

How to Join United –II

1. **Membership in U-II requires the grower be a member in good standing of United Potato Growers of Idaho.**
 - a. In full compliance with United policies
 - i. Acreage management
 - ii. Data pool membership- data is necessary for tracking shed’s production of spuds. Members will be responsible for having packing shed supply cwt pack-out by size and pricing by size.
 - iii. Current on all dues
 - b. Membership requires they commit to bring potatoes to U-II
2. **Participant understands that U-II will be the share holder in Newco**, that growers will buy shares of U-II called “growing rights” based upon the quantity of processor quality potatoes supplied to Newco, and that membership in U-II is a irrevocable commitment to:
 - a. Deliver their committed potatoes to U-II.
 - b. Make financial commitments and service debt associated with stock purchases in Newco.
3. **Participant joins the U-II pool by 1) purchasing one share of U-II common stock and 2) purchasing U-II preferred shares called growing rights. Growers can purchase preferred shares equal to the number of Fresh Base Acres they have registered in United of Idaho.** This initial cash investment will be used as down payment towards the borrowing of money to buy Newco stock thus committing the U-II member to service his pro-rata share of the debt associated with the purchase of Newco shares.
 - a. 1 share of common stock costs \$1000.00.
 - b. 1 share of U-II preferred stock is called a “growing right” and equals 1 fresh base acre as defined and currently registered as preferred stock in United of Idaho.
 - c. Member will make an initial cash investment of **\$150 (one hundred fifty U.S. dollars)** per share of preferred stock to secure a growing right.
 - i. Example: grower has 450 fresh base acres registered in United of Idaho..
...he pays \$67,500 (450 acres x \$150) to secure the perpetual annual right to deliver the processor grade potatoes grown on those acres.
 - ii. Processor grade potatoes grown on those base acres can be delivered as washed process grade, low quality field run, dry eliminators, or premium washed process grade.
 - d. Ownership of U-II (and thus ownership of Newco) will be as follows:
 - i. During the initial subscription period, the grower joins by buying preferred shares and committing the amounts in hundredweight of processor quality potatoes to the U-II pool and by making the appropriate initial cash investment. At the end of the subscription period, U-II membership will be closed.
 - ii. At the end of the subscription period, the growers committed percent of the outstanding preferred shares represents his “share” of the equity within U-II. Said share of the equity obliges the grower to a fixed amount of debt

(borrowed over a 7 year period) and to a per hundredweight check-off to service the debt.

- iii. Qualified growers can join U-II after the subscription period has closed by buying additional preferred shares and committing the additional processor grade potatoes from those base acres to U-II. Said additional shares can be purchased at “market prices” from existing shareholders or from a United of Idaho bank of shares. Market forces will dictate pricing.

4. Open enrollment subscription timetable

- a. Completed membership applications and preferred share subscription forms must be returned to United of Idaho offices **NO LATER THAN April 27, 2007.**
 - i. Applications must be accompanied by 1 share common stock purchase of \$1000.00
- b. **Actual cash payment for the preferred stock will be due on or before June 15, 2007.** Failure to deliver the preferred stock payment will render the application null and void. Common stock payment is not refundable.
- c. Subscription applications received **AFTER** April 27,2007 will pay the higher of \$188 per share (+25%) or the prevailing market price. Actual cash payment for the preferred stock will be due within 45 days from receipt of a completed membership application and preferred share subscription form.

5. U-II governance and representation on Newco’s board

- a. A voice on Newco’s Board of Directors.
 - i. As envisioned, no single equity partner in Newco will have majority ownership and control of the Newco Board.
 - ii. U-II representatives on Newco’s Board will selected by U-II’s Board of Directors.
- b. Representatives for U-II’s Board of Directors will be selected as follows:
 - i. Each existing United of Idaho district will facilitate all U-II members within that district to gather and select their representative to the U-II board. All voting will be one member-one vote.
 - ii. At large board members may also be appointed by the U-II elected Board of Directors as deemed necessary and provided the appointee is a member of U-II.

6. Long Term Financing: Membership in U-II constitutes legal ownership and liability for Newco shares. Like any other share based organization, U-II share holders are equity owners. As such U-II owners will be entitled to:

- a. Dividends- will be distributed annually to U-II and in turn passed onto each grower member per his ownership percentage. U-II’s Board of Directors have the option to return dividends to growers, or vote to apply dividends to retire debt or to buy additional equity, as the grower base desires.
 - i. Dividends are ESTIMATED to be Y1-\$0, Y2-\$1.0M, Y3-\$20M, Y4-\$40M, Y5-\$55M. THESE ARE NOT COMMITMENTS, only estimates based upon projected performance of Newco.
- b. U-II members will also have responsibility for:

- i. Financial liability associated with purchasing of Newco shares.
 1. Banks are currently being solicited as the “lender” to U-II growers.
 2. The Bank may require U-II owners to pledge their Newco shares and their U-II committed potatoes as collateral against debt.
 3. The Bank will require U-II growers to agree to have the debt serviced thru a check-off against the cwt of spuds delivered by each grower.
 4. Y1-Y7 debt servicing is expected to cost between 25¢-30¢ per cwt principal plus interest. (APR @8.5%)
 5. **However, U-II share of dividends in Y3-Y7 are estimated to be more than cost of debt servicing.**

7. U-II Volume requirements and expectations

- a. U-II will be the sole purchasing agent for Newco in Idaho; the template embodied in U-II of Idaho may be the basis for the formation of other U-II pools within other United chapters.
- b. U-II of Idaho will be the supplier of a 100% of Newco’s raw product needs in Idaho.
 - i. A portion of U-II’s potato commitments to Newco will be as a FIRM volume commitment with a FORMULA BASED PRICE. The balance will be sold to Newco at the “open” price.
 1. The Formula Based Price is tied to the domestic market price of flake with growers and Newco sharing the ups and downs.
 2. The Formula Based Price base structure is negotiated each year based upon flake market conditions and other variables such as acres planted, yields, raw availability, international prices, etc.
 - ii. U-II will NOT make a firm volume commitment of WPG or FR that is not first contractually committed to the U-II pile. That limits U-II membership exposure to market pricing fluctuations.
 - iii. As needed, U-II can and will buy potatoes from non-members outside the cooperative. Open prices will be set by the market.
 - iv. U-II Grower returns will be averaged over the season across the pile.
 1. Averages will made across each segment of the raw stream..ie WPG, Prem WPG, dry eliminators and FR.
 2. Approximately 75-80% of the expected return will be paid within 30-45 days.
 3. The remaining 20-25% will be retained within U-II to service debt and to complete final averaging. Grower will receive a season end settlement and a check. Dividends will be paid in a separate check.
- c. Membership in U-II is a long term firm and irrevocable commitment to deliver 100% of the processor quality potatoes associated with the U-II fresh base acre shares purchased.
 - i. In January of each year, growers will declare their planting intentions in coordination and cooperation with United of Idaho planting guidelines. Along with their planting intentions, growers will also estimate the processor quality potatoes they will produce from those acres using their 3 year historical trends.

- ii. At the end of the harvest by November 1, every U-II member will update his estimate and designate in writing the amounts processor quality potatoes available and when and where he will run his U-II potatoes for the coming year.
 - 1. Growers will be required to produce a signed release wherein the Packing Shed acknowledges that the grower has informed Shed Management that the processor grade portions of the growers crop are committed to and are the property of U-II and cannot be sold under any circumstances. Financial penalties will apply.
- d. Members are “expected” to deliver no less than:
 - i. 100% of their WPG from their fresh base acres.
 - 1. The objective is to NOT have members in U-II with speculative quantities of “open” in competition with U-II’s purchasing efforts in the market. Remember, a grower will have a portion of his U-II commitment already “open priced” within the U-II system. There is no need to keep spuds on the outside.
 - 2. Members with preexisting multi year commitments to frozen or refrigerated processors can with documentation “protect” those commitments. Our preference is to have those quantities transferred to U-II in coming years.
 - 3. Members with preexisting dehydrator commitments who wish to convert those commitments to U-II in future years can with proper documentation, reserve or hold a position in U-II by buying “class B” growing right shares. Class B shares will have an initial cost \$150 per acre due during the subscription period and will reserve a delivery right for no more than 2 years. During the 2 year waiting period, no volume is required for those shares. At the end of 2 years, the right must be converted into a Preferred Share growing right and 100% of the processor grade potatoes delivered to U-II. Class B shares cannot be traded but once converted into regular preferred share growing rights, they can be sold or traded on the open market.
 - ii. 5%-10% of their field run. In any crop year, there is often 5-10% of the field run that is not truly fresh pack quality. Growers will now have a pre-negotiated “formula based priced” alternative for removal of those process quality spuds. United asks growers to commit those potatoes before the crop is harvested. Note: if a grower is short or long on this commitment, these growing rights can be traded and or rented to fulfill the commitment. U-II will facilitate the trading and filling of these specific commitments.
 - iii. 100% of their Dry eliminators- growers are strongly encouraged to eliminate as part of fulfilling their commitments; eliminators are expected to be priced at 50¢ above the formula based WPG price. Delivery will be before December 1.
 - iv. Member agrees to allow packing sheds to selectively “siphon off” between 1% to 5% of their #1’s and #2’s to Prem WPG as fresh market conditions dictate and with U-II’s Board approval to balance fresh market pipelines.

- v. Grower always has the ability to fill his volume commitment with outside spuds provided they meet quality specifications.
- e. Open growers who produce field run can participate in U-II in the following manner:
 - i. Grower joins U-II by buying common stock and preferred shares which give him the right to deliver a specified cwt “fresh pack quality” field run perpetually to U-II.
 - 1. preferred variety is Russet Burbank
 - ii. Grower has the option of selling the entire cwt to U-II with the following pricing alternatives:
 - 1. a competitive multi year fixed pre-season contract price OR
 - 2. the estimated formula based field run price where grower share the ups.
 - iii. U-II as owner of the field run potatoes, will sell potatoes for the best benefit of the fresh market, U-II and Newco. OR
 - iv. Grower can assume the market risk for the #1’s and #2’s and deliver JUST the 100% of the processor quality potatoes to U-II provided he designate in advance the specific shed(s) where the potatoes will run. The grower will be required to produce a signed release from the Shed certifying that the Shed understands the processor quality potatoes belong to U-II.
 - v. In either case, grower has responsibility for debt servicing
 - vi. In either case, grower is entitled to dividends and share appreciation.
- f. Membership is a firm commitment to deliver 100% of the processor quality potatoes grower has produced on his U-II registered base acres.
 - i. A grower cannot be penalized if he is delivering 100% of the processor quality potatoes generated from his registered fresh base acres provided the short falls are:
 - 1. Yield related deficits outside of the growers controls
 - 2. Acts of God (loss of water rights, hail, natural disaster, etc.)
 - ii. Growers who fail to deliver their 100% commitment of processor quality potatoes because they sold any portion of those U-II committed processor potatoes without U-II management’s written approval will incur a financial penalty equal to 1.5 times the higher of either the prevailing open field run price or the formula based field run price. All penalties will be deducted from the grower’s final settlement and/or dividend payments. Growers can avoid penalties by:
 - 1. replacing shorted volume commitments thru buying from U-II’s open pool
 - 2. “posting” on a trading board volume needs and buying or trading deficits or excesses with other members.
 - 3. buying on the open market. Quality standards will apply.
 - iii. Growers who deliver less than 100% of their commitment because their rotation schedule meant fewer planted acres (documentation required), will be granted a 10% cwt leeway. If the deficit is greater than 10%, the grower is responsible to secure replacement potatoes. He can do so by:

1. going to the “trading board” and buying potatoes or renting shares from members with excess production.
 2. going to the outside open market and buying replacement potatoes at the growers expense.
 3. paying U-II the difference between the forecasted WPG price and the forecasted FR price; U-II will then go to the open market and replace the potatoes.
- iv. If a grower knows well in advance (ie months before planting) that he will be short on his subscription commitment or that he may not be growing potatoes for the upcoming season he can either rent or lease out his growing right shares for their fulfillment, or upon notification to U-II management before January 1 of the coming crop year, pay a penalty equal to the difference between the projected WPG formula based price and the projected Field Run formula based price and U-II will contract the field run to fulfill the commitment.
 - g. Non-U-II member potatoes can and will be purchased by U-II as necessary to meet Newco requirements.
 - i. Non-U-II member spuds will incur a 25¢ per cwt handling service charge to the grower.
 - ii. Non-U-II member spuds can be contracted directly thru U-II’s purchasing agents or thru participating United affiliated sheds. Grower/shippers can secure a separate growing right to cover non-member processor potatoes if the non-member expresses no interest in becoming a member. The handling service fee will apply.
 - h. In every case, U-II members spuds will have first priority; Secondly, United of Idaho members who are not U-II members will have priority, and lastly, non-member spuds.
8. The U-II pool will have minimum oversight from United of Idaho, will elect its own Board of Directors and will fund and hire its own staff as required. Services may also be contracted from United Potato Growers of Idaho.
 - a. U-II cannot enact policies contrary to existing United Policy.