TURRENTINE GRAPES & WINE Market Update

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Introductory Note

The Final Grape Crush Report released March 10th, shows no significant changes from the Preliminary Report. The total crop of winegrapes harvested statewide in 2010 was 3.58 million tons, down only 3% from 2009, making 2010 the third largest crop in California history. There were dramatically different results in different regions of the state, with the North Coast down 5%, the Central Coast up 5%, the Northern Interior down 22% and the Southern Interior up 5%. We're going to look at the results from the Interior Regions of the state more closely below and discuss the changing market for Chardonnay.

A Closer Look at the Crop in the Interior

The decreased production in the Interior regions of the State in 2010 was not a surprise, and was in-line with our projections, but it's the biggest story coming out of the 2010 Preliminary Grape Crush Report for three reasons:

1) Value-priced grapes and wine, which are primarily sourced from the Interior, continue to enjoy the strongest level of demand. While wine consumption grew through the recession, consumers traded down to less expensive bottles and shifted purchases from restaurants to retail. Even as the economy continues to slowly recover, the under $10/bottle category remains very strong. Demand for red grapes, and especially the key red varietals, outstripped supply in 2009 and 2010 and the market for 2011 red grapes is already active. Demand for red wine in bulk has also increased as inventories have decreased. In the case of Cabernet Sauvignon and Pinot Noir, many wineries could have used a larger harvest, and as a result, bulk wine demand and prices have increased.

2) The Interior was only down about 4% overall, or 120,000 tons, but the distribution of those tons is significant. The Northern Interior (Districts 9, 10, 11, and 17) was down 21% and some analysts have claimed that this decrease was largely offset by gains in the Southern Interior (Districts 12, 13, 14) which were up 5%. However, the gains in the Southern Interior were largely in generic varieties – Rubired up 50,000 tons, Other Red up 19,000 tons, and Ruby Cabernet up 7,000 tons. In fact, these three varieties account for 81% of the increase in the Southern Interior. Furthermore, some percentage of this tonnage was crushed for concentrate rather than for wine production. If we compare the major varietal wine categories shown in the chart below – it is clear that the Southern Interior did not come close to making up for the shortfall of key varietals in the Northern Interior.

	Northern Interior Tons	Southern Interior Tons	Net Gain/Loss
Cabernet Sauvignon	**-21,111**	+7,289	**-13,822**
Merlot	**-30,659**	+1,040	**-29,619**
Chardonnay	**-68,783**	+2,588	**-66,195**

3) Much of the wine produced in the Southern Interior competes directly with inexpensive wine from around the world and – from a consumer's perspective – is interchangeable. However, California brands looking to source wine from other parts of the world are faced with a different paradigm than just a few years ago:

a) Exchange rates have dramatically increased the cost of many imported wines – especially from countries that are big exporters of natural resources, such as Australia ($AUS up 50% vs. Q1 of 2009) and Chile (Peso up 26% vs. Q1 of 2009)

b) Global Inventories are down – sharply in some cases. In particular, Chile's inventories are well below pre-earthquake levels and their 2011 crop is projected to be average, and Australia is expecting a light crop due to disease pressure that has been extreme with the rains and flooding.

Chardonnay

For the last several years, Chardonnay has been synonymous with surplus. As our team of brokers survey the world wine business, however, they have noticed that the supply picture for Chardonnay is changing. Consider the following points:

1) The 2010 crop of Chardonnay in California was down 10% from 2009, a reduction equivalent to about 12 million gallons. Wineries purchased almost all of the Chardonnay grapes available for the harvest of 2010, which is in sharp contrast to 2009, when thousands of tons were custom crushed by growers who were unable to sell their grapes, especially on the Central Coast.

2) Although recent sales prices have remained low, inventories of 2009 Bulk Chardonnay in California have come down dramatically. Total California bulk listings (see graph of Chardonnay in bulk below) are also down sharply from last year at this time.

3) On the Global bulk market, the biggest source for Chardonnay directly competitive with California is Australia. The 2011 growing season down under has been challenging from the start with heavy spring and summer rains that continued as harvest started. The disease pressure from Downey mildew early in the season and then Powdery mildew later has been intense and will impact the volume and quality of this year's harvest. Bulk market prices have been steady and some wineries have withdrawn wine from the market as a hedge against 2011 quality concerns. The shift in the exchange rate over the past couple of years has made the supply more expensive for California buyers. Supply is down for Chardonnay throughout Europe and prices are high. Chile and Argentina are not significant players for Chardonnay. (See chart of International supply below.)

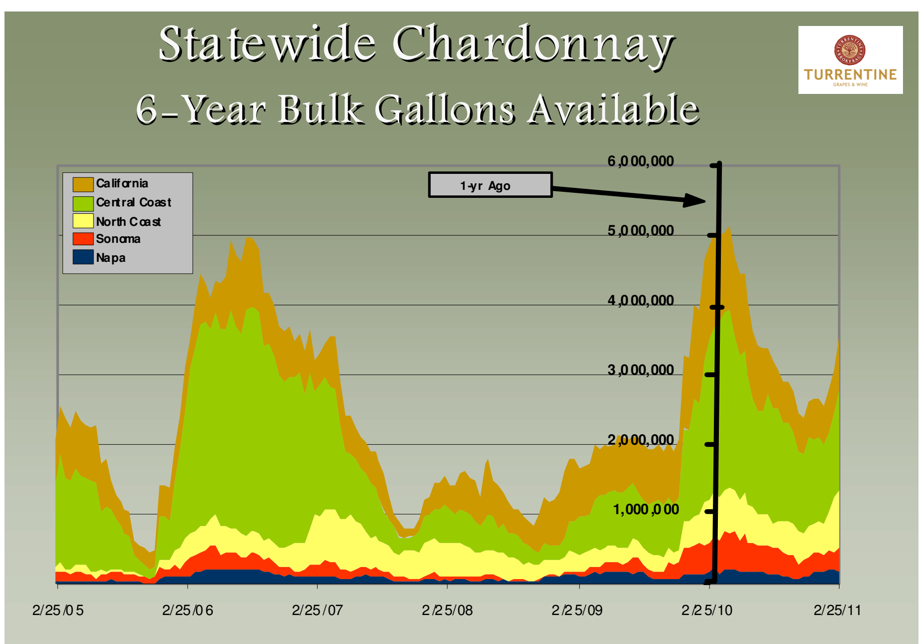
4) In contrast to most years in the recent past, there is some early demand for 2011 Chardonnay grapes in California.

Chardonnay

Country/Area	Region	Supply/Demand	Estimated Price/Liter	Estimated Price in USD/Gallon landed in California duty paid
California	Warm	Moderate / Weak	$0.90 / $1.45	$3.40 / $5.50
	Cool	Moderate / Weak	$1.20 / $2.40	$4.50 / $9.10
France	d'Oc	Moderate / Weak	€0.85 / €1.00	$6.00 / $6.70
	Top Quality	Moderate / Weak	€1.20 / €2.50	$7.80 / $14.60
Italy	Veneto/Sicilia	Moderate / Weak	€0.85 / €0.90	$6.00 / $6.20
Spain	Standard	Weak / Moderate	€0.90 / €1.20	$6.20 / $7.80
Australia	Warm	Moderate / Moderate	$0.75 / $0.85	$4.00 / $4.40
	Cool	Strong / Weak	$1.30 / $2.50	$6.10 / $10.50
Argentina	Warm	Moderate / Moderate	$0.95 / $1.00	$4.90 / $5.00
Chile	Warm	Weak / Moderate	$1.10 / $1.15	$5.40 / $5.60

These prices are supplied by our strategic alliance partners in Europe, Australia and South America. For comparison purposes, the prices in the right hand column have been converted to U.S. dollars and adjusted to include estimated freight, insurance and duty. Availability and prices are subject to change.

While the association between Chardonnay and surplus still lingers in people's minds, supply in the real world has dropped. Scan-data, on the other hand, indicates some significant sales growth for Chardonnay casegoods. Those responsible for Chardonnay inventory, as grapes or wine, will want to stay in close contact with Turrentine Brokerage as spot market and long-term market dynamics continue to develop.



Market Opportunities

****Note to all growers: Markets are shifting. We need to know now what you have available for 2011 and in the future in order to provide you with the right opportunities.***

Bulk Wine Needed	Grapes Needed	Bulk Wine Available	Grapes Available
2010 Zinfandel *Dry Creek Valley*		***Arneis 2010*** ***Sonoma Coast*** *4,500 gallon lot*	***Zinfandel*** ***Dry Creek Valley benchland,*** *small lots and truckload quantities*
2009 Pinot Noir *Carneros and Russian River*		***Dolcetto 2009*** ***Sonoma Mountain*** *2,000 gallon lot*	***Pinot Noir*** ***Santa Rita Hills,*** *multiple truckload lots*
2009 Zinfandel *All California appellations*		***Vernaccia 2009*** ***Sonoma Carneros*** *7,000 gallon lot*	***Cabernet Sauvignon*** ***Alexander Valley mountain****, small lots and truckload quantities*
2009 & 2010 Cabernet Sauvignon *All California appellations*		***2009 Valdiguie*** ***Paso Robles*** *6,000 gallon lot*	***Chardonnay*** ***Sonoma Coast****, small lots and truckload quantities*
2009 & 2010 Malbec *All California appellations*		***2010 Cabernet Sauvignon*** ***Red Hills*** *Large lots*	***Sangiovese*** ***Napa Valley****, truckload quantities*
		Chardonnay ***Russian River*** *Multiple lots*	***Cabernet Sauvignon*** ***Mount Veeder****, small lots and truckload quantities*
		Muscat Canelli ***Various appellations*** *Multiple small lots*	***Pinot Noir*** ***Santa Lucia & Chualar Canyon***
		2010 Pinot Noir *California appellation, North Coast and Central Coast*	***Planting opportunities: Eastside Lodi and District 12***
		2009 & 2010 Zinfandel *Paso Robles*	
		2009 Chardonnay *Great opportunities at bargain prices*	
		2010 Petite Sirah *Napa Valley*	
		2010 Grenache Blanc *Santa Barbara*	
		2007 Port *Clarksburg* *3,000 gallon lot*	