
Barbera	77.7	(+12.9%)
Cabernet Sauvignon	104.9	(-2.9%)
Carignane	83.3	(+4.6%)
Grenache	87.3	(+6.6%)
Merlot	82.5	(-1.8%)
Petite Sirah	77.8	(-5.8%)
Rubired	159.6	(-7.3%)
Ruby Cabernet	119.5	(-4.2%)
Syrah	79.7	(-12.0%)
Zinfandel (White)	72.3	(+8.6%)
Zinfandel (Lodi red)	52.6	(-1.1%)

Health Insurance Options Increase for Allied Members

One of the many benefits of being an Allied Grape Growers member is access to health insurance for members working 20 hours or more per week on their ranches as well as employees of our members. Our plans provide group rates with guaranteed issue (no health exams required). Our health insurance broker, RL Wells & Associates, Inc. has recently introduced additional health plan options for our grower-members.

There are now 23 plans to choose from. They include four Health Maintenance Organization (HMO) plans, three HMO & Preferred Provider Organization (PPO) combination plans, three PPO plans, four Health Savings Account (HSA) plans and nine new plans that are either "Silver" HMO/EOA plans or SALUD plans which boast premium-reducing limited physician networks.

Open enrollment is currently available with a plan start date of July 1, 2010, so please call now if you are interested in researching your options for health insurance. Contact Rick Wells at (800) 568-4500.

Concentrate Grape Market for 2010 Looks Promising

The 2010 grape market is shaping up to be stronger than 2009 for both red and white grapes that are used in concentrate production. On the white side, diminished concentrate supplies, both domestically and internationally, have contributed to stronger prices for grape and substitute concentrates (apple and others). Smaller crop sizes and diminished concentrate production in the southern hemisphere in 2010 has also positively contributed to the current supply/demand situation. With last year's small crush of raisin varieties for concentrate (based both on small crop size and disappointing pricing), there was not a lot of white grape concentrate inventory added. As evidenced by the concentrate crush graph shown here, the business is almost predictably cyclical. Over the recent years, the cycle shows that after small crush years, comes larger ones and vice versa. The only exception to this cycle was in 2006, when the cycle would indicate an increased crush, but the Thompson Seedless crop was the smallest in decades in that year, preventing increase.

In addition to market strength due to low concentrate inventory levels, the raisin industry continues to experience healthy shipment levels (primarily in exports), which has caused a depletion of inventories down to levels that constitute strong demand for raisins. Field pricing for raisins is fully expected to increase this year from last year's already strong prices. On the wine side, there continues to be an adequate need for some raisin variety grapes for crushing into brandy, sparkling wine and dry white wine programs.

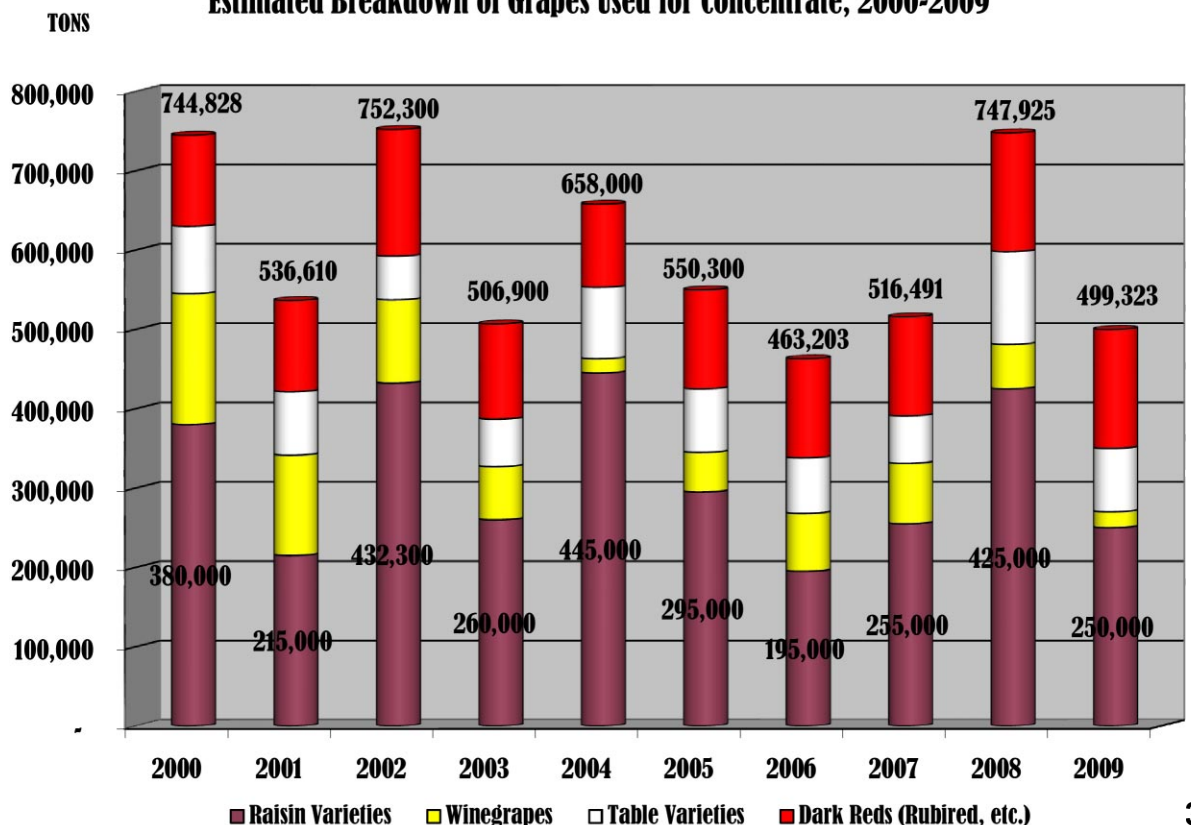
All of these supply and demand factors collectively translate into a situation where white concentrate

producers will have to offer prices that are significantly better than 2009 in order to purchase ample supplies of grapes for white concentrate. It is clearly obvious that if price offers do not increase significantly from last year's levels, growers will be much better off financially to make raisins in 2010 than to "go green."

On the red concentrate side, California maintains its dominance in the marketplace, both in quality and quantity. Competing countries have not been able to provide significant quantities of red concentrate that would soften prices from last year's levels. The market is currently tight with low levels of available inventory and strong demand. The potential for significantly higher prices is not as great with red concentrate grapes as it is with white, but pricing is anticipated to remain very strong with last year's levels being an absolute minimum. Demand continues to expand from numerous buyers as they continue to see the profit potential in the business and want to increase their purchases. This will likely translate into strengthening prices in the short term. It is currently translating into additional vineyard planting, which will balance out supply and demand in the future.

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Estimated Breakdown of Grapes Used for Concentrate, 2000-2009



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President's Message:

2010: A Year of Opportunities and Challenges

As we approach bloom of the 2010 grape crop, I see opportunities for some and challenges for others. The economy has forced consumers to tighten their belts and really evaluate how to spend their disposable dollars wisely. They can't afford the impulse buys. Instead of a \$25 and above priced wine, they are spending \$15 and below. Sales and shipments reports show that consumers are trading down in price points for the wine they are purchasing. Great news for consumers - they have a great opportunity to buy good quality wine at all price points!

So, what does this mean for California growers? Let's start with the group who is facing the most challenges – the North and Central Coast growers. We don't know when the wineries who typically produce the higher priced wines will come out and buy winegrapes for their 2010 production, nor do we know what they will buy. To date we have seen very little opportunities being presented by these wineries. Growers are currently being told in the coastal regions that the wineries will need less grapes and at lower prices. The challenge to the coastal growers is to continue to produce the high quality winegrapes that have helped distinguish their growing areas as the premium and super premium quality areas. Growers will be re-evaluating operational costs, production levels and better understanding their realistic grape value. Growers will also be challenged to understand the financial condition of the winery who will be purchasing their grapes and their ability to pay the grower on terms suitable for the grower's needs. Fortunately, that is not a concern for Allied member-growers, since that is our job to perform the due diligence before we sell the grapes and collect the appropriate payments.

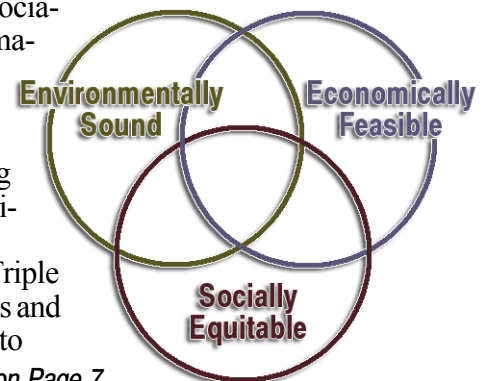
Now, on to the group with the opportunities – the San Joaquin Valley growers. Because consumers are trading down the price points for the wine they are purchasing, we are anticipating the SJV wineries to buy grapes at prices and quantities equal to or better than 2009. The Central SJV crop looks average in production levels and when combined with the removal of thousands of acres, the supply is lower than current demand. One particular variety that may still face challenges throughout California is Chardonnay. Due to a large crop in 2009 and a significant amount of bulk Chardonnay imported in 2009, we still have not seen much activity for this variety. The opportunity for SJV winegrape growers is to sell the grapes to wineries that are looking to sell in the \$10 and below wine category. The opportunity and challenge is for the SJV grower to continue to produce quality grapes economically and keep the consumer satisfied.

Pierce's Disease/GWSS Referendum

In other industry news, it has been announced that California winegrape growers have approved, via vote, the Pierce's Disease/GWSS Referendum that will extend the industry's self assessment for an additional five years. GWSS/PD Board now has the ability to look at other evasive pests such as the European Grapevine Moth and Vine Mealy Bug and respond with the same mechanism in place that has proven successful over the past 10 years.

California's Sustainable Winegrowing Alliance

Starting in 2001, Wine Institute (WI) and California Association of Winegrape Growers (CAWG) facilitated the formation of the California Sustainable Winegrowing Alliance (CSWA) Program and Certification program. Over the past 10 years CSWA has developed a comprehensive code workbook with 227 best practices while partnering with regional associations, government agencies, universities & NGOs. This program identifies growing and winemaking practices that are sensitive to the 3 E's (or Triple E's): Environment, social Equity (responsive to the needs and interests of society-at-large), and Economically feasible to



New Acreage Report Shows Some Record Numbers

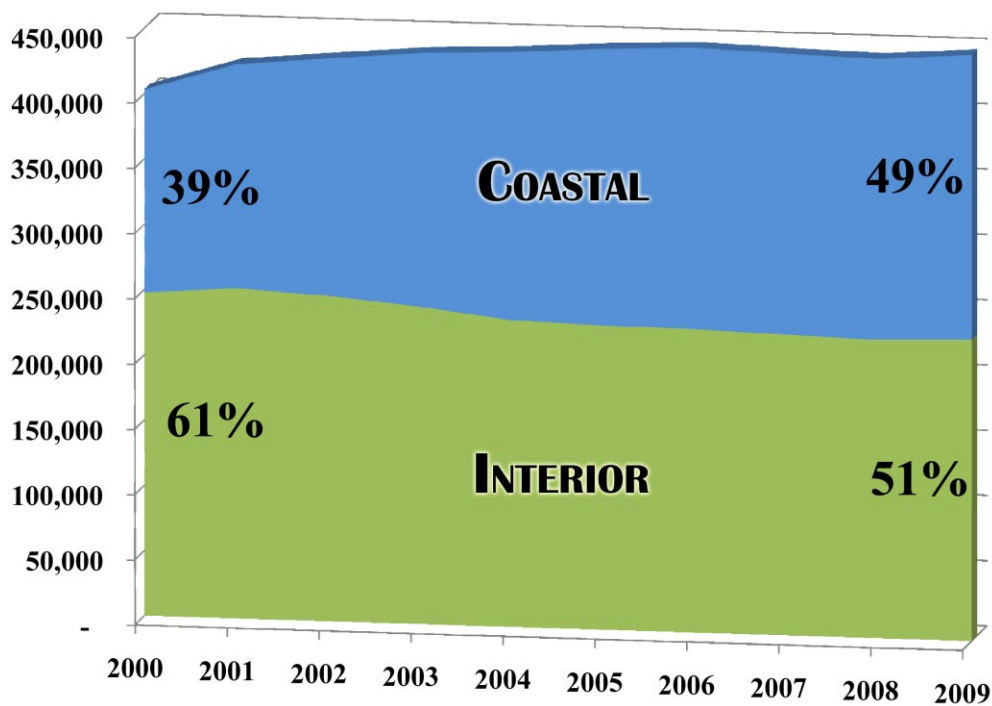
The State of California released the 2009 Grape Acreage Report last month, and the numbers are impressive. For winegrapes, the state now tallies 448,957 bearing acres. With this being a voluntary report, the state recognizes that not every acre is being accounted for, so the state also makes an estimate of the actual acres in production. That estimate currently stands at 489,000 acres, indicating that the state believes that there are approximately 40,000 acres not currently being reported. Given these numbers, we are currently setting a new high for both reported and estimated bearing acreage. With regard to non-bearing acres, the survey indicates a reported 24,353 acres that are planted but still have yet to produce, while the state estimates that there are actually about 42,000 non-bearing acres. Total acreage (non-bearing and bearing combined) is below the levels we experienced in the early 2000's, and non-bearing acreage alone is well below the levels of the early 2000's, when it exceeded 100,000 acres.

Ultimately, these numbers translate into the reality that a high percentage of the winegrapes that are planted in California are now bearing, with the non-bearing percentage at somewhere between 5-8% depending on whether the reported or estimated numbers are used. At these levels, there are enough new acres to account for vineyard attrition, providing a relatively stable supply going forward into the immediate future. But within these aggregated numbers is the reality that new acres have continued to come into bearing in the coastal regions of the state, while the interior regions of the state have decreased their acreage base. The graph indicates the change in reported bearing acreage over the last ten years. Notice that the interior and coastal regions now each share about half of the total bearing acreage. Ten years ago, the interior clearly held the majority of total bearing acres.

When analyzing the acreage report in detail, one can compare it to the Grape Crush Report (also published by the State of California) to identify where some of the missing (or unreported) acres may be. The Grape Crush Report is a

mandatory report, thereby making it relatively accurate. It shows, among other things, all grapes crushed in the state, by district. By dividing the number of tons crushed in each district by the number of acres reported, one can examine yields and easily come to the conclusion that some acreage is not reported.

**California Reported Bearing Winegrape Acreage
Interior vs. Coastal Regions, 2000-2009**



For example, using District 14 in the table shown, notice how the yields for many of the varieties are unrealistic given reported acreage and crush numbers. Specifically, grossly under-reported are Chardonnay, Pinot Grigio, Sauvignon Blanc, Merlot, Syrah and Zinfandel. The yield calculations for these varieties indicate that there is a significant amount of acres not accounted for, for each variety. Also of question are Muscat Alexander, Cabernet Sauvignon and Ruby Cabernet, with yields that are believable on an individual basis, but unlikely as an average. You may also note that some of the missing acres of the varieties mentioned above may be erroneously categorized in the "Other White" and "Other Red" categories, since these two catch-all categories have too many acres relative to production, which causes the yield calculation to be off in the opposite direction.

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New Acreage Report

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The point in showing these anomalies is not to discredit the acreage report. The report is invaluable as a tool for the industry to understand planting and pulling trends, but it needs to be used with caution given that the data contained within is voluntarily submitted.

The example shown (District 14) happens to be the most inaccurate district and was shown to prove the point. The acreage reported out of the remaining 16 crush districts is much more accurate overall, although there also seems to be areas of discrepancy notable in District 11 (Lodi) & District 12 (Modesto area). Of the 40,000 acres that the state estimates is bearing, but not reported, we know that 10,000-12,000 of it is likely Pinot Grigio, based on yield calculations for the entire state.

When Allied performs our annual acreage analysis in January, we try to account for as much of this missing data as possible. Our tireless analysis of the reports blended with data from our proprietary annual nursery survey gives us the best possible information about current planting and pulling trends.

When we examine the acreage report, by variety, we find some fairly noteworthy figures regarding non-bearing acreage for the major varieties. As with the bearing acreage numbers, we must caveat the non-bearing acreage numbers with the fact that the state does not always capture the acres immediately upon planting. In other words, there may be grapes planted in 2009 that the state is unaware of until 2010 or 2011. By analyzing the report in detail over many years, we have determined that acreage is generally under-reported by about 50-66% the first year in which new acres are reported, 20-33% the second year and 10-15% the third year. Usually by the fourth year, the state has captured the lion's share of the data, and it is included in the report, subject to the discrepancies discussed earlier.

The non-bearing acreage table shows the percent non-bearing of some of the major varieties in 2009. Regardless of whether the numbers are exactly accurate, a few things are very clear. Three varieties that stand out as having a high percent of non-bearing acreage are Pinot Grigio, Riesling and Pinot Noir. All other varieties listed show single digit non-bearing percentages. Even if you adjust the Pinot Grigio acreage to include the bearing acres that we know is unreported, there is still at least 17% non-bearing.

We believe that the Pinot Noir bearing acreage numbers are relatively accurate based on the fact that most of the counties where Pinot is currently grown have a high level of dependability on acreage reporting, so the only variable there is the reliability of the reported non-bearing acres. Even though the percent of non-bearing acreage for Cabernet Sauvignon and Chardonnay is low for each (<5%), the amount of new acres coming in is relatively high when compared to other varieties. The percentage is low because there is a much larger acreage base to work off of for these varieties. Merlot and Zinfandel very clearly have a low non-bearing percentage, as most growers have avoided vineyard expansion with these varieties over the last three years.

Lastly, we should make notable mention that the total raisin variety acreage declined once again in 2009 regardless of whether you consider the reported or the estimated acreage numbers. The numbers show a decline of between 5,000-7,000 acres from the year

2009 Yields Based on Reported Acreage & Crush

(By Variety)

District 14 (Southern San Joaquin Valley)

Variety	Bearing Acres	Tons Crushed	Resulting Yield	Expected Yield
Chardonnay	1,588	40,248	25.3	Much lower
Chenin Blanc	848	6,940	8.2	OK
French Colombard	4,564	53,603	11.7	OK
Muscat of Alexander	1,117	24,837	22.2	Lower
Muscat Hamburg	133	-	0.0	N/A
Pinot Grigio	45	23,574	523.9	Much lower
Sauvignon Blanc	13	1,040	80.0	Much lower
Triplett Blanc	-	923	N/A	15-18 TPA
Other White Wine	3,071	3,867	1.3	Much higher
Cabernet Sauvignon	2,419	25,050	10.4	Lower
Merlot	918	19,319	21.0	Much lower
Rubired	3,388	40,695	12.0	OK
Ruby Cabernet	925	15,155	16.4	Lower
Syrah	194	4,851	25.0	Much lower
Zinfandel	1,805	51,096	28.3	Much lower
Other Red Wine	3,306	8,571	2.6	Much higher

previous. Total raisin variety acreage is now estimated at 219,000 as compared to 287,000 acres in the year 2000. With alternative crops in the San Joaquin Valley continuing to provide substantially more opportunities for profit, raisin acreage will likely continue to decrease in the near future.

So, overall, the 2009 Grape Acreage Report can be summed up as follows: A relatively low 8% non-bearing percentage estimated overall (42,000 acres out of 531,000) and the highest amount of estimated bearing acreage ever in the state (489,000 acres). Growers do indeed continue to plant grapes, but not at the alarming rates of the late 1990's.

In fact, the rate at which new vineyards are being planted currently is more in line with attrition rates of older vineyards and the steady growth of the wine market we have experienced throughout most of the last two decades. We are also working off a much larger base now than we were 15 years ago, so the percentage increases are smaller by nature of the

Reported Non-Bearing Acreage 2009

Variety	Reported Non-bearing	Reported Total	% Non-bearing
Chardonnay	4,551	94,986	4.8%
French Colombard	722	25,494	2.8%
Pinot Grigio	4,022	12,698	31.7%
Sauvignon Blanc	754	15,423	4.9%
Riesling	600	3,693	16.2%
Cabernet Sauvignon	1,994	75,791	2.6%
Merlot	358	46,229	0.8%
Petite Sirah	517	7,591	6.8%
Pinot Noir	6,049	36,388	16.6%
Rubired	519	11,776	4.4%
Zinfandel	1,085	49,891	2.2%

size of the industry. The question remains whether or not "the market" will need the additional grapes from the areas that have expanded rapidly over the last few years or from the areas that have actually shrunk in size.

President's Message: California's Sustainable Winegrowing Alliance



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implement and maintain. CSWA was formed to implement the programs, host educational workshops throughout California and publish industry-wide sustainability reports. Growers have been encouraged throughout California to participate in the use of the workbook as a great source of information and practices, and to participate in the self-assessment program. Growers can receive the free workbook during workshops or by contacting CSWA at lfrancioni@sustainablewinegrowing.org or 415-356-7545

Allied Grape Growers has participated in this process and supports the concepts developed through the CSWA and encourages all of our growers to review the workbook and take part in the self-assessment process. With the evolution of the certification program, I have joined with the board of CAWG in supporting grower participation in the certification program if it is based on voluntary participation and not mandated by a winery's marketing program via their grower relations department in order to obtain a contract. If the grower is willing and

able, then we would support our growers' participation. Since the certification is tied to the workbook, the Allied staff, along with a Sustainable Subcommittee of CAWG, began a proactive constructive review of the workbook that was originally developed in 2001. As a result of this process, suggestions will be referred to the CSWA for their review and acknowledgement that the workbook should be a working document that should be reviewed and updated periodically.

Allied Grape Growers and your board of directors support sustainable winegrowing practices and the adoption of concepts expressed in the Triple E's above. In order to accomplish all of these goals, it must be economically feasible, which can be accomplished by the savings obtained by smart farming referred to as "Best Farming Practices" and a fair equitable payment for their grapes.

"I have joined with the board of CAWG in supporting grower participation in the certification program if it is based on voluntary participation and not mandated by a winery's marketing program."



Employee Profile:

Irene Ybarra

Controller

Occasionally in our newsletter we like to highlight our dedicated and hard-working employees that serve our grower-members as well as our grape buyers. This edition features Irene Ybarra, Allied's long-time Controller. It's no coincidence that Irene's title is "Controller", because she controls a lot of work and resources here at Allied. Irene could very easily be given numerous additional titles like Human Resources, CFO, A/R, A/P, System Administrator, etc., but they would not all fit on her business card! Irene's daily responsibilities include all operations book-keeping, human resources (payroll & benefits details), all grower accounting (including crop payments and equity accounting), winery billings, data management and overall "systems" execution. Irene also works directly with our programmer in systems development and with our auditors each year to prepare our financial reports and assure that every dollar is accounted for and handled with integrity.

Irene's journey with Allied started in 1988. Like so many of Allied's employees, her dedication and loyalty have contributed to many years of service with limited turnover within the company. When asked what she liked most about working at Allied, she said "the people". You have to admit, working with good people can make a huge difference with regards to job satisfaction. Irene is never afraid to help her fellow employees on work projects and has a plethora of knowledge, making her a very versatile employee.

Irene is a native of California's Central Valley, being born and raised on a family farm of wine and raisin grapes in the Reedley area. She, along with her five sisters, was involved with the day to day operations of the farm right down to harvesting the fruit. Irene attended California State University, Fresno, graduating with a B.S. in Business with an emphasis in Computer Application. Prior to working at Allied she has worked in agriculture with a farm management company as well as a winery.

Irene currently lives in Reedley on her family's almond ranch (where her mother also lives). She is very involved in family activities and enjoys spending lots of time with her sisters, brothers-in-law, niece and nephews. She is happy to be so close to her mother and considers her a best friend, especially after losing her dad a few years back. Her father and mother toiled in wage jobs and on the ranch for everything the family had and ended up sending all six daughters off to college - all of them earning degrees. Irene was raised with a very strong work ethic, and it shows. She doesn't miss a beat, and her accuracy is invaluable as we account for millions of dollars annually.

Don't Miss . . . *Allied's Annual Meetings*

Allied Grape Growers' annual meetings are coming soon, so mark your calendar. On Thursday, July 8, we will be holding our annual meeting for our interior region members and guests at Pardini's Banquet Facility in Fresno, Calif. That meeting will be adjourned to our adjourned annual meeting the following week on Friday, July 16, in Santa Rosa, Calif., for members and guests from the coastal districts.

As always, our short business meeting will start at 10:30 at each location and will be followed by a guest speaker, lunch and a raffle of wine and other prizes.

