

**CALIFORNIA AVOCADO COMMISSION
BOARD MEETING MINUTES
September 20, 2007**

A meeting of the California Avocado Commission (CAC) Board was held on Thursday, September 20, 2007 in the Commission boardroom in Irvine, California, with the following people present:

MEMBERS PRESENT

Scott McIntyre, Chairman
Rick Shade, Vice-Chair
Will Carleton
Avi Crane
Laura Eggering
Ohannes Karaoghlianian
Tom Markle
Bradley Miles
Robin Osterhues (*Alt. for Carbone*)
Tom Pecht, Secretary
Susan Randolph, *Public Member*
Don Reeder
Carol Steed, Treasurer
Jerome Stehly
Ross Wileman
Charley Wolk, ex-officio

MEMBERS ABSENT

Gene Carbone

CAC STAFF PRESENT

Mark Affleck
Tom Bellamore
Betty Bohr
Dave Cruz
Jan DeLyser
Angela Fraser
Laurie Hill
Aria Lukman
Connie Stukenberg
Val Weaver
Guy Witney

CALL TO ORDER

Roll Call

Chairman Scott McIntyre called the meeting to order at 10:08 a.m. with a quorum present.

ALTERNATES PRESENT

Chris Ambuul
Ernie Arana
Scott Bauwens
John Lamb
John Lindstrom
Ed McFadden
George McManigle
Earl Rutz
Noel Stehly
Reed Webb

ALTERNATES ABSENT

Andrew Bailard
Robin Leason

OFFICIALLY PRESENT

Dennis Manderfield
CDFA
Marlene Betts, USDA/AMS
Via Teleconference
Jose Luis Obregón, HAB
Managing Director

GUESTS PRESENT

Jack Abbott
Jennifer Baker-Assidao
Art Bliss
Adam Brohimer
Wayne Brydon
Rick Carey
Joe Charest
Peter Changala
Austin Gavin
Tim Hanify
Harry Johnson
Jamie Johnson
Judy Johnson
Kathleen Johnson
Doug Koegeboehn
James McCormac
Peggy McCormick
Steven Muro
Darrell H. Nelson
Barbara Peirce
Gwen Peterson
Sean Pirtle
Ann Segerstrom
Trish Shade
Lori Small
Cathy Sosa
Mark Weinfeld
Mike Weisman
Mark Wollam

Approve Minutes

MOTION: *The CAC Board of Directors approves the August 16, 2007 Board Meeting Minutes with one correction (Alternate Member John Lamb was absent instead of present). (Shade/Markle) MSC Unanimous*

Morning Closed Session Minutes

MOTION: *The CAC Board of Directors approves the August 16, 2007 Board Meeting Minutes with one correction (Alternate Member John Lamb was absent instead of present). (Shade/Pecht) MSC Unanimous*

Afternoon Closed Session Minutes

MOTION: *The CAC Board of Directors approves the August 16, 2007 Board Meeting Minutes with two corrections (Member Gene Carbone and Alternate Member John Lamb were absent instead of present). (Pecht/Miles) MSC Unanimous*

Chairman McIntyre announced that Marlene Betts, USDA, was in attendance via teleconference.

Thatcher memoriam

Chairman McIntyre postponed the Greg Thatcher memoriam until the October meeting.

FINANCIAL REPORT

2006-07 Financial Report

Ms. Weaver reported that 9-months of Assessment Reports have been received and the following are the statistics for the year:

- a) November 2006 – July 2007 (9-Months)
 - Crop Volume is slightly below budget as follows:
 - 211.3 MM lbs --- down 3.7 MM lbs from the 215.0 MM lb. estimate.
 - Crop Value is below budget as follows:
 - \$185.9 MM --- down \$12.5 MM from the \$198.4 MM estimate.
 - Total Assessment Revenues are below budget as follows:
 - \$8.3 MM --- down \$.4 MM from the \$8.7 Mm estimate.

- b) FY November 2006 – October 2007 (12-Months)

Crop Volume for the fiscal year (FY) is tracking slightly above budget at 254.8 MM lbs. Crop value, Assessment Revenues and Reserves are tracking close

to projections as the crop winds down for the year. Projections for the FY are as follows:

- Estimated Annual Crop Volume = 254.8 MM lbs. (up 2.8 MM lbs. over the 252.0 MM lb. estimate)
- Estimated Annual Crop Value = \$241.3 MM (down -\$2.5 MM from the \$243.8 MM estimate)
- Estimated CAC Revenues = \$10.4 MM (tracking on estimate)
- Estimated CAC Reserves = \$1.79 MM (tracking slightly above the \$1.74 MM estimate by \$.05 MM)

2006-07 Aggregate Volume Outlook

The aggregate volume outlook for FY 2006-07 for all varieties has been updated to reflect import data received from Customs through August 2007 and grower data from California handlers through July 2007 as follows:

- Aggregate volume of all varieties in the U. S. market is slightly higher by 3.6 MM lbs. and is now tracking at 1.0043 billion lbs. from the July 2007 estimate of 1.0007 billion lbs.

Office Lease Update

Lease negotiations with The Irvine Company are continuing. Treasurer Carol Steed and Weaver reviewed the counter offer proposed by The Irvine Company (TIC) and will meet with TIC Leasing Director next week to review the deal and advance negotiations.

A copy of the Memorandum to the Board, is attached in its entirety to the permanent copy of these Minutes and identified as EXHIBIT A.

The complete Financial Budget, Revenue Outlook, Crop Summary and Cash Flow Projection dated August 16, 2007, is attached to the permanent copy of these Minutes and identified as EXHIBIT B.

The 2006-07 Fiscal Year U. S Aggregate Avocado Volume is attached to the permanent copy of these Minutes and identified as EXHIBIT C.

The Memo to the Board of Declared Candidates is attached to the permanent copy of these Minutes and identified as EXHIBIT D.

BOARD CHAIRMAN'S REPORT

Incentive Committee Meeting Update

Jerome Stehly, Chairman of the Incentive Committee reported that the Incentive Committee met in the morning and discussed components of a 2007-08 Incentive Plan. He stated that based on a revised process established a few years ago, the President/CEO reviews senior staff incentive goals based on performance

measurements established at the beginning of the year. Target payouts are based on a percentage of salary against measured performance achievements with discretionary funds available for staff. The Chairman reviews the President/CEO's performance incentives and goals and presents a recommendation to the Board. The Committee discussed all elements of the Plan and agreed to recommend to the Board an incentive plan for 2007-08, officer incentives based on performance measurements, a reduced payout target of 15% of salary vs. the previous 20% in light of budget constraints, along with a discretionary fund for staff. The Board was reminded that the 2006-07 Incentive Plan was eliminated at the March 2007 Board meeting due to the crop freeze, revenue shortfall and budget related cuts. After a discussion the following motion was made:

MOTION: *The CAC Board of Directors approves a performance based 2007-2008 Incentive Plan for CAC Officers, along with a Discretionary Fund for staff, based on 15% of salaries effective November 1, 2007. (Stehly/Steed) MSC Unanimous*

Executive Committee Meeting Update

Postponed due to time constraints.

2007-08 PRELIMINARY BUSINESS PLAN

Overview

President Mark Affleck stated that staff's job is to set the context and deliver a plan that advances the business based on current information and past experience. He mentioned that the Board has been working on the plan and development of the strategy for the past 5 months. Acknowledging this huge responsibility, he said both ends of the spectrum need to be considered. As an industry, we must ask what we need to do to insure our future and remain competitive.

Affleck cautioned the Board not to overreact to the changing market and economic environment, as the Board 20 or more years ago did, when spending was erratic. He advised against being lured into the trap of things being too good or too bad, rather to assess the competitive threats and making informed decisions. He assured the Board that whatever they decided to do, CAC would make the best of the budget that the Board approves.

He stated that today's budget recommendations might be uncomfortable, but it's his job as CEO to present to the board the facts needed to make the final decisions.

Affleck turned discussion over to the board.

Chairman McIntyre asked Jerome Stehly to provide an update of the Assessment Task Force meeting.

Assessment Task Force Report

Stehly reported that the Assessment Task Force (ATF) met a few weeks ago. He noted that the goal was to come up with a blend of the HAB and CAC rates that would be similar to the current rate. He mentioned it is good that HAB is in place because CAC alone would not have the marketing dollars to achieve what the HAB assessments have accomplished and grow the market.

He explained that the Task Force considered market responses to volume and price changes. Stehly added that marketing dollars need to work harder to make gains in the market. He noted that if the California brand is not in the forefront that retailers will lose loyalty to the brand.

He stated that the ATF reviewed the rates from previous years, historical price statistics, financial scenarios and industry statistical supporting data.

Stehly said the ATF recommends a 3% CAC assessment rate, using a \$.90/pound on a crop of 350 million pounds for a crop value of \$315 million for 2007-08.

The Assessment Task Force Post Meeting Report is attached to the permanent copy of these Minutes and identified as EXHIBIT E.

Board discussion on the assessment ensued with various budget, value, volume and price per lb. charts reviewed along with assessment rates.

The Responses to Survey of Growers on Increasing CAC Assessment conducted by Ohannes Karaoghlanian is attached to the permanent copy of these Minutes and identified as EXHIBIT F.

It was noted that in an independent study Dr. Hoy Carman, University of California Davis Agricultural Economist, found that CAC's advertising effectiveness had excellent returns over the past 9 years, with statistics showing that CAC's advertising and promotion had a positive effect on price and demand for California avocados.

McIntyre thanked Stehly for serving as chairman of the ATF and having the meeting early in September. He reminded the Board that final approval of the assessment will be voted on in October.

Tentative 2007-08 Plans & Budgets

Chairman McIntyre stated that the first draft of business plan had been mailed out to the Board.

Commissioner Karaoghlanian stated that the Board has a fiduciary responsibility to act in the best interest of the growers. He presented charts and data showing assessment rates, crop value and grower return trends based on his own computations.

Ms. Jan DeLyser responded to a question regarding the Brand Development Index (BDI), which is the CA volume in the market relative to the population, and the Category Development Index (CDI), which is aggregate volume in the market relative to the population, in the proposed CAC 2007-08 Business Plan. She and Mark Weinfeld from DGWB explained these indices and also discussed the target audience CAC's marketing effort would be focusing on, which along with a premium target audience makes up the total market demographic profile.

DeLyser noted that the proposed plan includes a national overlay of cable TV media buys. A Handler Commissioner confirmed retailer support for advertising, endorsing the use of multi-faceted media in the proposed plan.

It was mentioned by a grower in attendance that the California brand is not distinct enough in the market place. He has seen mislabeling many times and upon much follow up, the retailer finally changed the signage. He indicated that he was very disappointed with the retailers. DeLyser noted that it is a challenge to keep educating produce employees because of there is a high turnover rate of these part-time retail positions. However, CAC's merchandisers are continually conducting retail training and facilitating in these employees' development. She said that the timing could not be more perfect for the coming marketing campaign to build the premium California brand.

There was brief discussion on the country-of-origin labeling and voluntary California labeling by handlers. DeLyser noted that it won't happen overnight but progress is being made.

DeLyser suggested the following supports the proposed plan: Empowering the consumer to INSIST ON CALIFORNIA AVOCADOS in the market. The campaign is to push the demand for CA fruit during peak season availability.

ADJOURN FOR LUNCH

Chairman McIntyre adjourned the Board for lunch at 11:50 a.m. and reconvened the Board meeting at 12:40 p.m.

2007-08 PRELIMINARY BUSINESS PLAN (Continued)

Tentative 2007-08 Plans & Budgets/Cash Flow Projections/Assessment Rate

There was discussion regarding the recommended budget and plan and the different assessment scenarios discussed. A question was asked as to what the reserve level would be if the assessment rate stayed at the current level of 2.15% with a budget of \$16.7 MM. At that level, revenue would be reduced by \$2.7 MM, reserves would be at a deficit level of (\$53,000) and adjustments would need to be evaluated.

A comment was made to approach HAB to increase their assessment but HAB Chairman Wolk stated that the budget and assessment rate had already been

approved in August 2007. Bellamore also stated that it could take as long as one year to make an assessment rate change even if the HAB approved an increase.

Discussion ensued concerning the assessment rate, budget and when cuts or adjustments need to be made. The Board has 30 days to review the plan and come back in October for further discussion and recommended changes.

It was noted that 30% mandatory water cutbacks within the Metropolitan Water Districts delivery area are anticipated in January 2008, and that the crop volume could be reduced by such action and so affect revenues.

Chairman of the Production Research Committee (PRC) Darrell Nelson spoke about the potential to increase the efficiency of CAC research funds. He stated that in the past the PRC had an almost exclusive relationship with the University of California and their science faculty. However, the relationship was not always as efficient as it could be, especially considering that grower monies funded research.

He went on to say that Witney and Nelson recently had discussions with Dr. Jim McFerson, Manager of the Washington State Tree Fruit Research Commission, and that the WA program provided some strategies that CAC may consider in order to improve research program efficiency, reach research goals sooner, and reign in spending. Nelson said that the Washington fruit research program faced the same challenges with Washington State University scientists the PRC has faced, including slow progress, lax accountability and the occasional expensive loss of a full project year due to mistakes in site selection or premature harvest and loss of experiment data from poor communications with grower cooperators. Nelson noted that most (90%) of the PRC budget goes to salary support of staff research associates (SRA's) at the University. These full and part time University employees are accountable to the funded researchers, but they are not accountable to CAC. Nelson suggested that to maximize the budget and maintain an efficient program, field trials could be administered considerably more efficiently using in-house staff who would be fully accountable to CAC and their assigned researchers. He recommended as a first step that the Board consider hiring CAC field consultant Wayne Brydon as field research coordinator and begin the move toward more efficiency, accountability and control of avocado research. Ms. Weaver indicated that bringing Mr. Brydon on as a full-time employee rather than consultant would not dramatically change costs or affect budgets as both of being a CAC consultant over to being a CAC employee.

While Nelson said he was not encouraging the Board to make an immediate change, rather, he recommended the Board consider one-year period to transition into a new way of doing things. He reminded the Board it takes time to change, but bottom line is to maximize CAC's production research investment.

Chairman McIntyre asked Witney and Nelson to come back with more details in the October meeting about the 2007-08 production research program.

In response to a question regarding the proposed reduction in the American Dietetic Association (ADA) budget, DeLyser informed the Board that the proposed plan is based on a review of the available budget and a prioritization of the opportunities. She noted that while CAC's 2007-08 plan does not include a booth at ADA, the CAC message will be represented. She said that HAB has taken on the responsibility of nutrition messaging with approval from USDA. This allows CAC to focus on identifying and leveraging avocado nutrition research with the consumer.

Commissioner Karaoghlanian provided a grower assessment rate survey he had conducted asking growers for a "yes" or "no" response to an assessment rate increase. He presented results which strongly supported no assessment increase.

After discussion and a call for the question by Rick Shade, which was unanimous, the following motion passed:

MOTION: *The CAC Board of Directors approves a tentative assessment rate of 3 percent, using \$.90/pound on crop volume of 350 million pounds with a crop value of \$315 million for 2007-08. (Stehly/Miles) MSC*

7-Yes; 3-No (Karaoghlanian, Osterhues, Carleton); 4-Abstained (Egging, Crane, Wileman, Randolph)

A question was asked about the Production Research budget and if it came in higher than allotted. Weaver stated it came in \$92,500 above the budget number. Witney mentioned that each season the PRC spends thousands of volunteer hours reviewing all research in a very thorough and diligent process that arrived at the budget presented.

It was explained to the Board that over the past few months there have been many adjustments, including staff cuts in response to budget pressures. For the new year, Affleck outlined a scenario of CEO Contingency budget cuts that would total \$500,000 if needed.

The 2007-08 CEO Contingency Budget Cuts is attached to the permanent copy of these Minutes and identified as EXHIBIT G.

After further discussion the following motion was approved:

MOTION: *The CAC Board of Directors approves a 2007-08 tentative CAC business plan and budget of \$16.6625 MM. (Shade/Pecht) MSC*

10-Yes; 3-No (Karaoghlanian, Osterhues, Carleton); 1-Abstained (Egging)

The 2007-08 Draft Business Plan is attached to the permanent copy of these Minutes and identified as EXHIBIT H.

HASS AVOCADO BOARD REPORT

HAB Chairman Charley Wolk announced that the 2007-08 HAB Business Plan that was approved by the HAB Board in August has been reviewed and approved by USDA and that the electronic version of the document is now online at www.avohq.com.

Wolk also mentioned that HAB's 2007 Tailgating program is currently being implemented after a huge success during the 2006 season. He commented that this year HAB has partnered with Miller Brewing Co., Sutter Home Winery and also has included Sports Illustrated as part of its media outreach. For 2008, Tailgating is an important part of HAB's consumer outreach strategy.

Mr. Wolk reported that HAB's Executive Committee has chosen Dr. Hoy Carman from University of California Davis to conduct a Program Evaluation that is required by USDA from the Federal Marketing Boards every 5 years. He mentioned that Dr. Carman is very knowledgeable in avocados which was one of the reasons he was selected to conduct the evaluation.

Mr. Wolk reminded the audience that HAB will have a booth at the 2007 PMA Fresh Summit Expo in Houston. This will be the last year that HAB will participate as an exhibitor at PMA due to budget redirection.

After having very favorable results last year, Mr. Wolk reported that HAB's Managing Director Jose Luis Obregón is organizing an Agency Summit for the month of November; where all agencies conducting marketing activities for the avocado industry associations meet to share plans and ideas with the ultimate goal of increasing avocado consumption in the United States.

INDUSTRY AFFAIRS

Dr. Guy Witney, Director of Industry Affairs, reported the following:

Crop Update: Witney summarized the weekly crop shipping volumes for the week ending September 20, 2007. California contributed 4.3 million pounds; imports 16.4 million pounds; and Florida 2.4 million pounds for a grand total of 23,357,430 million pounds shipped.

He reported that the crop indicator model was indicating that the final crop could come in at a total of around 261 million pounds.

National IR-4 Meetings: Witney went on to report that he had attended the Food Use Workshops at the National IR-4 meetings in Tampa Florida where he pressed the case for registration of Fujimite on avocados for the control of perseas

mite. He said there were dozens of individual requests for registration of materials from commodity groups throughout the U.S. but only 12 available slots in 2008 for Federal funding. When the group reached an impasse in setting priorities for these 12 spots, Witney said he agreed to withdraw Fujimite from the list being considered, on condition that CAC's request go to the top of the list in consideration of Regional Upgrades. Eight additional slots nationally allow for registration of materials deemed essential by local regions and go into the program through Regional Upgrade. He said the tactic paid off and Fujimite was upgraded to enter the IR-4 Program in early 2008 with the aim of obtaining registration for treatment of perseá mites on avocado by around 2010.

Laurel Wilt Disease: Dr. Witney concluded his presentation by alerting the Board to a new disease threatening avocados called Laurel Wilt. The disease is spreading rapidly, extinguishing red bay trees (*Persea borbonia*) and sassafras trees across the coastal plains of South Carolina, Georgia and Florida. Recent experiments by scientists with the U.S. Department of Forestry show that the disease is also easily spread and fatal to avocado. He indicated that avocado, red bay and sassafras trees are all in the Lauraceae family and closely related.

The cause of the disease is a newly described fungus (*Ophiostoma sp.*) vectored by the Asian ambrosia beetle (*Xyleborus glabratus*). He said that both the beetle and fungus are recent introductions into the United States. At the present time, there is no known method to halt the spread of this disease and it will be up to the CDFA and industry vigilance to keep this serious threat from entering California and infesting commercial groves.

Dr. Guy Witney's complete Industry Affairs Department Report, dated September 20, 2007, is attached to the permanent copy of these Minutes and identified as EXHIBIT I.

CLOSED SESSION

No Closed Session was held.

ADJOURN MEETING

There being no further business, he adjourned the Board meeting at 2:24 p.m. The next Board meeting will be held on October 18, 2007.

Growers are now able to view the CAC Board meetings via the Internet. The address for web broadcasts is: <http://video.avocado.org>

Respectfully submitted,

Laurie Hill, CAC Staff

California Avocado Commission
Board Meeting Minutes
September 20, 2007

I certify that the above is a true statement of the Minutes of September 20, 2007
approved by the CAC Board of Directors on October 18, 2007.

CAC Board Secretary