

Farmer Cooperatives Conference  
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Valuing Assets During Changing Times

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Discussion Guide

- 3 B's
- Brief History Lesson
- Emergency Room Perspective
- Structure - Are we going the wrong way?



History Lesson

- 1999  
PLA & MFA LS Merger  
Name change
- 2000  
Mgmt. Agr. with IPLA  
Mgmt. Agr. with DFS  
Lease with Asheville  
Discussions with SSC/MLE



History Lesson

- 2001  
  
Acquired assets of IPLA  
Deal with SSC  
George Young Fraud  
Litigation  
Downsizing



History Lesson

- 2002 - 2004  
  
Continuing operational scrutiny  
Governance changes  
Industry issues  
Judgments  
CoBank



History Lesson

- 2005  
  
Further development of "NEWCO"  
Move by judgment creditor  
Filed for Reorg - 4/1/05  
Plan confirmed - 9/28/05 !!!  
Appeal dismissed - 2006  
Case formally closed - early 2007



History  
§  
Hindsight



“Think of three things: from where you came, where you are going and to whom you must account.”

--Proverb

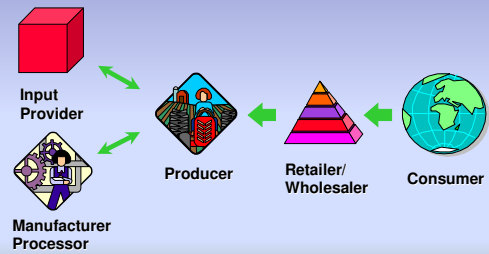


“Where do we go from here?”

- Are we viable?
- Our assets have value, both UPI § PCC.
- We had little or no equity.
- The members supported us!



Food Supply Chain Dynamics



Critical Paths

- Economic performance
- Structural alternatives
- Intentional leadership



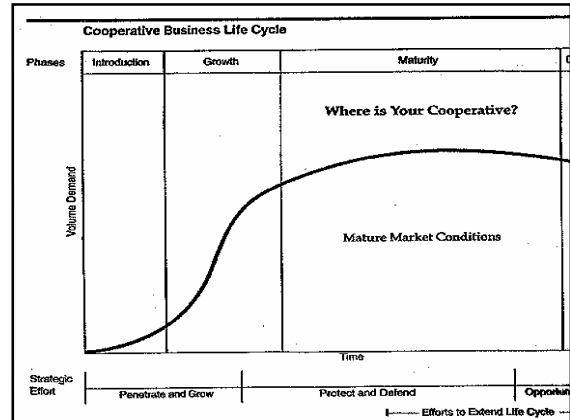
Economic Performance

- Profits pay for growth
- Growth is not a luxury
- What do members value?



## Structural Alternatives

- Problem solving
- Governance
- Raising Capital
- Value Proposition & perception



## Conclusions & Actions

- Our specialized assets have textbook, coop value, i.e. to the user
- Our loan portfolio is sound and bankable
- Our membership base is willing to do business with us AND capitalize the coop



## Capital Retains

- Stole the idea from dairy coops
- Retain on per head of livestock marketed
- Planning a 5 year rollout
- Will raise about \$1.0M equity per year
- Not enough!



## PCC Solutions

- Concluded we'd make no change to core, cooperative structure and tax status
- Loan assets are high quality
- Limited access to debt capital for growth in conventional credit facility
- Refinanced 100% of portfolio - \$ worked
- Will receive bank patronage - reduce long term debt
- Deleveraged the balance sheet by over \$50M and therefore need for equity capital overall
- Not enough!



## Preferred Membership

- Established new class of membership
- Charge \$25/member/year to belong
- To date, over 40,000 Preferred Members!
- You do the math
- Not enough!



## Community Markets

- 80/20 rule – most members do business at a facility
- Local auctions are integral part of ag business in rural communities
- During legal crisis, farmers were most concerned about whether “their” local market would still be there versus loss of equity
- Assets appraised more than term debt



## Community Markets

- Creating new, local cooperatives in each state
- Facility will be contributed from UPI to local
- Local cooperative, i.e. community market, will be a stock cooperative
- UPI will retain common stock; operational management via a Management Agreement
- Farmers and related parties can buy preferred stock in local coop
- Bite size bites....\$1000/share; dividend bearing
- Goal is to raise appraised value of facility
- Buy the coop back from the bank
- Move to local patronage pools - end of 2008



## Community Markets

- Goal is to raise \$5M over next 18-24 months
- First one has been formed in Michigan and has received 521 IRS exemption
- Not enough!



## Summary

- Community Markets, capital retains and Preferred Membership reaffirm cooperative solutions
- Specialized assets have value when directly correlated to meeting members' needs
- Structure may need to change to best meet members' needs
- Producer lending is a critically needed service but must have a flexible wholesale source of funds



Thank you!

