QUARTERLY REPORT

Looking Ahead to Q1 2004

Historically, mushroom sales are strong during the first quarter, largely due to the New Year's, Super bowl and Valentine's Day celebrations in January and February. For some retailers, mushroom sales in March and the summer months have a tendency to decrease. However, this gradual decline is most often related to the reduction of promotion frequency rather than changes in consumer purchase intent.

As a result, a mushroom category strategy to improve performance for retailers in Q1 could consist of incremental promotions to maintain sales through March. This will help generate momentum with consumers to carry the category through the summer months. In addition to white mushrooms, retailers highlighting specialty mushrooms near the New Year's and Valentine's Day holidays will interest consumers willing to try new varieties while preparing special gourmet meals.

National Trends

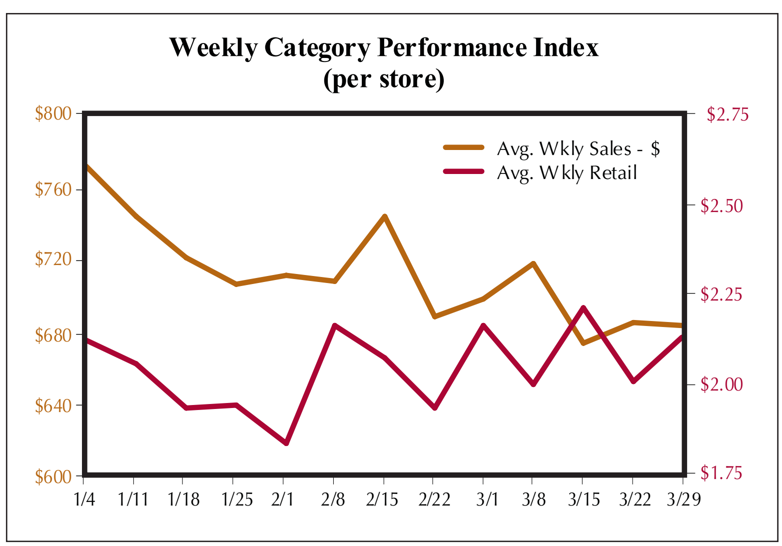
Observation: During Q1, the most successful retailers place regular promotional emphasis on packaged whole and sliced white mushrooms, considering that most shoppers are looking for convenience and quick solutions for entertaining. In addition, best of class retailers take advantage of the two special eating occasions (noted above) in Q1 to build mushroom category performance by highlighting bulk and packaged specialty mushrooms, such as Portabella, Crimini, Shiitake, Enoki and Oyster varieties. Portabellas and Italian brown mushrooms are gaining mainstream appeal for consumers; research shows that top performing retailers are continuing to shift these varieties from specialty to mainline items.

Opportunities exist to improve mushroom category contribution to overall department dollars by maintaining the strong Q4 mushroom consumer base. Retailers can achieve this by raising the category profile in the department through coordinating POP, promotions and secondary display locations throughout the quarter.

Weekly Sales Q1 2003

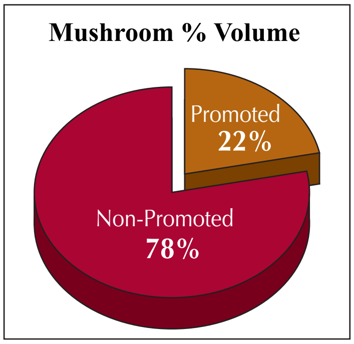
Mushroom category sales peak slightly in early January and mid-February, corresponding to the New Year's and Valentine's Day holidays.

Observation: The opportunity in Q1 2004 is to add incremental mushroom promotions – in late February and March – in order to build sales and carry the momentum through Easter.



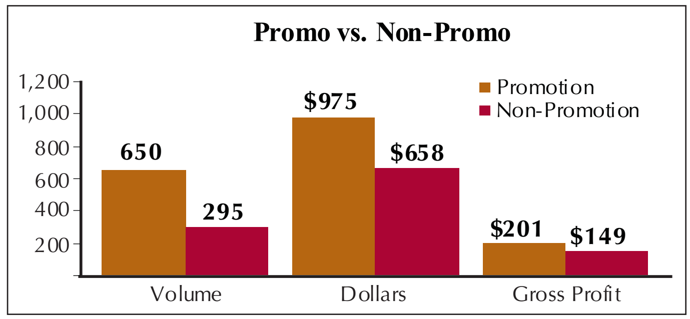
Looking Ahead to Q1 2004 (continued)

Promotions (9 Retailer Composite)



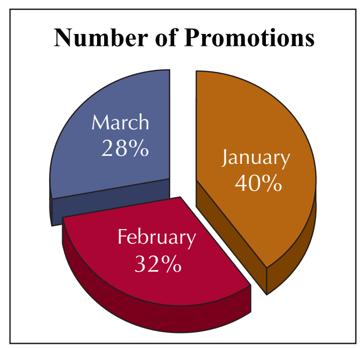
Consistent and varied promotions are the keys to sustaining mushroom category performance at high levels. Based on a composite of nine retail chains, in Q1 2003, some 22 percent of volume was generated by promotions. However, in top performing chains, 24.9 percent of category volume was generated by promotions through an average of five promotions per quarter.

Retailers promoting the mushroom category five or more times realized a greater category contribution to department sales – 13 percent higher than the national composite. Those retailers that promoted the mushroom category four or fewer times generated significantly less volume from promotions; only 10.2 percent. Their category contribution to the department was also 17 percent below the national composite.



During Q1, volume doubled when mushrooms were promoted. In addition, dollars increased by nearly 50 percent on promotion with gross profit increased by 35 percent. Average promotional discount on mushrooms was 26 percent in Q1, with an average non-promoted retail price of $2.24 compared to $1.66 on promotion.

When looking at specific months, 40 percent of the mushroom promotions in Q1 2003 were run in January, followed by February (32 percent) and March (28 percent).

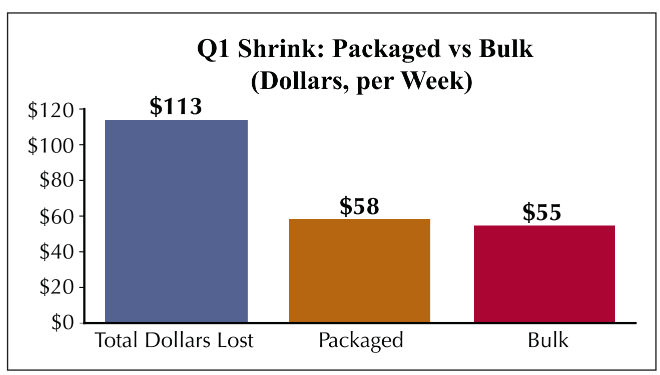


These statistics reflect a decline in promotional activity and the opportunity to implement promotional continuity from January into February and March.

Observation: There is an opportunity for retailers to feature specialty promotions, such as Portabella, Crimini, Shiitake, Enoki and Oyster varieties, during holiday eating occasions. Research reveals that a key to driving mushroom performance is an appropriate promotion strategy. Top performing retailers continue to promote white whole and sliced mushrooms to maintain volume and performance, while running specialty promotions to drive new consumers and interest to the mushroom category. Multiple item promotions generally had the highest category impact for top performing chains.

Shrink (4 Retailer Composite)

While the percentage of shrink is significantly higher in bulk mushrooms compared to packaged, packaged shrink is still driving the highest overall shrink dollars ($58 versus $55 dollars). Top performing retailers realize a mushroom category shrink between 10 percent and 12 percent.



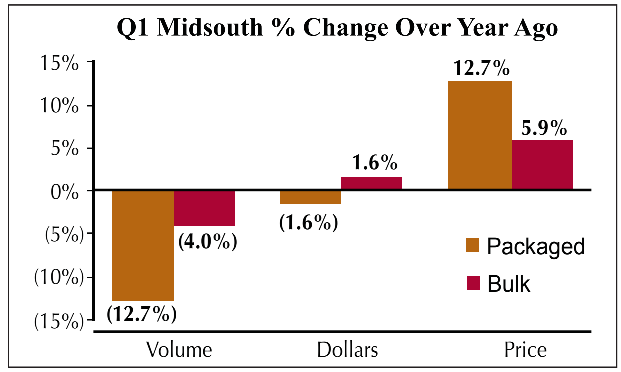
Observation: By focusing on specialty mushrooms, which are generally slower moving items, overall shrink percentages will decline during Q1. Top performing retailers increased turns with merchandising strategies that include limiting the products stack to no more than three high and keeping brown and specialty mushrooms within reach of consumers on middle shelves.

Regional Opportunities

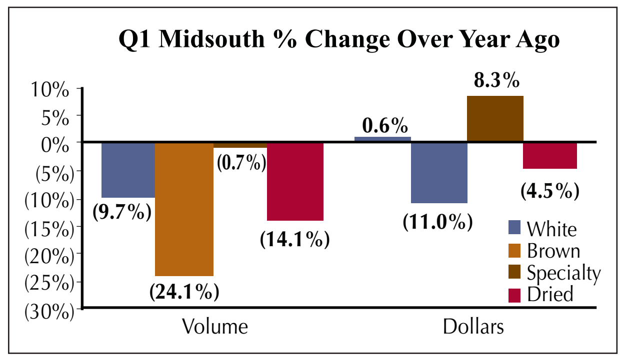
Midsouth

Overall, volume and dollars decreased in the packaged mushroom segment, while bulk dollars increased. All subcategories declined in volume over year ago, however, white and specialty mushrooms posted increases in dollars. All of the top five items showed declines in the category.

Learning: The Midsouth has opportunities in all segments and subcategories, especially the 8oz packaged mushroom sizes.



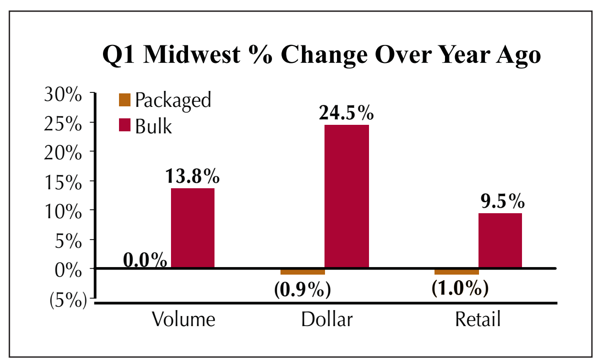
Top Five Items	Volume 2002	Volume 2003	% Change
Packaged White Whole 8 ounce	108	88	(18.9%)
Packaged White Sliced 8 ounce	63	57	(9.4%)
Packaged Italian Brown/Crimini	33	24	(26.4%)
Bulk White Large	24	23	(7.7%)
Packaged White Whole 16 ounce	8	7	(5.1%)



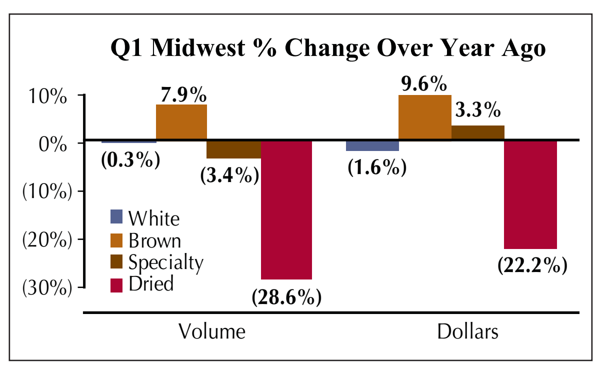
Midwest

Overall, volume and dollars increased in the bulk mushroom segment, but declined in the packaged segment. Volume increased in brown mushrooms, while dollars increased in brown and specialty mushrooms. However, while three of the top five items showed declines in the category, the packaged white sliced increased substantially over last year.

Learning: While brown mushrooms did well in the Midwest, there are opportunities in the white, specialty and dried subcategories.



Top Five Items	Volume 2002	Volume 2003	% Change
Packaged White Sliced 8 ounce	112	118	5.4%
Packaged White Whole 8 ounce	102	112	9.6%
Packaged White Whole 16 ounce	42	28	(34.7%)
Packaged White Whole 12 ounce	20	16	(18.5%)
Packaged Sliced Portabella	13	11	(12.0%)

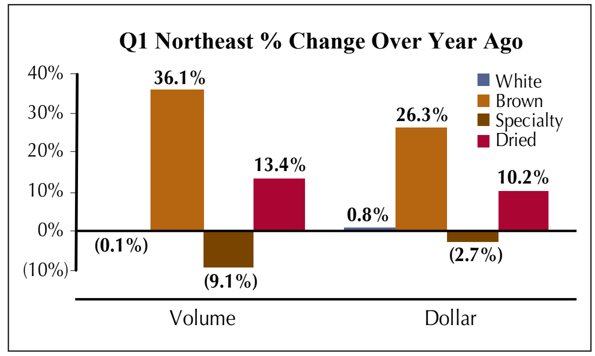


Regional Opportunities (continued)

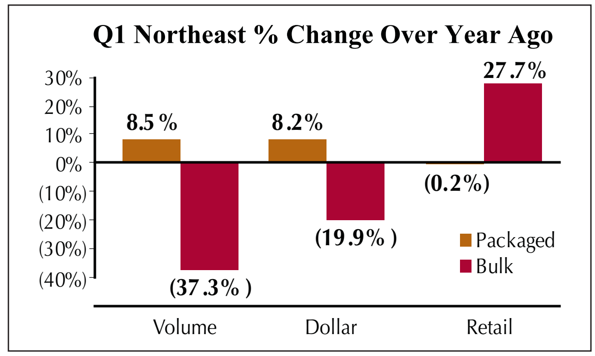
Northeast

Overall, volume and dollars increased in the packaged mushroom segment, but declined in the bulk segment. Volume and dollars increased in brown and dried mushrooms, and dollars increased in the white, brown and dried mushroom segments. However, while the top item (packaged whole white mushrooms) showed a decline in the category, the packaged white sliced and packaged sliced Portabella segments increased substantially over last year.

Learning: While brown and dried mushrooms did well in the Northeast, there are opportunities in the bulk segment and white and specialty subcategories.



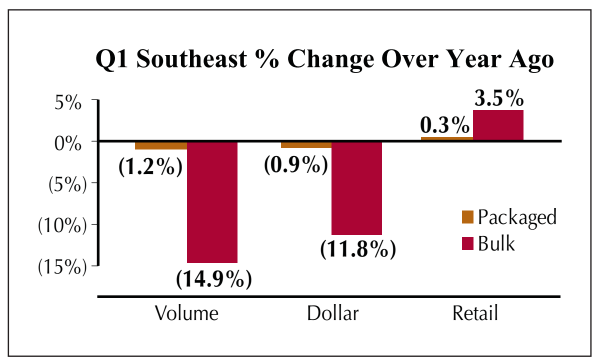
Top Five Items	Volume 2002	Volume 2003	% Change
Packaged White Whole 8 ounce	148	143	(3.1%)
Packaged White Sliced 8 ounce	87	102	16.3%
Packaged White Sliced 10 ounce	54	58	7.5%
Packaged Sliced Baby Portabella	5	30	540.5
Packaged Baby Portabella	23	24	3.6%



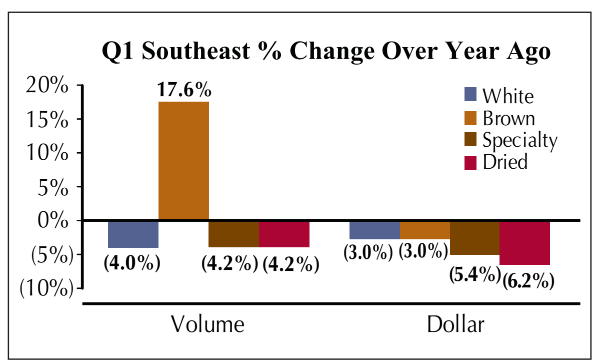
Southeast

Overall, volume and dollars decreased in both the packaged and bulk segments. Volume increased in brown mushrooms, while none of the subcategories increased in dollars. However, four (including packaged whole and sliced white mushroom items) of the top five items showed declines in the category, yet the packaged sliced baby Portabella item increased substantially over last year.

Learning: Overall, the mushroom category did not do well in the Southeast and there are opportunities in both packaged and bulk segments as well as white, brown and specialty subcategories.



Top Five Items	Volume 2002	Volume 2003	% Change
Packaged White Sliced 8 ounce	71	71	(0.5%)
Packaged White Whole 8 ounce	61	52	(14.5%)
Packaged White Whole 16 ounce	13	13	(4.5%)
Packaged Baby Sliced Portabella	1	9	571.9%
Packaged Sliced Portabella	7	7	(0.4%)

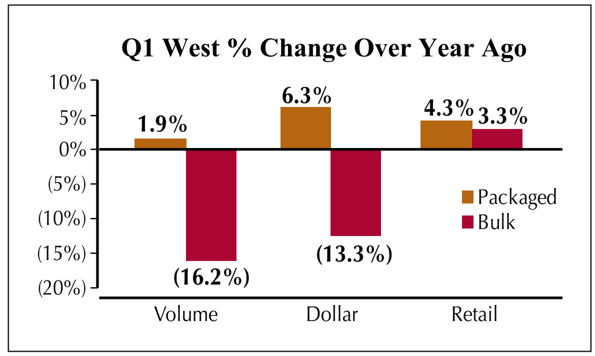


Regional Opportunities (continued)

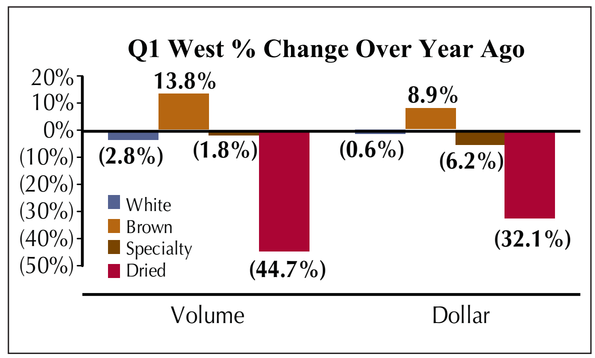
West

Overall, volume and dollars decreased in the bulk segment, but increased in the packaged segment. Volume and dollars increased in brown mushrooms. However, while three of the top five items showed declines in the category, the packaged white whole items increased substantially over last year.

Learning: While brown mushrooms did well in the West, there are opportunities in both packaged and bulk segments and white, specialty and dried subcategories.



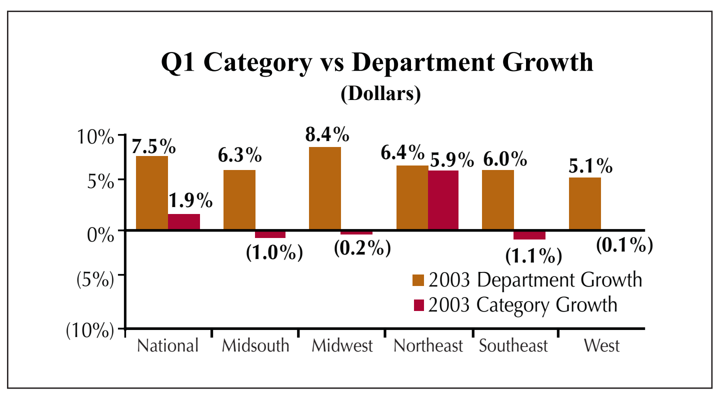
Top Five Items	Volume 2001	Volume 2002	% Change
Packaged White Sliced 8 ounce	127	126	(0.7%)
Packaged White Whole 8 ounce	105	105	0.4%
Bulk White Large	60	52	(13.6%)
Packaged White Whole 12 ounce	1	4	146.2%
Packaged White Whole 16 ounce	3	3	(2.0%)



Category vs. Department Growth

During Q1 2003, produce dollar sales increased at a faster rate than mushroom sales in all regions. Department dollar growth out-paced mushroom dollar growth by 5.6 percent nationally. The Northeast posted the largest Q1 category dollar growth at 5.9 percent by focusing and improving upon brown and dried mushroom sales.

Observation: Regionally, the Southeast has the largest opportunity for improvement in 2003 where white and brown mushroom dollar growth both declined 3 percent in Q1 2003.



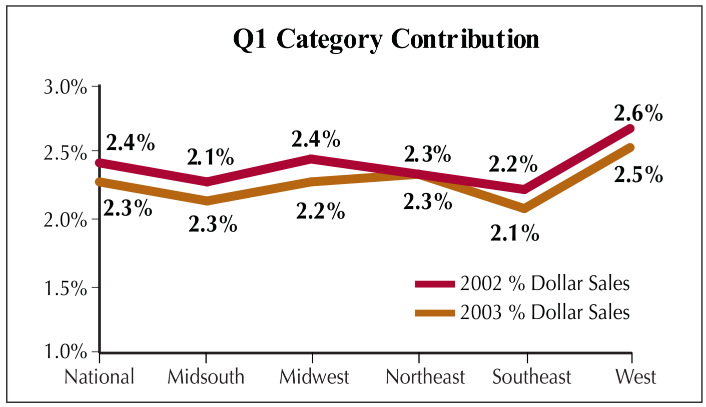
Q1 Weekly Performance

(Dollars, Volume and Average Retail Price)

Q1 Average Weekly Performance: By Store/By Region

		VOLUME			DOLLAR SALES			UNIT PRICE		
Region	Packaging	Prior Year 2002	This Year 2003	% Change	Prior Year 2002	This Year 2003	% Change	Prior Year 2002	This Year 2003	% Change
National	Packaged	313	322	2.9%	$609	$637	4.5%	$1.95	$1.98	1.6%
	Bulk	30	27	(9.9%)	$90	$75	(16.1%)	$3.03	$2.82	(6.9%)
Midsouth	Packaged	295	257	(12.7%)	$504	$497	(1.6%)	$1.71	$1.93	12.7%
	Bulk	33	32	(4.0%)	$108	$110	1.6%	$3.27	$3.46	5.9%
Midwest	Packaged	340	340	0.0%	$693	$687	(0.9%)	$2.04	$2.02	(1.0%)
	Bulk	7	8	13.8%	$20	$25	24.5%	$2.78	$3.05	9.5%
Northeast	Packaged	453	491	8.5%	$901	$975	8.2%	$1.99	$1.99	(0.2%)
	Bulk	30	19	(37.3%)	$81	$65	(19.9%)	$2.65	$3.38	27.7%
Southeast	Packaged	194	192	(1.2%)	$391	$387	(0.9%)	$2.01	$2.02	0.3%
	Bulk	2	2	(14.9%)	$8	$7	(11.8%)	$3.51	$3.63	3.5%
West	Packaged	276	282	1.9%	$510	$542	6.3%	$1.84	$1.92	4.3%
	Bulk	78	65	(16.2%)	$244	$211	(13.3%)	$3.14	$3.25	3.3%

Nationally, packaged mushroom volume increased 2.9 percent in Q1 of 2003 and bulk volume decreased 9.9 percent versus year ago. The Midwest was the only region with an increase in bulk volume (13.8 percent) between Q1 2002 and Q1 2003. The Northeast had the largest packaged volume gains (8.5 percent) over 2002. Packaged retails increased in all regions except the Midwest and Northeast.



Best Practices: Merchandising

Four Linear Feet Will Grow Your Mushroom Category

Dedicate at least four (4) linear feet to mushrooms

For best results, departments averaging less than $32,000 should dedicate 16 square feet, while departments averaging above that should dedicate 24.

Display mushrooms between cooking vegetables and the salad category

By placing your mushrooms between these two sections, you'll be creating a cross merchandising effect that will meet multiple customers' cooking needs. Mushrooms are perceived as a key ingredient for cooks.

Target an optimum shrink percentage between 10 percent and 12 percent

Merchandise your mushrooms together

This will enable you to grow your brown and specialty mushroom sales by placing them prominently with your white mushroom offerings. It creates the effect of one-stop shopping for your customers.

Target a $50 per square foot space-to-sales ratio for mushrooms

Appropriate space-to-sales will promote your mushroom category as a destination for your customers.

Cross merchandise sliced mushrooms with bagged salads and merchandise packaged mushrooms in the meat department

Best Practices: Merchandising (continued)

Allow your mushroom category to grow with the proper space-to-sales ratio

AVERAGE STORE SET

SEGMENT	Square Footage	Dollars per Square Feet	Volume %	Shrink %
Packaged	18	$56	85%	8%
Bulk	6	$15	15%	28%
SUBCATEGORY				
White	16	$69	80%	8%
Brown	6	$17	16%	25%
Specialty	1	$ 7	3%	29%
Dried	1	$ 7	1%	0%

LOW INCOME SET

SEGMENT	Square Footage	Dollars per Square Feet	Volume %	Shrink %
Packaged	14	$37	90%	8%
Bulk	2	$67	10%	20%
SUBCATEGORY				
White	12	$48	90%	8%
Brown	3	$15	8%	20%
Specialty	0.5	$33	1%	25%
Dried	0.5	$10	1%	0%

AVERAGE STORE SET: MULTI-DECK, SIX-FOOT SET

Dried Mushrooms (5 varieties) Six Feet			
16 ounce White Five Facings	14 ounce Stuffers Three Facings		
Baby Bella Whole Four Facings	Oyster Two Facings	Shiitake Two Facings	Baby Bella Sliced Four Facings
6 ounce Portabella Caps Four Facings	Enoki Two Facings	6 ounce Portabella Sliced Four Facings	
8 ounce White Sliced Six Feet			
Bulk White Two Feet	Bulk Shiitake One Foot	Bulk Portabellas Three Feet	
8 ounce White Whole Six Feet			

LOW INCOME SET: MULTI-DECK, SIX-FOOT SET

Dried Mushrooms (5 varieties) Four Feet		
16 ounce White Four Facings	14 ounce Stuffers Two Facings	
Baby Bella Whole Two Facings	Shiitake One Facing	Baby Bella Sliced Three Facings
6 ounce Portabella Caps Three Facings	6 ounce Portabella Sliced Three Facings	
8 ounce White Sliced Four Feet		
Bulk White Two Feet	Bulk Portabellas Two Feet	
8 ounce White Whole Four Feet		

Consumer Purchase Criteria Summary

A new consumer purchase criteria study conducted by the Perishables Group for the Mushroom Council sought to determine the correlation between consumer perception of quality and purchase behavior. The initial study was conducted over the Internet with 244 consumers spread across five regions in the United States. All photos used in this study were of mushroom products purchased at retail.

The initial results showed that while consumers appear to be generally satisfied with mushroom quality, three out of four consumers said that over the past year they postponed at least one planned purchase due to quality concerns at the supermarket. Mushroom photos rated as "average" quality for color and cleanliness were identified as those typically seen in supermarket displays. Right off the bat, 7 to 8 percent of mushroom consumers indicated they probably won't or definitely won't buy supermarket or "average" quality mushrooms.

Most consumers said they sort through supermarket mushroom displays with 71 percent indicating that they often or sometimes sort to find the right quality. Only 28 percent of consumers reported that they are "satisfied" with the supermarket mushroom display and no sorting is required.

Further results revealed that when shown mushroom product photos, consumer purchase intent was linked to superior quality. For both sliced and whole mushrooms, the whiter and cleaner mushrooms were strongly associated with higher purchase intent. Conversely, older, browner mushrooms generated much lower purchase intent scores from consumers.

Looking at sliced mushrooms in particular, color and cleanliness captured consumer attention. For the top two mushroom quality photos, consumers indicated the product was significantly higher in quality. They rated the mushrooms as better than what they normally see in their supermarkets and indicated a higher likelihood of purchase.

With whole mushrooms, whiter mushroom photos rated better with consumers, however, consumers generally accepted slightly more browning with whole mushrooms as all photos were deemed by consumers to have acceptable quality.

Overall, the study revealed that a significant number of consumers indicated that at lower quality levels they would probably not or definitely not purchase mushrooms.

Key Findings

Consumer feedback from this study strongly indicates that activities that improve the quality of mushrooms on display in supermarkets are likely to increase category sales.

- 7 to 8 percent of mushroom consumers probably won't or definitely won't buy supermarket or "average" quality mushrooms.
- 75 percent of consumers say that in the last year a planned mushroom purchase was postponed due to quality concerns at the supermarket.
- 40 percent of consumers are purchasing mushrooms simply to have on hand, not for a specific need or recipe. A significant percentage of consumer purchase behavior is likely to be greatly influenced by quality.
- Most consumers (71 percent) say they sort through supermarket mushroom displays to find the right quality. Only 28 percent report they are "satisfied" with the mushrooms at the supermarket.
- Not surprisingly, when shown product photos consumer purchase intent was linked to superior quality. Whiter and cleaner mushrooms were strongly associated with higher purchase intent. Conversely, older, browner mushrooms generated much lower purchase intent from consumers.
- With sliced mushrooms in particular, color and cleanliness capture consumer attention and drive purchase intent.
- A majority of consumers indicate that they will probably or definitely not purchase mushrooms at lower quality levels.

Retaining consumers with mushroom quality is critical as it is harder to acquire new consumers than retain existing consumers. Following are some interesting facts on customer retention from Frederick F. Reichheld's book, *The Loyalty Effect*:

- Acquiring new customers can cost five times more than the costs involved in satisfying and retaining the current customer.
- A 5 percent reduction in the customer defection rate can increase profits by 25 percent to 85 percent, depending on the industry.

Consumer Purchase Criteria Summary (continued)

Sliced Mushroom Evaluation

Rated Best Quality
Better than in Supermarket
87.5% Likely to Buy
Color/Cleanliness #1
0% Won't Buy

Rated Slightly Better than Supermarket
86.9% Likely to Buy
Color Cleanliness #1
4.1% Won't Buy

Rated Equal to Supermarket Quality = 3.0
84% Probably Will Buy
Significant Drop in Rating of Color/Cleanliness
8% Probably Won't Buy

Rated Slightly Worse than Supermarket = 3.6
Less than Half Indicate a Likely Purchase
Significant Drop in Color Rating
33% Probably Won't Buy

Rated Worse than Supermarket Quality = 3.9
Only 33% Probably Will Buy
Significant Drop in Ratings of Color, Cleanliness, Appearance
66% Not Likely to Purchase

Whole Mushroom Evaluation

Rated Best Quality
And Better than in Supermarket =2.6
92.5% Likely to Buy
Top Color/Cleanliness Score
0% Won't Buy

Quality Slightly Average and Better than Supermarket
88.8% Likely to Buy
Strong Score for "General Appearance"
0% Won't Buy

Rated Above Average Quality
Rated Equal to Supermarket = 3.0
71.4% Likely to Buy
Average Color, Cleanliness and Appearance Scores
7% Won't Buy

Quality Rated Slightly Below Average and Slightly Below Supermarket = 3.3
Only 42% Likely to Buy
Color, Appearance Driving Negative Reactions
26.9% Won't Buy

Please note that results for the fifth photo of whole mushrooms matched that of the previous photo and were therefore not included.