

HASS AVOCADO BOARD BOARD MEETING MINUTES January 14, 2004

A meeting of the Hass Avocado Board (HAB) was held on Wednesday, January 14, 2004 at the California Avocado Commission (CAC) office in Irvine, California, with the following people present:

MEMBERS PRESENT

Charley Wolk, Chairman
Scott McIntyre, Vice Chair
Robert Bednar, Treasurer
Alva Snider, Secretary
George Barnes
Mark Borchard
Ed Figueroa
Jim Finch
Len Francis

MEMBERS ABSENT

Eric Crawford
James DeMalo

CAC STAFF PRESENT

Mark Affleck
Tom Bellamore
Betty Bohrk
David Cruz
Bernadine Debnam
Jan DeLyser
Angela Fraser
Laurie Hill
Aria Lukman
Judy Mitchell
Michelle Spelman
Val Weaver
Guy Witney

ALTERNATES PRESENT

Michael Browne
Giovanni Cavaletto
Bob Flack
Paul Foley
Tom Markle
Robert Perry
Don Reeder
Donna Singmaster

ALTERNATES ABSENT

Ralph DeLeon
Dan McGrath
Luke Sears

OFFICIALLY PRESENT

Kari Bretschger, IntegratedMarketing
Works (IMW)
Morgan Brown, Inter@ctivate
Janet Greenlee, Fleishman/Hillard
Mike Harrison, Conrad & Associates
Susan Hobbs, Colby & Partners
Margaret Irby, USDA/AMS
Richard Kline, Fleishman/Hillard
Ron Lopez, Conrad & Associates
Ethel Mitchell, USDA/AMS
Steven Muro, Fusion Marketing
Kendra Peavy, IMW
Jerome Stehly, ex officio
Kim Woerz, Fleishman/Hillard

GUESTS PRESENT

Jack Abbott
Anita Alban
Irene Cabanas
Ron Campbell
Joe Charest
Jim Donovan
Ralph Dutra
Xavier Equihua
Benjamin Grayeb
J. Jesus Lopez Herrera
Peggy McCormick
Ron Snider
Antonio Villasenor, Sr.
Antonio Villasenor, Jr.
Liz Wilkins

CALL TO ORDER

Chairman Charley Wolk called the meeting to order at 10:00 a.m. and a quorum was established.

Introductions/Announcements

Jesus Lopez Herrera introduced all the Mexican Hass Avocado Importer Association (MHAIA) members in the room and Margaret Irby introduced Ethel Mitchell, USDA, to the Board. Mitchell was recently appointed to handle the avocado program.

ADMINISTRATION

Wolk recommended that there be no changes with the current committee members. No objections were heard.

FINANCE

2003 Financial Statement/Audit Report

CAC Vice President of Finance/Administration Val Weaver reported that the October 31, 2003 year-end financial statements have been audited by an independent accounting firm, Conrad & Associates. She introduced Mike Harrison, Partner, and Ron Lopez, manager of the audit, from Conrad & Associates who then presented the Auditors' Report and Financial Statements. Mr. Harrison explained that management was cooperative and made available all financial records, related data and minutes of the meetings. They reported that the financial practices were in conformity with generally accepted accounting principles. They also made the Board aware that these audited financial statements were developed under government auditing standards and included Management's Discussion & Analysis (MDA). Since this is the initial year, everything is in a start-up mode and there are no comparisons to previous years. Financial highlights include \$3.7 million in assets, \$1.6 million in liabilities and \$2.1 million in net assets restricted for promotion, research and industry relations. It was noted that the financial statements had an unqualified or "clean" audit opinion.

Mr. Lopez discussed the significant accounting policies, management judgments, audit adjustments, and other information regarding the audit.

After a discussion by the Board, the following motion was made:

MOTION ***The Hass Avocado Board of Directors approves the audited financial statements for year-end October 31, 2003 as presented.
(Bednar/Francis) MSC Unanimous***

Weaver took a moment to thank staff members Bernadine Bednam, Aria Lukman and Judy Mitchell, for their hard work and diligence throughout the year.

The complete HAB Financial Statements Packet is attached to the permanent copy of these Minutes and identified as Exhibit A.

The Conrad & Associates Letter of Summary is attached to the permanent copy of these Minutes and identified as Exhibit B.

2003 Final Financial Statistics

Hass avocado value for 2003 was \$39.5 million less than projected (\$513.9 million budget vs. \$474.4 million actual), which created a projected revenue shortage of \$989,000. However, net revenues ended positive by \$969,000 at \$3,109,253. This was mainly attributed to MHAIA money staying with HAB, since the association was certified after the shipping season had ended. Year-end reserves ended at \$2.1 million. A reminder was given to the Board that budgeting must be done conservatively due to the many variables impacting domestic and imported volume.

The complete HAB 2003 Financial Overview is attached to the permanent copy of these Minutes and identified as Exhibit C.

2003-04 Financial Update

HAB is 17 million pounds below projections two months into the 2003-04 fiscal year. For gross revenues this means a shortfall of approximately \$400,000. However, HAB ended December 2003 in the positive with approximately \$397,000 due to higher volume from non-association importers. Currently, the budget is tracking as originally projected. Ending reserves are now estimated at \$1.6 million.

The complete HAB 2003-04 Financial Overview is attached to the permanent copy of these Minutes and identified as Exhibit D.

Customs Report

The Customs reports have been received on a timely basis over the last few months. The Summary Report is coming in by the 12th of the month with country of origin information. This makes it easier to calculate the rebates by the 15th of each month, which is two weeks before the disbursement deadline set by regulation. Discussion ensued regarding an alternate mechanism for Chilean Avocado Importer Association (CAIA) to receive rebates in advance of normal processing.

HAB Chairman Wolk and CAC Senior Vice President Tom Bellamore traveled to Washington D.C. in December 2003 to meet with Agricultural Marketing Service (AMS) and Customs officials to discuss reporting methods. The current process is very time-consuming and prone to error. Wolk made the point to U.S. Customs that reports should all be done electronically. Soon Wolk believes this process will move forward into an updated method of handling the numbers. This issue relates strictly to Customs and their handling of the figures and has nothing to do with the USDA and their efforts for HAB. Discussion followed regarding timing on receiving this information.

Approval of Minutes

Chairman Wolk, hearing no corrections, declared that the October 15, 2003 HAB Minutes be approved as submitted.

MARKETING (moved from 12:30 pm to 10:50 am)

Incremental Marketing Plan for 2003-04

President Affleck reaffirmed that HAB was developed to increase demand for Hass avocados and proceeded to give an overview of the marketing program that has been established.

He discussed the 12-month cycle of the program, the eight strategic imperatives that drive HAB's marketing efforts, as well as Cash flow in and out of HAB. With \$3 million remaining for resources, two strategic planks were developed: 1) *AvoHQ* and 2) Marketing Communications (MarCom).

Strategic Plank #1: *AvoHQ* Central is underway as well as *AvoHQ.com*. President Affleck used renderings to illustrate how *AvoHQ* Central will look and proceeded to describe the Internet site. The strategic vault will be opened to everyone, which will include pre-season, in-season and post-season data and analysis.

Strategic Plank #2: The goal of MarCom is to increase awareness, demand and consumption of Hass avocados.

CAC Vice President of Marketing, Jan DeLyser, began by broadly describing a program that entails consumer, trade and industry communications and introduced Fleishman-Hillard to discuss the goals of the public relations efforts.

Fleishman-Hillard reported that consumer public relations efforts are in place to increase volume. Several programs being implemented involve conveying the delicious and nutritious versatility of avocados to consumers through social and everyday occasions. These include Super Bowl efforts with professional football player David Carr, Cinco de Mayo, and Thanksgiving programs.

Fusion Marketing spoke on the merchandising efforts in place for HAB. Efforts include Super Bowl related retail promotions in Houston, as well as attendance at retail/industry conferences throughout the year.

MMM Marketing presented foodservice efforts that are in place. These include a HAB press kit, promotional calendar and gift baskets targeting food editors, several operator programs with major chains for Spring/Summer 2004, and industry events.

Integrated MarketingWorks (IMW) has developed the HAB story, a feature article developed for all programs, as well as an industry newsletter and a HAB Annual Report. Board discussion followed with a request to review industry publications prior to printing.

The complete HAB 2003-04 Strategic Plan is attached to the permanent copy of these Minutes and identified as Exhibit E.

The complete HAB 2003-04 MarCom Strategic Plan is attached to the permanent copy of these Minutes and identified as Exhibit F.

The HAB 2003-04 Program Update is attached to the permanent copy of these Minutes and identified as Exhibit G.

Chairman Wolk continued to give the Board feedback from his trip to Washington D.C. He and CAC Senior Vice President Bellamore met with Under Secretary Bill Hawks and expressed their pleasure in having a solid working relationship between HAB and AMS. Wolk mentioned key issues raised in the meeting: 1) detailed information on Mexican imports from Animal Plant Health Inspection Service (APHIS) does not match information received from U.S. Customs; 2) the Board needs to receive importer association program plans that are approved by USDA so HAB knows what is happening in the market; 3) the approved programs received from USDA would be the authority for HAB to make rebate payments; 4) the auditing process for other organizations; and 5) HAB Board receiving all importer associations' meeting notices 10 days prior to their meetings.

Discussion continued by Board members regarding the information that should be made available and whether or not importer association certificates are reviewed annually. USDA is currently reviewing this topic. USDA made clear that all import organization meetings must be open to the public and must give 10 days notice prior to a meeting.

ADJOURN FOR LUNCH

Chairman Wolk adjourned the Board for lunch at 12:00 p.m. and the Board reconvened at 12:45 p.m.

AvoHQ.com Update

Morgan Brown from Inter@ctivate presented the AvoHQ.com website to the Board. He gave a preview of what type of information will be available to everyone on the site, including volume information, promotion efforts, border crossing information, as well as information from other importer associations. Brown demonstrated how growers could create their own profile online and then access their preferences regularly. The *Help Tool* will be set up and will offer detail to help visitors understand each individual page.

President Affleck announced that the site will launch in April but will be available to Board members earlier so they may become familiar with the site.

ISSUES

Litigation Update

Bellamore updated the Board on the case of Avocados Plus vs. Veneman in which certain importers are challenging the constitutionality of the Hass Avocado program. Last year the Federal Court found the importer plaintiffs had not exhausted their administrative remedies and did not go before an administrative law judge for a hearing. Plaintiffs appealed and the U.S. Court of Appeals set a schedule for briefs and oral arguments. By March 23, 2004 all briefs will be in to the court. Oral arguments will be heard on May 13, 2004.

Brainstorming Update

Dr. Guy Witney, CAC Director of Industry Affairs, noted that HAB had helped to support this event with a \$25,000 contribution. He presented an update on Brainstorming '03 that took place in November 2003. All major producers attended the Quality Management Session. The presenters were professionals in the industry, experts worldwide. A detailed report will be made available in February. Session attendees proposed that researchers from major areas study the quality of avocados and then make the information available on *AvoHQ*. This would present an ongoing effort to improve quality. There was also considerable discussion on *Smart Fresh*, a ripening product. Disagreement exists on this product as to its usefulness. A suggestion that all insects and pests be inventoried and ranked for potential to cause damage was also made. Overall it was a very successful meeting.

The Brainstorming '03 Summary is attached to the permanent copy of these Minutes and identified as Exhibit H.

Federal Quality Marketing Order

As reported in November, HAB has continued exploratory analysis of steps to put a Federal Hass Avocado Marketing Order in place to create quality standards. Existing standards have been reviewed and a memo detailing the implementation process was provided. Implementation timing would take approximately one to two years. Before pursuing a marketing order, the Board needs to first assess the situation and see if a consensus is possible regarding a maturity level for Hass avocados. If the Board does not believe an agreement can be made on maturity levels, then it will be nearly impossible to move forward.

Bellamore requested that Board members review the information and bring their opinions to the next meeting. Discussion ensued regarding other countries' requirements, the idea of changing from voluntary to mandatory requirements, the need to discuss the optimum level of quality necessary, and the option of setting different maturity numbers for different times of the year. Essentially, three options exist for this program and the Board: 1) proactively pursue legislative changes; 2) do nothing; or 3) look at leadership positions for HAB. It was concluded that the Board should continue to look at HAB's options and not abandon the subject.

The Federal Marketing Orders Summary is attached to the permanent copy of these Minutes and identified as Exhibit I.

The Quality Standards Summary is attached to the permanent copy of these Minutes and identified as Exhibit J.

ADDITIONAL COMMENTS

HAB Treasurer Bednar stated that a travel policy was needed. Wolk requested that the Finance Committee bring back to the Board a proposed travel policy.

NEW BUSINESS

No new business.

ADJOURNMENT

Chairman Wolk adjourned the HAB meeting at 1:55 p.m. The next meeting will be held on March 17, 2004.

Respectfully submitted,

Kendra Peavy

I certify that the above is a true and accurate statement of the January 14, 2004 Minutes approved by the HAB Board of Directors on March 17, 2004.

Alva Snider, HAB Board Secretary