

HASS AVOCADO BOARD BOARD MEETING MINUTES May 22, 2008

A meeting of the Hass Avocado Board (HAB) was held on Wednesday, May 22, 2008 at HAB's headquarters in Irvine, California, with the following people present:

MEMBERS PRESENT

Len Francis, Chairman
Ed Figueroa, Secretary
Don Reeder, Treasurer
Pilar Charrada (*Alt for Donovan*)
Ben Drake
Elena Garcia (*Alt for Crane*)
John Lindstrom (*Alt for Bednar*)
Jimmy Lotufo
Tom Markle (*Alt for Froehlich*)
Galen Newhouse
Katie Wild (*Alt for Roth*)
Charley Wolk

MEMBERS ABSENT

Bob Bednar
Avi Crane
Jim Donovan, Vice Chair
Charles Froehlich, Jr.
Ken Roth

STAFF PRESENT

Jose Luis Obregón,
HAB Managing Director
Val Weaver,
HAB Administrator

ALTERNATES PRESENT

Giovanni Cavaletto
Alvin Gebhart

ALTERNATES ABSENT

Anat Ariav
Nilda Mesistrano-Hyde
Bradley Miles
Daniel Sanders
Luke Sears

OFFICIALLY PRESENT

Marlene Betts, USDA
Ron Campbell, MHAIA
Xavier Equihua, CAIA
Tom O'Brien, O'Brien D.C.
Matt Lenton, CPA, Mayer
Hoffman & McCann

GUESTS PRESENT

Jack Abbott
Jorge Aguilar
Jennifer Baker-Asiddao
Kelly Barnard
Zachary Benedict
Maggie Bezart
Adam Brohimer
Wayne Brydon
Joe Charest
Ray Chen
Angelina Downing
Diane Dreyer
Emiliano Escobedo
Angela Fraser
Laurie Hill
Reuben Hofshi
Dave Howald
Ohannes Karaoghlanian
Doug Koegeboehn
Kim Kurata
Liz Lynch
Victor Moreno
Marji Morrow
Steven Muro
Adolfo Ochagavia
via videoconference
Gwen Peterson
Chris Tully
J. Shaw
Lori Small
Sandra Wellhausen
Linda Wild

CALL TO ORDER

Chairman Len Francis called the meeting to order at 10:05 a.m. The Chairman took roll and a quorum was established.

The Chairman noted which Alternates were sitting in for the absent Members: John Lindstrom for Bob Bednar; Elena Garcia for Avi Crane; Pilar Charrada for Jim Donovan; newly appointed alternate Katie Wild for Ken Roth; and Tom Markle for Charles Froehlich.

Introductions / Announcements

The Chairman announced that Katie Wild was just appointed by United States Department of Agriculture (USDA) as the Board Alternate for Ken Roth. He thanked her for attending.

Marlene Betts, USDA, welcomed Ms. Wild and stated that the Secretary of Agriculture will be signing her certificate and that Ms. Betts will present it to her after it has been signed.

The Chairman noted that the California Avocado Commission (CAC) Chairman Rick Shade apologized for not being able to attend. He is currently tending to CAC business since the recent resignation of CAC President Mark Affleck.

Jose Luis Obregon announced that Antonio Villasenor, Mexican Hass Avocado Import Association (MHAIA) ex-officio had a prior engagement and was not in attendance.

The Chairman announced the guests in attendance: Adolfo Ochagavía, President of Comité de Paltas in Chile, via videoconference; Xavier Equihua, Chilean Avocado Importers Association (CAIA) Executive Director; Maggie Bezart, CAIA Marketing Director; Ron Campbell, Executive Director of MHAIA; Victor Moreno, Emiliano Escobedo from the Asociacion de Productores, Empacadores y Exportadores de Aguacate de Michoacan (APEAM); and Marlene Betts, USDA.

Minutes Approval

The Board reviewed the March 19, 2008 Minutes. No corrections or amendments were made and the following Motion was approved:

MOTION *The Hass Avocado Board of Directors approves the March 19, 2008 Minutes as presented. (Drake/Reeder) MSC*

Producer Alternate Seat Appointment

Announced during Introductions / Announcements.

ADMINISTRATION & FINANCE

FY 2007 Assessment Audit

HAB Administrator Val Weaver reported that the fiscal year 2007 California Handler Assessment Audit has been completed by Mayer Hoffman & McCann Certified Public Accounting firm. She reported that the top 14 California handlers, representing 99.4% of all California assessment revenue received, were audited. She introduced Matt Lenton, manager of the audit, who reported the following findings:

- There were eleven (11) handlers with no assessments/penalties due to HAB.
- There were three (3) handlers with assessments (including penalties) due to HAB totaling \$100,116.03.

- During the tests of the fourteen (14) handlers, the following items came to their attention:
 1. Culls:
 - (a) Eleven (11) handlers did not pay assessments on culls and could not provide evidence that the culls were dumped (i.e. not placed into commerce). They were informed by the handlers that no culls were sold to third parties.
 - (b) One (1) handler, reported included in the \$100,116.03 owing above, did not pay assessments on culls that were later sold to a third party. Therefore, assessment and penalties are due HAB.
 - (c) Two (2) handlers paid assessments to HAB for all culls.
 2. Organic Exemptions:
 - (a) One (1) handler took an organic exemption and did not pay an assessment on the organic fruit purchased from certain organic growers. Most of these growers did not apply for and were not issued a HAB organic exemption certificate. Therefore, assessment and penalties are due HAB.
 - (b) Two (2) handlers purchased organic avocados from growers where total organic lbs-per-acre exceeded the 6,000 lb. industry average.
 3. Exports:

There were no exceptions noted during the test work on exports.
 4. Other Matters:

One (1) handler paid HAB the amount owed on certain adjusted lbs. that were not originally reported for one month out of the year. However, they did not pay the penalty on the late payment. Therefore, the penalty is due HAB.

Matt Lenton proceeded to recommend the following:

Recommendation: That HAB provide specific guidelines to the handlers for appropriate procedures and documentation required for the disposal of culls/zero-value fruit when assessment is not charged for the discarded fruit.

Ms. Weaver reported that HAB made a decision to waive the assessment on culls that were sold by a handler to a third party during fiscal year 2006. The USDA Office of General Counsel (OGC) recommended the waiver. In addition, OGC requested that the policy be clarified with the industry. Notification and clarification of the policy was sent out to the industry, September 26, 2007 after the Board had discussed the issue thoroughly. However, it went out at the end of the year, with only one month remaining to harvest fruit. Ms. Weaver, therefore, recommended waiving the assessment and penalties for the handler who sold culls to a third party for fiscal year 2007, since clarification of the policy was sent out so late in the year with little time for the handler to comply and collect the assessment from the growers. This handler stated to the auditor that they understand the policy and are now paying the assessment on culls sold into commerce for fiscal year 2008. Discussion ensued on the lack of handler documentation for culls that are disposed (dumped/given away/sold). The Chairman directed that staff work with the handlers to develop a system of supporting documentation, including volume by pounds, for disposing of culls. After a discussion the following motion was made:

MOTION ***The Hass Avocado Board of Directors approves waiving the assessment and penalties due the Hass Avocado Board for the handler who sold culls to a third party. (Lindstrom/Newhouse) MSC
Wolk abstained***

There was discussion on Organic exemptions where Mr. Lenton explained the organic HAB exemption. He stated that one handler took an organic exemption for organic growers who did not have a HAB Organic Certificate.

The Chairman reminded the Board that an organic grower must be certified by an authorized organic certifying agent and they must submit forms to HAB to be certified for an exemption. The grower must then give the HAB Certificate of Organic Exemption to the handler in order to be exempt from HAB's assessment.

MOTION ***The Hass Avocado Board of Directors accepts the Independent Accountants' Report on Applying Agreed-Upon Procedures as presented to the Board.
(Drake/Figueroa) MSC***

2007-08 Financial Report

Ms. Weaver reported that six months of Customs and Assessment Reports have been received (November 2007 – April 2008). In all cases, actual volume, gross revenue, net revenue and reserves are all higher than budget.

Outlook for the fiscal year shows the following:

- Hass Volume = 981.0 MM lbs. --- up 52.0 MM lbs. from the 929.0 MM lb. estimate.
- HAB Revenues = 24.5 MM dollars --- up \$1.3 MM from the \$23.2 MM estimate.
- HAB Net Revenue = \$5.0 MM dollars --- up \$1.3 MM from the \$3.7 MM estimate.
- HAB Reserves as of 10/31/08 = \$3.1 MM --- up \$1.2 MM over the \$1.9 MM estimate.

U. S. Aggregate Volume by Month Fiscal Year 2007-08:

The U.S. aggregate volume outlook for FY 2007-08 for all varieties has been updated to reflect import data received from Customs through April 2008 and grower data from California handlers through March 2008. Volume is spread by month based on estimated market trends as follows:

- U.S. aggregate volume of all varieties in the domestic market place is lower by 62.3 MM lbs. and is now tracking at 1.0441 billion lbs. from the March 2008 estimate of 1.1064 billion lbs. due to less volume from California (-34.9 MM lbs.), Chile (-7.9 MM lbs.), and Mexico (-19.5 MM lbs.).

Investment Summary

As of 4-30-08 HAB has 5-Certificates of Deposits with a market value of \$496,000 and yielding between 3.05% - 3.55%.

2008-09 Preliminary Revenue Projections

Preliminary Hass volume projections for 2008-09 have been estimated at 952 MM lbs. Estimated Beginning Reserves are \$3.2 MM; Revenue projections based on a \$.025 per lb. assessment rate are estimated at \$3.8 MM for a total of \$7.0 MM in available

resources. \$5.6 MM is estimated for the Operating Budget which would leave HAB with Ending Reserves of \$1.4 MM.

2008-09 Preliminary Assessment Rate Review

No change was recommended to the current assessment rate of 2.5 cents per lb.

The Financial Report is attached to the permanent copy of these Minutes and identified as Exhibit A.

Code of Conduct & Ethics and Fraud Policy Approval

Ms. Weaver mentioned that Certified Public Accounting firm Mayer, Hoffman & McCann recommended in mid-January 2008 that a Code of Conduct & Ethics and Fraud Policy be created to establish guidelines, best practices and enforcement. Draft policies were sent out before the meeting to the Board members for review. The Managing Director, Jose Luis Obregon, reported that the policies were reviewed by USDA and legal counsel as well as the auditors.

Ms. Weaver added an additional clarification to the Code of Conduct & Ethics, Reporting Violations, page 8, noting that reporting a violation on a Board Member or Board Officers should read that the violation should be taken to the "Chairman, and subsequently to the Executive Committee" instead of "to the Board." In addition, "employees" should be added to Reporting Violations with reported violations directed to the Managing Director.

After discussion a motion was made:

MOTION *The Hass Avocado Board of Directors accepts the Code of Conduct & Ethics with changes as presented. (Drake/Lotufo) MS WITHDRAWN*

Board discussion ensued.

Tom Markle mentioned he had some changes to both policies that should be given to legal counsel for review and inclusion as appropriate. Mr. Drake *withdrew his motion* after the Board agreed to bring the Code of Conduct & Ethics and the Fraud Policy back for approval in July with appropriate changes inserted by legal counsel.

Managing Director Employment Agreement

The Managing Director reported that USDA has directed that he have an employment agreement with HAB. A draft Agreement has been reviewed by USDA and legal counsel and was sent to the Board before the meeting.

Several revisions were recommended as follows:

- Page 1 – the Employment Agreement effective date in the first sentence should be the date approved by the Board, which would be May 22, 2008. However, it was mentioned that HAB officially hired Jose Luis Obregon as the Managing Director on March 19, 2008 and that is the date directed by USDA to use in the document. Therefore, no change is needed.

- Page 2 - #5 second sentence--- delete the reference “to other employees” as the Agreement is specific to the Managing Director.
- Page 3 – d. Termination for Cause, i. Change “Willful and continued failure to perform substantially his duties” to “Willful and continued failure to substantially perform his duties.”

The following motion was made:

MOTION *The Hass Avocado Board (HAB) of Directors approves the Employment Agreement with Jose Luis Obregon with changes as presented. (Markle/Reeder) MSC*

Following the discussion, Chairman Francis introduced Tom O’Brien who is recommended to represent HAB as Legal Counsel. Mr. O’Brien agreed the draft Agreement needed some areas clarified and stated that he will make the requested changes.

It was questioned as to whether the Executive Committee should be doing the Managing Director’s review.

Ms. Betts reported that the policy for performance review of the managing director of other federal board’s is that the chairman seeks input from the board prior to finalizing the performance review report.

Mr. O’Brien stated that the process can be an internal procedure and that it was not necessary to be formalized in the Employment Agreement.

It was agreed that the Managing Director’s Employment Agreement can be signed with the current date.

After further discussion, the motion carried.

Letter of Engagement, Profit Sharing Plan

Ms. Weaver reported that the Geller Group Agreement to implement and manage the administration, recordkeeping, investment and consulting services for a HAB Profit Sharing Plan has been distributed to the Board for review before the meeting. Cost for these services will be about \$3,600 a year. The investment advisory portion of the annual fee fluctuates each year depending on the amount in the Plan, so the \$3,600 will vary each year. This Agreement is the first step in implementing and managing a pension plan for employees of HAB. A Profit Sharing Plan is a Defined Contribution Plan which still needs to be developed and reviewed by the Board before implementation.

After further discussion the following Motion was made:

MOTION *The Hass Avocado Board of Directors approves the Geller Group Agreement to implement and manage the Hass Avocado Board Profit Sharing Plan and services. (Drake/Markle) MSC*

The Code of Conduct & Ethics and Fraud Policy is attached to the permanent copy of these Minutes and identified as Exhibit B.

The Managing Director's Employment Agreement is attached to the permanent copy of these Minutes and identified as Exhibit C.

The Geller Group Agreement is attached to the permanent copy of these Minutes and identified as Exhibit D.

CHAIRMAN'S REPORT

2008 HAB Election Update

The Managing Director read the election update and noted that the ballots will be mailed on May 30th. He stated there were 13 candidates for the Producer Member seats and 7 candidates for the Alternate seats. He also reported 6 candidates for Importer Member seats and 5 for the Alternate seats. He said the seats expiring on Oct 31, 2008 will be filled by appointees for a 3-year term.

Legal Counsel Selection: 2008 Outside Counsel Letter of Engagement

The Chairman noted that HAB dismissed its legal counsel firm, McLeod Miller & Watkinson, due to a potential conflict of interest. The Chairman said he and the Managing Director interviewed three candidates. He reported that the final consensus from the Executive Committee was to retain Mr. Tom O'Brien of O'Brien D.C.

After further discussion the following Motion was made:

MOTION *The Hass Avocado Board approves the Agreement for Legal Services provided by O'Brien D.C. through the fiscal year ending October 31, 2008. (Markle/Newhouse) MSC*

Mr. O'Brien gave a brief review of his background to the Board as follows: Law Degree from Berkley and then joined USDA/AMS. He had been Deputy Director of the State of California's D.C. Office under Governor Gray Davis and was also an associate of a San Francisco firm specializing in agriculture and horticulture. He currently represents the Mango Board which is a Federal Entity similar to the HAB. He has worked with the Milk Advisory Board and the Produce Marketing Association. He stated that he is looking forward to the opportunity to work with the Hass Avocado Board.

The Agreement for Legal Services is attached to the permanent copy of these Minutes and identified as Exhibit E.

Farm Bill

The Chairman stated that the 2007 Farm Bill passed without the three amendments supported by the CAC, APEAM and CAIA. Mr. O'Brien stated that approval of the Farm Bill was delayed due to an administrative glitch where a section was left out of the final bill.

Peru/Chile Trip

The Chairman explained to the Board that he and the Managing Director were planning a trip to Peru to meet with the avocado leadership of that country. He noted that Peru is in the process of receiving approval to import avocados and it is important to meet with the handlers and exporters to explain the purpose of HAB and to gather additional knowledge about their industry.

He wanted to be sure that the Board was aware of the trip and agrees with the purpose. They will also stop in Chile to meet with growers, handlers and exporters.

He reported that to achieve progress in finalizing the trip to Peru the Managing Director contacted the Chairman of the Peruvian Hass Avocado Association who directed him to work with Xavier Equihua who was able to plan the trip.

The Chairman reported that neither the Peruvians nor Chileans are paying for Mr. Equihua to accompany them. Therefore, he suggested to the Board that HAB pick up the costs of the airline expenses and hotel fees for Mr. Equihua.

It was noted for the record that Charley Wolk and Jimmy Lotufo objected that HAB pay for Mr. Equihua's business expenses.

The Board consensus was approval of the Chairman and Managing Director to visit Peru and Chile. Several board members stated that HAB should not pay for Mr. Equihua's expenses since he is affiliated with CAIA and not HAB. USDA and Mr. O'Brien will look into the legality of HAB paying for Mr. Equihua's expenses.

Mr. Obregon stated that the trip is planned for June 15 – 20th. The following motion was made:

MOTION *The Hass Avocado Board of Directors agrees that if USDA and Mr. O'Brien can find no legal objection to pay for Xavier Equihua's airfare and hotel expenses to Peru and Chile, then it would be acceptable to the Board (Drake/Charrada) MS Roll Call Vote Taken: Yes- 8, No-3 (Drake, Lotufo, Wolk), Chairman Francis did not vote.*

Board Discussion ensued. The Chairman reminded the Board that the Chairman of the Peruvian Avocado Association had recommended working with Mr. Equihua and that he thought Equihua's attendance would help a collaborative communication effort.

The roll call vote carried the Motion 8 - 3

MANAGING DIRECTOR'S REPORT

HAB Server Transition

The Managing Director explained to the Board that a new computer file server had been purchased for the HAB. All the HAB information will be removed from the CAC server and transferred to the new server. This is the first step in separating the data from CAC.

HAB Payroll Update

The Managing Director reported that HAB now has its own payroll and that an employee handbook would be developed as soon as possible.

Marketing Committee Report

The Managing Director reported that the Marketing Committee met the day before and noted how he had restructured the marketing committee to represent each of the associations by only having the Marketing Directors from each association on the committee.

He reported successful communication and said that many suggestions were offered to move forward in marketing the category. It was commented that restructuring the Marketing Committee was very appropriate.

Big Game Day Results

The Managing Director shared with the Board the results from the Super bowl outreach and presented a video of the media coverage obtained by HAB's Integrated Marketing Campaign.

ADJOURN FOR LUNCH

The Chairman adjourned the Board for lunch at 12:00 p.m. The Board reconvened at 12:50 p.m.

2008-09 PLANNING

The Managing Director asked for a motion to approve the appointed Marketing Committee members: Chairman: Jose Luis Obregon, HAB; Maggie Bezart, CAIA; Jackie Bohmer, MHAIA; Jan DeLyser, CAC; and Victor Moreno, APEAM.

MOTION *The Hass Avocado Board of Directors approves the Marketing Committee as presented. (Figuroa/Drake) MSC*

Online Strategic Planning Input

Mr. Obregon reported that he sent a survey to the Board of Directors seeking input and direction on key issues that should be considered for the 2008/2009 planning process. These key items were developed after requesting input from all HAB agencies and conducting an Issue Scan for the category. He announced that after receiving responses from 66% of the Members and 25% of the Alternates, the ranking recommended by the Board was as follows:

1. Integrated marketing programs like tailgating, nutrition outreach
2. avoHQ.com/ Market Intelligence/ Data Collection
3. Trade Outreach (Foodservice and Merchandising Programs)
4. Outreach to Supplying Regions and Avocado Associations
5. Consumer Research
6. Nutrition Messaging
7. Quality Research Study
8. HAB's Administrative Structure

Mr. Obregon reminded the Board that in January, Mr. Reuben Hofshi sent out an e-mail recommending that HAB conduct a Quality Research Study with the objective of improving the quality of Hass avocados by assessing post harvest technologies, handling practices and consumer satisfaction of avocados sold and consumed in the United States. At that time it was decided to discuss at a later date.

Mr. Hofshi asked Obregon to direct the Board and stressed the importance of conducting such a study and hoped that HAB could be the vehicle for this project.

Discussion ensued and it was noted that if HAB were to conduct such a study, the objectives should be clearly stated and transmitted to the avocado supplying countries to avoid any misconceptions of the intentions of its results. It was also mentioned that the Hass Avocado Promotion Research and Information Act and the Order allow for HAB to fund quality research but do not allow HAB to set quality standards. There was consensus that the Marketing Committee should further discuss this potential project.

Review / Approve 2008-09 HAB Strategic Frame

Mr. Obregón reviewed the Strategic Frame which was developed from the rankings obtained from the Online Planning Survey consisting of: 1) Reaching out to all avocado producers, packers, importers and exporters through their industry associations to eliminate perceptions and communicate how HAB is instrumental in increasing demand and maintaining value; 2) Building on the foundation that HAB has created with its integrated marketing campaigns and coordinate marketing opportunities with all avocado industry associations; 3) Providing industry information and consumer research data to all involved in the avocado category in the United States; and 4) Transforming HAB into a neutral US avocado “ombudsman” where the industry can openly express its concerns and discuss ways to improve and grow the category. After brief discussion, there was general consensus by the Board to develop the 2008-2009 marketing plan based on this framework.

The Strategic Planning Presentation is attached to the permanent copy of these Minutes and identified as Exhibit F.

During his presentation, Mr. Obregon exhibited the Current Budget Allocation. It was noted by Alternate Board Member Giovanni Cavaletto that the Program Implementation Fee paid to CAC should be reviewed since he considers it too high.

The Current Budget Allocation is attached to the permanent copy of these Minutes and identified as Exhibit G.

Process/Schedule

Mr. Obregón stated that a preliminary 2008-2009 Business Plan will be presented to the Board in July for their approval or suggested changes, after which it will be submitted to the Secretary of Agriculture for approval.

The Timeline for the 2008-2009 Business Plan is attached to the permanent copy of these Minutes and identified as Exhibit H.

NEW BUSINESS

Board Member Ben Drake recommended that a Public Comment section should to be included on future agendas. The Chairman took note and said it will be added. The Chairman asked if there were any public comments. With there being none, the Chairman adjourned the meeting.

ADJOURN

Chairman Francis adjourned the HAB meeting at 1:50 p.m. The next meeting will be held on Thursday July 24, 2008.

Respectfully submitted,

Laurie Hill

I certify that the above is a true and accurate statement of the May 22, 2008 Minutes approved by the HAB Board of Directors on July 24, 2008.

Ed Figueroa, HAB Board Secretary