



CALAMCO PROGRESS

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MESSAGE TO SHAREHOLDERS



Seasons Greetings! It's hard to believe we are already approaching the end of our first quarter for our 2006 fiscal year. Once again, we are happy to report that 2005 was another prosperous one for your cooperative, and we are currently working on processing members' 2005 fertilizer use reports. As usual, we plan to have checks in the mail prior to our first shareholder dinner, which is

scheduled for January 25th. We hope that you will try to attend the Regional Dinner in your area this year. Dates and details are included within this issue.

The end of 2005 also marked the end of our long-term supply of anhydrous ammonia out of Kitimat, British Columbia, Canada. Negotiations were first made in 1986 with Ocelot Ammonia Company, and we received our first shipment from Kitimat in March of 1987. In 1995, Mitsui Corporation acquired the Methanex/Ocelot Ammonia plant, and CALAMCO was able to renegotiate our contract with Mitsui to continue our supply from the Canadian facility. We have enjoyed a secure and long-term relationship with Mitsui for the last ten years and are sorry to see it come to an end. Unfortunately, due to high natural gas prices experienced throughout North America, continuing to operate this facility became too costly for Mitsui and the decision was made to idle production.

We are pleased to announce that we have secured a new, two-year supply contract with Koch Nitrogen which took effect January 1, 2006. Koch Nitrogen is one of the largest world market suppliers of nitrogen, with facilities in Trinidad, Venezuela, as well as in the United States.

Unfortunately, throughout 2005 we have continued to see a steady increase in fertilizer prices, with prices paid by farmers for the majority of fertilizer products reaching their highest levels on record during this past year. We understand that this is an important issue to our members. We will address the primary factors which have resulted in these price levels within this issue, as well as at our upcoming regional shareholder dinners.

Your management and staff at CALAMCO would like thank all of our customers and members for your continued support and wish you happiness and prosperity this holiday season and throughout the coming year.

BOB SMITH, PRESIDENT / CHIEF EXECUTIVE OFFICER

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*PRESIDENT AND
CHIEF EXECUTIVE OFFICER*
Bob Smith

EXECUTIVE VICE PRESIDENT
Barry Powell

VICE PRESIDENT OPERATIONS
Lee Gardiner

SALES REPRESENTATIVES
Alice Inderbitzin
Natalie Johnson

SAFETY DIRECTOR
Martin Jeppeson

BOARD OF DIRECTORS

CHAIRMAN OF THE BOARD
Alan Freese

VICE-CHAIRMAN
Case Van Steyn

Pat Avery

Brad Baltzer

Greg Dexter

Mark Grewal

Rick Rominger

Employees Honored In 2005

Each year CALAMCO honors those employees that reach milestones in their years of employment. This past year we were pleased to honor the following employees:

- James Forrester 35 years of service – Terminal Lead Person
- Isabel Gudino 20 years of service – Accounts Payable
- Alice Inderbitzin 20 years of service – Sales Representative
- Dale Thigpin 20 years of service – Terminal Lead Person
- Barry Powell 10 years of service – Executive Vice President
- Natalie Johnson 5 years of service – Sales Representative
- Michael Jones 5 years of service – Terminal Loader A



Left to right: Alice Inderbitzin, Isabel Gudino, Natalie Johnson, and Barry Powell

We would like to congratulate all of the above employees, and thank them for their years of dedicated service at CALAMCO.

2006 Regional Shareholder Dinners

We will be soon be having our annual Regional shareholder dinners, which have been scheduled as follows:

- Wednesday, January 25, 2006
The Holiday Inn, Visalia
- Thursday, January 26, 2006
F. McLintocks, Shell Beach
- Tuesday, January 31, 2006
The Maxwell Inn, Maxwell
- Wednesday, February 1, 2006
Waterloo Gun & Bocci Club, Stockton

Management will give a brief presentation on our Year in Review as well as our outlook for the coming year. This year we have are pleased to have Tess Dunham, Legal Counsel and Regulatory Affairs Specialist, Larry Walker Associates, as our guest speaker. Her topic will be *“The Impact of Water Quality Regulation on California Agriculture.”*

Registration and cocktails will begin at 6:00 pm, and dinner will be served at 6:45 pm. The evening will conclude with a variety of door prizes awarded to those who attend, which have been donated by various fertilizer dealers. Please remember that guests are welcome and you are encouraged to bring a non-member. This is always an enjoyable evening for all, so please mark your calendars!

Managing the Media in Times of Crisis



It is not just the large organizations in this country that become the center of attention for the media following a crisis, but smaller ones like CALAMCO, or even your own company, may one day have to respond to local newspaper, radio or television station reporters. Do you have a plan of action to ensure that this close encounter will turn out in your best interest?

A recent audio seminar provided us with some good ideas on how we might want to prepare ourselves. The speaker was Eileen Wixted of Wixted Pope Nora Thompson with offices in Des Moines, Chicago and Houston. Ms. Wixted has an extensive background with the media as both a member of the media, and also as a consultant to many industries, including the nuclear industry, preparing them for their encounter.

She pointed out that the media is the judge and jury in the court of public opinion. These days television is the main source of news information and that your local news source is generally considered the most credible by readers, listeners and viewers like you. What you tell the media will reach the ears of the public.

SAFETY STORY CONTINUED ON PAGE 4

Fertilizer Prices Hit Record Levels

As a world market commodity, fertilizer prices are determined much like the prices of other agricultural inputs. The fact that fertilizer is a commodity means that supply and demand factors in major markets around the world impact the price U.S. farmers pay for fertilizer. The prices paid by farmers for the major fertilizer materials reached their highest level on record during 2005.

Increased global demand for fertilizer has played a large part in recent years in placing upward pressure on fertilizer prices. World fertilizer demand increased by 13% or an estimated 20 million nutrient tons from fiscal year 2000/01 to 2004/05. Over this four year period, world nitrogen demand grew by nearly 10%, phosphate demand grew by 13% and potash demand grew by 25%.

Supply factors have also played a part in driving up fertilizer prices, particularly for nitrogen. Anhydrous ammonia is the source of nitrogen for nearly all fertilizer produced in the world. Increased global demand for fertilizer has played a large part in recent years. The cost for natural gas accounts for 70%-90% of the production cost of ammonia. Thus, when U.S. natural gas prices increased significantly beginning in the year 2000, the cost of domestically produced ammonia also rose significantly. Average U.S. ammonia production costs doubled from 1999 to 2003, the latest year for which data are available, and are sure to have increased again in 2004-2005 as natural gas prices have continued to rise.

While fertilizer producers can try to pass along these cost increases, the commodity nature of the business and com-

petition from producers in nitrogen exporting countries with access to lower priced gas, limits this option. As a result, a rise in U.S. natural gas prices caused producer margins to shrink. Eventually, margins turn negative as gas prices continue to increase. Consequently, companies are forced to reduce production, temporarily idle, or even permanently close plants depending on the specific economic situation they face. Overall, 16 ammonia plants have closed permanently since 1998/1999, primarily as a result of the rise in natural gas prices, and an additional five plants are currently idle. As a result, U.S. ammonia production fell by over six million tons, or 34% in only five years. Consequently, the U.S. fertilizer industry, which typically supplied 85% of its domestic needs from U.S. based production during the 1990's, now relies on imports for nearly 45% of nitrogen supplies.

In addition, higher transportation costs have also added to the final price you pay for fertilizer. While fertilizer prices are up, when you put it in perspective, the price increases realized are in line with and even below those observed for most other major farm inputs. Despite the significant impact of rising natural gas costs and the large increase in global fertilizer demand, average fertilizer prices in August 2005 stood 61% higher than their 1990-1992 level, according to USDA data. In comparison, the prices of farm machinery, seed and wage rates were up 62%-71% while fuel costs more than doubled over the same 14-year period.

*Excerpts from article by The Fertilizer Institute entitled "Perspective on Fertilizer Prices"



Tess Dunham Legal Counsel And Regulatory Affairs Specialist Larry Walker Associates

Tess joined Larry Walker Associates, an environmental consulting firm that specializes in water quality, in January of 2003. In her role with Larry Walker Associates, Inc., Tess actively represents clients on NPDES permit issues before

various Regional Boards and is an expert on basin plan compliance issues. She also provides regulatory and policy analysis to clients on a broad array of environmental issues related to water quality.

Prior to joining Larry Walker Associates, she was the Director of Water Resources for the California Farm Bureau Federation.

During her tenure with the Farm Bureau, Tess developed an expertise on water quality issues impacting agriculture, including federal and state laws and regulations. In this capacity, Tess chaired the California Agriculture's Water Quality Coalition and led the Coalition's efforts in obtaining a new conditional waiver from Reports of Waste Discharge and Waste Discharge Requirements from the Central Valley Regional Water Quality Control Board for irrigated agriculture.

Tess has also been involved in the development of a number of total maximum daily loads (TMDLs) impacting agriculture throughout California. She has been the production agriculture representative on the State's AB 982 Public Advisory Group and is the author of several articles on the issue of TMDLs and their impact to agriculture.

Managing the Media in Times of Crisis

SAFETY STORY CONTINUED FROM PAGE 2

News is an element of change that will have some impact on you or your neighbors and this is going to create a conflict; the media will always focus on the conflict. The 'change' is the event that puts us in the news; it could be a fire, vehicle accident, or chemical release. The 'impact' is the effect on you or me; does it close the business down, does it disrupt our normal day? The 'conflict' is that people do not know what is going to happen next, and they do not know why this event occurred. We as business owners and operators have to focus on that 'conflict' because it has created a crisis which may have undermined the trust that the public or the government has placed on us.

There are four steps that we can take to help us through this crisis:

- Show care and concern for those involved – especially if injuries have occurred.
- Accept responsibility – “We’re responsible for any inconvenience this may have caused.”
- Have a cooperative attitude – “We’re going to do everything we can to fix this.”
- Show resolve – “We will be back on our feet soon.”

We need to establish a dialogue, not a monologue, and realize that while there may be many different audiences listening, we should only have a few messages, the four steps above.

There are some Do’s: do demonstrate actions; do tell the truth; do release only confirmed facts; do show concern and caring; do dispel rumors; do remain calm; and do be accessible.

There are also some Don’ts: do not speculate; do not place blame; do not estimate; do not talk off the record; do not be thrown by a hostile question; and do not discuss liability.

We hope never to be placed in front of a camera or microphone following a crisis, but if we are, we need to have a plan of action. This is something we have control of and can develop by war-gaming potential scenarios, deciding what sort of questions will be asked, and preparing a company position that will answer the mail and put the company in the best possible light from the perspective of the public.



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