

FARMER COOPERATIVES CONFERENCE – 2004



Since 1924

The First Name In Avocados

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Last spoke in 2000, when the change was in process.

Is it a success?

- Liquidity to members**
- Market-driven valuations**

● **Stage One**

Exchanged Revolving Fund Credits.

\$1.00 for one share.

Positive vote by holders – 97%.

Privately negotiated exchanges between members.

SEC-like reporting – quarterly and annually.

● **Stage Two**

Convert from cooperative to “C” type corporation.

Register with the SEC.

Anyone can own shares – market maker used.

Rights offering to increase capital @ \$5.00 share.

Rights offering raises \$5,709,000 in 2002

Stock options to Board and employees.

● **Operating Results**

	Dollars <u>Dividends</u>	Dollars <u>Net Income</u>
1998	\$1,648,000	\$1,648,000
1999	\$1,180,000	\$ 884,000
2000	-	\$4,764,000
2001	\$4,973,000	\$3,838,000
2002	\$2,567,000	\$6,915,000
2003	\$3,232,000	\$7,160,000

● **Is it still acting like a cooperative?**

- **Governance**
 - 1996- 10 Directors elected by district
One account= one vote.
 - 2004 - 8 of original directors still there.
 - Cumulative voting.
- **Pooling**
 - Competitive returns
 - Dividends per share vs. dividends per pound.
 - Retaining earnings on after-tax basis.
- **Growth**
 - Increase in market share.
 - Former members returning.
- **Global Business**
 - Growth from off-shore sourcing.

Positives

Debt/Equity ratio at .0023:1

Current ratio at 2.3:1.

Both as of 10/31/03.

Flexibility in dealing with growers.

Employees have identity/stake in company.

Acquisition tools available.

TRANSPARENCY

Much higher quality in reporting.

More timely, more disclosure

Officers' total compensation disclosure.

Total compensation – perks, etc.

**Directors' compensation/ownership/
business disclosure.**

● **Negatives**

– **Lost heritage.**

– **Potential to change directors.**

– **Large block voting.**

– **Registration Requirements:**

Independent Directors.

Audit Committee membership – independent.

Audit fees – incredible increases- 300% plus.

Legal fees – compliance is expensive.

THE CONFLICT - Service vs. Profit

**Stock price is immediate profit driven.
Stock price is dividend driven.**

- **My One Recommendation:
All major Cooperatives should be
SEC/Sarbanes-Oxley compliant.**

**Credibility
Quality
Trustworthiness
Openness**

● **Is it right for you?**

- Source of significant taxable income.
 - Dividend income important
- Barriers to growth. Calavo had 35% SOM
- A good story to tell.
 - Avocados have a good health story to tell
- Minimum size – \$200+ million in sales.
 - Market makers need critical mass.
 - 1600 shareholders
 - Good turnover in shares traded.