

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Food Monitor
February 2011 - Volume 1

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Introduction

Welcome to the first issue of the *Food Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market value trends for a variety of segments within the food industry. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the commodity nature of certain food products, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

In this issue of the *Food Monitor*, we have included market pricing and trends for beef, pork, poultry, seafood, dairy, vegetables, commodity goods, and wholesale distributors and their relation to the valuation process. GA provides our customer base with a concise document highlighting the food industry. Please feel free to utilize our contact information shown in this and all *Food Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

GA has noted overall increases in recovery values of between 0.5 and four percentage points, as raw material inventory levels are increasing due to the fact that companies are continuing to seek out favorable pricing opportunities, and commodity raw materials typically recover higher than customer-specific finished goods.

In general during 2010, elevated commodity costs have pressured margins among many producers and distributors, as aggressive customer contract pricing and challenging economic conditions have prevented increases in selling price. These conditions partially offset the benefit of strategic purchasing on recovery values in recent months.

GA internally tracks recovery ranges for numerous commodity food segments, as well as finished and cooked products and trends in food service, retail, and food distribution, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms. In addition to the *Food Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, building materials, automotive, and chemicals industries, among many others.

Headquarters:

21860 Burbank Blvd.
Suite 300 South
Woodland Hills, CA 91367
800-45-GREAT
www.greatamerican.com

Atlanta
Boston
Chicago
Dallas
London
Los Angeles
New York
San Francisco

EXPERIENCE

GA has been involved in the liquidation of several food processing and distribution companies, including Metropolitan Foods; BSB, Inc.; New Sam Woo Trading; Markel Johnson; and Gulf Shrimp Company. GA has worked with and appraised many large and well-known companies within the food service industries. While our clients remain confidential, they have included meat processors and distributors, leading fresh and processed fruit and vegetable distributors, and specialty and prepared food distributors servicing restaurants, retailers, food service companies, and wholesalers across the US. GA's extensive list of appraisal experience includes:

- One of the nation's largest independent canning and frozen food companies, which maintains production facilities throughout the country and exceeds \$600 million in sales annually;
- One of the world's largest producers of fresh and packaged fruits and vegetables, which exceeds \$800 million in annual sales;
- Processors of both conventional and organic frozen vegetables;
- An importer and distributor of fresh and frozen seafood products to large national food wholesalers;
- One of the nation's premier manufacturers of pork ribs to restaurants, food service companies, and retailers throughout the US;
- Numerous producers of fresh and frozen meat products, including beef, poultry, pork, and seafood across the country; and
- A distributor of specialty food products, including pasta, sauces, marinades, cookies, vinegar, and cereal under a variety of popular specialty brand names.

In addition to our internal personnel, GA maintains contacts within the food industry that we utilize for insight and perspective on recovery values.

APPRAISAL & VALUATION TEAM

BUSINESS DEVELOPMENT

Mike Marchlik

National Sales & Marketing Director
mmarchlik@greatamerican.com
818-746-9306

Drew Jakubek

Vice President - Southwest Region
djakubek@greatamerican.com
972-265-7981

Daniel Levene

Vice President - Western Region
dlevene@greatamerican.com
818-746-9327

Ryan Mulcunry

Senior Vice President - Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
617-692-8310

Fred Raccosta

Senior Vice President - New York/Mid-Atlantic Region
fraccosta@greatamerican.com
646-381-9204

David Seiden

Executive Vice President - Southeast Region
dseiden@greatamerican.com
770-551-8114

Bill Soncini

Vice President - Midwest Region
bsoncini@greatamerican.com
312-777-7945

OPERATIONS

Ken Bloore

Chief Operating Officer
kbloore@greatamerican.com
818-884-3737

Adam Vincent

Senior Associate, Food Industry Specialist
avincent@greatamerican.com
T: 781-429-4064 F: 781-444-1401

Overview

The USDA reported in December that the Consumer Price Index (“CPI”) is expected to increase 0.5% to 1.5% in 2010, which represents the lowest annual inflation rate since 1992. Inflation has remained low in 2010, as distributors and food retailers have had difficulty passing on the price increases that have resulted from continuously rising commodity prices to their cash-conscious consumers. This has put pressure on many food companies’ margins, and stems from the abundance of competition and market participants.



Although the food price inflation forecast for 2010 has overall remained unchanged, the USDA predicts that food prices will rise in 2011. The food price inflation forecast for 2011 as of December 23 was 2% to 3%, as the economy shows improvement and rising commodity food and energy prices continue to pressure wholesale and retail pricing.

As the recovery values of distributors are largely driven by the health of the food retail and restaurant markets, restaurant performance and the state of food retail companies is a key indicator of the direction in which recovery values will trend among food distributors.

The economic downturn brought with it significant challenges for the restaurant industry, as the fledgling labor market largely depressed restaurant customer traffic as more people opted to eat at home; however, as the economy shows signs of improvement, restaurants have begun to make steps toward recovery. The National Restaurant Association is optimistic about the coming months, despite recent declines in its Restaurant Performance Index, as many restaurants are beginning to invest in capital expenditures on equipment, expansion, and remodeling, and some are looking to increase staffing.

The food retail industry continues to face challenges in the wake of the downturn. According a recent survey performed by *Supermarket News*, it appears that consumer sentiment is shifting and adapting, and intense price competition within the food retail industry has lowered price expectations among today’s grocery shopper. As shoppers become increasingly accustomed to value in the food marketplace, other marketable qualities are gaining importance in purchasing decisions.

Recent Appraisal Trends

Recent recovery trends

Companies continue to look for strategic buying opportunities when pricing is favorable. As most producers manufacture based on orders, the level of finished goods in inventory is directly tied to sales volume. The majority of food companies have experienced increased sales trends as customers have started to purchase additional products and there has been increased consolidation in the industry.

As companies have continuously looked to stabilize margins, raw materials inventory levels have been increasing as some companies have been able to secure raw materials at favorable prices to support contract progress. This has had a positive impact on recovery values, as the spreads between inventory cost and USDA market prices have improved approximately 2.5% over the last six months, largely due to the increases in USDA market pricing outpacing inventory costs. This has had an overall positive effect on recovery values as commodity raw materials are typically higher-

recovering than customer-specific finished goods.

Trends in market prices/inventory

Finished goods have continued to be manufactured to contract or to order. Consistent with previously noted trends, market prices have been volatile, as feedlot supplies have decreased, which, in general, had a negative overall effect on margins for 2010.

Industry/sales overview

Pounds sold have generally increased; however, lower prices have functioned to offset the positive increase in pounds sold, as evidenced by the decreased 12-month dollar sales trends.

Additionally, many companies have noted a shift in their target customers. Several companies have shifted focus to retail products, as these items maintain higher margins than products sold to food service customers.

Monitoring Points

| Monitoring Point | Impact |
|---|--|
| Monitor raw material acquisition prices and gross margin. | Should raw material market prices continue to increase, this would result in increased pressure on company margins, as selling price increases are difficult in the current market. |
| Monitor contract pricing. | As companies enter into contract renewal, GA recommends that clients monitor if new clients are acquired and the terms of these contracts. Increasingly aggressive contract pricing would function to constrain margins in 2011. |
| Monitor aged inventory levels. | As aged inventory is much more difficult sell in a liquidation, it is important to track aged inventory as a percentage of total on-hand goods. These products typically require discounting in order to sell through the inventory. |
| Monitor changes in customer base. | Sales volume is driven by companies' customers. Consolidation within the food industry has resulted in many companies securing additional volume from their existing customers, as dual sourcing is typical in the industry. |

Pricing Trends

Beef and Cattle

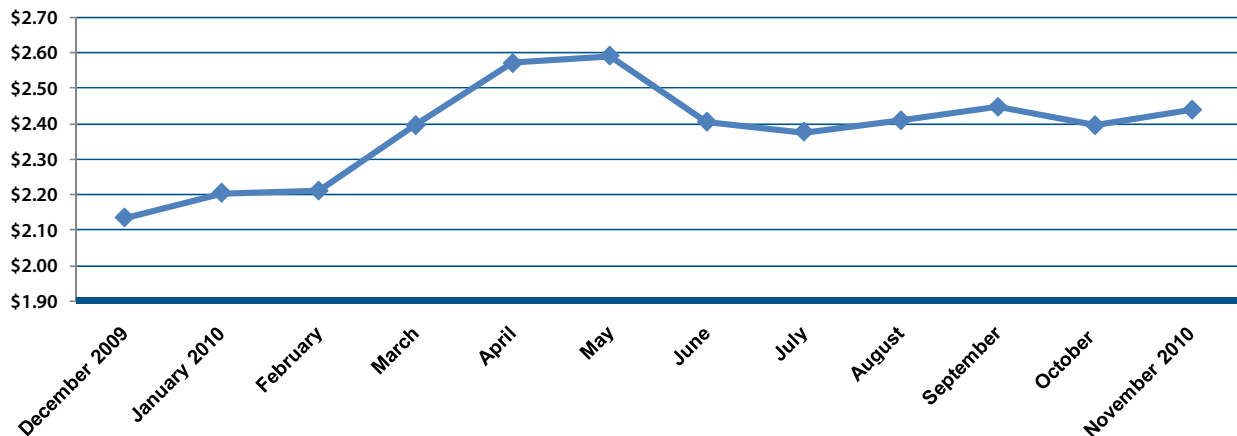
According to a December publication of the USDA’s Economic Research Service (“ERS”), cow slaughter remains at historically elevated levels, which will result in low inventories at the start of 2011 and increased production through the year.

As world cattle demand continues to remain strong, cattle price forecasts for 2011 remain elevated, according to the December World Agricultural Supply and Demand Estimates (“WASDE”). The most recent update to the Consumer Price Index (“CPI”) showed beef prices increasing 0.2% in November compared to October, and they increased 6.2% from last November. Specifically, steak prices increased by 5.4%, and ground beef prices increased by 7.4%. The USDA projects that beef prices will increase 2.5% to 3.5% overall for 2011.



Elevated beef prices have contributed to constrained margins among some meat processors, as competition and aggressive contract pricing has led to downward pricing pressure that has countered the rising material costs.

**Monthly Choice Beef Wholesale Value Per Pound of Retail Equivalent
December 2009 - November 2010**



Pricing Trends

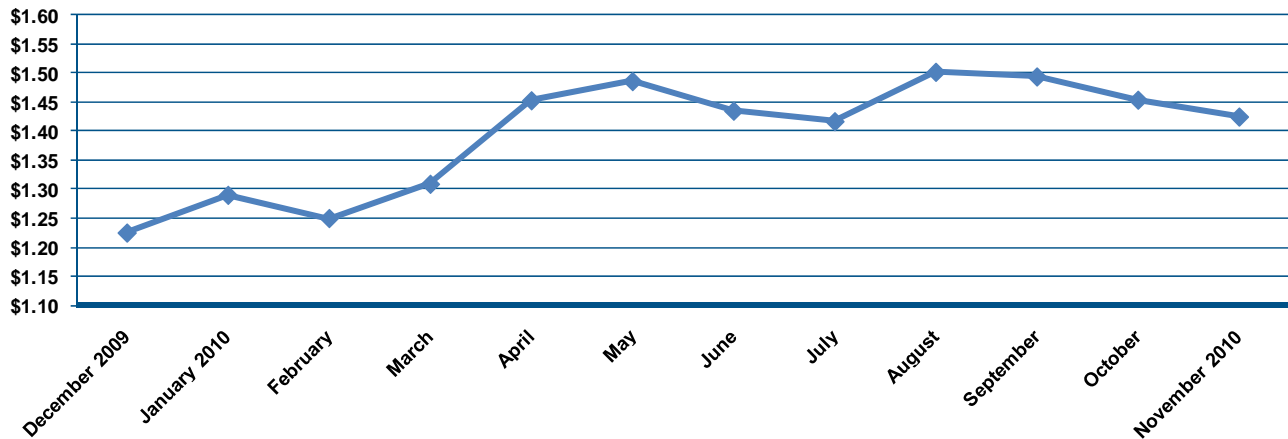
Pork

According to the December ERS update, pork demand has started to decline due to high prices, resulting in lower forecasted hog prices for the fourth quarter. A similar effect has occurred with regard to exports, as elevated US prices have caused many foreign buyers to shy away from US pork. Despite the decreased demand, hog prices are still approximately 20% above those of fourth quarter 2009. In terms of production, commercial pork production for 2011 is forecast at approximately 1% above 2010.

Wholesale pork prices have also experienced recent pressure, as the combination of price competition from poultry products, elevated retail prices, lower export demand, and a slight increase in production has taken its toll. The most recent CPI showed pork prices down 1.9% in November compared to October; however, they remained substantially elevated from November 2009, up 12.9% year-over-year. The forecast for pork prices was revised downward for 2010 based on recent results, and the USDA now predicts that pork prices will increase 3% to 4% for 2011.



**Monthly Average Pork Wholesale Value Per Pound of Retail Equivalent
December 2009 - November 2010**



Even more so than with beef products, the drastic elevations in pork prices have had an impact on many food companies, as the upward pricing pressure these increases incur has been countered by an inability to raise selling prices in the value-driven marketplace. Additionally, increased competition from other meat categories that are not experiencing the same intensity of upward pricing pressure is causing a softening of demand that is further inhibiting the ability for pork producers to raise selling prices.

Pork producers have noted a shift toward retail-based goods as opposed to food service products, as these products maintain higher margins. Additionally, demand for imported pork has declined due to the higher price points. Many companies are instead opting to purchase domestic pork, as it is typically offered at a lower price.

Pricing Trends

Poultry

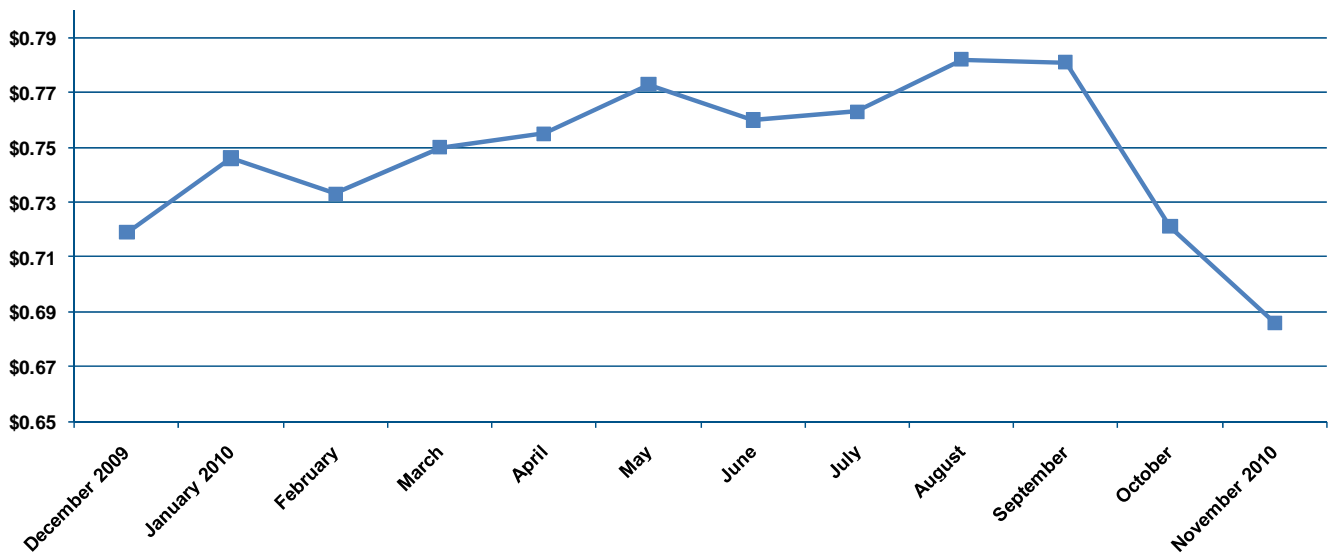
The ERS reported in December that elevated levels of broiler chick placements have resulted in an increase in fourth quarter broiler meat production estimates. Broiler meat production for October 2010 was up 3.6% compared to October 2009, and fourth quarter estimates have been revised to reflect a 5.4% increase in broiler meat production, resulting in downward pressure on broiler prices. As high corn prices are expected into 2011, the combination of these factors is expected to result in decreased production in the current year.

Turkey, on the other hand, is experiencing upward price pressures. The ERS reports that high slaughter levels for turkey resulted in increased production in October, which was countered by low cold storage holdings for whole turkeys compared to year-earlier levels.



The November national price for whole hen turkeys stood at \$1.06 per pound, which represents a 29% increase from the prior year, according to the ERS. As a result of continual price strength, the annual price is predicted to be approximately 18% above 2009 at \$0.90 per pound.

**Monthly Wholesale Broiler Composite Per Pound
December 2009 - November 2010**



Pricing Trends

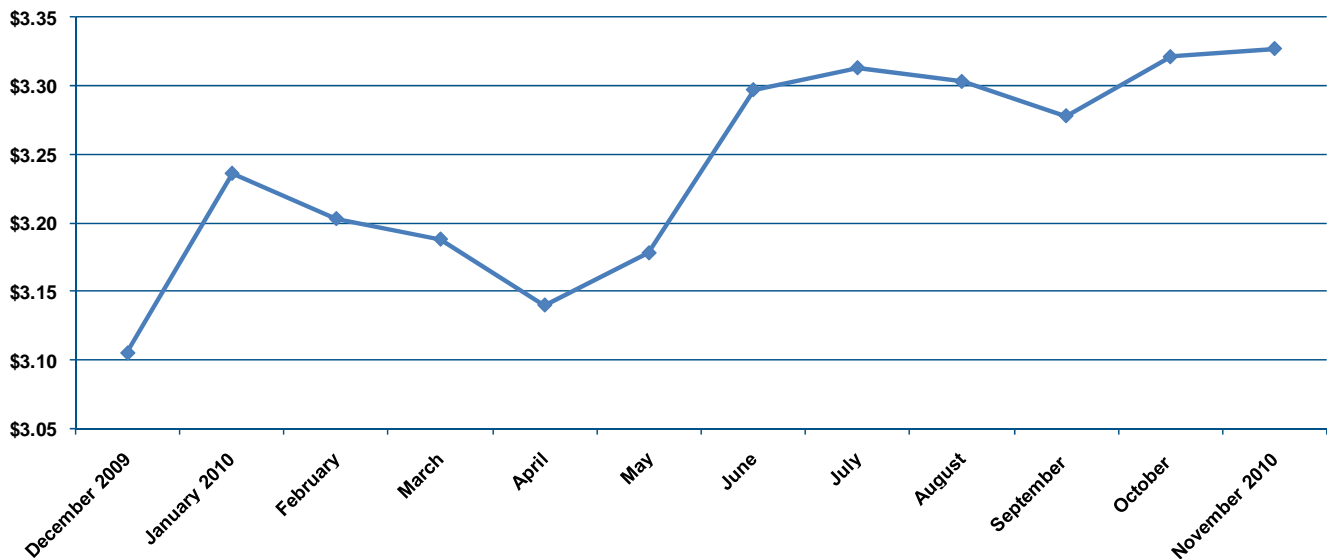
Dairy

The ERS reported in December that the continually elevated corn prices will likely suppress dairy producer profits, despite strong demand for dairy products. The USDA forecasts corn prices to be between \$4.80 and \$5.60 per bushel for 2010/2011, resulting in high feed costs for dairy producers. Despite these elevated feed prices, the USDA predicts that cow numbers will increase over the first half of 2011. Milk per cow increased in 2010 due to favorable weather conditions and only moderate feed costs, and is expected to continue to increase into 2011, although not at nearly the pace experienced in 2010. The USDA's forecast for milk production in 2011 is currently 1.4% higher than 2010.

The ERS reports that dairy prices are expected to remain strong, as healthy domestic demand, continued success in exports, and a modest increase in milk production will encourage sustained prices. Butter prices for 2011 are expected to decrease slightly from 2010 levels; however, they will continue to remain historically high. Additionally, strong domestic demand for cheese is expected to counter uncertain export demand in order to sustain and moderately increase cheese prices in 2011, according to the ERS' predictions.



**Average Monthly Milk Retail Prices
Fresh, Whole Fortified Per Gallon
December 2009 - November 2010**



Pricing Trends

Vegetables and Fruits

According to the ERS' December Vegetable and Melons Outlook, the outlook for fresh vegetables this winter remains fairly optimistic, and improved supplies and yields are expected. Although these factors are positive, demand is expected to be somewhat weak, as consumers continue to remain stringent with regard to discretionary spending on away-from-home meals. Due to last year's diminished supply that resulted from extensive freeze damage, the USDA expects prices to be slightly lower than year-earlier levels in 2010, although they are still expected to continue to be historically strong.

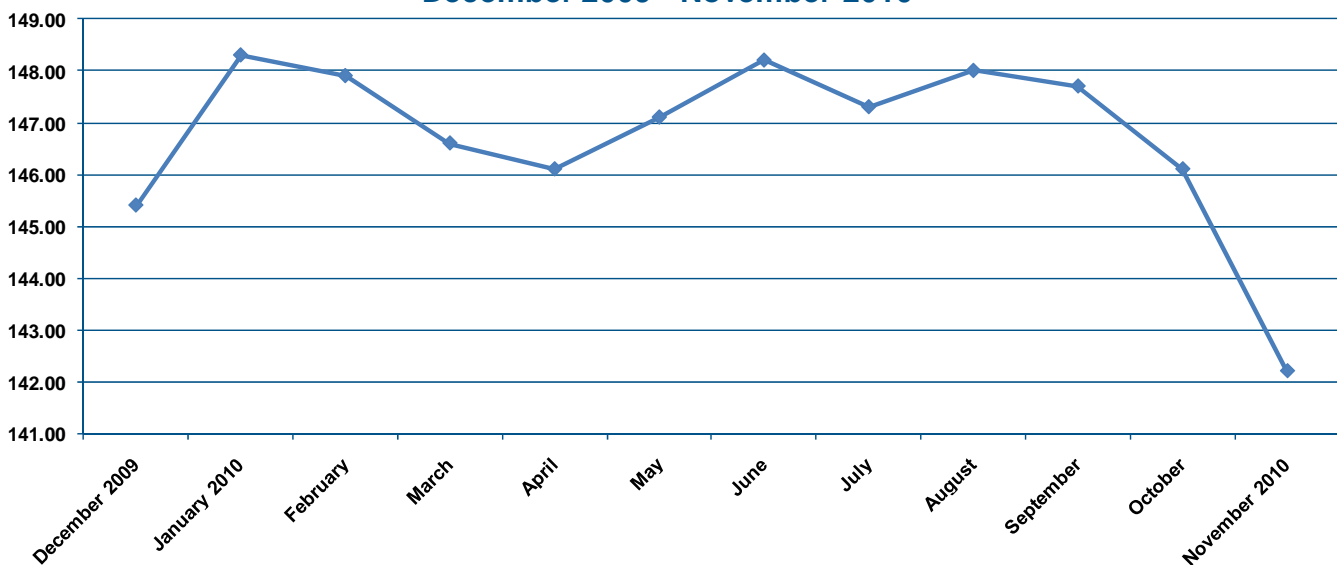


With regard to processing vegetables, contract prices for tomatoes declined by 19% in 2010, according to the December Vegetables and Melons outlook. The ERS reports that reduced world supplies, a smaller 2010 crop, and favorable export demand will contribute to tomato processors contracting for increased area in 2011. As a result, the ERS and the USDA expect that contract prices will trend upward in 2011.

Processed fruits and vegetables experienced a 2.6% price decrease in November, which represents the seventh month out of the previous 10 that prices have decreased. Compared to November 2009, processed fruit and vegetable prices are down 2.6%. This may be partially attributable to higher-than-expected yields. As inventory become more balanced in the coming months, processors will most likely be promoting less, as they don't seem to be long on any positions. As goods are harvested in 2011, prices are expected to increase, mostly due to increases in tin pricing, raw product prices, and elevated energy costs.

The fresh vegetable index was down 0.5% in November compared to the previous month, which the USDA attributes to decreased tomato, potato, and other fresh vegetable prices. Fresh vegetable prices increased 1.4% in November compared to year-earlier levels, as potato prices and other fresh vegetable prices increased.

**Monthly Consumer Price Indexes - Processed Fruits and Vegetables (December 1997 = 100)
December 2009 - November 2010**



Pricing Trends

Seafood

According to a November 2010 report issued by *FAO Globefish* (“Globefish”), global fish and fishery product prices in September 2010 averaged approximately 1.0% below the peak prices reached in September 2008. Specifically, aquaculture prices were 11.6% higher, whereas wild species prices were 10.0% lower. Globefish reported that the FAO Fish Price Index showed prices during the time period of January through September at 8.5% higher than the same period in 2009. Diminished supply in major categories such as shrimp, tuna, and salmon have contributed to price increases in these categories.



Low farmed shrimp supplies contributed to climbing shrimp prices from July through August, and supply is not expected to improve until March 2011. Additionally, the residual effects of the oil spill in the Gulf of Mexico persisted in the form of increased shrimp prices in the US, as Globefish reports that domestic production was limited compared to consumption, and only accounted for 10% of total supply.

GA expects that producers’ seafood inventory levels will increase in the coming months with the onset of the Lenten season.

Commodity Goods

Wheat and coarse grains: According to the most recent December 10 release of the WASDE, wheat ending stocks in the US for 2010/2011 are forecasted to be 10 million bushels higher than the month earlier, which can be attributed to lower domestic usage. Wheat prices continue at historic highs, with the projected average price forecast at \$5.30 to \$5.70 per bushel. The December WASDE reported unchanged feed grain supplies for 2010/2011. The USDA reports that lower domestic beer consumption has functioned to decrease demand for malting barley, and marketing -year average farm prices for barley and oats were projected slightly lower in December.

Rice: Rice supply and use projections remained stable in the December WASDE for 2010/2011. The Business Monitor International projects rice production growth of 23% to 2013/14 due to increased development of emerging markets, as incomes in Latin America, the Middle East, and Africa are on the rise, and will consequently improve export demand for US rice producers. The USDA forecasted the all rice season-average price at \$12.10 to \$13.10 per cwt, which represented a \$1.80 per cwt increase on either end of the range compared to the previous forecast. The price increase is attributed to a weaker US dollar, elevated global rice prices, and a smaller US rice crop.



Pricing Trends

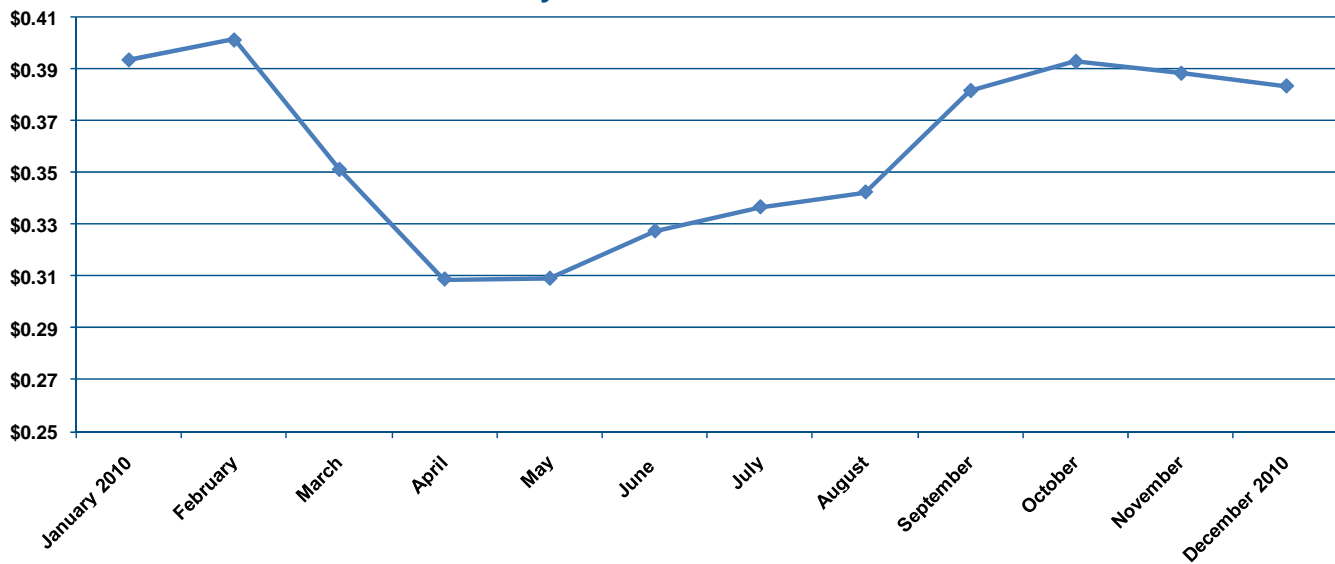
Coffee: According to a recent report issued by the International Coffee Organization (“ICO”), coffee prices experienced drastic increases in November. The monthly average composite indicator price reached 173.90 cents per pound, a sharp increase from October’s 161.56 cents per pound. The ICO reports that the November price represents the highest recorded level reached since May 1997, with price volatility increasing by 5.5% on the New York futures market. The ICO partially attributes this to diminished supply of Arabica beans.

The ICO reports that concern on the coffee market is currently centered on short supply of coffee resulting from unfavorable weather conditions that have affected the harvest in many exporting countries, particularly Indonesia, Thailand, and Colombia. The ICO cites historically high levels of rainfall and increased production costs as inhibiting factors that may function to negatively impact production in the 2010/2011 crop year. Additionally, the expectation of a particularly harsh winter is predicted to increase world consumption levels in 2010 as consumers purchase more beans and prepared drink.



Sugar: In the USDA’s December Sugar and Sweeteners Outlook, the ERS reported that Mexico’s sugar production for 2010/2011 is projected at 5.640 million metric tons, raw value (“MTRV”). As a result of increased imports from Mexico, projected US sugar supply has increased 232,000 short tons, raw value (“STRV”) from November. Domestically, Florida’s cane sugar production has decreased due to the expectation of lower sugar recovery from sugar cane. In order to meet domestic demand, the USDA predicts that the US will continue to rely on sugar imports from Mexico and Central America.

**US Raw Sugar Price per Pound, Duty Fee Paid, New York
Monthly
January 2010 - December 2010**



FOOD REFERENCE SHEET

Choice Beef Values, Price Spread, and All-Fresh Retail Value

| | Dollars/lb of retail equivalent | | |
|-----------------------------|---------------------------------|--------------|---------------|
| | November 2010 | October 2010 | November 2009 |
| Retail Value | 4.484 | 4.473 | 4.292 |
| Wholesale Value | 2.439 | 2.395 | 2.169 |
| Net Farm Value | 2.092 | 2.074 | 1.801 |
| Beef Price Spreads | | | |
| Wholesale to Retail | 2.045 | 2.078 | 2.123 |
| Farm to Wholesale | 0.347 | 0.321 | 0.368 |
| Total | 2.392 | 2.399 | 2.491 |
| All Fresh Beef Retail Value | 4.104 | 4.099 | 3.904 |

Source: ERS/USDA

Pork Values and Spreads

| | Dollars/lb of retail equivalent | | |
|---------------------------|---------------------------------|--------------|---------------|
| | November 2010 | October 2010 | November 2009 |
| Retail Value | 3.320 | 3.363 | 2.818 |
| Wholesale Value | 1.425 | 1.454 | 1.111 |
| Net Farm Value | 0.815 | 0.907 | 0.693 |
| Pork Price Spreads | | | |
| Wholesale to Retail | 1.895 | 1.909 | 1.707 |
| Farm to Wholesale | 0.610 | 0.547 | 0.418 |
| Total | 2.505 | 2.456 | 2.125 |

Source: ERS/USDA

FOOD REFERENCE SHEET

Retail Prices for Poultry Cuts

| | Dollars/lb | | |
|---------------------------------|---------------|--------------|---------------|
| | November 2010 | October 2010 | November 2009 |
| Retail Broiler Composite | 1.818 | 1.800 | 1.743 |
| Wholesale Broiler Composite | 0.686 | 0.721 | 0.698 |
| Wholesale-Retail Broiler Spread | 1.131 | 1.079 | 1.045 |
| Chicken, Fresh, Whole | 1.277 | 1.302 | 1.256 |
| Chicken, breast, bone-in | 2.417 | 2.391 | 2.266 |
| Chicken, legs, bone-in | 1.502 | 1.480 | 1.472 |
| Chicken, boneless breast | 3.339 | 3.389 | 3.318 |
| Turkey, frozen, whole | 1.407 | 1.677 | 1.336 |

Source: ERS/USDA

Retail Prices for Dairy Products

| | November 2010 | October 2010 | November 2009 |
|--|---------------|--------------|---------------|
| Milk, fresh, whole, fortified-gal. (\$/gal.) | 3.327 | 3.321 | 3.034 |
| Butter, salted, grade AA, stick, 1-pound package (\$/lb) | 3.361 | 3.634 | 2.612 |
| American processed cheese (\$/lb) | 3.836 | 4.004 | 3.838 |
| Cheddar cheese, natural (\$/lb) | 5.005 | 4.651 | 4.425 |

Source: ERS/USDA

FOOD REFERENCE SHEET

Coffee: ICO Indicators and Futures Prices (New York Market)

| | US dollars/lb | | |
|----------------------------|---------------|---------------|---------------|
| | December 2010 | November 2010 | December 2009 |
| ICO Composite | 1.8426 | 1.7390 | 1.2496 |
| Colombian Milds | 2.5652 | 2.3959 | 1.9938 |
| Other Mild Arabicas | 2.3733 | 2.2796 | 1.5586 |
| Brazilian Natural Arabicas | 1.8605 | 1.7916 | 1.3123 |
| Robustas | 0.9832 | 0.9794 | 0.7468 |

Source: International Coffee Organization

Durum Wheat: Prices received by Farmers, Monthly and Marketing Year Average, Montana, USA (USDA)

| | Dollars per bushel | | | | | | | | | | | |
|------|--------------------|------|------|------|------|------|------|------|------|------|------|------|
| | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec |
| 2010 | 5.02 | 5.28 | 5.25 | 4.15 | 4.46 | 4.29 | 4.20 | 4.20 | 4.44 | 5.19 | 6.10 | 7.00 |
| 2009 | 10.20 | 9.12 | 8.24 | 7.84 | 7.97 | 8.15 | 8.57 | 7.19 | 5.39 | 5.18 | 4.92 | 5.23 |

Source: NASS/USDA

Corn and Sorghum: Average Prices Received by Farmers

| | Dollars/bushel | | |
|---------|----------------|--------------|---------------|
| | November 2010 | October 2010 | November 2009 |
| Corn | 4.59 | 4.32 | 3.65 |
| Sorghum | 4.67 | 4.37 | 3.18 |

Source: ERS/USDA