

HASS AVOCADO BOARD BOARD MEETING MINUTES

July 15, 2009,

A meeting of the Hass Avocado Board (HAB) was held on Wednesday, July 15, 2009 at 38 Discovery, Ste. 150, Irvine, California, with the following people in attendance:

MEMBERS PRESENT

Len Francis, Chairman
Jim Donovan, Vice Chair
Don Reeder, Treasurer
Giovanni Cavaletto, Secretary
Ben Drake
Charley Wolk
Galen Newhouse
Jimmy Lotufo
Ken Roth
Ohannes Karaoghlanian

Mike Browne, MHAIA, Ex-Officio

MEMBERS ABSENT

Rick Shade, CAC, Ex-Officio
Tom Markle
Ed Figueroa

STAFF PRESENT

José Luis Obregón
Yvonne Seebach

ALTERNATES PRESENT

Alvin Gebhart
Avi Crane
Casimir Wytaniec
Daniel Sanders
Ed Embly
Jamie Johnston
John Lindstrom
Katie Wild
Mike Parr

ALTERNATES ABSENT

Pilar Charrada
Elena Garcia
Nilda Mesistrano-Hyde

OFFICIALLY PRESENT

Maureen Pello, USDA
Julie Upton, RD
Elizabeth Pivonka, CEO PBH
Matt Lenton, MHM
Mike Harrison, MHM
Tom O'Brien, Counsel
Val Weaver, HAB Administrator

GUESTS PRESENT

Angela Fraser
Angelina Downing
Aria Lukman
Diane Dreyer
Derek Knobel
Eric Glassen
Gary Caloroso
Gary Woodworth
Gwen Peterson
Jackie Bohmer (via
Teleconference)
Jan DeLyser
Jennifer Baker-Asiddao
Kari Bretschger
Kim Kurata
Ken Ferber
Marji Morrow
Sandra Wellhausen
Sarah Williams
Scott Bauwens
Scott Scarbrough
Steven Muro
Tom Bellamore
Zach Benedict

CALL TO ORDER

Hass Avocado Board (HAB) Chairman Len Francis called the meeting to order at 10:05 am. He took roll and a quorum was established.

Introductions/ Announcements

Mr. Francis welcomed the following people: MHAIA Chairman, Mike Browne; USDA representative Maureen Pello; MHAIA Marketing Director Jackie Bohmer and HAB Counsel Tom O'Brien, via teleconference.

Minutes Approval

No corrections or amendments were made to the May 14, 2009 Minutes.

MOTION

The Hass Avocado Board of Directors approves the May 14, 2009 Minutes as presented. (Lindstrom/Karaoghlanian 1 abstained-Drake)

PRODUCE FOR BETTER HEALTH FOUNDATION PRESENTATION

– Elizabeth Pivonka, CEO California Avocado Commission (CAC) VP of Marketing, Jan DeLyser introduced Elizabeth Pivonka, Produce for Better Health Foundation (PBH) CEO, who gave a brief history of the Foundation. She proceeded with a presentation on the proposed National Fruit & Vegetable Research & Promotion Board which main objective is: "To increase consumption in the United States of all forms of fruits and vegetables for better health through implementation of a comprehensive health marketing, communications, and education effort". She explained that this program would be funded by assessments from the industry. Board members asked questions and some expressed concerns about more assessments. She was encouraged by some to continue to do what PBH was created for and to relinquish the effort to create another bureaucracy. The Chairman thanked Ms. Pivonka for her presentation.

The PRODUCE FOR BETTER HEALTH FOUNDATION PRESENTATION is attached to the permanent copy of these Minutes and identified as Exhibit A.

The Chairman took a few minutes and introduced California Avocado Society board members Derek Knobel and Scott Scarborough, who presented him with a ceremonial gavel made from the original Hass Tree. Mr. Francis accepted the gavel on behalf of the Hass Avocado Board and thanked the California Avocado Society.

FINANCE / ADMINISTRATION Weaver/Reeder

HAB Administrator, Val Weaver, addressed the group with regard to the CAC downsizing and her position being eliminated, and explained that Aria Lukman, CAC Accounting/IT Manager, will be stepping into her responsibilities for the Hass Avocado Board. Mr. Francis thanked Ms. Weaver for the excellent work she has done on HAB's behalf.

2009 Financial Update

Ms. Weaver reviewed highlights of the distributed financial information noting that volume, revenue and net revenues were above budget for the year due to additional from Mexico and Chile.

- 2009 Hass Volume = 1.0516 Billion lbs. --- up 139.6 MM lbs from the 912.0 MM lb. estimate.
- 2009 HAB Revenues = \$26.3 MM dollars --- up \$3.5 MM from the \$22.8 MM estimate.
- 2009 HAB Net Revenues = \$5.0 MM dollars --- up \$1.3 MM from the \$3.7 MM estimate.
- HAB Reserves as of 12/31/09 = \$1.991 MM --- up \$1.364 MM from the \$.627 MM estimate.

Year-end reserves are estimated at \$1.991 million which is an increase over budget by \$1.364 million.

Aggregate volume for domestic and imported fruit is 1.1202 billion lbs. which will be a historic high by 45 million lbs. over the prior year volume of 1.0754 billion lbs.

She reported HAB's cash and investments as of June 30, 2009 as follows:

- Cash in Bank – Checking Account = \$800,424
- Money Market/Institutional Funds = \$3,543,156
- Investments = \$344,000
- TOTAL CASH & INVESTMENTS = \$4,687,580

Included in the investment amount above is a new Certificate of Deposit in the amount of \$245,000, yielding 1.588% with Access National Bank. She noted that HAB's monthly cash flow was ample for the year.

She reported that HAB's year-to-date revenues were above budget, expenditures were below budget and excess of revenues are over budget which is all favorable to HAB.

Handler Assessment / Cash and Investment Audit Reports

Ms. Weaver introduced Mike Harrison, Partner, and Matt Lenton; Manager of the audit, with Mayer Hoffman McCann (MHM). Mr. Harrison gave a presentation of the audit processes and procedures, and summarized the details of the audit findings with regard to the annual California Handler Assessment audit and the (surprise) Cash and Investment Audit.

He explained that there are 50 California handlers, but that 99.3% of revenue is provided by just 14 of them, and those are the ones who were audited. The audit period was from November 1, 2007 through December 31 2008, with the audit commencing in April 2009. He went on to provide an overview of the documents and samplings that were examined during the audit and then gave a summary of the results. There were questions from the Board and a brief discussion with regard to monitoring the accuracy of culls disposal. It was suggested that handlers keep either dump receipts or a signed statement documenting

the number of culls discarded. Mr. Harrison agreed with the suggestion and indicated that it would be sufficient for audit purposes

MOTION: *The Hass Avocado Board approves the Independent Accountants' Report on Applying Agreed-Upon Procedures for the Handler Assessment audit as presented. (Drake/Newhouse) MSC*

Mr. Harrison proceeded with an overview of the cash and investment audit conducted by MHM. He went on to give the results of the audit and summarize the findings, indicating that the HAB cash and investment amounts and portfolio were in compliance with predetermined policies and USDA guidelines. He reported that no exceptions were noted.

MOTION: *The Hass Avocado Board approves and accepts the Independent Accountants' Report on Applying Agreed-Upon Procedures for the Cash and Investment audit. (Reeder/Karaoghlanian) MSC*

The Independent Accountants' Reports on Applying Agreed-Upon Procedures are attached to the permanent copy of these Minutes and identified as Exhibit B.

HAB Finance Committee Chairman Don Reeder presented and opened for discussion a number of topics and motions that were reviewed and discussed in the Finance Committee meeting earlier in the morning.

Semi-annual Expense Reports

Certain committee members have requested that HAB staff provide the Committee with a detailed summary of expense reports. Following extensive discussion members agreed that two times a year would be sufficient. The exact months are yet to be determined.

MOTION: *The Hass Avocado Board approves requiring the HAB staff to provide a detailed summary of expense reports on a semi-annual basis. (Drake/Donovan) MSC*

Corporate Insurance Coverage

Mr. Reeder went on to provide an overview of the next motion regarding HAB's corporate Insurance coverage. Following extensive discussion, the Committee agreed that HAB's coverage was adequate but recommended that it would be prudent to increase the travel accident coverage from \$100k/\$500k to \$250k/\$750k resulting in a premium increase from \$729.27 to about \$1,150.00. The policy would also be separated from the policy it shares with CAC, and HAB would now have its own travel policy.

MOTION: *The Hass Avocado Board approves the increase in travel accident insurance coverage from 100k/500k to 250k /750k and an increase in the premium to approximately \$1,150. (Drake/Newhouse)MSC*

Hass Avocado Board New Hire

Mr. Reeder asked Finance Committee member Ben Drake to present the background information about the next recommendation of moving forward with hiring a Controller/Financial Manager for HAB. Mr. Drake addressed the issue of having a recruiting framework in order to find the best person and voiced his preference to have a full-fledged search be conducted. Board members agreed that this is a critical position and a qualified person needs to be found.

Board member Ohannes Karaoghlanian expressed support to appoint current HAB Administrator, Val Weaver as interim Controller and proceeded to make a motion. It was pointed out that Ms. Weaver will continue to fulfill the responsibilities of this role until her departure from CAC in September. Mr. Karaoghlanian then revised his motion to remove "interim" from the title and hire Ms. Weaver immediately as the HAB Controller. Board members commented that this would be premature. There was no second on the motion and Mr. Francis continued with the initial motion that Mr. Drake had presented.

Mr. Wolk expressed a concern about the compensation level in relation to the current labor market. Mr. Browne expressed his view that the person hired must have excellent communication skills, interact well with USDA, and have a good relationship with the other associations.

MOTION: *The Hass Avocado Board approves the Controller/Financial Manager position and gives the authority to the Executive Committee, in conjunction with the Managing Director, to set the compensation at the appropriate market level and to make the final candidate selection by the September Board meeting. (Drake/Reeder) MSC*

Budget Amendment # 3

Mr. Reeder provided details about the Finance Committee recommendation to approve the budget amendment to use reserve funds to move ahead on the HAB relocation process. Mr. Obregon explained the financial operation breakdown of the \$155,050. HAB's current reserve is approximately \$1.9 MM. USDA Representative, Maureen Pello, expressed concern about HAB's reserve amount. After some discussion, no action was taken

MOTION: *The Hass Avocado Board approves Budget Amendment #3 increasing expenditures by \$88,050 for relocation costs, \$52,000 for administrative costs and \$15,000 for research projects budgeted for 2008 that were finished in 2009. (Cavaletto/Drake) MSC*

Signing Authority and Contracts

Mr. Reeder explained the need to change the signing authority to add the HAB new staff hire and Aria Lukman, in preparation for Ms. Weaver's departure. A second issue was brought up about having a clearer definition of who is authorized to sign HAB contracts and agreements that necessitate a "binding obligation". The following motions were passed as a result.

MOTION: *The Hass Avocado Board approves the modified Approval Authority & Check Signers Policy, adding the Controller/ Financial Manager and Aria Lukman until January 1, 2010. (Reeder/Drake)MSC*

MOTION: *The Hass Avocado Board approves the following modification to the Approval Authority & Check Signers Policy: All binding obligations (i.e. contracts, agreements, etc.) over \$1,000.00 will require two signatures, one of which must be an Executive Committee member. (Drake/Newhouse) MSC*

Travel and Entertainment Policy Revisions

Mr. Obregon provided background information on the recommendation by HAB's auditors, MHM, to revise HAB's Travel and Entertainment policy to include: requiring itemized receipts; clarifying the parameters when using Board-issued credit cards; and adding "staff" to the policy where necessary.

MOTION: *The Hass Avocado Board approves the revised Travel and Entertainment policy as presented. (Donovan/Reeder) MSC*

Review Assessment Rate

Mr. Reeder provided a brief account of the Finance Committee discussion about the assessment rate and the need to determine operational guidelines by 2010, to ensure that reserves and budgets are aligned. He pointed out that there was not enough time during the meeting to thoroughly address all the variables and to initiate the process of change for 2010, but indicated that the topic will need to be revisited. No recommendation was given.

Mr. Browne stated his belief that quantitative analysis is required to review the budget and expenditures and reiterated the suggestion that he made to the Finance Committee about using an unbiased third-party to review the current rate. Mr. Wolk agreed with Mr. Browne's comment and made a motion that HAB staff

should start contracting with a 3rd party to do an assessment analysis on long-term revenue projections in order to accurately evaluate whether the assessment rate is in need of adjustment.

Following some discussion, Ms. Pello clarified that the Act states the assessment remains at the current rate and stays at that level until the Board changes it. She noted that it cannot be changed more than once a year.

There was no second on Mr. Wolk's motion and following clarification on the essential elements of the issue, Mr. Francis gave direction to HAB staff to obtain a proposal from a third-party on assessment analysis, long-term revenue projections and expenditure requirements, and present costs to the Finance Committee and Board in September.

CHAIRMAN'S REPORT

2009 HAB Election Update

Mr. Obregon reported that elections results were in from CPA firm, Mayer Hoffman McCann (MHM). He stated that the names that received the highest number of votes will be submitted to USDA (who will appoint Members to fill the open seats) and proceeded to read the results:

Producer Members: John Lindstrom, Jamie Johnson, Shane Tucker, Gary Woodworth

Producer Alternates: Jamie Johnson, Tom Sowden, Sandra Tate, Emily Greenberg

Importer Members: Avi Crane, Jimmy Lotufo, Barry London, Scott Bauwens

Importer Alternates: Joaquin Hernandez, Barry London, Scott Bauwens, Hugo Gonzalez

ADJOURN FOR LUNCH

Chairman Francis adjourned the Board for lunch at 12:18 p.m.

The Board reconvened at 1:06 p.m.

NUTRITIONAL LITERARY REVIEW RESULTS – Julie Upton

Ms. Upton began by giving her background experience and involvement with various commodity Boards and how to market products from a nutritional point of view. She explained that she was presenting the "Scientific Literary Review and Recommendations" from University of California Davis researchers Dr. Carl Keen and Dr. Sheri Zidenberg-Cherr, who were not able to attend.

Her presentation began by explaining the importance of conducting nutrition research. She proceeded with a brief review of research goals, objectives and strategies. She then summarized the recommended HAB nutrition 2009 research activities which would include formulating a "Request-for-Proposal" by the end of 2009 and choosing an institution to partner with and obtain research results from in 2010.

She urged the board to consider funding and conducting human clinical trials, as there has only been three done since the 1960's (in comparison to the Almond Board who sponsored/fund as least one human clinical trials every year for the past 10 years). The USDA and FDA no longer depend primarily on results from animal studies. She went on to give ideas on potential areas of research that were recommended by Dr. Keen, along with funding estimates. She also indicated that research findings needs to include funding to communicate the results.

Following her presentation questions were posed by various board members. She mentioned that it might be possible to partner and share costs with other fruits and vegetable organizations to conduct studies noting that the downside is determining which product has positive health effects. A qualified health claim process has become stricter but multi-research has better claim results. There are also ways to "piggy-back" on the studies others have done (i.e. nuts and olive oil), leading toward a health claim. Other questions had to do with pediatric research and looking into the benefits of organic and non-organic avocados. Mr. Francis thanked Ms. Upton for her expertise and presentation. Mr. Obregon said the actual study would be sent out to the Board.

The Hass Avocado Board Scientific Literary Review and Recommendation is attached to the permanent copy of these Minutes and identified as EXHIBIT C

CHAIRMAN'S REPORT (Continued)

Association Administrative Costs Reimbursement

Based on discussions at the May HAB Board meeting, Mr. Francis asked Mr. Browne to bring up the topic of administrative cost reimbursement. Mr. Browne noted that it is unfair to the associations to have statutes in place that specify that they cannot use rebate funds to pay the administrative costs. Various board members as well as representatives from CAC expressed their views on this matter. All agreed that the industry has changed since HAB's inception and HAB needs to address this request for cost reimbursement.

Mr. Obregon asked Counsel Tom O'Brien to speak to the group and expand upon the Board memo that he was directed to provide to the board. He confirmed that there are guidelines to adhere to, but that it is legally feasible to pay the administrative costs under certain guidelines. Mr. Francis clarified that costs would be paid from the 15% that HAB maintains from the assessments. The amount associations receive would be based on budgeted amounts. Mr. Wolk made a comment that HAB could pay associations invoices instead of reimbursing administrative expenses of the CAC, CAIA and MHAIA. It was suggested that the policy needs to be broad enough in case new associations are formed and to consider an annual cap on payments, based on budget numbers.

Mr. O'Brien brought up the concern that expenditures would be highly scrutinized by USDA and that they would look for standard parameters equally applied to all associations. Mr. Browne pointed out that the association budgets are already approved by the USDA and that HAB could handle some of the administrative costs for the associations in order to keep these types of costs down. Board members continued discussing the merits of providing this reimbursement and next steps.

MOTION: ***The Hass Avocado Board approves HAB staff doing research on developing and establishing policies and accounting procedures to provide payment for the administrative expenses for the Commission and import associations. (Wolk/Lindstrom 11 yes, 1 no-Cavaletto)***

Relocation Committee Update

Mr. Obregon restated the initial relocation mandate from the Board, presented the Relocation Committee process and findings, and then offered the topic up for discussion. Mr. Francis sought input from the Relocation Committee members. Jamie Johnson said he believed the Rockfield property was more than adequate and suggested pushing for a low price and a longer lease. Board member Galen Newhouse stated that this is the time to get a great deal and suggested that the space should be larger than initially planned and allow for expansion.

Mr. Obregon indicated that he would like the Board to give authority to the Executive Committee to finalize and pursue a location. Ken Roth asked why a wider net has not been cast into a broader area, especially toward the Ontario airport. Mr. Johnson responded indicating that the Committee desired to work with existing HAB employees with regards to ensuring their commute is reasonable. Mr. Karaoghlanian agreed with Mr. Roth and expressed his belief that the Inland Empire would be less expensive and more convenient to local growers. Discussion continued and a motion was made to move forward with finalizing an office location.

MOTION: ***The Hass Avocado Board gives approval for the Executive Committee to work with the HAB Managing Director to negotiate and select an office site for HAB's relocation by the September board meeting. (Reeder/Lindstrom) MSC***

MANAGING DIRECTOR'S REPORT

HAB Booth Update

Mr. Obregon gave some background on the HAB booth and that it is still for sale. Due to the economy, there are warehouses full of them and they are not selling at present. Mr. Newhouse is interested in purchasing it for his company and wanted let the board know. Mr. Obregon wanted the board members to be aware of the interest by Mr. Newhouse's organization in case others were interested from the industry. He can send pictures and specs to anyone who is interested.

2010 Planning Meeting Results and 2010 Strategic Framework/ General Budget Parameters

Mr. Obregon expressed his enthusiasm about having all the associations marketing directors in attendance for this meeting. He proceeded with presenting the meeting results. He asked for feedback on the three objectives:

- **Provide resources that enhance the marketing effectiveness of its stakeholders**
- **Establish and effectively utilize a nutrition research platform to drive consumption**
- **Provide relevant information to support HAB associations**

Board members were pleased with the proposed objectives and expressed their agreement on elevating the nutritional focus to a main objective.

Mr. Obregon presented a proposed framework based on these objectives and general budget parameters for 2010. Questions arose concerning the financial allotment for nutritional research and what HAB gets at the end of a \$400k study. The hard costs are for research, management fees and research publication/publicity. Mr. Browne suggested that Mr. Obregon present the information to the associations to get them on-board with regard to nutritional research.

MOTION: ***The Hass Avocado Board approves the proposed 2010 HAB Strategic Framework and Budget parameters of \$5,381,250. (Cavaletto/Donovan)MSC***

The 2010 Strategic Framework/ General Budget Parameters is attached to the permanent copy of these Minutes and identified as Exhibit D

NEW BUSINESS

No new business.

PUBLIC COMMENT

No public comments.

ADJOURN

Chairman Francis adjourned the Hass Avocado Board 3:26 p.m. The next meeting will be held on Thursday, September 24, 2009.

Respectfully submitted,

Yvonne Seebach

I certify that the above is a true and accurate statement of the July 15, 2009 Minutes approved by the HAB Board of Directors on September 24, 2009.

Giovanni Cavaletto, Hass Avocado Board Secretary