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Phil Foster Ranches: A Case Study of an Organic Vegetable Farm

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This paper presents a case study of an organic vegetable farm, designed for a senior undergraduate farm business management or agribusiness course, and is accompanied by a teaching note which includes suggested analysis. Phil Foster is the owner and manager of Phil Foster Ranches, a 252-acre organic vegetable, fruit, and nut farm in the Central Coast Valley of California. Until the last few years, most of the sales were to a number of produce brokers who sold the produce for Phil in the wholesale market on a commission basis. Believing he could get better prices by selling direct to retailers, two years ago Phil started a local delivery route to small grocery stores wishing to sell organic produce. The delivery route has enjoyed success, but now requires significant additional investment of both time and money if it is to be maintained and expanded. Phil Foster must now decide if expanding the local delivery route will be worth the investment cost and effort. Through situation analysis, this case study examines Phil's decision-making options.

Key Words: case study, farm financial management, marketing, organic

Phil Foster is the owner and manager of Phil Foster Ranches (PFR), a 252-acre organic vegetable, fruit, and nut farm in the Central Coast Valley of California, located near Hollister, which is about 30 miles south of San Jose. Phil is a hands-on manager actively involved in all aspects of his business—from planning what to grow, to growing and harvesting the crops, to packing and marketing the final products.

Until a few years ago, most of the PFR sales were to a number of produce brokers who sold Phil's produce for him in the wholesale market on a commission basis. These brokers also charged Phil for cooling and loading the produce. Phil decided he could get better prices by selling direct to retailers, and was encouraged by the results of his sales at local farmers' markets. Between 5% and 10% of PFR's produce had been sold at these markets over the last several years and, although time consuming, showed good returns for the effort.

In addition, two years ago, Phil had begun a local delivery route to small grocery stores wishing to sell organic produce. Initial startup of the delivery route required packing, cooling and handling facilities, and refrigerated transportation, and now

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requires significant further investment of both time and money if it is to be maintained and expanded. Moreover, with a focus on enhancing the local delivery route, Phil believes the PFR farm should produce a large variety of crops annually so that it can offer a full range of produce to its customers and diversify its rotation enough to handle production risks. Phil must now decide if expanding the local delivery route would be worth the investment cost and effort to learn more about the marketing end of the organic produce business.

This case study of Phil Foster Ranches is designed for a senior undergraduate farm business management or agribusiness course, and is accompanied by a teaching note which includes suggested analysis (Appendix A).

Phil Foster

Phil Foster grew up in Bakersfield, California, where his father was an architect and his mother a school teacher. While he was not raised on a farm, he did spend his high school summers working on the farms of relatives in the Hollister area. Based on the rewarding experiences of this work, Phil decided to pursue agriculture as a career. In 1976, he graduated from the University of California-Davis with an Agricultural Science and Management degree. After graduating, Phil continued to work on the farms of various family members in the Hollister area. Later he moved to the Bakersfield area, taking a position as an agronomist, and eventually a ranch manager, for J. G. Boswell, Inc., a large cotton farming company. In 1987, after nine years with Boswell, he resigned and moved to Hollister to start Phil Foster Ranches.

Phil began Phil Foster Ranches in 1987 with $150,000 of savings, and has developed a thriving farm business which, at 252 acres, is significantly larger than the 32.8-acre average organic farm in California (Tourte and Klonsky, 1998). Typical of most farmers, Phil has concentrated on production, which has been extremely important to the financial performance of the farm, especially with regard to the implementation of organic farming techniques. Phil confides he sometimes thinks life would be a lot simpler if he could concentrate on production, as in the past, and develop a long-term relationship with an organic vegetable distributor. The potential profits would be less, but Phil estimates the price fluctuations would also be less, by as much as 50%.

The Farm: Phil Foster Ranches

In 1987, Phil Foster Ranches consisted of 20 acres of rented land about four miles west of Hollister. For the first couple of years, Phil grew processing tomatoes under contract. There were no profits in the growing of processing tomatoes on a small scale, and Phil was going broke. He saw that his neighbor was growing organic vegetables on a small scale and seemed to be making a profit. In 1989, Phil grew five acres of organic vegetables (sweet corn, melons, and cucumbers), and made some money for the first time. The following year, he switched entirely to organic vegetables.

By the spring of 2000, the PFR farm consisted of 252 acres at two sites. The smaller, original site has 52 acres—30 owned acres and 22 rented. The second location, about six miles northeast of Hollister, consists of 200 acres of rented land. All the land can be drip irrigated, but some flood and sprinkler irrigation is also used.

Phil began renting part of the land northeast of Hollister in 1989, adding more land each year, and converting it to organic production, until the entire 200 acres were rented and farmed organically by 1995. This land is leased on a five-year agreement at $200 per acre per year. Phil purchased 30 acres in 1994, at the original site location, and built the home in which he and his wife live. The business office is also located there, and an additional 22 acres of land are rented on an annual basis for $600 per acre. By 2000, all but 10 acres of this rented land had been certified organic by the California Certified Organic Farmers (CCOF) organization. These remaining 10 acres were to be certified organic in 2001.

Currently, in order to be certified organic by the CCOF, the land must be transitioned for three years with no chemical fertilizers or pesticides used on it. The cost of certification is ongoing, and includes a one-time application fee of $175, annual inspection fees of about $500, and annual membership fees of 0.5% of gross sales. According to Phil, the total fees have been running around $7,000 per year over the last few years. Most of the land northeast of Hollister was converted to organic in the early 1990s, when the certification period was only one year.

The PFR farm has grown over 60 different varieties of vegetables, fruits, and nuts. The acreage allotted for any one crop is quite small when compared to commercial vegetable production, and appears to fly in the face of conventional wisdom with respect to economies of size. But, as noted earlier relative to the local delivery route, Phil believes the farm should produce a large variety of crops annually so that it can offer a full range of products to its customers and diversify its rotation enough to handle production risks.

Exhibit 1 in Appendix B presents the production practices, harvest, and packing methods for various crops. In addition to mechanical cultivation, Phil uses a propane weed burner. Although some organic insect sprays are also available, Phil does not rely on them much now. The farm does have a bug vacuum that works well on flea beetles in cabbage, but also catches beneficial insects. The bug vacuum does not work on sucking or low crawling insects. Soap is still used occasionally for many crawling insects, and bacillus thuringiensis (bt) (a bacteria that comes in powder form and is mixed with water) is used for worms. The farm follows a number of cultivation practices, and drip irrigation reduces foliage diseases. As soils improve, soil pathogens are reduced. Hedgerows of local perennials have been planted and act as habitat for beneficial insects. Alfalfa strips are likewise used as a trap crop and habitat for beneficial insects. The large crop diversity on the farm also helps in insect control.

Phil Foster Ranches prepares 2,000 tons of compost per year for its own use. The compost consists of one-third local dairy manure, one-third clean green (yard and

garden waste) from San Jose, and one-third of equal parts local rain-damaged wheat straw, clay soil, and cull products from the farm. The costs of purchased products delivered to the farm are as follows: dairy manure = $12/ton, clean green = $4/ton, and wheat straw = $20 to $40/ton. The compost is spread at about 10 tons per acre. The main purpose of spreading the compost is to increase soil organic matter. For example, this practice has led to an increase in soil organic matter at the 200-acre site northeast of Hollister from 2–4% in 1993 to 4–5½% in 1999. Similarly, soil organic matter increased at the original 52-acre location from 1–1¼% in 1994 to 2–2½% in 1999. The compost also adds organic nitrogen, phosphorus, and potassium and micronutrients to the soil.

Crop acreage plans are prepared one to two years in advance and are subject to rotation restrictions. Garlic and onions should not be grown on the same soil more than once in five years. Peppers should not be grown on the same soil more than once in three or four years. Lettuce can be grown on the same soil every two years as long as cover and other crops are grown in between. There have always been good markets for peppers from August through November, and onions from July through March. More recently, however, the acreage of individual crops is being influenced by the demand expressed by the farm's local delivery route.

The farm has a full line of machinery and irrigation equipment, detailed in Exhibit 2 of Appendix B. The drip irrigation system is capable of irrigating all the land, but small sprinklers are used in the orchards and occasionally flood irrigation is used on certain fields. All the fieldwork and much of the trucking is done by the farm's machinery. Custom trucking is hired when needed. There is currently adequate cold storage on the farm, but more will have to be built when the apples enter full production in three years and if sales through the farmers' markets and the local delivery route are expanded. There is also a packing line for onions and peppers, but garlic is custom separated and packed. The packing line will also have to be expanded if the local delivery route is expanded.

The field labor complement can range from a low of 12–15 people to a high of 32–35. A salaried foreman manages the laborers. There are 12 to 15 laborers from December through February, 25 from March through July, 35 from August through October, and 25 during November. Most of the laborers are local people and receive between $7.75 and $9 per hour. Only a small proportion of wages are paid on a piece-work basis. In addition to wages, all the workers are covered by a health insurance program that includes family members if they are local residents. The health insurance premium for Phil Foster Ranches is $30,000 per year.

Management of PFR consists of Phil, his wife Katherine, and Terence Welch. Terence is on salary, and Phil and Katherine share in the profits. Phil, with the assistance of Katherine and Terence, makes all the management decisions with regard to production, marketing, finance, and personnel. Katherine handles the marketing through the farmers' markets. Terrence's responsibilities involve running the office and bookkeeping, and he was a major thrust behind the development of the local delivery route.

Financials

Exhibit 3 (Appendix B) details the cash labor, fuel, repairs, materials, custom, and compost costs, as well as yields and returns per acre for the crops grown. These figures are close to those in the various University of California-Davis publications listed in the reference section. In fact, Phil Foster was a farmer cooperator in several of those studies (Klonsky et al., 1994a, b, c). Exhibit 3 does not include all of the crops grown on Phil Foster Ranches, but footnotes to the exhibit explain which crops have similar costs and returns.

Projected Statements of Earnings and Retained Earnings, Balance Sheets, and Statements of Change in Financial Position for 2000 through 2012 are provided in Exhibit 4 of Appendix B (Painter, 1999). The financial results are based on repeating the acreage and marketing of the crops shown in Exhibit 3 for each year throughout the planning period.

Current Marketing

In the early 1990s, 95% of the produce from Phil Foster Ranches was sold wholesale through produce brokers on a commission basis. The broker was responsible for selling the produce and managing cooling, collecting, and receivables. For this service, Phil Foster Ranches was charged 10% of the wholesale price as well as cooling and loading fees. The current commission is 9% of the wholesale price. Phil Foster Ranches receives payment within 30 days of the sale. The remaining 5% of the PFR produce consisted of garlic, onions, and peppers, grown for processing on a contract basis. Exhibit 3 summarizes the current marketing patterns between wholesale and local for each crop grown.

Since its initial startup two years ago, the delivery route portion of the PFR business has grown. It now consists of a small amount of cold storage on the farm and a refrigerated delivery truck. The route is made up of about 30 small grocery stores from San Jose to Belmont, as well as in Santa Cruz and Monterey. Deliveries are made three days per week.

Phil Foster Ranches has a registered brand name, "Pinnacle," and most of the vegetables sold on the delivery route are labeled as such. The farm also custom packs for some customers.

The Organic Vegetable Industry in California

In 1994–95, the latest statistics available, 1,372 registered organic farms in California reported sales of $95.1 million from 45,070 acres, but this represented less than 1% of California's total value of agricultural production. The number of organic farmers, acreage of production, and reported sales increased 19%, 7%, and 26%, respectively, from 1992 through 1995. Over this time period, vegetables and fruits and nuts generated 95% of the sales value from 80% of the land in production. Vegetable acreage

increased only 4%, but sales increased 46%. In contrast, fruit and nut acreage increased by 7%, but sales declined by 8% between 1992 and 1995 (Tourte and Klonsky, 1998).

During 1992–1995, the Central Coast-Bay Area experienced a 69% increase in sales value, an 11% increase in acreage, and a 5% increase in the number of growers. Approximately one-sixth of California's organic growers are located in the Central Coast-Bay Area (Tourte and Klonsky, 1998).

The Situation

Should Phil Foster Farms concentrate on and expand the local delivery route?—an undertaking that would entail an additional on-farm cold storage facility and another delivery truck. The cost to construct a 20-foot by 40-foot by 12-foot (9,600 cubic feet) building with cold storage is approximately $50,000. A refrigerated delivery truck would cost about $50,000, and would require one person three days per week to operate it.

An alternative scenario is to cultivate a long-term relationship with an organic vegetable distribution firm and sell to them wholesale, eliminate the brokers, and concentrate on production. The benefits of wholesaling are stability in pricing (i.e., as much as 50% less price fluctuation) and a work environment allowing for concentration on production and some degree of crop specialization to realize economies of size. However, if the premium for organic vegetables decreases substantially, Phil feels more can be gained by pursuing the local delivery option. Over the farm's years in operation, the premium for organic vegetables has ranged from as little as 5% to over 200%.

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Appendix A: Teaching Note

Positioning the Case

The case is designed for a senior undergraduate farm business management or agribusiness course. The students must know how to interpret financial statements and manipulate spreadsheet models. The spreadsheet financial model (Appendix B, Exhibits 3 and 4) allows the instructor and/or the students to change crop costs, returns, and acreage, and to measure the impact on the business's financial performance. Other expenses as well as assets and debt levels could also be changed to emphasize different aspects of the business. A series of photographs showing various crops in production, some of the machinery and buildings, as well as the composting enterprise are available on request.

Situation Analysis

The financial model has not specifically isolated the costs and returns associated with the direct delivery route, as is typical of most farm business financial statements. There are at least two methods that can be used to estimate the costs and returns associated with the direct delivery route and to evaluate whether its expansion is profitable.

The first method is to rerun the entire model by changing the formulae and adjusting the input to represent the costs and returns of each of the marketing methods—wholesale, farmers' market, and direct delivery. To do this accurately would require interviewing Phil again and have him estimate the cost and return allocations by marketing method. This procedure is time consuming, difficult to do, and still may not be that accurate.

The second method is to adjust the information contained in Exhibits 3 and 4. Following are the suggested steps in making these calculations:

1. Approximate the gross returns of the direct delivery route by subtracting the percentage that is sold wholesale and the 5% to 10% (assume 10%) sold through the farmers' market from 100% in Exhibit 3. The calculation will result in an average of 43% of the produce being sold through the direct delivery route.

2. If one assumes that 43% of the cost of goods sold and expenses in the statement of retained earnings in Exhibit 4 can also be allocated to the direct delivery route, then 43% of the net income after taxes can be allocated to the direct delivery route. In 2000, this is 43% × $126,876 = $54,557, which would increase yearly, as does the net income after taxes. *Note:* This approach assumes the cost of goods sold and other expenses are evenly allocated among the wholesale, farmers' market, and direct delivery route. Perhaps one should adjust the allocation of the cost of goods sold and other expenses more heavily toward the direct delivery route, as this is probably in fact what happens. How much of an allocation is difficult to determine.

One method is to add the estimated annual cost of the expansion of the delivery route to the net income after taxes of the delivery route before expansion. This is done in the steps below.

3. The investment cost of expanding the direct delivery route is $50,000 for the new cold storage building and $50,000 for the new refrigerated delivery truck, for a total of $100,000. The annual equivalent or capital recovery charge of this $100,000, assuming an interest rate of 8%, an expected life of 10 years, and a salvage value of $10,000 is computed as follows: (*Purchase Price – Salvage Value*) × (*Interest Rate* ÷ (1 – (1/(1 + *Interest Rate*)$^{Expected\ Life}$))) + (*Interest Rate* × *Salvage Value*), or (($100,000 – $10,000) × 0.149) + (0.08 × $10,000) = $14,212 per year.

4. The annual operating costs of the new refrigerated truck, including fuel, lube, and repairs, are estimated to be $21,216 per year, assuming $17/hour × 8 hours/day × 3 days/week × 52 weeks/year.

5. The annual labor cost is estimated to be $11,232 per year, assuming 8 hours/day × $9/hour × 3 days/week × 52 weeks/year.

6. Based on steps 3, 4, and 5 above, the total annual cost of expanding the direct delivery route is estimated at $46,660 per year ($14,212 + $21,216 + $11,232).

7. The total annual cost of expanding the direct delivery route is less than the $54,557 in profit currently attributed to it before expansion. Doubling the capacity of the direct delivery route should at least double the income, and thereby double the net income after tax. The net income after tax would probably be more than doubled, as more of the same production is being sold at the higher price while costs do not increase. Therefore, conservatively, the new net income after tax is estimated at $62,454 ($54,557 × 2 – $46,660) for 2000, and would increase yearly, as does the net income after taxes.

The question of increased price risk still needs to be addressed. A 10% to 20% decline in prices for all crops whether sold wholesale or locally would eliminate all net income. Whether or not the direct delivery route should be expanded depends on Phil Foster's attitude toward risk. A decision maker's risk attitude is usually influenced by his/her goals and objectives, the size of the gains/losses incurred by the decision, and the financial ability to take on the extra risk.

In Phil's case, he may not be all that "keen" on expanding the direct delivery route because, as he stated in his interview, "at least part of me prefers to concentrate on production." The size of the gain and loss from the decision is relatively small, i.e., the estimated annual cost of expanding the direct delivery route is $46,660, which is only 4% of the 2000 costs of goods sold ($46,660 ÷ $1,116,507), and Phil could always sell the truck if the expansion did not work out. Finally, the shareholder's equity in 2000 is $741,530, and the $100,000 investment represents only 13.5% of this amount, thereby showing good financial ability to take on the extra risk. However, the final decision is Phil's.

Exhibit 1. Production Practices, Harvest, and Packing Methods for Various Crops

				Pest Management						
Crop Name	Planting Method	Irrigation Method	Irrigation Amt.[a,b]	No. of Mech'l Cultivations[c]	Hand-Thin and/or Weed	Other[d]	Nutrient Source[e]	Harvest Method	Yield/Acre (#1 Quality)	Grading and Packing
Cabbage[f]	direct seed	sprinkler	16"	3	1X	Bt,[g] and soap 20%	---	hand	600 - 50 lb. boxes	field
Cauliflower	transplant	sprinkler	13.5"	4	1X	Bt,[f] and soap 20%	---	hand	550 - 12 count boxes	field
Cucumbers	direct	sprinkler/drip	11"	3	2X	---	---	hand	800 - 24 lb. boxes	field
Garlic	hand or machine (cloves)	sprinkler (bulbing); furrow after	11.5"	7	3X	flame weed 2X	folier feed 3X	windrow, machine dug; hand bag; trim, top	330 - 30 lb. boxes	shed
Lettuce[h]	direct or transplant	sprinkler/drip	15"	2	1X	Bt,[f] and soap 20%	folier feed 1X	hand	550 - 24 count boxes	field
Onions[i]	direct (coated)	sprinkler	24"	5	2X	flame weed 1X	folier feed 2X	top and hand bag	700 - 50 lb. sacks	machine sort/grade and pack
Snap Peas[j]	direct	sprinkler/drip	10"	2	1X	---	sulfur 2X	hand	500 - 10 lb. boxes	field
Peppers	direct or transplant	sprinkler/drip	24"	4	2X	---	sulfur 2X	hand	600 - 24 lb. boxes	field
Sweet Corn	direct seed	sprinkler (seedling); furrow after	24"	3	---	trichogramma (for release); pheromones (for monitoring)	---	hand	350 - 48 count boxes	shed
Squash[k]	direct	furrow/ sprinkler	18"	3	1X	---	---	hand	700 - 35 lb. boxes	field/shed
Apples[l]	plant cover	sprinkler	10"	2	2X	---	sulfur 2X	hand	375 - 35 lb. boxes	shed

Source: Adapted from Klonsky et al. (1994a), "Cultural Practices and Sample Costs for Organic Vegetable Production on the Central Coast of California."

[a] Does not include preplant irrigation; [b] amount will vary depending on season planted and soil type; [c] does not include preplant cultivation; [d] rodents are controlled by trapping in all crops; [e] compost and gypsum are applied during land preparation for all crops; [f] similar for bok choi, celery, and broccoli; [g] bacillus thuringiensis Berlinner, var. kurstaki; [h] similar for kale; [i] similar for beets, carrots, and leeks; [j] similar for fennel and strawberries; [k] similar for melons; [l] similar for cherries and walnuts.

Exhibit 2. December 31, 1998, Federal Depreciation Schedule for Phil Foster Ranches

No.	Description	Date Acquired	Cost/ Basis	Prior Depreciation	1999 Depreciation
1	AC D-17 Tractor	01/18/90	$1,750	$1,750	$0
2	Flame Cultivator	02/15/90	$1,146	$1,146	$0
3	8' × 40' Cargo Container	02/23/90	$3,414	$3,414	$0
4	Onion Grader	05/29/90	$10,500	$10,500	$0
5	30' Pipe and 1,145' Main	04/01/88	$5,981	$5,981	$0
6	Johnson SL Cultivator	04/04/88	$1,500	$1,500	$0
7	Ag Vac	02/25/92	$6,831	$6,831	$0
8	Allis Chalmers 180 Tractor	05/17/88	$6,000	$6,000	$0
9	750' 8" Gated Pipe	07/07/88	$1,245	$1,245	$0
10	30' Pipe and 1,000' Line	01/01/89	$10,376	$10,376	$0
11	Seed Planter	01/01/89	$3,000	$3,000	$0
12	Flory Mower	03/25/91	$3,900	$3,900	$0
13	85 Tractor	12/16/91	$19,620	$19,620	$0
14	Wasco Cultivator	03/03/92	$4,012	$4,012	$0
15	Metal Building/Concrete Slab	10/15/92	$11,077	$2,200	$352
16	Reclamation Ripper	10/06/92	$2,000	$2,000	$0
17	AC HD11 Crawler Tractor	01/26/93	$8,500	$8,500	$0
18	IH 13'6" Wheel Disc	01/26/93	$2,000	$2,000	$0
19	IH 14' Grain Drill	01/26/93	$1,000	$1,000	$0
20	Sled Runners	05/20/93	$1,555	$1,555	$0
21	Drip Filters and Valves	06/21/93	$1,500	$1,500	$0
22	Rhino Blade	09/04/93	$1,597	$1,597	$0
23	Irrigation Mainline	10/11/93	$5,675	$5,675	$0
24	Reels and Shanks	10/09/93	$1,880	$1,880	$0
25	Drip Tape	11/24/93	$6,113	$6,113	$0
26	Trailer	12/09/93	$1,500	$1,500	$0
27	Drip, Filter, Valves, Hoses	12/13/93	$4,409	$4,409	$0
28	Compost Spreader	12/15/93	$2,000	$2,000	$0
29	1991 International “4700” Truck	01/21/94	$17,908	$17,538	$370
30	V-Chisel w/Gauge Wheels	02/08/94	$1,676	$1,243	$204
31	Case “5040” Tractor	02/23/94	$37,624	$14,924	$2,447
32	Panasonic Fax	03/03/94	$1,087	$1,087	$0
33	MF 303 Skiploader	04/21/94	$2,000	$1,874	$126
34	Mitsubishi Forklift	04/25/94	$10,236	$7,265	$1,251
35	Disk Bedder	04/15/94	$4,763	$3,380	$582
36	384 Bins	07/01/94	$3,840	$3,443	$397
37	Squash Packing Line	07/01/94	$1,100	$986	$114
38	NW Bagging Machine	08/25/94	$1,500	$1,017	$184
39	1985 Ford F-250	10/02/94	$5,000	$5,000	$0

(continued ...)

Exhibit 2. Continued

No.	Description	Date Acquired	Cost/ Basis	Prior Depreciation	1999 Depreciation
40	8' Underground Pipe	11/15/94	$11,441	$7,433	$1,394
41	Compost Turner	12/15/94	$31,122	$20,220	$3,791
42	Zetor Spreader	12/21/94	$10,728	$6,971	$1,307
43	Miler Equipment Trailer	01/31/95	$3,950	$1,584	$352
44	Imants Spader	01/31/95	$15,661	$15,661	$0
45	30 HP Submersible Pump	02/27/95	$3,000	$2,251	$500
46	Drip Station Filter II	03/06/95	$13,281	$9,963	$2,213
47	V.F. Pump	04/18/95	$14,859	$11,146	$2,476
48	CAT 922 Loader	04/21/95	$10,000	$7,501	$1,666
49	Office Equipment	04/28/95	$4,455	$4,455	$0
50	Electrical Panels	06/01/95	$5,456	$4,092	$909
51	Injection Tank	06/01/95	$4,050	$3,039	$675
52	Drip Station Filter II	07/01/95	$4,935	$3,701	$822
53	MF 390T Tractor	03/07/96	$33,000	$6,955	$1,899
54	200 Joints 30' × 3" Pipe	04/26/96	$4,900	$2,198	$600
55	White 6090 Tractor	05/17/96	$24,735	$11,099	$3,030
56	4-Row Ag Vac	07/01/96	$13,835	$8,073	$2,305
57	MF 362 Tractor	10/04/96	$26,251	$11,779	$3,216
58	Tye Drill	01/22/96	$12,773	$5,731	$1,565
59	IH 684 Tractor	01/28/97	$6,500	$6,500	$0
60	1993 Ford F250	02/19/97	$7,500	$5,391	$1,875
61	Mini-Sprinkler Irrigation	10/04/97	$6,127	$507	$283
62	288 Wooden Bins	03/04/98	$7,200	$1,275	$893
63	Tortella Spader	03/09/98	$10,821	$2,546	$1,774
64	MF 394 Tractor	03/04/98	$32,527	$2,004	$3,435
65	JD Gator Utility Truck	03/09/98	$5,500	$825	$1,403
66	CAT Forklift	03/10/98	$13,622	$1,459	$2,606
67	Plant Bed Harrow	04/03/98	$3,211	$344	$614
68	Mulch Layer	04/14/98	$5,386	$577	$1,030
69	34' × 35' Cold Room	05/06/98	$25,412	$2,722	$4,861
70	White 6090 Tractor	06/24/98	$25,738	$0	$0
71	74 GMC 1-Ton Truck	06/24/98	$4,000	$1,000	$1,500
72	8' × 9' Cold Room	06/24/98	$4,000	$0	$0
73	Portable Office Trailer	07/13/98	$8,761	$938	$1,676
74	40' × 50' Metal Building	08/31/98	$9,607	$82	$246
75	104 Plastic Bins	09/02/98	$10,775	$1,616	$2,748
76	6' Grain Drill	10/27/98	$3,400	$364	$650
	TOTALS:		**$655,334**	**$350,963**	**$60,341**

Exhibit 3. Cash Costs (Labor, Fuel, Repairs, Materials, Custom, Compost), Yields, and Returns per Acre

Crop Data Description	Peppers [b]	Cabbage [c]	Cauliflower	Cucumbers
Total Cash Costs per Box	$7.00	$5.25	$8.00	$5.00
Yield (boxes)	600	600	550	800
Total Cash Costs per Acre	$4,200	$3,150	$4,400	$4,000
Price: - Wholesale	$10.00	$9.00	$0.00	$0.00
- Local (Delivery Route & Farmers' Mkt) [a]	$11.75	$10.25	$9.25	$9.25
Percentage Marketed: - Wholesale	60%	80%	0%	0%
- Local (Delivery Route & Farmers' Mkt)	40%	20%	100%	100%
Gross Revenue per Acre	$8,020	$5,550	$5,088	$7,400
Gross Revenue less Cash Costs per Acre	$3,820	$2,400	$688	$3,400
Number of Acres	17.0	20.0	6.0	1.5
Gross Revenue less Cash Costs per Acre × Number of Acres	$64,940	$48,000	$4,125	$5,100

Crop Data Description	Garlic	Lettuce	Onions	Snap Peas
Total Cash Costs per Box	$23.00	$5.25	$8.25	$8.00
Yield (boxes)	330	600	700	500
Total Cash Costs per Acre	$7,590	$3,150	$5,775	$4,000
Price: - Wholesale	$40.00	$7.00	$10.00	$0.00
- Local (Delivery Route & Farmers' Mkt) [a]	$45.75	$7.75	$11.75	$12.00
Percentage Marketed: - Wholesale	70%	55%	70%	0%
- Local (Delivery Route & Farmers' Mkt)	30%	45%	30%	100%
Gross Revenue per Acre	$13,769	$4,403	$7,368	$6,000
Gross Revenue less Cash Costs per Acre	$6,179	$1,253	$1,593	$2,000
Number of Acres	7.5	29.0	27.0	2.0
Gross Revenue less Cash Costs per Acre × Number of Acres	$46,344	$36,323	$42,998	$4,000

Crop Data Description	Corn	Squash	Beets	Bok Choi
Total Cash Costs per Box	$5.25	$4.50	$7.00	$5.00
Yield (boxes)	350	700	600	800
Total Cash Costs per Acre	$1,838	$3,150	$4,200	$4,000
Price: - Wholesale	$9.00	$9.00	$0.00	$6.75
- Local (Delivery Route & Farmers' Mkt) [a]	$11.75	$9.75	$11.25	$8.25
Percentage Marketed: - Wholesale	55%	60%	0%	80%
- Local (Delivery Route & Farmers' Mkt)	45%	40%	100%	20%
Gross Revenue per Acre	$3,583	$6,510	$6,750	$5,640
Gross Revenue less Cash Costs per Acre	$1,746	$3,360	$2,550	$1,640
Number of Acres	12.0	18.0	2.0	2.0
Gross Revenue less Cash Costs per Acre × Number of Acres	$20,948	$60,480	$5,100	$3,280

[a] To cover delivery and marketing costs, $2.25 per box is subtracted from the local sales price.
[b] An additional 8,000 pounds of peppers per acre are sold for processing at $0.20 per pound.
[c] Includes Napa cabbage.
[d] Parsnips have similar costs, yields, and prices, and are included in carrot acres.
[e] Melons include all types, as well as all types of watermelons.

Exhibit 3. Continued

Crop Data Description		**Carrots** [d]	**Celery**	**Fennel**	**Kale**
Total Cash Costs per Box		$7.25	$7.25	$3.50	$7.00
Yield (boxes)		500	950	1,500	600
Total Cash Costs per Acre		$3,625	$6,888	$5,250	$4,200
Price:	- Wholesale	$0.00	$8.50	$4.75	$0.00
- Local (Delivery Route & Farmers' Mkt) [a]		$10.25	$11.25	$6.50	$11.26
Percentage Marketed:	- Wholesale	0%	70%	80%	0%
- Local (Delivery Route & Farmers' Mkt)		100%	30%	20%	100%
Gross Revenue per Acre		$5,125	$8,859	$7,650	$6,756
Gross Revenue less Cash Costs per Acre		$1,500	$1,971	$2,400	$2,556
Number of Acres		2.5	11.0	2.0	0.5
Gross Revenue less Cash Costs per Acre × Number of Acres		$3,750	$21,684	$4,800	$1,278
Crop Data Description		**Leeks**	**Melons** [e]	**Strawberries**	**Tomatoes**
Total Cash Costs per Box		$10.00	$5.00	$8.00	$7.00
Yield (boxes)		1,200	650	3,000	600
Total Cash Costs per Acre		$12,000	$3,250	$24,000	$4,200
Price:	- Wholesale	$0.00	$6.75	$0.00	$9.50
- Local (Delivery Route & Farmers' Mkt) [a]		$12.00	$9.25	$11.25	$11.25
Percentage Marketed:	- Wholesale	0%	55%	0%	0%
- Local (Delivery Route & Farmers' Mkt)		100%	45%	100%	100%
Gross Revenue per Acre		$14,400	$5,119	$33,750	$6,750
Gross Revenue less Cash Costs per Acre		$2,400	$1,869	$9,750	$2,550
Number of Acres		1.0	33.0	1.0	2.0
Gross Revenue less Cash Costs per Acre × Number of Acres		$2,400	$61,669	$9,750	$5,100
Crop Data Description		**Broccoli**	**Apples**	**Cherries**	**Walnuts**
Total Cash Costs per Box		$7.50	$13.00	$13.00	$2.50
Yield (boxes)		500	375	375	800
Total Cash Costs per Acre		$3,750	$4,875	$4,875	$2,000
Price:	- Wholesale	$0.00	$22.00	$22.00	$2.50
- Local (Delivery Route & Farmers' Mkt) [a]		$10.75	$24.75	$24.75	$3.00
Percentage Marketed:	- Wholesale	0%	0%	0%	55%
- Local (Delivery Route & Farmers' Mkt)		100%	100%	100%	45%
Gross Revenue per Acre		$5,375	$9,281	$9,281	$2,180
Gross Revenue less Cash Costs per Acre		$1,625	$4,406	$4,406	$180
Number of Acres		14.0	7.5	3.0	6.0
Gross Revenue less Cash Costs per Acre × Number of Acres		$22,750	$33,047	$13,219	$1,080
TOTAL ACRES:	**227.5**				
TOTAL CASH COSTS:	**$938,913**				
TOTAL GROSS REVENUE:	**$1,461,076**				

Exhibit 4. Forecasted Statements of Retained Earnings, Balance Sheets, and Changes in Financial Position

STATEMENT OF INCOME AND RETAINED EARNINGS

For the Year Ended Dec. 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Revenue	1,461,076	1,482,992	1,505,237	1,527,815	1,550,732	1,573,993	1,597,603	1,621,567	1,645,891	1,670,579	1,695,638	1,721,072	1,746,888
Cost of Goods Sold	1,116,507	1,141,307	1,162,998	1,185,788	1,206,480	1,229,467	1,252,819	1,274,846	1,299,194	1,323,936	1,347,380	1,373,174	1,399,391
Gross Margin	344,568	341,685	342,239	342,027	344,252	344,527	344,784	346,721	346,697	346,643	348,258	347,898	347,497
Expenses:													
Salaries Plus Benefits	100,000	102,000	104,040	106,121	108,243	110,408	112,616	114,869	117,166	119,509	121,899	124,337	126,824
Telephone	6,500	6,630	6,763	6,898	7,036	7,177	7,320	7,466	7,616	7,768	7,923	8,082	8,244
Property Taxes	6,000	6,120	6,242	6,367	6,495	6,624	6,757	6,892	7,030	7,171	7,314	7,460	6,609
Startup Costs	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest LT Debt	32,000	31,360	30,669	29,922	29,116	28,245	27,305	26,289	25,193	24,008	22,729	21,347	19,855
Total Expenses	144,500	146,110	147,714	149,308	150,890	152,454	153,998	155,517	157,004	158,456	159,865	161,226	162,532
Income Before Taxes	200,068	195,575	194,525	192,719	193,363	192,072	190,785	191,205	189,692	188,187	188,393	186,672	184,965
Income Taxes	73,192	71,157	70,681	69,863	70,155	69,570	68,987	69,177	68,492	67,810	67,903	67,124	66,351
Net Income (Loss)	126,876	124,418	123,844	122,856	123,208	122,502	121,798	122,028	121,200	120,377	120,489	119,548	118,614
Beginning Retained Earnings	–	126,876	251,294	375,137	497,993	621,201	743,703	865,501	987,529	1,108,729	1,229,106	1,349,595	1,469,143
Net Income (Loss)	126,876	124,418	123,844	122,856	123,208	122,502	121,798	122,028	121,200	120,377	120,489	119,548	118,614
Dividends	=	=	=	=	=	=	=	=	=	=	=	=	=
Ending Retained Earnings	126,876	251,294	375,137	497,993	621,201	743,703	865,501	987,529	1,108,729	1,229,106	1,349,595	1,469,143	1,587,757

Dividend Policy: Pay excess cash balance in following year. | Excess Over 20,000,000 |

Total 13-Year Net Income (Loss)	1,587,757
Total 13-Year Net Cash Flow	1,378,340
Total 13-Year Dividends	–

BALANCE SHEET

December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ASSETS														
Current Assets:														
Cash	100,000	217,518	339,175	432,187	552,006	670,128	759,289	875,338	989,354	1,074,054	1,185,275	1,294,076	1,373,158	1,478,340
Accounts Receivable	154,000	160,118	162,520	164,957	167,432	169,943	172,492	175,080	177,706	180,372	183,077	185,823	188,611	191,440
Inventory	90,000	97,186	99,029	100,908	102,823	104,775	106,764	108,792	110,858	112,964	115,111	117,299	119,529	121,801
Total Current Assets	344,000	474,822	600,724	698,053	822,261	944,847	1,038,546	1,159,210	1,277,918	1,367,390	1,483,463	1,597,198	1,681,298	1,791,581
Begin. Land, Bldgs., Equip. & Machinery	872,530	872,530	947,530	1,022,530	1,125,530	1,200,530	1,275,530	1,378,530	1,453,530	1,528,530	1,631,530	1,706,530	1,781,530	1,884,530
Add'l Land, Bldgs., Equip. & Machinery	–	75,000	75,000	103,000	75,000	75,000	103,000	75,000	75,000	103,000	75,000	75,000	103,000	75,000
Accumulated Deprec'n	=	(84,775)	(168,356)	(252,598)	(337,423)	(421,046)	(505,327)	(590,184)	(673,837)	(758,144)	(843,023)	(926,696)	(1,011,020)	(1,095,915)
Net Plant & Equip.,	872,530	862,755	854,174	872,932	863,107	854,484	873,203	863,346	854,693	873,386	863,507	854,834	873,510	863,615
Total Assets	1,216,530	1,337,577	1,454,898	1,570,985	1,685,369	1,799,331	1,911,749	2,022,556	2,132,611	2,240,776	2,346,970	2,452,032	2,554,808	2,655,196
LIABILITIES														
Current Liabilities:														
Accounts Payable	75,000	77,171	78,714	80,289	81,894	83,532	85,203	86,907	88,645	90,418	92,226	94,071	95,952	97,871
Long-Term Debt	400,000	392,000	383,360	374,029	363,951	353,067	341,313	328,618	314,907	300,100	284,108	266,836	248,183	228,038
Total Liabilities	475,000	469,171	462,074	454,317	445,845	436,599	426,515	415,525	403,552	390,518	376,334	360,907	344,135	325,909
Shareholders' Equity														
Share Capital	741,530	741,530	741,530	741,530	741,530	741,530	741,530	741,530	741,530	741,530	741,530	741,530	741,530	741,530
Retained Earnings	=	126,876	251,294	375,137	497,993	621,201	743,703	865,501	987,529	1,108,729	1,229,106	1,349,595	1,469,143	1,587,757
Total Shareholders' Equity	741,530	868,406	992,824	1,116,667	1,239,523	1,362,731	1,485,233	1,607,031	1,729,059	1,850,259	1,970,636	2,091,125	2,210,673	2,329,287
Total Liabilities and Shareholders' Equity	1,216,530	1,337,577	1,454,898	1,570,985	1,685,369	1,799,331	1,911,749	2,022,556	2,132,611	2,240,776	2,346,970	2,452,032	2,554,808	2,655,196

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended Dec. 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cash from (nsed in) Operating Activities:													
Net Income (Loss)	126,876	124,418	123,844	122,856	123,208	122,502	121,798	122,028	121,200	120,377	120,489	119,548	118,614
Depreciation	84,775	83,581	84,243	84,824	83,624	84,281	84,857	83,653	84,306	84,880	83,673	84,324	84,895
Accounts Receivable	(6,118)	(2,402)	(2,438)	(2,474)	(2,511)	(2,549)	(2,587)	(2,626)	(2,666)	(2,706)	(2,746)	(2,787)	(2,829)
Inventory	(7,186)	(1,844)	(1,879)	(1,915)	(1,952)	(1,989)	(2,027)	(2,066)	(2,106)	(2,147)	(2,188)	(2,230)	(2,273)
Accounts Payable	2,171	1,543	1,574	1,606	1,638	1,671	1,704	1,738	1,773	1,808	1,845	1,881	1,919
Net Cash Flow from Operations	200,518	205,297	205,344	204,896	204,006	203,915	203,745	202,726	202,508	202,213	201,072	200,736	200,327
Cash from (used for) Financing Activities:													
Sale of Common Stock	–	–	–	–	–	–	–	–	–	–	–	–	–
Long-Term Debt	(8,000)	(8,640)	(9,331)	(10,078)	(10,884)	(11,755)	(12,695)	(13,711)	(14,807)	(15,992)	(17,271)	(18,653)	(20,145)
Dividends	=	=	=	=	=	=	=	=	=	=	=	=	=
Net Cash Flow from Financing	(8,000)	(8,640)	(9,331)	(10,078)	(10,884)	(11,755)	(12,695)	(13,711)	(14,807)	(15,992)	(17,271)	(18,653)	(20,145)
Cash from (used for) Investing Activities:													
Plant and Equipment	(75,000)	(75,000)	(103,000)	(75,000)	(75,000)	(103,000)	(75,000)	(75,000)	(103,000)	(75,000)	(75,000)	(103,000)	(75,000)
Net Cash Flow from Investing	(75,000)	(75,000)	(103,000)	(75,000)	(75,000)	(103,000)	(75,000)	(75,000)	(103,000)	(75,000)	(75,000)	(103,000)	(75,000)
Increase (Decrease) in Cash	**117,518**	**121,657**	**93,013**	**119,819**	**118,122**	**89,160**	**116,050**	**114,015**	**84,700**	**111,221**	**108,801**	**79,083**	**105,181**
Cash Beginning of Year	100,000	217,518	339,175	432,187	552,006	670,128	759,289	875,338	989,354	1,074,054	1,185,275	1,294,076	1,373,158
Cash End of Year	217,518	339,175	432,187	552,006	670,128	759,289	875,338	989,354	1,074,054	1,185,275	1,294,076	1,373,158	1,478,340

SUPPORTING SCHEDULES

SCHEDULE 1: Economic Forecast	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Long-Term Debt Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Rate of Inflation (expenses)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

SCHEDULE 2: Revenues	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Growth in Revenue		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Total Revenue	1,461,076	1,482,992	1,505,237	1,527,815	1,550,732	1,573,993	1,597,603	1,621,567	1,645,891	1,670,579	1,695,638	1,721,072	1,746,888

SCHEDULE 3: Cost of Goods Manufactured and Cost of Goods Sold

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Direct Labor, Fuel, Repairs & Materials	**938,913**	**957,691**	**976,845**	**996,381**	**1,016,309**	**1,036,635**	**1,057,368**	**1,078,515**	**1,100,086**	**1,122,087**	**1,144,529**	**1,167,420**	**1,190,768**
Variable Overhead Costs													
Assessments (Calif. & CCOF)	11,805	11,915	12,026	12,139	12,254	12,370	12,488	12,608	12,729	12,853	12,978	13,105	13,234
Total Variable Overhead	11,805	11,915	12,026	12,139	12,254	12,370	12,488	12,608	12,729	12,853	12,978	13,105	13,234
Fixed Overhead Costs													
(Note: These costs are based on the capacity of the facility, i.e., constant acreage.)													
Insurance: - Bldgs. & Equip.	1,000	1,020	1,040	1,821	1,857	1,894	1,932	1,971	2,010	2,050	2,091	2,133	2,176
- Liability	4,000	4,080	4,162	4,245	4,330	4,416	4,505	4,595	4,687	4,780	4,876	4,973	5,073
Health Insurance	30,000	30,600	31,212	31,836	32,473	33,122	33,785	34,461	35,150	35,853	36,570	37,301	38,047
Land Rent	53,200	54,264	55,349	56,456	57,585	58,737	59,912	61,110	62,332	63,579	64,851	66,148	67,470
Depreciation	84,775	83,581	84,243	84,824	83,624	84,281	84,857	83,653	84,306	84,880	83,673	84,324	84,895
Total Fixed Overhead	172,975	173,545	176,006	179,182	179,869	182,451	184,991	185,789	188,485	191,142	192,060	194,879	197,662
Total Overhead	184,780	185,459	188,032	191,321	192,123	194,821	197,479	198,397	201,215	203,995	205,038	207,984	210,896

Cost of Goods Manufactured	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Direct Materials Used	938,913	957,691	976,845	996,381	1,016,309	1,036,635	1,057,368	1,078,515	1,100,086	1,122,087	1,144,529	1,167,420	1,190,768
Overhead	184,780	185,459	188,032	191,321	192,123	194,821	197,479	198,397	201,215	203,995	205,038	207,984	210,896
Cost of Goods Manufactured	1,123,693	1,143,150	1,164,877	1,187,703	1,208,432	1,231,456	1,254,847	1,276,912	1,301,300	1,326,083	1,349,568	1,375,404	1,401,664
Cost of Goods Sold													
Begin. Finished Goods Inventory	90,000	97,186	99,029	100,908	102,823	104,775	106,764	108,792	110,858	112,964	115,111	117,299	119,529
Cost of Goods Manufactured	1,123,693	1,143,150	1,164,877	1,187,703	1,208,432	1,231,456	1,254,847	1,276,912	1,301,300	1,326,083	1,349,568	1,375,404	1,401,664
Goods Available for Sale	1,213,693	1,240,336	1,263,906	1,288,611	1,311,255	1,336,231	1,361,611	1,385,704	1,412,159	1,439,047	1,464,679	1,492,703	1,521,193
Ending Finished Goods Inventory	97,186	99,029	100,908	102,823	104,775	106,764	108,792	110,858	112,964	115,111	117,299	119,529	121,801
Cost of Goods Sold	1,116,507	1,141,307	1,162,998	1,185,788	1,206,480	1,229,467	1,252,819	1,274,846	1,299,194	1,323,936	1,347,380	1,373,174	1,399,391

SCHEDULE 4: Expenses	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Salaries Plus Benefits	100,000	102,000	104,040	106,121	108,243	110,408	112,616	114,869	117,166	119,509	121,899	124,337	126,824
Telephone	6,500	6,630	6,763	6,898	7,036	7,177	7,320	7,466	7,616	7,768	7,923	8,082	8,244
Property Taxes	6,000	6,120	6,242	6,367	6,495	6,624	6,757	6,892	7,030	7,171	7,314	7,460	7,609
Startup Costs	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest – LT Debt	32,000	31,360	30,669	29,922	29,116	28,245	27,305	26,289	25,193	24,008	22,729	21,347	19,855
Total Expenses	44,500	44,110	43,674	43,187	42,646	42,046	41,382	40,648	39,838	38,947	37,966	36,889	35,708

SCHEDULE 5: Capital Budget	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Land	–	–	–	–	–	–	–	–	–	–	–	–	–
Buildings	–	–	28,000	–		28,000	–	–	28,000	–	–	28,000	–
Equipment	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Machinery	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Total Capital Outlay	75,000	75,000	103,000	75,000	75,000	103,000	75,000	75,000	103,000	75,000	75,000	103,000	75,000

Note: As capacity changes, fixed overhead costs must be adjusted.

SCHEDULE 6: Financing Budget		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Long-Term Debt	Input	–	–	–	–	–	–	–	–	–	–	–	–	–
New Common Shares	Input	=	=	=	=	=	=	=	=	=	=	=	=	=
Total		–	–	–	–	–	–	–	–	–	–	–	–	–

SCHEDULE 7: Depreciation		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Buildings	**Input Rate**	12%												
Beginning Balance		80,000	70,224	61,643	80,399	70,574	61,950	80,669	70,811	62,158	80,852	70,972	62,299	80,975
Additions		–	–	28,000	–	–	28,000	–	–	28,000	–	–	28,000	–
Depreciation		9,776	8,581	9,244	9,825	8,624	9,281	9,858	8,653	9,307	9,880	8,673	9,324	9,895
Ending Balance		70,224	61,643	80,399	70,574	61,950	80,669	70,811	62,158	80,852	70,972	62,299	80,975	71,080
Equipment	**Input Rate**	17%												
Beginning Balance		82,530	82,531	82,532	82,533	82,533	82,534	82,534	82,534	82,535	82,535	82,535	82,535	82,535
Additions		15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Depreciation		14,999	14,999	14,999	14,999	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Ending Balance		82,531	82,532	82,533	82,533	82,534	82,534	82,534	82,535	82,535	82,535	82,535	82,535	82,535
Machinery	**Input Rate**	25%												
Beginning Balance		210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
Additions		60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Depreciation		60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Ending Balance		210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
Total Depreciation Expense		84,775	83,581	84,243	84,824	83,624	84,281	84,857	83,653	84,306	84,880	83,673	84,324	84,895

SCHEDULE 8: Long-Term Debt	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Beginning Balance	400,000	392,000	383,360	374,029	363,951	353,067	341,313	328,618	314,907	300,100	284,108	266,836	248,183
Additional Interest	32,000	31,360	30,669	29,922	29,116	28,245	27,305	26,289	25,193	24,008	22,729	21,347	19,855
Debt Payment	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Ending Balanee	392,000	383,360	374,029	363,951	353,067	341,313	328,618	314,907	300,100	284,108	266,836	248,183	228,038

SCHEDULE 9: Income Tax	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Income Before Taxes	200,068	195,575	194,525	192,719	193,363	192,072	190,785	191,205	189,692	188,187	188,393	186,672	184,965
Accumulated Loss Carryforward	–	–	–	–	–	–	–	–	–	–	–	–	–
Loss Carryforward Used	–	–	–	–	–	–	–	–	–	–	–	–	–
Deductions	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900
Taxable Income	191,168	186,675	185,625	183,819	184,463	183,172	181,885	182,305	180,792	179,287	179,493	177,772	176,065
Federal Tax (Married Filing Separately):													
< 25,750	–	–	–	–	–	–	–	–	–	–	–	–	–
25,750 – 62,450	–	–	–	–	–	–	–	–	–	–	–	–	–
62,450 – 130,250	–	–	–	–	–	–	–	–	–	–	–	–	–
130,250 – 283,150	57,087	55,470	55,091	54,441	54,673	54,208	53,745	53,896	53,352	52,810	52,884	52,264	51,650
> 283,150	–	–	–	–	–	–	–	–	–	–	–	–	–
California Tax (Married Filing Separately):													
< 5,264	–	–	–	–	–	–	–	–	–	–	–	–	–
5,264 – 12,477	–	–	–	–	–	–	–	–	–	–	–	–	–
12,477 – 19,692	–	–	–	–	–	–	–	–	–	–	–	–	–
19,692 – 27,337	–	–	–	–	–	–	–	–	–	–	–	–	–
27,337 – 34,548	–	–	–	–	–	–	–	–	–	–	–	–	–
> 34,548	16,105	15,687	15,590	15,422	15,482	15,362	15,242	15,281	15,140	15,000	15,020	14,859	14,701
Total Income Taxes	73,192	71,157	70,681	69,863	70,155	69,570	68,987	69,177	68,492	67,810	67,903	67,124	66,351

SCHEDULE 10: Ratio Analysis

				2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Liquidity Ratios	**Industry**	**Avg 03-12**	**Avg 07-12**											
Current Ratio	2.50	14.53	16.41	8.69	10.04	11.31	12.19	13.34	14.42	15.12	16.09	16.98	17.52	18.31
Quick Ratio	2.00	13.28	15.16	7.44	8.78	10.06	10.94	12.09	13.17	13.87	14.84	15.73	16.28	17.06
Activity and Operating Ratios	**Industry**	**Avg 03-12**	**Avg 07-12**											
Accounts Receivables Turnover	12.30	9.13	9.13	9.13	9.13	9.13	9.13	9.13	9.13	9.13	9.13	9.13	9.13	9.13
Inventory Turnover (Durum)	23.00	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17
Inventory Turnover (Semolina)	18.00	73.00	73.00	73.00	73.00	73.00	73.00	73.00	73.00	73.00	73.00	73.00	73.00	73.00
Accounts Payable Turnover	12.50	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17	12.17
Accounts Receivables/$1,000 Sales	81.00	109.59	109.59	109.59	109.59	109.59	109.59	109.59	109.59	109.59	109.59	109.59	109.59	109.59
Inventory/$1,000 Sales	65.00	68.50	69.04	67.04	67.30	67.56	67.83	68.10	68.36	68.63	68.90	69.18	69.45	69.72
Land & Buildings/$1,000 Sales	106.00	227.42	220.71	252.72	242.55	233.41	241.85	232.10	223.34	231.40	222.06	213.67	221.36	212.42
Equipment/$1,000 Sales	289.00	50.57	49.05	54.83	54.02	53.22	52.44	51.66	50.90	50.15	49.41	48.68	47.96	47.25
Total Asset Turnover	2.00	0.76	0.70	0.96	0.91	0.86	0.82	0.79	0.76	0.73	0.71	0.69	0.67	0.66
Production Costs	**Industry**	**Avg 03-12**	**Avg 07-12**											
Raw Materials/Sales	65.0%	66.7%	67.3%	65%	65%	66%	66%	66%	67%	67%	67%	67%	68%	68%
Production OH/Sales	9.2%	12.3%	12.2%	12%	13%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Production Costs/Sales	74.2%	78.9%	79.5%											
Average Days Receivables		40	40	40	40	40	40	40	40	40	40	40	40	40
Average Days Materials Inventory		30	30	30	30	30	30	30	30	30	30	30	30	30
Average Days Crop Inventory		5	5	5	5	5	5	5	5	5	5	5	5	5
Average Days Payables		30	30	30	30	30	30	30	30	30	30	30	30	30

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Accounts Receivable	160,118	162,520	164,957	167,432	169,943	172,492	175,080	177,706	180,372	183,077	185,823	188,611	191,440
Materials Inventory	77,171	78,714	80,289	81,894	83,532	85,203	86,907	88,645	90,418	92,226	94,071	95,952	97,871
Crop Inventory	20,015	20,315	20,620	20,929	21,243	21,562	21,885	22,213	22,546	22,885	23,228	23,576	23,930
Accounts Payable	77,171	78,714	80,289	81,894	83,532	85,203	86,907	88,645	90,418	92,226	94,071	95,952	97,871
Total	334,474	340,263	346,154	352,149	358,251	364,460	370,779	377,209	383,754	390,415	397,193	404,092	411,113
Cash Conversion Cycle (days)	45	45	45	45	45	45	45	45	45	45	45	45	45

				2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Leverage Ratios	**Industry**	**Avg 03-12**	**Avg 07-12**											
Debt Ratio	30%	19%	15%	29%	26%	24%	22%	21%	19%	17%	16%	15%	13%	12%
Debt-to-Equity Ratio	0.43	0.23	0.18	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Profitability Ratios	**Industry**	**Avg 03-12**	**Avg 07-12**											
Gross Profit Margin	23.0%	21.2%	20.6%	23%	22%	22%	22%	22%	21%	21%	21%	21%	20%	20%
Net Profit Margin	8.6%	7.4%	7.2%	8%	8%	8%	8%	8%	8%	7%	7%	7%	7%	7%
Return on Total Assets	18.0%	5.7%	5.1%	8%	7%	7%	6%	6%	6%	5%	5%	5%	5%	4%
Return on Equity	19.0%	7.1%	6.0%	11%	10%	9%	8%	8%	7%	7%	6%	6%	5%	5%
Net Profit Margin*	12.2%	11.6%	11.2%	13%	13%	12%	12%	12%	12%	12%	11%	11%	11%	11%
Return on Total Assets*	24.6%	10.1%	8.9%	14%	13%	12%	12%	11%	10%	10%	9%	9%	8%	8%
Return on Equity*	26.3%	11.1%	9.4%	17%	16%	14%	13%	12%	11%	10%	10%	9%	8%	8%

* Using net income before tax

SCHEDULE 11: Investment Analysis	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Required Return on Equity	15.0%												
Present Value of Equity Investment													
Equity Investment	–	–	–	–	–	–	–	–	–	–	–	–	–
Present Value of Equity Investment	741,530												
Present Value of Equity Returns													
Net Cash Flows to Equity	117,518	121,657	93,013	119,819	118,122	89,160	116,050	114,015	84,700	111,221	108,801	79,083	105,181
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	–
Salvage Value	–	–	–	–	–	–	–	–	–	–	–	–	850,948
Total Net Cash Flow to Equity	117,518	121,657	93,013	119,819	118,122	89,160	116,050	114,015	84,700	111,221	108,801	79,083	956,129
Present Value of Net Cash Flows	747,151												
Net Present Value of Equity Investment		**5,621**											
	(624,012)	121,657	93,013	119,819	118,122	89,160	116,050	114,015	84,700	111,221	108,801	79,083	956,129
Internal Rate of Return on Equity Investment		**18.3%**											