

National Grape Cooperative Association, Inc. &



Profile



Welch's is the processing and marketing affiliated cooperative of the National Grape Cooperative Association, Inc., whose 1,461 patrons supply its principal raw products – Concord and Niagara grapes – from more than 46,000 acres of vineyards in Michigan, New York, Ohio, Pennsylvania, Washington and Ontario, Canada.

The purpose of the Company is to build the long-term value of the cooperative, to release that value back to the growers over time and to provide a reliable market for their grapes through excellence in product quality, customer service, market responsiveness and consumer satisfaction.

Welch's had its beginnings in 1869 when Dr. Thomas Bramwell Welch successfully processed an unfermented Concord grape wine that could be used in his church's communion service. Applying the theory of Louis Pasteur to pasteurize his juice, Welch unknowingly opened the gateway for all fruit juice processing in the United States. Today, fruit juice processors continue to use the same principles that Dr. Welch applied in his small Vineland, New Jersey, kitchen.

Now headquartered in Concord, Massachusetts, Welch's is the world's leading marketer of Concord and Niagara grape-based products, including grape juice and jelly. The Company also produces a variety of other fruit-based products, including 100% juices and juice cocktails in the following forms: bottled, refrigerated, single-serve, and frozen and shelf-stable concentrates. In addition Welch's produces an assortment of jams, jellies and preserves under both the Welch's and BAMA brand names.

These products are sold by the food store, special markets, industrial and military, licensing and international divisions throughout the United States and in more than 30 countries around the world. In its most recently completed fiscal year, Welch's sales totaled \$631 million. Of that amount, a remarkable 33% of its sales came from items that were not part of the Company's product portfolio five years ago.

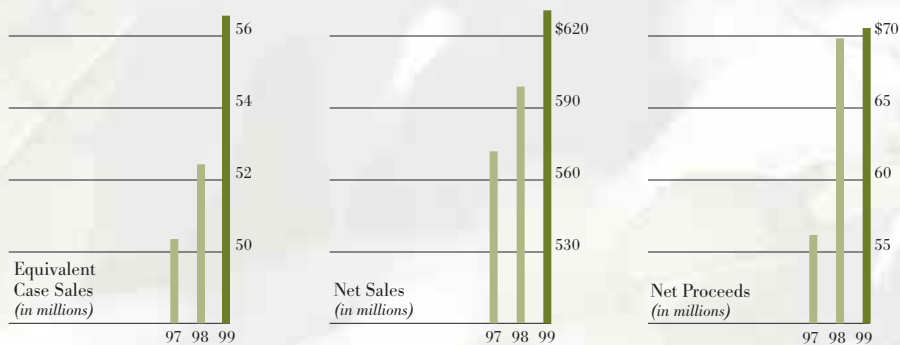
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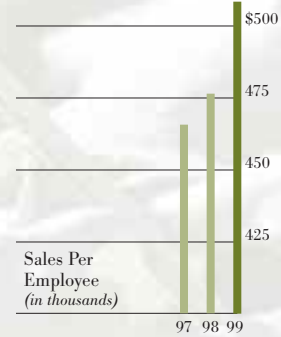
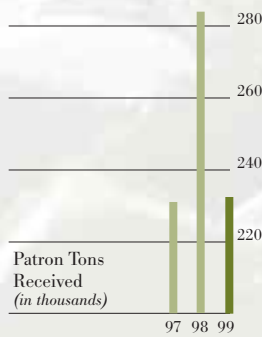
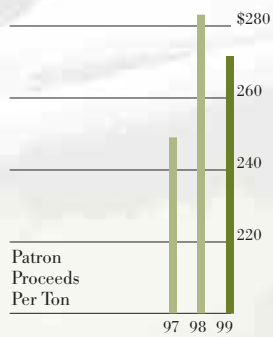
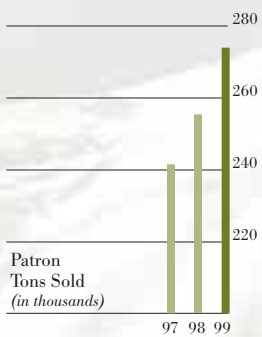
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Financial

Highlights

<i>Years Ended August 31,</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
Equivalent Case Sales <i>(in thousands)</i>	56,451	52,384	50,338
Net Sales <i>(in thousands)</i>	\$630,953	\$599,739	\$ 572,677
Net Proceeds <i>(in thousands)</i>	\$ 70,532	\$ 69,807	\$ 56,192
Patron Tons Sold	274,850	256,288	242,512
Net Proceeds Per Ton	\$ 257	\$ 272	\$ 232
Patron Proceeds Per Ton	\$ 272	\$ 282	\$ 249
Number of Patrons	1,461	1,497	1,441
Patron Acreage <i>(Bearing and Nonbearing)</i>	46,917	46,523	43,151
Patron Tons Received <i>(1998, 1997 and 1996 Harvests)</i>	233,561	283,518	231,837
Number of Employees	1,241	1,258	1,228
Sales Per Employee	\$508,423	\$476,740	\$466,349



National Grape

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A Cooperative

Business

Highlights

- Records set for case sales – 56.5 million; net sales – \$631 million; and patron net proceeds – \$74.8 million. Sales per employee – \$508,423 – also reach new high.

- Amazing success of new refrigerated product leads to national rollout, achieved in less than 12 months. The line has significantly exceeded early expectations with sales of nearly 3 million cases.

- Bottled juice line up more than 59% in case sales since '95; over same period of time market share has more than doubled – from less than 4% to more than 8% today.

Bottled grape juice posts over 750,000 case increase over '98.

- The good news just keeps on comin' – studies into health benefits of purple grape juice highlighted in newspapers, radio, television. More than 850 TV spots alone account for more than 50 million impressions. Research suggests purple grape juice may increase platelet activity, make our arteries more elastic and help in the battle against second-hand smoke.

- Solid strides made to enhance Welch's brand equity. Two notable examples: our first co-branded candy venture, with Russell Stover, which is expected to surpass \$40 million in retail sales in its first year in market, and Welch's Fresh Grapes, a licensing arrangement with C.H. Robinson, one of the country's largest suppliers and distributors of produce. Initial sales results are very encouraging.

- Welch's wins "Best in Class" in Logistics. Seber Associates, an independent consulting firm, studies 23 food companies and indicates that Welch's provides its customers with the best mix of high customer-service levels and low logistics costs.



Sparked by

more news about

health and

nutrition benefits,

Welch's purple

grape juice

continues strong

growth trends.

- Continued success in vending and wholesale membership clubs leads to surge in sales of single-serve products – case sales up 28.4% over 1998. Expansion of direct-store distribution initiative also a factor; more than 40 distributors around the country are now selling our single-serve beverages.

- When the going gets tough... Great teamwork from the folks in R&D, Purchasing, Engineering, Marketing, Logistics, Sales, Finance and at the Plants leads to a successful launch of Welch's new 32-ounce plastic jam-jelly bottle. Record turnaround time (from decision to go, to launch) of six months gives Welch's another first and helps the company gain strategic competitive edge in key markets.

- Welch's grape spreads post 3% increase in dollar share of U.S. market. Gain particularly impressive in light of overall decline in grape segment of 1.4%.

- Welcome to the web. Launched in '98, Welch's website is currently receiving 11,000 visitors and 30,000 page views per month. In January Welch's began couponing on the web; and in February Welch's launched its first web-based sponsorship on I-Village, the leading site for women on the web.

- Helping the environment and ourselves: Welch's plants take a proactive approach to water conservation and wastewater management, working with our engineers and local government to reduce discharge. Water conservation efforts at our North East facility not only lead to significant dollar savings but also help us adhere to local water demand and waste stream guidelines.



*New plastic
can exemplifies a
can-do spirit and
pumps new life
into the frozen
concentrate
category.*



- Realignment of sales force into two customer teams and three geographic teams brings increased focus and more resources to top customers. New structure enables Sales to respond directly and specifically to retail customer needs and opportunities for growth.

- New technology center in Billerica, Mass., continues making valuable contributions to new products, packaging and processes. Indicative of heightened activity is patent (#5,846,583) awarded to Tom Gentner, manager – Corporate Quality, for developing a new method for pasteurization.



Solid gains

posted in spreads

as consumers

embrace Welch's

Squeezables like

never before.

- Cross-functional team works closely with Information Services to develop Tradetopia, a new trade spending and deduction-management system. Now being used by field sales and our brokers, this leading-edge application helps us process customer deductions more efficiently, simplify the payment and recording of expenses, and better understand and manage the effectiveness of trade events.

- BAMA keeps rolling, launching new 32-ounce plastic packaging in record time and Grape Easy Squeeze with new kid-friendly graphics. BAMA juices achieve number 3 share position in shelf-stable concentrates, establishing the brand in the bottled section.

- Good growing. Concord acreage expansion program, which is expected to increase corporate contracted raw product base by 7.5%, is fully subscribed to by members in both eastern and western pools. In addition, nearly 700 acres are planted by members this year under eastern pool Niagara acreage expansion program.



• By promoting the health and nutrition news of purple grape juice, our business partner in Japan – Calpis – posted significant sales gains with Welch’s products in ’99. New “lightstyle” juice beverage proves popular, accounting for nearly 30% of the sales increase there. Total grape juice concentrate business in Japan grows over 40%.

• New plastic can – the first innovation in Frozen since the peel strip some 20 years ago – is well received by trade and consumers alike as it stirs excitement in category. National distribution will be achieved by Year 2000.

• Chalk up another. For the second year in a row, Welch’s advertising efforts, featuring child star Emily Mae Young, earn an Effie, the annual award that goes to ad campaigns that best represent “creativity that works in the marketplace to build strong brands.” Meanwhile, on the radio, Paul Harvey signs on to tell the “rest of Welch’s story” in 1999-2000.

• Patron tons sold – 274,850 – top ’98 figure by more than 18,000 tons or 7.2%.
Average annual patron tons sold in ’80s: 191,900; in ’90s: 243,600.

• Special Markets exceeds \$100 million in sales (\$113 million) for first time.
Drug-Discount leads way with 21.7% increase in dollar volume, while Club Stores continue to outpace the industry with a 12.3% dollar volume increase over previous year.

• Coming off strong years, Bottled segments still post solid gains in food store sales, most notably: 17.8% increase in White Grape Blends, 19.2% increase in Sparkling, 88.9% increase in 100% Red Grape Juice. To capitalize on continuing consumer trend toward larger sizes, shipments of new 96-ounce Purple and White get under way in August.



*New refrigerated
line achieves
national
distribution in
record time;
sends chills
through
competition.*

Presidents'

Letter

Fiscal year 1999 saw Welch's continue

the trend of setting record highs in cases sold, net sales, net proceeds, and patron net proceeds. Those are outstanding accomplishments, and we want to acknowledge everyone at the outset – our growers, our employees, our business partners, our customers and our consumers – for helping us make it happen. Without their continued support, our success would not be possible.

But as proud as we are of those, and many other accomplishments, we are far from satisfied. While the business environment we operate in is incredibly intense, and

the goals we have set are clearly “stretch” goals, we look back at the year just completed and the challenges ahead of us, and acknowledge that there is still much more to be accomplished and much more we can do better.

It is this attitude that has helped us set records in recent years in virtually every key area of the business, and it is this attitude that will propel us to even greater achievements in the year 2000 and beyond.


We are well aware of the challenge... and what we have done to meet that challenge. At a time when much – if not most – of agriculture is in crisis, when every day it seems there are new reports of commodities and agricultural sectors sinking to dismal levels, Concord and Niagara grapes stand out as a beacon of success.

The reason many other crops are experiencing ever lower prices is often a result of the American farmer increasing yield and, in the process, adding to an already abundant supply of product. Unfortunately, demand in the marketplace has rarely kept pace. When supply exceeds demand – and it's been happening with a good deal of frequency lately – the price farmers receive for their crops declines.



Daniel P. Dillon

Fredrick P. Kilian



But this has not been the case for Concord and Niagara grape growers. Although the supply of grapes has increased dramatically in recent years – the record crop of over 310,000 tons received this year contrasts sharply with the 190,000-ton crops of the '80s – the price paid for grapes has actually increased.

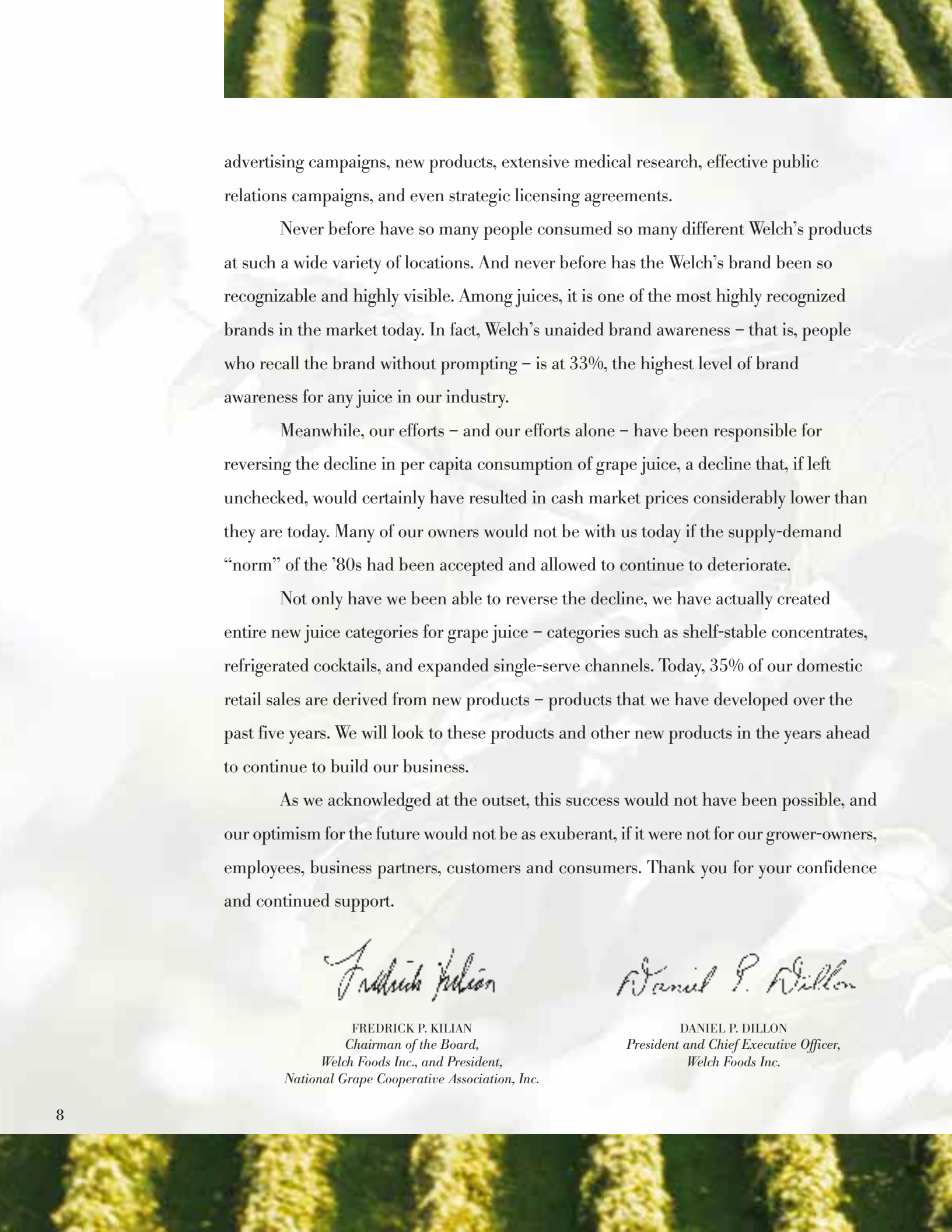
For fiscal '99, National growers will receive proceeds of \$74.8 million versus an average of \$41.7 million per year in the '80s. Patron returns per ton in the fiscal year just completed total \$272; in the '80s, patron returns, on average, were \$221 per ton.

The mission of the company is to continually build the value of the enterprise and to continually release more of that value to the grower-owners. Releasing value in the form of higher returns is the most obvious measure, and we are seeing continuous improvement in this respect. But value is also released in other, less obvious ways. For example, providing a secure market for members' raw materials. Welch's has never failed to accept all of its members' quality grapes. Another way the co-op releases value to an owner is by providing efficient receiving and storage capacity for an orderly harvest. Welch's has consistently made the investment in technology and in adding capacity to receive and contain its members' harvests.

A good example of that is the recently concluded harvest – a full 33% larger than last year's and by far the largest in the co-op's history. It is an added value to the members for the co-op to receive and contain that crop as efficiently as we did.

Expanding opportunities for members to plant more grapes provides added value. We now have the most ambitious planting program – for both Concord and Niagara grapes – in the history of the co-op. And, in many cases, it has been shown that a Welch's contract adds value to a vineyard when growers retire and want to sell their farm.

Releasing value is, of course, intrinsically tied to building value, and critical to almost every value-building initiative we undertake is Welch's brand equity. We continuously enhance this equity through hundreds of initiatives – starting with the highest-quality standards for the grapes our growers deliver and the products we produce and continuing through with positioning on the shelf, new packaging, award-winning



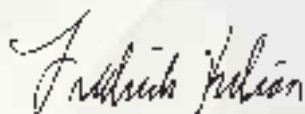
advertising campaigns, new products, extensive medical research, effective public relations campaigns, and even strategic licensing agreements.

Never before have so many people consumed so many different Welch's products at such a wide variety of locations. And never before has the Welch's brand been so recognizable and highly visible. Among juices, it is one of the most highly recognized brands in the market today. In fact, Welch's unaided brand awareness – that is, people who recall the brand without prompting – is at 33%, the highest level of brand awareness for any juice in our industry.

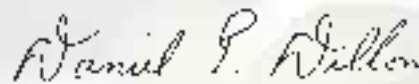
Meanwhile, our efforts – and our efforts alone – have been responsible for reversing the decline in per capita consumption of grape juice, a decline that, if left unchecked, would certainly have resulted in cash market prices considerably lower than they are today. Many of our owners would not be with us today if the supply-demand “norm” of the '80s had been accepted and allowed to continue to deteriorate.

Not only have we been able to reverse the decline, we have actually created entire new juice categories for grape juice – categories such as shelf-stable concentrates, refrigerated cocktails, and expanded single-serve channels. Today, 35% of our domestic retail sales are derived from new products – products that we have developed over the past five years. We will look to these products and other new products in the years ahead to continue to build our business.

As we acknowledged at the outset, this success would not have been possible, and our optimism for the future would not be as exuberant, if it were not for our grower-owners, employees, business partners, customers and consumers. Thank you for your confidence and continued support.



FREDRICK P. KILIAN
*Chairman of the Board,
Welch Foods Inc., and President,
National Grape Cooperative Association, Inc.*



DANIEL P. DILLON
*President and Chief Executive Officer,
Welch Foods Inc.*

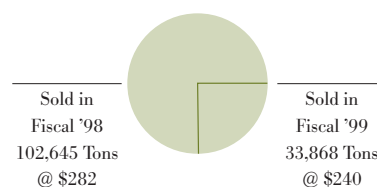
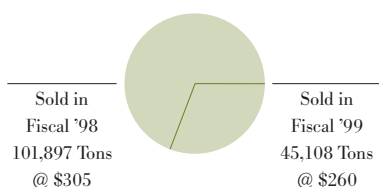
1997 Crop Proceeds Earned in Fiscal Years 1998 and 1999

The charts below illustrate the distribution of Patron Net Proceeds to patrons in the Eastern and Western Pools for the calendar year 1997 grape crop. The charts show the average Patron Net Proceeds Per Ton on the 1997 crop (harvested in fiscal 1998) as it was sold over a period of two fiscal years. A portion of the crop is sold in the fiscal year in which it is harvested and the remainder is sold the following fiscal year. Therefore, in any one fiscal year, there are two crops being sold.

In order to determine what each annual crop earns in total over two fiscal years, the following calculation is made. In the left chart, for instance, patron grapes sold from the Eastern Pool in fiscal 1998 earned \$305 a ton. Eastern grapes sold in fiscal 1998 included 101,897 tons or 69.3% of the 1997 crop. To calculate earnings per ton to patrons on the 1997 crop sold in fiscal 1998, multiply 69.3% times \$305. The result is \$211. Applying the same calculation method to the 1997 crop sold in fiscal 1999 results in Crop Proceeds Per Ton of \$80. The \$211 added to the \$80 equals \$291, the final return on the 1997 crop to Eastern Pool patrons.

The same method of calculation is used for Western Pool earnings.

East	1999	1998	Total	West	1999	1998	Total
147,005 Tons at \$291 Per Ton				136,513 Tons at \$271 Per Ton			
Percentage Sold	30.7%	69.3%	100%	Percentage Sold	24.8%	75.2%	100%
Patron Net Proceeds Per Ton	\$260	\$305		Patron Net Proceeds Per Ton	\$240	\$282	
1997 Crop Proceeds Per Ton	\$ 80	\$211	\$291	1997 Crop Proceeds Per Ton	\$ 59	\$212	\$271



National Grape Cooperative Association, Inc. & Welch Foods Inc., A Cooperative

Schedule of
Distributions
to Patrons -
1997 Crop

Total Distributions for 1997 Crop
Based on Average Sugar Solids
of Concord Grapes

Eastern Pool		Western Pool	
Final	147,005 Tons	Final	136,513 Tons
Cash:		Cash:	
Paid in Fiscal 1998	\$148	Paid in Fiscal 1998	\$139
Paid in Fiscal 1999	55	Paid in Fiscal 1999	54
Paid and to be paid in Fiscal 2000	18	Paid and to be paid in Fiscal 2000	16
<hr/>		<hr/>	
Total Cash	221	Total Cash	209
Allocation Credits:		Allocation Credits:	
January, 1999	44	January, 1999	43
January, 2000 (to be issued)	18	January, 2000 (to be issued)	14
<hr/>		<hr/>	
Total Allocation Credits	62	Total Allocation Credits	57
Permanent Equity Credits:		Permanent Equity Credits:	
January, 1999	4	January, 1999	5
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Total Distributions	\$287	Total Distributions	\$271
<hr/>		<hr/>	
Average Per Ton Distribution in the Eastern Pool*	\$291		

*Reflects 9% premium on Niagara Grapes

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Five-Year
Summary -
Fiscal Years

<i>Years Ended August 31,</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Equivalent Case Sales <i>(in thousands)</i>	56,451	52,384	50,338	50,130	47,422
Net Sales <i>(in thousands)</i>	\$630,953	\$599,739	\$572,677	\$550,783	\$509,102
Net Proceeds <i>(in thousands)</i>	\$ 70,532	\$ 69,807	\$ 56,192	\$ 57,739	\$ 56,407
Patron Tons Sold	274,850	256,288	242,512	292,893	278,288
Net Proceeds Per Ton	\$ 257	\$ 272	\$ 232	\$ 197	\$ 203
Patron Proceeds Per Ton	\$ 272	\$ 282	\$ 249	\$ 218	\$ 194
Patron Proceeds Per Bearing Acre	\$ 1,704	\$ 1,713	\$ 1,420	\$ 1,583	\$ 1,327
Concord Grape Payments (Average By Crop - Fiscal Years) **1998 Crop Not Completely Sold					
East	\$ **	\$ 287	\$ 260	\$ 235	\$ 215
West	\$ **	\$ 271	\$ 272	\$ 164	\$ 186
Number of Patrons	1,461	1,497	1,441	1,495	1,426
Patron Acreage (Bearing and Nonbearing)	46,917	46,523	43,151	43,150	40,943
Average Acres Per Patron	32.1	31.1	29.9	28.9	28.7
Patron Tons Received (1998-1994 Harvests)	233,561	283,518	231,837	282,797	264,889
Average Tons Per Acre Received					
Concords - Eastern Pool (NY, PA, OH, MI, ONT. CAN)	4.8	4.5	5.8	5.5	6.4
Concords - Western Pool (WA)	6.3	10.2	4.4	11.0	7.1
Concords - Corporate	5.2	6.2	5.4	7.0	6.6
Capital Expenditures <i>(in thousands)</i>	\$ 18,396	\$ 13,540	\$ 24,044	\$ 17,440	\$ 13,659
Long-Term Debt, Trust Preferred Securities and Allocation Credits <i>(in thousands)</i>	\$ 211,114	\$220,766	\$194,533	\$183,605	\$181,861
Total Assets <i>(in thousands)</i>	\$351,269	\$366,841	\$331,031	\$312,596	\$306,127
Number of Employees	1,241	1,258	1,228	1,224	1,431
Sales Per Employee	\$508,423	\$476,740	\$466,349	\$400,569*	\$355,767

*(Adjusted for the effect of BAMA facility closure and sale of Cascadian Farm business in 1996)

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Management's

Discussion and

Analysis of

Financial

Condition

and Results

of Operations

Results of Operations

Net sales for 1999 were \$631 million, an increase of \$31.3 million or 5.2% over 1998 sales of \$599.7 million. In 1998, net sales were \$27 million or 4.7% higher than 1997 sales of \$572.7 million. Equivalent case sales for 1999 were 56.5 million, up 4.1 million cases or 7.8% from 1998 volume of 52.4 million. Last year's equivalent case sales were 2.1 million higher than 1997 volume of 50.3 million.

Sales growth in several different areas of the Company's business accounted for the net sales increase in 1999. Leading the way in 1999 was the success of the Company's newest product introduction, Refrigerated drinks, a line of refrigerated juice cocktails in five different flavors. In a core area of the Company's business, Welch's flagship product, bottled purple grape juice, continued its growth trend from the past several years, driven by consumer demand for purple grape juice based on its medically documented health benefits and aided by effective advertising and marketing support. In another area, sales of Welch's single-serve juice products in a variety of flavors and sizes provided continued growth for the Company through a network of vending machines, convenience and drug-discount stores, wholesale membership clubs and the foodservice marketplace. International finished product sales grew 8% mainly as a result of increased sales in the Latin American markets.

The net sales increase in 1998 was attributable to growth in some of the Company's core products, such as bottled purple and white grape juice and grape jellies and jams, increased sales of single-serve juice products, an increased level of sales of bulk grape juice concentrate and the continued success of new products such as JuiceMakers.

The sales margin percentage (sales less cost of sales, excluding the cost of patron grapes, as a percentage of sales) was 53.2% for 1999, 51.9% in 1998 and 49.9% in 1997. The increase in the sales margin percentage each year reflected decreases in the costs for certain ingredients and raw materials and lower conversion cost as compared to the prior year and in 1998 also from reduced manufacturing overhead.

Selling and administrative expense increased \$18.9 million and \$13.5 million for 1999 and 1998, respectively. The increases in both years reflected a higher level of marketing and selling costs in support of increased sales volume and the introduction of new products. Administrative expense, as a percentage of net sales, improved in both 1999 and 1998 as a result of continuing cost containment efforts and the benefit of improved operational efficiencies. Sales per employee continued to grow in 1999, rising over 6.5% to \$508,000 per employee.

Interest expense for 1999 declined slightly by \$.2 million mainly as a result of a lower average borrowing rate during the year. Interest expense in 1998 increased \$2 million from 1997 due to a higher level of debt outstanding and higher average borrowing rates. In 1998,

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the Company assumed \$6.3 million of bank debt as part of the merger with Yakima Valley Grape Producers, Inc.

Other expense was \$2.7 million in 1999. Other income was \$2.3 million in 1998, which included increased income from a new licensing agreement with Eskimo Pie and refunds of prior years' state taxes. Other income was \$.3 million in 1997.

Federal income tax benefits of \$1.9 million, \$2.1 million and \$1 million in 1999, 1998 and 1997 respectively relate to nonpatron losses for those years mainly due to the introduction of new products.

Net proceeds were \$70.5 million in 1999, \$.7 million higher than \$69.8 million in 1998. The slight increase reflected the growth in sales volume and improved sales margins net of higher marketing expenses and a smaller amount of other income in comparison to 1998. Net proceeds last year were up \$13.6 million or 24.2% from \$56.2 million in 1997 as a result of growth in sales volume, improved sales margins and higher other income.

Net proceeds per ton for 1999 were \$257, down \$15 from \$272 per ton in 1998. The decrease reflected 1999 net proceeds at comparably the same level as 1998 spread over an increased number of patron tons sold (up 18,500) during 1999. Net proceeds per ton last year were \$40 higher than the \$232 per ton in 1997. This mainly reflected the large increase in net proceeds in 1998.

For 1999, patron net proceeds were \$74.8 million, \$2.5 million more than 1998 and \$14.3 million more than 1997. The increase was driven by increased consumer demand for core Concord and Niagara juice products and was a direct result of the Company's investment in medical research, effective advertising, new packaging and new products.

Patron proceeds on the 1997 crop that closed in 1999 were \$79.8 million or \$281 per ton. Patron proceeds for the 1996 and 1995 crops were \$60.8 million (\$262 per ton) and \$57.9 million (\$205 per ton), respectively.

Year 2000

During fiscal 1999, the Company finalized the successful review, modification and testing of its critical business application and manufacturing process systems for "Year 2000" compliance. The "Year 2000 Issue" involves the potential impact of computer software programs failing to properly recognize and process date-sensitive information relating to the year 2000 and beyond. The Company will continue to monitor its mission critical applications and the readiness of suppliers, carriers and customers regarding this issue and the impact it may have on the Company's business.

Liquidity and Capital Resources

Cash provided by operating activities in 1999 was \$34.9 million, compared to \$33.6 million in 1998 and \$37.7 million in 1997. The increase for 1999 resulted from lower working capital requirements. The 1998 decrease resulted from higher working capital requirements offset in part by increased proceeds retained in the business as a result of higher patron net proceeds. Cash was \$4.6 million at the end of 1999 and \$7.3 million at the end of 1998.

Working capital was \$45.6 million at the end of 1999 compared to \$58.5 million in 1998 and \$35 million in 1997. The decrease in 1999 was mainly a result of the net effect of lower inventory levels and higher receivables. The increase in 1998 reflected higher inventory levels and receivables.

The patron retention rate (the percent of patron net proceeds distributable in allocation credits and permanent equity credits) was 23% for 1999, 1998 and 1997. Patron retention provides working capital and helps maintain the Company's capital structure within management's guidelines.

To meet seasonal and operating cash requirements, the Company has various sources of financing available to supplement internally generated funds, including bank loans and other forms of financing in domestic financial markets. On August 31, 1999, the Company had \$67 million of available borrowings under its short-term lines of credit.

Total debt was \$5.6 million less than 1998 primarily as a result of lower inventory levels. The Company uses debt acquisition when necessary as a means for providing working capital and term financing for capital expenditures, new product introductions and other business investments.

On February 1, 1999, the Company called for redemption the entire \$10.8 million of its 1992 Allocation Certificates and Credits, which were due in 2012, at a redemption price of 100% of their principal amount.

Management believes that working capital and available credit facilities are adequate to meet normal operating requirements, to fund capital expenditures and to provide for the redemption of allocation credits in 2000. As the need for external financing arises, the Company expects to have continued access to short-term credit markets to fund seasonal working capital requirements and to have the ability to raise additional funds in long-term debt markets.

In addition to external financing and increasing net proceeds, the Company can meet its liquidity requirements, if necessary, by increasing the percentage of patron net proceeds invested by its patrons.

The Company invested \$18.4 million in property, plant and equipment in 1999, \$4.9 million more than 1998 capital expenditures of \$13.5 million. Capital expenditures were \$24 million in 1997. The Company expects capital expenditures of approximately \$19 million in 2000, reflecting the need for continual improvement in the operating efficiency of facilities and the expansion of existing business.

Company management is responsible for all of the information and representations contained in the accompanying consolidated financial statements and in other sections of this Annual Report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include amounts that are based on estimates and judgments of management. Other financial information in this Annual Report is consistent with the consolidated financial statements. Independent auditors have audited the consolidated financial statements contained in this Annual Report.

In meeting its responsibility for the reliability of the consolidated financial statements, management depends on its system of internal accounting controls. Such controls are designed to provide reasonable assurance that assets are properly safeguarded and that accounting records properly reflect the Company's business transactions. Such controls, in the broader sense, also encompass the organizational arrangements and personnel selection and evaluation criteria designed to provide reasonable assurances that the financial and other functions of the Company are performed by competent personnel, under adequate checks and balances. Management is responsible for the establishment and evaluation of such controls on a continuing basis. Management believes this system provides reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected by employees in the normal course of performing their assigned responsibilities. The reliability of the various internal accounting controls is tested by the Company's internal auditors.

The Company's independent auditors, KPMG LLP, have audited the consolidated financial statements. Their audit was conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.

The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review matters relating to financial reporting, the internal control system, and the nature, extent and results of audit efforts. Both the internal and independent auditors have direct access to the Audit Committee at any time.

Management's Responsibility for Financial Statements

National Grape

Cooperative

Association, Inc. &

Welch Foods Inc.,

A Cooperative

Consolidated
Statements of
Operations and
Distributions
of Net Proceeds

		<i>(in thousands)</i>		
<i>Years Ended August 31,</i>		<i>1999</i>	<i>1998</i>	<i>1997</i>
Net sales		\$630,953	\$599,739	\$572,677
Cost of sales		294,988	288,285	287,165
Selling and administrative expense		252,900	234,016	220,542
Interest expense		11,811	12,046	10,029
Other (income)expense - net		2,672	(2,298)	(251)
		<u>562,371</u>	<u>532,049</u>	<u>517,485</u>
Proceeds before Federal income taxes		68,582	67,690	55,192
Federal income tax benefit (Note F)		(1,950)	(2,117)	(1,000)
Net proceeds		<u>\$ 70,532</u>	<u>\$ 69,807</u>	<u>\$ 56,192</u>
Patron distributions:				
Cash				
East		\$ 38,160	\$ 31,017	\$ 36,204
West		19,461	24,706	10,368
Total		<u>57,621</u>	<u>55,723</u>	<u>46,572</u>
Allocation credits				
East		10,213	8,617	10,272
West		5,798	6,728	2,964
Total		<u>16,011</u>	<u>15,345</u>	<u>13,236</u>
Permanent equity credits				
East		788	648	542
West		412	652	133
Total		<u>1,200</u>	<u>1,300</u>	<u>675</u>
Total patron distributions		74,832	72,368	60,483
Nonpatron net loss		(4,300)	(2,561)	(4,291)
Net proceeds		<u>\$ 70,532</u>	<u>\$ 69,807</u>	<u>\$ 56,192</u>

See notes to consolidated financial statements.

National Grape

Cooperative

Association, Inc. &

Welch Foods Inc.,

A Cooperative

<i>August 31,</i>	<i>(in thousands)</i>	
	<i>1999</i>	<i>1998</i>
Assets		
Current assets:		
Cash and equivalents	\$ 4,568	\$ 7,266
Accounts receivable	78,127	67,978
Inventories (Note C)	60,617	86,844
Other	3,713	4,085
Total current assets	147,025	166,173
Property, plant and equipment:		
Land	2,329	2,610
Land improvements	5,180	5,083
Buildings and improvements	74,433	71,466
Machinery and equipment	205,374	194,806
	287,316	273,965
Less accumulated depreciation	176,075	165,046
Net property, plant and equipment	111,241	108,919
Other assets (Note D)	93,003	91,749
	\$351,269	\$366,841
Liabilities, Patrons' Investments and Accumulated Deficit		
Current liabilities:		
Trade payables	\$ 42,509	\$ 52,327
Accrued liabilities	15,786	16,487
Accounts payable to patrons	19,947	25,058
Notes payable to patrons	4,169	3,911
Current maturities of long-term debt (Note E)	17,125	8,000
Current maturities of patrons' investments	1,936	1,858
Total current liabilities	101,472	107,641
Long-term debt (Note E)	97,275	112,000
Other liabilities	34,876	30,381
Trust preferred securities (Note G)	25,000	25,000
Patrons' investments (Note H):		
Allocation credits	88,839	83,766
Permanent equity credits	14,099	14,045
Accumulated deficit	(10,292)	(5,992)
Commitments and contingencies (Notes J and K)		
	\$351,269	\$366,841

See notes to consolidated financial statements.

Consolidated

Balance

Sheets

National Grape

Cooperative

Association, Inc. &

Welch Foods Inc.,

A Cooperative

Consolidated

Statements of

Cash Flows

National Grape

Cooperative

Association, Inc. &

Welch Foods Inc.,

A Cooperative

		<i>(in thousands)</i>		
		<i>Years Ended August 31,</i>		
		<i>1999</i>	<i>1998</i>	<i>1997</i>
Cash flows from operating activities:				
	Net proceeds	\$70,532	\$69,807	\$56,192
	Adjustments to reconcile net proceeds to net cash provided by operating activities:			
	Cash paid or payable for patron grapes	(57,621)	(55,723)	(46,572)
	Depreciation and amortization	25,067	30,894	30,949
	Deferred income taxes	(2,058)	(2,100)	(1,046)
	Cash provided (used) by changes in:*			
	Accounts receivable	(10,149)	(6,080)	2,158
	Inventories	26,227	(15,476)	(8,270)
	Other current assets	372	(1,289)	(620)
	Trade payables	(9,818)	7,745	2,343
	Accrued liabilities	(701)	(2,056)	317
	Accounts payable to patrons	(5,111)	7,656	2,524
	Other operating activities*	(1,805)	228	(295)
	Total adjustments	(35,597)	(36,201)	(18,512)
	Net cash provided by operating activities	34,935	33,606	37,680
Cash flows from investing activities:				
	Property, plant and equipment acquisitions*	(18,396)	(13,540)	(24,044)
	Sale of property, plant and equipment	687	126	5,224
	Purchase of investments	(8,553)	(12,715)	(6,585)
	Sale of investments	6,177	9,520	4,243
	New product introduction costs	(200)	(6,980)	(12,416)
	Net cash used by investing activities	(20,285)	(23,589)	(33,578)
Cash flows from financing activities:				
	Increase (decrease) in short-term debt*	-	(10,700)	1,500
	Proceeds from long-term debt*	8,400	37,300	20,000
	Repayment of long-term debt	(14,000)	(47,900)	(11,000)
	Issuance and sale of trust preferred securities	-	25,000	-
	Proceeds from patron notes issued	8,500	7,629	6,552
	Repayment of patron notes	(8,242)	(7,189)	(6,366)
	Redemption of patrons' investments*	(12,006)	(11,703)	(11,415)
	Net cash used by financing activities	(17,348)	(7,563)	(729)
	Net increase (decrease) in cash and equivalents	(2,698)	2,454	3,373
	Cash and equivalents at beginning of year	7,266	4,812	1,439
	Cash and equivalents at end of year	\$ 4,568	\$ 7,266	\$ 4,812
Supplemental cash flow information:				
	Interest paid	\$11,966	\$ 11,971	\$ 9,867
	Income taxes paid	15	20	71
	Noncash investing and financing activities (Note B)			

*Adjusted for the noncash effects of business acquisition in 1998.
See notes to consolidated financial statements.

<i>(in thousands)</i>	Allocation Credits	Permanent Equity Credits	Retained Earnings (Accumulated Deficit)
Balance, August 31, 1996	\$75,105	\$ 11,483	\$ 860
Adjustment for actual distribution of 1996 allocation credits and permanent equity credits	(63)	63	-
1990 allocation certificates called for redemption	(11,245)	-	-
Permanent equity credits estimated to be redeemed	-	(575)	-
Permanent equity credits paid below prior year's estimate	-	106	-
1997 allocation credits and permanent equity credits estimated to be distributed	13,236	675	-
Nonpatron net loss	-	-	(4,291)
Balance, August 31, 1997	77,033	11,752	(3,431)
Adjustment for actual distribution of 1997 allocation credits and permanent equity credits	(175)	175	-
Issuance of patrons' investments as part of Yakima Valley merger	1,617	2,741	-
1991 allocation certificates/credits called for redemption	(10,054)	-	-
Permanent equity credits estimated to be redeemed	-	(1,155)	-
Permanent equity credits paid above prior year's estimate	-	(768)	-
1998 allocation credits and permanent equity credits estimated to be distributed	15,345	1,300	-
Nonpatron net loss	-	-	(2,561)
Balance, August 31, 1998	83,766	14,045	(5,992)
Adjustment for actual distribution of 1998 allocation credits and permanent equity credits	(140)	65	-
1992 allocation certificates/credits called for redemption	(10,798)	-	-
Permanent equity credits estimated to be redeemed	-	(1,163)	-
Permanent equity credits paid above prior year's estimate	-	(48)	-
1999 allocation credits and permanent equity credits estimated to be distributed	16,011	1,200	-
Nonpatron net loss	-	-	(4,300)
Balance, August 31, 1999	\$88,839	\$14,099	\$(10,292)

See notes to consolidated financial statements.

Consolidated

Statements of

Changes in

Patrons'

Investments

and Retained

Earnings

(Accumulated

Deficit)

National Grape

Cooperative

Association, Inc. &

Welch Foods Inc.,

A Cooperative

Notes to
Consolidated
Financial
Statements

Note A Summary of Significant Accounting Policies

Operations – National Grape Cooperative Association, Inc. (National) and Welch Foods Inc., A Cooperative (Welch's) (collectively, the Company) are agricultural cooperatives organized for the benefit of the Company's member and nonmember patrons (growers). Welch's is the world's leading marketer of Concord grape-based products including grape juice and jelly. Welch's also produces Niagara grape juice products and a variety of other fruit-based products including blended fruit juices and cocktails, frozen and shelf-stable concentrated fruit juices and an assortment of jams, jellies and preserves under both the Welch's and BAMA brand names. These products are primarily marketed domestically through food stores; drug-discount and membership club outlets; and foodservice and vending facilities. Welch's also markets its products internationally in over 30 countries. The Company operates on a pool basis. Pursuant to the terms of marketing agreements with its growers, the net proceeds earned from the sale of patron grapes are distributed to patrons, based on patronage, in cash, allocation credits (allocation certificates prior to 1993) and permanent equity credits on a crop year per ton basis. Net proceeds from nonpatronage sources, if any, are retained in the business.

Consolidation – The consolidated financial statements include the accounts of National, Welch's and subsidiaries. All significant intercompany balances and transactions have been eliminated.

Cash equivalents – Cash equivalents are short-term (less than 90 days), highly liquid investments.

Inventories and cost of sales – Inventories include the estimated cost of patron grapes and are stated at the lower of cost (first-in, first-out) or market. Cost of patron grapes is based on prevailing market prices at the time of harvest or at current prevailing market prices, if lower. Cost of sales exclude the cost of patron grapes for the purpose of determining the net proceeds earned by the Company's patrons.

Property, plant and equipment – Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line or sum-of-the-years digits methods over the estimated useful lives of the assets.

Federal income taxes – The Company is not subject to Federal income taxes on net patron proceeds distributed or allocated to patrons in qualified form. The Company is subject to Federal income taxes on nonpatronage net proceeds. The Company utilizes the asset and liability method of accounting for income taxes.

Financial instruments – The carrying values of financial instruments at August 31, 1999, approximate their estimated fair values to the extent such values are practicably determinable. There are no significant credit risk concentrations.

Goodwill – Goodwill acquired prior to 1970 (\$4,295,000) is not being amortized. Goodwill acquired subsequently is amortized over periods of 20 to 40 years.

New product introduction costs – Certain market development costs, primarily slotting allowances, incurred in the initial year of a significant new product introduction are capitalized and amortized over a 24-month period beginning in the month of introduction. Any unamortized cost is charged to operations in the event the related product is discontinued. In 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, Reporting on the Costs of Start-Up Activities (SOP). The SOP will require that new product introduction costs be expensed as incurred after fiscal year 1999. The Company generally ceased the capitalization of market development costs for new products introduced into the marketplace in fiscal 1999.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B Business Acquisition

In September 1997, Yakima Valley Grape Producers, Inc., (Yakima) a Grandview, Washington agricultural cooperative corporation merged with and into National. The merger was accounted for using the purchase method of accounting and included the issuance of \$4.4 million in allocation and permanent equity credits and the assumption of Yakima bank debt of \$6.3 million. The allocation of the purchase price to the fair value of assets acquired and liabilities assumed resulted in goodwill of \$3.9 million.

National Grape

Cooperative

Association, Inc. &

Welch Foods Inc.,

A Cooperative

Note C Inventories

Inventories are classified as follows:

	<i>(in thousands)</i>	
<i>August 31,</i>	<i>1999</i>	<i>1998</i>
Cost of patron grapes	\$ 9,677	\$20,733
Other costs	50,940	66,111
	<u>\$60,617</u>	<u>\$86,844</u>

The cost of finished products as of August 31, 1999 and 1998 was \$22,003,000 and \$29,703,000, respectively.

Note D Other Assets

Other assets are summarized below:

	<i>(in thousands)</i>	
<i>August 31,</i>	<i>1999</i>	<i>1998</i>
Goodwill	\$22,703	\$23,616
Cash value of company-owned life insurance policies (Note I)	23,398	21,777
Notes receivable and other investments	25,365	22,556
New product introduction costs	661	5,523
Other	20,876	18,277
	<u>\$93,003</u>	<u>\$91,749</u>

Goodwill is shown net of accumulated amortization of \$4,308,000 and \$3,396,000 as of August 31, 1999 and 1998, respectively. New product introduction costs are shown net of accumulated amortization of \$15,374,000 and \$19,289,000 as of August 31, 1999 and 1998, respectively.

Note E Long-term Debt

Long-term debt consists of the following:

	<i>(in thousands)</i>	
<i>August 31,</i>	<i>1999</i>	<i>1998</i>
CoBank, ACB:		
Term loan, 6.60% to 7.96%, due 2000 to 2008, 7.59% weighted average rate at August 31, 1999	\$ 45,000	\$ 50,000
Term loan, 5.91% to 5.92%, due 1999 to 2002, 5.91% weighted average rate at August 31, 1999	10,000	11,000
Term loan, 6.72% to 6.87%, due 2002 to 2005, 6.80% weighted average rate at August 31, 1999	14,000	14,000
Term loan, 5.81% at August 31, 1999, due 2000 to 2006	14,000	16,000
Revolving credit and term loan, 5.67% to 6.73%, due 2000 to 2003, 5.76% weighted average rate at August 31, 1999	24,500	22,100
Industrial revenue bonds, 6.75%, due 2001	3,500	3,500
Industrial development revenue bonds, 5.60%, due 2017	3,400	3,400
Total outstanding	114,400	120,000
Current maturities	17,125	8,000
Noncurrent	<u>\$ 97,275</u>	<u>\$112,000</u>

As of August 31, 1999, long-term debt maturities for the next five years are as follows: 2000 – \$17,125,000; 2001 – \$20,625,000; 2002 – \$17,458,000; 2003 – \$17,792,000; and 2004 – \$11,667,000.

The Company has short-term lines of credit with various financial institutions aggregating \$67,000,000 which provide borrowings at rates not greater than the prime rate. The lines of credit are scheduled to expire on various dates during the next year and are anticipated to be renewed. No amounts were outstanding under these lines of credit at August 31, 1999 and 1998.

The Company has a revolving credit and term loan agreement with CoBank, ACB (the Bank) which provides up to \$30,000,000 of credit through January 31, 2000. At August 31, 1999, the Company had borrowed \$24,500,000 under this agreement.

The Class E stock of the Bank owned by the Company (included in other assets and totaling \$8,659,000 as of August 31, 1999) is pledged as security for the Company's loans.

At the Company's option, it may periodically elect either fixed or variable rates of interest for specified periods of time on its short-term lines of credit, its term loans and its revolving credit and term loan facility. The Company may prepay any of its variable rate debt at any time without penalty.

Various debt agreements contain covenants which require the Company to, among other things, achieve at least certain financial ratios and a defined level of net worth as of each fiscal year-end. The Company was in compliance with these financial ratios and tests at August 31, 1999.

Note F Federal Income Taxes

The income tax benefit consists of the following:

	<i>(in thousands)</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>
Current	\$ 108	\$ (17)	\$ 46
Deferred	(2,058)	(2,100)	(1,046)
	<u>\$(1,950)</u>	<u>\$(2,117)</u>	<u>\$(1,000)</u>

The difference between Federal income taxes and the amount computed by applying the statutory tax rate to proceeds before Federal income taxes results principally from the distributions to patrons, and in 1998 the increase in the deferred tax asset valuation allowance.

At August 31, 1999 and 1998, the Company had deferred tax liabilities of \$9,763,000 and \$10,634,000, respectively, and gross deferred tax assets of \$18,933,000 (\$17,927,000 net of valuation allowance) and \$17,840,000 (\$16,740,000 net of valuation allowance), respectively. The net change in the total valuation allowance was \$(94,000) and \$470,000 at August 31, 1999 and 1998, respectively.

Tax operating loss carryforwards at August 31, 1999 were approximately \$17,611,000, which expire between 2008 and 2019. In addition, the Company has tax credit carryforwards of approximately \$2,382,000 at August 31, 1999, approximately \$1,006,000 expire between 2000 and 2013 and the balance of which have no expiration date.

In addition to the loss and credit carryforwards, the deferred income tax assets are attributable to deductible temporary differences, primarily deferred compensation arrangements. Taxable temporary differences that give rise to the deferred income tax liabilities primarily relate to depreciation and certain capitalized expenses recognized in different years for financial and tax reporting purposes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely or not that some or all of the assets will not be realized based on, among other things, the projected amounts of future income and the expected reversal of deferred tax liabilities.

Note G Trust Preferred Securities

In May 1998, the Welch Foods Preferred Capital Trust I (Trust), a wholly owned subsidiary of Welch's, issued \$25 million of 7.41% Series A Cumulative Guaranteed Preferred Securities (Trust Preferred Securities). The entire proceeds from the sale of the Trust Preferred Securities and the sale of the Trust's common stock to Welch's were loaned to Welch's under the terms of a Subordinated Loan Agreement. This Intercompany Loan (Loan), totaling \$25,001,000 and guaranteed by National, is unsecured and ranks subordinate to all other Welch's indebtedness except for certain obligations of Welch's regarding the redemption of allocation certificates and credits and permanent equity credits. The Loan to Welch's represents the sole asset of the Trust. The obligations of Welch's under a defined Trust Agreement constitute a full and unconditional guarantee by Welch's of the Trust's obligations in relation to the Trust Preferred Securities issued. Interest on the Trust Preferred Securities is payable quarterly but can be deferred for up to 10 consecutive quarters with penalty. Welch's has not deferred any of its interest to date. The Loan is to be repaid beginning May 1, 2023, in six equal annual installments of \$4,166,833 each with a matching scheduled redemption of Trust Preferred Securities at the same time. Welch's has the right at any time to prepay the Loan in whole or part subject to a Make-Whole Loan Premium (Make-Whole Amount payment). Proceeds

from any prepayment would cause a mandatory redemption of Trust Preferred Securities plus Make-Whole Amount payment, if necessary, as defined under the Trust Agreement. Welch's has the right to prepay the Loan in whole upon the occurrence of a Tax Event without penalty. A Tax Event refers to notice that the interest payable on the Loan would not be deductible for Federal income tax purposes or the interest received by the Trust on the Loan would be taxable income. The Subordinated Loan Agreement contains various covenants, both financial and other, of which Welch's is in compliance with at August 31, 1999.

Note H Patrons' Investments

The noncash distribution of patron net proceeds is made in the form of allocation credits (and prior to 1993 in the form of allocation certificates) and permanent equity credits.

The outstanding allocation certificates and credits consist of the following:

<i>August 31,</i>	<i>(in thousands)</i>	
	<i>1999</i>	<i>1998</i>
Series 1992, due 2012 (redeemed in 1999)	\$ -	\$10,798
Series 1993, due 2013	10,582	10,582
Series 1994, due 2014	9,768	9,768
Series 1995, due 2015	10,614	10,614
Series 1996, due 2016	13,598	13,598
Series 1997, due 2017	13,061	13,061
Series 1998, due 2018	15,205	15,345
Series 1999, due 2019 (to be distributed)	16,011	-
Unpresented allocation certificates previously called for redemption	770	700
Total outstanding	89,609	84,466
Current maturities	770	700
Noncurrent	\$88,839	\$83,766

It has been National's practice to call each series for redemption, at a price equal to 100% of its aggregate principal amount, approximately six years after the date of issue. The decision to continue this practice is reviewed annually by National's Board of Directors. Permanent equity credits are redeemable only in limited circumstances.

Note I Employee Benefit Plans

The Company has noncontributory defined benefit pension plans covering substantially all employees not covered by union-sponsored plans. The plans generally provide pension benefits that are based on the employee's years of service and compensation prior to retirement. The Company's funding policy is to contribute annually at least the minimum required by law and currently no contribution is required.

The net pension cost for these plans in 1999, 1998 and 1997 is summarized as follows:

	<i>(in thousands)</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>
Service cost	\$ 1,987	\$ 1,677	\$ 1,536
Interest cost	3,046	2,821	2,644
Actual return on plan assets	(13,048)	(1,918)	(9,339)
Net amortization and deferral	8,497	(2,518)	5,184
Net pension cost	\$ 482	\$ 62	\$ 25

The Company sponsors unfunded postretirement medical and life insurance benefit plans that cover certain salaried and nonsalaried employees. Employees at some locations are required to contribute a portion of the premium.

The postretirement medical and life insurance benefit cost for these plans in 1999, 1998 and 1997 is summarized as follows:

	<i>(in thousands)</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>
Service cost	\$ 538	\$ 429	\$ 354
Interest cost	1,176	1,097	1,028
Net amortization and deferral	587	495	495
Net postretirement benefit cost	\$2,301	\$2,021	\$1,877

The following table sets forth the change in the benefit obligations, plan assets and funded status of the Company's pension and postretirement benefit plans:

<i>August 31, (in thousands)</i>	Pension Plans		Postretirement Benefit Plans	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
Change in Benefit Obligation:				
Benefit obligation at beginning of year	\$45,967	\$38,732	\$ 17,091	\$ 14,540
Service cost	1,987	1,677	538	429
Interest cost	3,046	2,821	1,176	1,097
Actuarial (gain)/loss	(6,157)	4,995	(1,131)	1,726
Benefits paid	(2,242)	(2,258)	(957)	(701)
Benefit obligation at end of year	\$42,601	\$45,967	\$ 16,717	\$ 17,091
Change in Plan Assets:				
Fair value of assets at beginning of year	\$49,983	\$50,323	-	-
Actual return on plan assets	13,048	1,918	-	-
Benefits paid	(2,242)	(2,258)	-	-
Fair value of assets at end of year	\$60,789	\$49,983	-	-
Funded status of the plans	\$18,188	\$ 4,016	\$(16,717)	\$(17,091)
Unrecognized net actuarial (gain)/loss	(17,417)	(1,260)	1,618	2,841
Unrecognized net transition (asset) obligation	(1,553)	(1,878)	6,930	7,425
Unrecognized prior service cost	1,550	372	-	-
Net balance sheet asset (liability)	\$ 768	\$ 1,250	\$ (8,169)	\$ (6,825)

The actuarial assumptions used in the accounting for 1999, 1998 and 1997 were as follows:

<i>Pension Plans</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
Discount rate	7.50%	6.75%	7.50%
Rate of compensation increase	5.15%	5.65%	5.65%
Expected long-term rate of return on plan assets	9.50%	9.50%	9.50%
Postretirement Benefit Plans			
Discount rate	7.50%	6.75%	7.50%
Rate of compensation increase varies by age.			
Sample ages: 25	9.50%	9.50%	9.50%
40	5.45%	5.45%	5.45%
55	4.50%	4.50%	4.50%

For plan participants under the age of 65, the rate of increase in per capita costs of covered health care benefits is assumed to be 6.5% in fiscal 1999, decreasing gradually to 5.0% in fiscal 2002 and remaining level thereafter. For plan participants over the age of 65, the rate is assumed to be 5.5% in fiscal 1999, decreasing to 5.0% in fiscal 2000 and remaining level thereafter.

A one percentage point change in the assumed health care cost trend rate would have the following effect:

	<i>(in thousands)</i>	
	One Percentage Point Increase	One Percentage Point Decrease
Effect on postretirement benefit obligation	\$3,195	\$(2,566)
Effect on net postretirement benefit cost	\$ 370	\$(290)

Approximately 59% of the pension plan assets are invested in equity securities and 41% in debt securities.

Pension expense for contributions to union-sponsored plans was \$1,252,000 for 1999, \$1,205,000 for 1998, and \$1,088,000 for 1997.

The Company has a qualified 401(k) plan and a nonqualified pension restoration plan (PRP). For the years ended August 31, 1999, 1998 and 1997, net expenses for these plans were \$1,146,000, \$804,000, and \$1,191,000, respectively. At August 31, 1999, \$23,398,000 of Company-owned life insurance policies, included in other assets, was restricted to fund the PRP.

Participants in certain Company incentive plans may elect to defer all or part of their incentive compensation until retirement in a nonqualified deferred compensation plan. Deferred incentive compensation, included in other liabilities, as of August 31, 1999 and 1998, was \$17,426,000 and \$13,832,000, respectively.

Note J Leases

The Company leases certain equipment and buildings under operating leases. Rental expenses related to these leases amounted to \$2,049,000 in 1999, \$1,980,000 in 1998, and \$2,004,000 in 1997. As of August 31, 1999, future minimum lease payments under these operating leases for the next five years are as follows: 2000 - \$1,828,000; 2001 - \$1,792,000; 2002 - \$1,747,000; 2003 - \$777,000; and 2004 - \$272,000.

Note K Contingencies

The Company is involved in certain litigation, both insured and uninsured, which is being defended and handled in the ordinary course of business. In the opinion of management, the outcome of such litigation will not have a material adverse effect on the financial condition of the Company.

Report of
Independent
Auditors

Board of Directors and Patrons
National Grape Cooperative
Association, Inc.

We have audited the accompanying consolidated balance sheets of National Grape Cooperative Association, Inc. and Welch Foods Inc., A Cooperative, as of August 31, 1999 and 1998, and the related consolidated statements of operations and distributions of net proceeds, changes in patrons' investments and retained earnings and cash flows for each of the years in the three-year period ended August 31, 1999. These consolidated financial statements are the responsibility of the Cooperatives' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Grape Cooperative Association, Inc. and Welch Foods Inc., A Cooperative, as of August 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 1999, in conformity with generally accepted accounting principles.

National Grape

Cooperative

Association, Inc. &

Welch Foods Inc.,

A Cooperative

KPMG LLP

Boston, Massachusetts

October 12, 1999

National Grape Cooperative
Association, Inc. Westfield, New York

Directory

Officers

Fredrick P. Kilian
President

Joseph C. Falcone
First Vice President

Harold H. Smith
Second Vice President

Ronald E. Grow
Third Vice President

Patrick J. O'Donnell
*General Manager,
Chief Operating Officer
and Treasurer*

David S. Wells
*Secretary and Assistant
Treasurer*

Thomas E. Callahan
*Financial and Accounting
Officer*

Vivian S.Y. Tseng
Assistant Secretary

Paul F. Curry
Assistant Secretary

Timothy E. Marsteller
Assistant Treasurer

Directors

William L. Beckman
North East, Pennsylvania

Richard A. Boushey
Grandview, Washington

Theodore D. Clapp
Sunnyside, Washington

Bryan K. Cronenwett
Lawton, Michigan

Joseph C. Falcone
Silver Creek, New York

Donald H. Grabemeyer
Dowagiac, Michigan

Randolph H. Graham
North East, Pennsylvania

Ronald E. Grow
Grandview, Washington

*Fredrick P. Kilian
Outlook, Washington

*Gene D. McIntire
Sunnyside, Washington

C. Robert Militello
Forestville, New York

David C. Nichols
Lewiston, New York

*Dale E. Nye
St. Joseph, Michigan

*Harold H. Smith
Brocton, New York

*Gary R. Youngs
North East, Pennsylvania

All National Directors are growers
of Concord and/or Niagara grapes
and may grow other agricultural
products.

*Members of the
Executive Committee

National Grape
Cooperative
Association, Inc. &
Welch Foods Inc.,
A Cooperative

Welch Foods Inc., A Cooperative
Concord, Massachusetts

Officers

Daniel P. Dillon
*President and
Chief Executive Officer*

Thomas E. Callahan
*Senior Vice President
and Chief Financial
Officer*

Marion P. Williams
*Senior Vice President
Technology*

Mario J. Cornacchio Jr.
*Vice President and
Treasurer*

Thomas E. Gettig
*Vice President
Human Resources
and Administration*

William C. Hewins
*Vice President
International*

David J. Lukiewski
*Vice President
Sales*

Robert W. McMillen III
*Vice President and
Corporate Controller*

Randy C. Papadellis
*Vice President
Marketing*

Andrew D. Staniar
*Vice President
Operations*

Vivian S.Y. Tseng, Esq.
*Vice President
General Counsel
and Secretary*

Albert B. Wright III
*Vice President
Corporate Planning*

Directors

Thomas E. Callahan ^(2,4,6,7)
*Senior Vice President
and Chief Financial
Officer
Concord, Massachusetts*

Charles J. Chapman ^(1,3,5,6)
*Chairman
Powell Plant Farms
Troup, Texas*

Daniel P. Dillon ^(1,4,5)
*President and
Chief Executive Officer
Concord, Massachusetts*

Joseph C. Falcone ^(1,3,4,6)
*Secretary-Treasurer
Falcone Farms, Inc.
Silver Creek, New York*

Daniel A. Grady ^(2,3,5,7)
*Vice President, Finance and
Chief Financial Officer
Bose Corporation
Framingham, Massachusetts*

Randolph H. Graham ^(2,4,6,7)
*Owner-Operator
South Shore Farms
North East, Pennsylvania*

Fredrick P. Kilian ^(1,2,4,5,6,7)
*Chairman of the Board
Managing Partner
Fredrick Kilian Farms
Outlook, Washington*

C. Robert Militello ^(2,3,4)
*Owner
Militello Farms
Forestville, New York*

Stephen H. Warhover ^(2,3,5,6)
*President and
Chief Executive Officer
Gorton's Seafoods
Gloucester, Massachusetts*

James T. Winton ^(1,2,5,7)
*Executive Vice President
Clarion Marketing and
Communications
Greenwich, Connecticut*

**Committees of
the Board**

- (1) Acquisition
- (2) Audit
- (3) Compensation
- (4) Long-Range Planning
- (5) Nominating
- (6) Pension Investment
- (7) Capital Structure

Auditors

KPMG LLP
Boston, Massachusetts



Operations

Headquarters

Welch Foods Inc.
Concord, Massachusetts 01742

National Grape Cooperative
Association, Inc.
Westfield, New York 14787

General Office

Welch Foods Inc.
Westfield, New York 14787

Technology Center

Research and Development,
Corporate Quality,
Corporate Engineering
Billerica, Massachusetts 01821

Domestic Sales Offices

Alpharetta, Georgia
Amherst, New Hampshire
Buffalo Grove, Illinois
Englewood, Colorado
Plano, Texas

International Sales Offices

Asia Regional Office
Siu Lek Yuen,
Shatin, Hong Kong

Welch's Japan
Shibuya-Ku, Tokyo

Latin America
Miami, Florida

Plants

*Receiving, Pressing,
Storage, Production*
Lawton, Michigan
North East, Pennsylvania
Westfield, New York

Receiving, Pressing, Storage
Grandview, Washington

Production
Kennewick, Washington

Licensees

Cadbury Beverages
North America
Toronto, Canada

Calpis Co., Ltd.
Tokyo, Japan

C. H. Robinson Company
Eden Prairie, Minnesota

Dr Pepper/Seven Up, Inc.
Dallas, Texas

Eskimo Pie Corporation
Richmond, Virginia

Portion Pac, Inc.
Mason, Ohio

Russell Stover Candies
Kansas City, Missouri

National Grape Cooperative
and Welch Foods are Equal
Opportunity Employers

