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156
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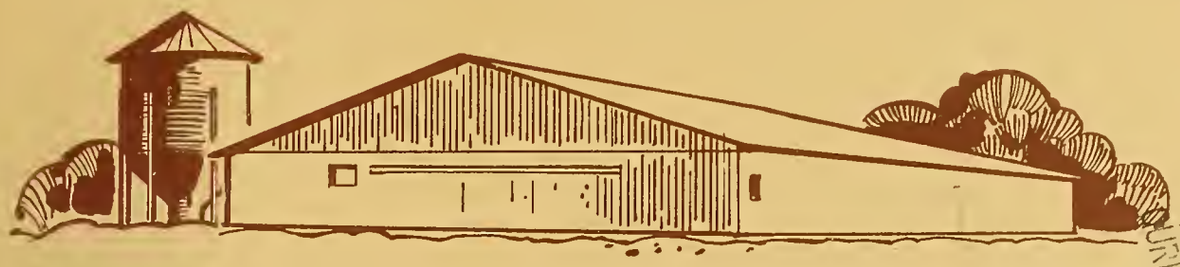
SHENANDOAH VALLEY POULTRY MARKETING COOPERATIVE



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CONTENTS

Page

Highlights ii

Growers surveyed 2

Operation requirements 4

Financing operations 4
Development of cash flow data 6
Projected performance 8

Appendices 17

A--Producers survey form 17
B--Table 18
C--Bylaws 19

HIGHLIGHTS

In August 1977 about 50 poultry producers near Harrisonburg, Va., were losing their processing and marketing outlet. They asked Farmer Cooperative Service--now a part of USDA's Economics, Statistics, and Cooperatives Service--to examine the potential for them to establish a marketing cooperative.

The ESCS staff worked with the broiler producers to:

1. Verify production capacity, geographic distribution and producer willingness to participate in a cooperative.

2. Identify potential to purchase the closed plant in their area, or to tie in with an established cooperative, or to find other marketing outlets.

3. Identify hatching and feed sources; determine capital requirements, and operating costs; and develop a financial structure showing how much producers must supply as equity capital.

4. Prepare a long-term financing program based on the projected income and expenses, the debt-service needs, and the financial inputs of members.

Fast-breaking developments led to early use of study data. About 25 broiler producers formed a cooperative, incorporated and named the organization the Shenandoah Valley Poultry Marketing Cooperative.

Through the cooperative, producers will market 6 million broilers annually under a 3-year agreement. Capital requirements to purchase feed and to provide operating funds total $734,000. Producers must provide 30 percent of these funds. The remainder will be borrowed from a local bank with support from a Farmers Home Administration loan guarantee.

Although there were originally 50 poultry producers that lost their processing and marketing outlet when the Shenandoah Valley Poultry Co., Inc., closed its facility, only production from 25 producers is included in the projections in the study. The reduction in number from 50 to 25 was necessary since the processing plant at Oakland, Md., could not handle a larger volume.

This report has been a working tool for the cooperative board, lenders, and others who assist in preparing for operations. The report is also regarded as a guide for other groups. However, the broiler cooperative, after implementation of this study, could have features somewhat different from those suggested here.

SHENANDOAH VALLEY POULTRY MARKETING COOPERATIVE

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On August 22, 1977, a group of Virginia poultry farmers, through their attorney, Mr. Henry C. Clark, requested Farmer Cooperative Service--now a part of USDA's Economics, Statistics, and Cooperatives Service--to conduct a feasibility study. The study's focal point was to determine feasibility of acquiring the processing plant and facilities of Shenandoah Valley Poultry Company, Inc., at Harrisonburg, Va. The firm had plans to close the Harrisonburg broiler processing plant on October 31, 1977. And, in fact, the plant was closed on that date and more than 50 growers were left without a market for their broilers.

At the suggestion of Farmer Cooperative Service the leaders of the group approached the management of nearby Rockingham Poultry Cooperative to see if that organization could process future chickens grown by the 50 growers. Rockingham, however, was neither able to assist by processing additional chickens nor interested in acquiring the plant that had closed.

Meanwhile, broiler producers interested in forming a cooperative were surveyed in anticipation of their securing use of the Harrisonburg processing plant for which they had been growing Rock Cornish hens. Subsequently, after several potential avenues for obtaining use of the plant were unsuccessful, a plan developed to produce broilers for processing at a plant in Oakland, Md. This plan will involve only about 25 of the 50 growers.

The Oakland, Md., plant is 125 miles from Harrisonburg, Va., a truck haul of about 3 1/2 hours one way. The poultry presently being supplied to the Oakland plant is hauled from Laurel, Del., a distance of more than 300 miles. Therefore, it appears in the best interest of the Oakland plant management to secure the Virginians' poultry, which is grown nearer the plant.

The growers still want to lease, purchase or build a processing plant in the Harrisonburg area whenever economic conditions will permit. Therefore, the program outlined in this study may be viewed as an interim plan to provide farm income to growers who are presently left with empty houses. The proposed program is a marginal one because the new co-op will need to contract for chick purchases, feed manufacture, live haul and processing.

We are convinced, however, that the caliber of the growers and the quality of the housing is among the best in the Nation. The past history of excellent production should offset some of the extra costs included in this study. The 2-year marketing agreement with a third year option will give the co-op sufficient time to develop plans for a more permanent solution to problems should members elect to acquire processing facilities in the Harrisonburg area.

GROWERS SURVEYED

A sample of 35 growers is an integral part of this study, the survey form appearing in Appendix A. The growers are located in the Shenandoah Valley of Virginia.

Twenty-nine of those surveyed had been under contract to grow Rock Cornish chicken for Shenandoah Valley Poultry Co., and received payments as shown in table 1. Of the 29, 77 percent are within 15 miles of the Shenandoah feed mill, and 84 percent are within 20 miles of Harrisonburg (table 2). The remainder are either new producers or have contracted under different processors.

The average flock capacity of the growers surveyed is 40,671 broilers. The total annual capacity of all 35 growers is 7,117,425 broilers. Distribution of growers by size of operation is shown in table 3.

The approximate 25 growers who will supply broilers for the cooperative are not necessarily all a part of the original sample of 35, but the distribution of growers and size of operation are essentially the same.

Table 1--Grower payment--Shenandoah Rock Cornish only, 1977

Grower payment	Growers
Dollars/1,000 birds	Number
67 and less	1
68-74	5
75-79	6
80-84	3
85-89	4
90-94	4
95-99	0
100 and more	1/ 4

1/ Self-financed growers

Table 2--Location of Shenandoah growers in relation to feed mill and Harrisonburg

Distance from facility	Growers	Proportion of growers
Miles	Number	Percent
	FEED MILL	
0-15	24	77
16-20	3	10
21 and over	4	13
	HARRISONBURG	
0-15	16	52
16-20	10	32
21 and over	5	16

Table 3--Distribution of 35 surveyed growers by annual capacity, Shenandoah Valley Poultry Marketing Cooperative, September 1977

Growers	Size of operation	Production
Number		Birds per year 1/
4	less than 50,000	158,000
3	50,000-99,999	231,900
16	100,000-199,999	2,307,440
4	200,000-299,999	897,400
4	300,000-399,999	1,359,285
1	400,000-499,999	400,000
3	more than 500,000	1,763,400
35		7,117,425

1/ Calculation based on 0.75 square foot a broiler and on 5 flocks annually.

OPERATION REQUIREMENTS

This study proposes a plan of operation for the Shenandoah Valley Poultry Marketing Cooperative to supply chicks and feed to producers, and to coordinate the production and marketing of broilers produced. Provisions are based on discussions between growers and Gilman Sylvester, general manager of Sterling Processing Corporation at Oakland, Md., and on observations by the authors.

Sylvester stated that his company processes about 6,000 broilers an hour and operates on a one-shift basis. In the interest of efficiency the company is interested in obtaining a portion of its processing supply from sources closer to the plant. Broiler production in the Shenandoah Valley would provide a live haul of half or less than that presently required to supply the plant.

At the time of this study a formula for arriving at the live weight sale price of the cooperative was based on a percentage of reported market prices plus a percentage of plant profits beyond a certain level. This report projects results based on projected broiler prices and feed costs, but does not attempt to include returns from profit sharing.

Chicks will be supplied by a local hatchery. The cooperative will be responsible for locating the supply of hatching eggs, to the extent the hatchery does not have a committed supply.

Broiler feeds will be manufactured by a local mill or mills in the Shenandoah Valley.

Cooperative operations would be handled by a production manager and secretary-bookkeeper. The manager would carry out the policy and directions established by the producer-elected board of directors.

Financing Operations

Loan funds of $510,000 for operations and $6,000 for a vehicle are required for the proposed operation (table 4). The loan package as developed assumes that a local bank will lend to the cooperative, and that Farmers Home Administration will guarantee some portion of the loan for 90 percent of any loss that may occur. The guarantee fee is 1 percent of the guaranteed amount.

Producers will invest $218,400 in the cooperative, based on a formula of $175 for each 1,000 birds of growout capacity in their broiler houses. This initial equity is 29.7 percent of the capital needs for their cooperative (table 5). About 20 to 25 producers will be required to supply the required number of birds for processing.

Table 4--Summary of proposed bank loan--FmHA guarantee and producer equity for beginning of each operating year, Shennandoah Valley Poultry Marketing Cooperative

Item	Bank loan (FmHA guarantee of loss)	Producers' equity capital	Total cost
		Dollars	
First year			
Vehicle	6,000	-	6,000
Operating capital	510,000	218,400	728,400
Total	516,000	218,400	734,400
Second year			
Operating capital	195,000	21,941	216,941
Third year			
Operating capital	270,000	54,760	324,760
Fourth year			
Operating capital	335,000	67,878	402,878

Table 5--Summary of beginning year equity levels, Shenandoah Valley Poultry Marketing Cooperative

Year	Assets beginning of year	New loan	Total assets	Stockholder equity	Percentage equity
	Dollars				Percent
1	734,400	-	734,400	218,400	29.7
2	630,523	195,000	825,523	240,341	29.1
3	629,528	270,000	899,528	295,101	32.8
4	627,345	340,000	967,345	358,610	37.1

Since the marketing agreement is for 3 years and the broiler market is expected to be tight for a year or more, growers cannot hope to achieve one-third ownership of their birds each year. Therefore, the cooperative anticipates a new operating loan each year (table 4) to cover most of the principal paid in the previous year. With combined capital retains and the retained portion of net earnings from 3 years of operations, the producer equity level is expected to increase from 29 to 37 percent of total assets (table 5).

We have projected a capital retain from broiler income to build producers an equity base and gradually reduce their borrowing requirements.

Development of Cash Flow Data

The cooperative anticipates beginning operations gradually by supplying broilers sufficient for 1 day of processing a week for 1 month before increasing volume to higher levels (table 6). By the third month chick placements on farms are assumed to be at the level that the cooperative intends to maintain.

Time periods shown in the cash flows are 4-week billing periods with 13 periods in a year.

The cash flow projection anticipates marketing to begin in about April 1978, the third period of the first year, following two periods of growout in preparation for processing (table 7).

In projecting the cash flow (tables 7, 8 and 9) the following assumptions for each item were used:

Cash received

Bank loan-vehicle	- Production manager's car.
Bank loan-operations	- Amount required over equity for chicks, feed and other expenses, and reserve equivalent to 0.7 cent a pound live weight for nearly six periods in the first year.
Member capital	- Subscribed at a rate equivalent to $175 a thousand birds housed (1,248,000 birds in an average cycle, 5 cycles annually).
Broiler sales	- Based on 58 percent of Urner Barry northeastern area plant A jumble pack market price. This market price assumed to be 0.75 cents below the projected 9-city weighted average price shown in the table of Appendix B. Income received in second week

after slaughter. Amount shown excludes the value of the capital retains. Country weights reduced one percent for field condemnation before applying live weight price.

Capital retain	- Sales income credited to growers capital account on a patronage basis at the rate of 0.35 cent a bird caught at the farm in the first year, 0.4 cent in the second year, and 1.1 cents in the third year.
Catching	- Processor payment for catching at 0.4 cent a pound country weight, received in second week after catching.

<u>Growout</u>

Chicks	- Chicks placed as shown in table 6 at 11.5 cents each delivered to the farm.
Feed delivered	- Average weighted cost of all feed formulas of $160 a ton delivered to farm for periods 1 to 3, and $155 a ton thereafter with immediate payment to supplier. Conversion of 2.0 on pounds produced after 1 percent condemnation of 4 pound country weight bird.
Catching	- Contract catching at 0.4 cent a pound live weight.
Growout payment	- Residual from broiler sales after deductions for condemnation, for chicks, feed, operating expenses, net earnings, and retains.

<u>Administrative</u>:

Salaries	- Production manager, $22,000 plus 20 percent benefits; and bookkeeper-secretary, $12,000 plus 15 percent benefits.
Operating expenses	- Office supplies and postage, $5,000; telephone, $3,000; insurance, fees and licenses, $2,000; legal, audit and other professional expenses, $3,000; office rental and utilities, $2,400; promotion, public relations, travel and miscellaneous, $2,000; and 15,000 miles on car at $0.17 a mile. Total cost $19,950.

Vehicle purchase	- Car for production manager, $6,000.
Vehicle payback	- Principal and 9.5 percent interest on the unpaid balance of $6,000 for 3 years. Payments to begin in the fourth period, with prior interest due paid in third period.
Operating loan repayment	- Begins after receipt of income from broiler sales. Equal principal payments on $510,000 loan at 9.5 percent interest on the unpaid balance over a 3-year period. Interest for first three periods of opening year paid in the third period. Payment in first period is guarantee fee of 1 percent of the guaranteed amount of loan. Subsequent loans also payable over 3 years at 9.5 percent interest with guarantee fee included in first payment.
Patronage refund	- Payment of 20 percent of the previous fiscal year's net earnings to producer patrons.

Projected Performance

Net earnings of $3,965 and $30,473 are projected for the first two operating years (table 10). Because startup costs are included in the first year of operations, expenses to operate the cooperative are 4.5 percent of the gross margin in the first year and drop to 3.9 percent in the second and third year.

Capital retains assessed to producers when broilers are marketed are relied upon to a greater extent than net earnings to provide increases in producer equity. Stockholder equity (table 11) is expected to increase 10 percent the first year and by 23 percent in the second and third years.

Immediate cash payment for growing the broilers is expected to range from $77 a thousand birds in the first year to $91 a thousand in the second year (table 12). Capital retains and net earnings, while belonging to producer-members, are not received immediately by producers and amount to $4.53 a thousand birds the first year and increase to $11.98 a thousand birds the third year. When combined with the growout payment, the total producer income is $81.59, $100.02, and $100.25 a thousand birds, respectively, for the first, second and third operating years.

At the time these calculations were made, the live sale agreement anticipated a portion of processor profits would be shared with producers. While this amount cannot be predicted, the effect of anticipated savings from the live haul and the effect of a higher proportion of the Urner Barry price on grower returns is shown in table 12.

The cash flow tables 7, 8 and 9 anticipate full disbursement and cost for loan funds. In practice borrowed funds may only be charged for as drawn upon. By following this practice, interest charges would be reduced and grower payments would potentially be increased $3.76 a thousand birds the first year and $2.27 a thousand the second year (table 12).

Table 6 -Projected cash flow, first fiscal year of live broiler sales, Shenandoah Valley Poultry Marketing Cooperative

Cash flow item	4-week billing periods						
	1	2	3	4	5	6	7
	Dollars						
Cash received:							
Bank loan-vehicle	6,000						
Bank loan-operations	510,000						
Member capital	218,400						
Broiler sales, net of retain	-	-	81,816	245,449	368,174	409,082	420,108
Capital retain	-	-	336	1,008	1,512	1,680	1,680
Catching	-	-	1,536	4,608	6,912	7,680	7,680
Total cash received	734,400	-	83,688	251,065	376,598	418,442	429,468
Growout:							
Chicks	22,765	45,526	56,907	56,907	56,907	56,907	56,907
Feed	16,244	101,119	214,648	276,783	294,596	294,596	294,596
Catching	-	-	3,072	6,144	7,680	7,680	7,680
Growout payment	-	-	9,162	27,486	41,229	45,810	56,834
Administrative costs:							
Salaries	3,092	3,092	3,092	3,092	3,092	3,092	3,092
Operating expenses	6,750	1,100	1,100	1,100	1,100	1,100	1,100
Vehicle purchase	6,000	-	-	-	-	-	-
Vehicle payback	-	-	132	198	197	196	195
Operating loan repayment	4,653	-	11,263	17,894	17,791	17,687	17,583
Total outflow	59,504	150,837	299,376	389,604	422,592	427,068	437,987
Net flow for period	674,896	(150,837)	(215,688)	(138,539)	(45,994)	(8,626)	(8,519)
Cumulative cash flow	674,896	524,059	308,371	169,832	123,838	115,212	106,693

	4-week billing periods						
	8	9	10	11	12	13	Total
	Dollars						
Cash received:							
Bank loan-vehicle							6,000
Bank loan-operations							510,000
Member capital							218,400
Broiler sales, net of retain	420,108	420,108	376,009	376,009	376,009	388,713	3,881,585
Capital retain	1,680	1,680	1,680	1,680	1,680	1,680	16,296
Catching	7,680	7,680	7,680	7,680	7,680	7,680	74,496
Total cash received	429,468	429,468	385,369	385,369	385,369	389,073	4,706,777
Growout:							
Chicks	56,907	56,907	56,907	56,907	56,907	56,907	694,268
Feed	294,596	294,596	294,596	294,596	294,596	294,596	3,260,158
Catching	7,680	7,680	7,680	7,680	7,680	7,680	78,336
Growout payment	56,834	56,834	12,736	12,735	12,735	23,760	356,155
Administrative costs:							
Salaries	3,092	3,092	3,092	3,092	3,092	3,096	40,200
Operating expenses	1,100	1,100	1,100	1,100	1,100	1,100	19,950
Vehicle purchase	-	-	-	-	-	-	6,000
Vehicle payback	194	193	191	190	189	188	2,063
Operating loan repayment	17,480	17,376	17,273	17,169	17,066	16,962	190,197
Total outflow	437,883	437,778	393,575	393,469	393,365	404,289	4,647,327
Net flow for period	(8,415)	(8,310)	(8,206)	(8,100)	(7,996)	(6,216)	59,450
Cumulative cash flow	98,278	89,968	81,762	73,662	65,666	59,450	

Table 7--Projected cash flow, second fiscal year of live broiler sales, Shenandoah Valley Poultry Marketing Cooperative

Cash flow item	4-week billing periods						
	1	2	3	4	5	6	7
	Dollars						
Cash received:							
Bank loan-operations	195,000	-	-	-	-	-	-
Broiler sales, net of retain	397,938	397,723	403,234	408,747	408,747	408,747	430,796
Capital retain	1,800	1,920	1,920	1,920	1,920	1,920	1,920
Catching	7,680	7,680	7,680	7,680	7,680	7,680	7,680
Balance previous year	59,450						
Total cash received	661,868	407,323	412,834	418,347	418,347	418,347	440,396
Growout:							
Chicks	56,907	56,907	56,907	56,907	56,907	56,907	56,907
Feed	294,596	294,596	294,596	294,596	294,596	294,596	294,596
Catching	7,680	7,680	7,680	7,680	7,680	7,680	7,680
Growout payment	35,250	35,621	41,132	46,645	46,645	46,645	68,694
Administrative costs:							
Salaries	3,092	3,092	3,092	3,092	3,092	3,092	3,092
Operating expenses	1,535	1,535	1,535	1,535	1,535	1,535	1,535
Vehicle payback	187	185	184	183	182	181	180
Operating loan repayment	25,039	23,143	23,004	22,863	22,724	22,583	22,444
Patronage refund	-	-	-	-	-	793	-
Total outflow	424,286	422,759	428,130	433,501	433,361	434,012	455,128
Net flow for period	237,582	(15,436)	(15,296)	(15,154)	(15,014)	(15,665)	(14,732)
Cumulative cash flow	237,582	222,146	206,850	191,696	176,682	161,017	146,285

	4-week billing periods						
	8	9	10	11	12	13	Total
	Dollars						
Cash received:							
Bank loan-operations	-	-	-	-	-	-	195,000
Broiler sales, net of retain	430,797	430,797	386,698	386,698	386,698	392,210	5,269,830
Capital retain	1,920	1,920	1,920	1,920	1,920	1,920	24,840
Catching	7,680	7,680	7,680	7,680	7,680	7,680	99,840
Balance previous year							59,450
Total cash received	440,397	440,397	396,298	396,298	396,298	401,810	5,648,960
Growout:							
Chicks	56,907	56,907	56,907	56,907	56,907	56,907	739,791
Feed	294,596	294,596	294,596	294,596	294,596	294,596	3,829,748
Catching	7,680	7,680	7,680	7,680	7,680	7,680	99,840
Growout payment	68,695	68,695	24,596	24,596	24,596	30,108	561,918
Administrative costs:							
Salaries	3,092	3,092	3,092	3,092	3,092	3,096	40,200
Operating expenses	1,535	1,534	1,534	1,534	1,534	1,534	19,950
Vehicle payback	179	178	176	175	174	173	2,337
Operating loan repayment	22,303	22,163	22,023	21,883	21,743	21,584	293,499
Patronage refund	-	-	-	-	-	-	793
Total outflow	454,987	454,845	410,604	410,463	410,322	415,678	5,588,076
Net flow for period	(14,590)	(14,448)	(14,306)	(14,165)	(14,024)	(13,868)	60,884
Cumulative cash flow	131,695	117,247	102,941	88,776	74,752	60,884	

Table 8--Projected cash flow, third fiscal year of live broiler sales, Shenandoah Valley Poultry Marketing Cooperative

Cash flow item	4-week billing periods						
	1	2	3	4	5	6	7
	Dollars						
Cash received:							
Bank loan-operations	270,000						
Broiler sales, net of retain	396,138	394,363	399,874	405,387	405,387	405,387	427,436
Capital retain	3,600	5,280	5,280	5,280	5,280	5,280	5,280
Catching	7,680	7,680	7,680	7,680	7,680	7,680	7,680
Balance previous year	60,884	-	-	-	-	-	-
Total cash received	738,302	407,323	412,834	418,347	418,347	418,347	440,396
Growout:							
Chicks	56,907	56,907	56,907	56,907	56,907	56,907	56,907
Feed	294,596	294,596	294,596	294,596	294,596	294,596	294,596
Catching	7,680	7,680	7,680	7,680	7,680	7,680	7,680
Growout payment	35,012	34,309	39,820	45,333	45,333	45,333	67,382
Administrative costs:							
Salaries	3,092	3,092	3,092	3,092	3,092	3,092	3,092
Operating expenses	1,535	1,535	1,535	1,535	1,535	1,535	1,535
Vehicle payback	172	171	170	169	167	166	165
Operating loan repayment	32,789	30,168	29,978	29,787	29,596	29,406	29,215
Patronage refund	-	-	-	-	-	6,095	-
Total outflow	431,783	428,458	433,778	439,099	438,906	444,810	460,572
Net flow for period	306,519	(21,135)	(20,944)	(20,752)	(20,559)	(26,463)	(20,176)
Cumulative cash flow	306,519	285,384	264,440	243,688	223,129	196,666	176,490

	4-week billing periods						
	8	9	10	11	12	13	Total
	Dollars						
Cash received:							
Bank loan-operations							270,000
Broiler sales, net of retain	427,437	427,437	383,338	383,338	383,338	388,850	5,227,710
Capital retain	5,280	5,280	5,280	5,280	5,280	5,280	66,960
Catching	7,680	7,680	7,680	7,680	7,680	7,680	99,840
Balance previous year	-	-	-	-	-	-	60,884
Total cash received	440,397	440,397	396,298	396,298	396,298	401,810	5,725,394
Growout:							
Chicks	56,907	56,907	56,907	56,907	56,907	56,907	739,791
Feed	294,596	294,596	294,596	294,596	294,596	294,596	3,829,748
Catching	7,680	7,680	7,680	7,680	7,680	7,680	99,840
Growout payment	67,383	67,383	23,284	23,284	23,284	28,796	545,936
Administrative costs:							
Salaries	3,092	3,092	3,092	3,092	3,092	3,096	40,200
Operating expenses	1,535	1,534	1,534	1,534	1,534	1,534	19,950
Vehicle payback	164	163	162	161	159	158	2,147
Operating loan repayment	29,024	28,834	28,643	28,452	28,262	28,071	382,225
Patronage refund	-	-	-	-	-	-	6,095
Total outflow	460,381	460,189	415,898	415,706	415,514	420,838	5,665,932
Net flow for period	(19,984)	(19,792)	(19,600)	(19,408)	(19,216)	(19,028)	59,462
Cumulative cash flow	156,506	136,714	117,114	97,706	78,490	59,462	

Table 9--Pro forma statement of operations for Shenandoah Valley Poultry Marketing Cooperative, fiscal years ending January 1979, 1980, and 1981

Item	1978-79	1979-80	1980-81
		Dollars	
Income			
Processor - broiler sales	4,097,750	5,294,622	5,294,670
- catching	78,336	99,840	99,840
Patron - feed sales	3,260,158	3,829,748	3,829,748
- chick sales	694,268	739,791	739,791
Total	8,130,512	9,964,001	9,964,049
Less: cost of goods			
Feed	3,260,158	3,829,748	3,829,748
Chick	694,268	739,791	739,791
Total cost of goods	3,954,426	4,569,539	4,569,539
Less: per unit retains	17,976	25,080	67,680
Gross margin	4,158,110	5,369,382	5,326,830
Expenses			
Catching	78,336	99,840	99,840
Salaries	40,200	40,200	40,200
Operating expenses	19,950	19,950	19,950
Depreciation	2,000	2,000	2,000
Interest	45,948	45,044	43,728
Total expenses	186,434	207,034	205,718
Net for distribution to producers	3,971,676	5,162,348	5,121,112
Chick portion	580,454	739,791	739,791
Feed portion	3,013,710	3,829,748	3,829,748
Growout portion	373,547	562,336	545,280
Net earnings	3,965	30,473	6,293
Repayment ability			
Capital retain	17,976	25,080	66,960
Net earnings	3,965	30,473	6,293
Depreciation	2,000	2,000	2,000
Loan, following year	195,000	270,000	335,000
Total	218,941	327,553	410,253
Application of funds			
Principal	143,210	249,171	341,160
Net earnings refund, 20%	793	6,095	1,259
Net increase	74,938	72,287	67,834
Total	144,003	255,266	342,419

Table 10--Pro forma comparative balance sheet for Shennandoah Valley Poultry Marketing Cooperative for fiscal years ending January 1978, 1979, 1980, and 1981

Account	1978	1979	1980	1981
		Dollars		
Current Assets:				
Cash	723,747	59,450	60,884	59,462
Accounts receivable				
Processor	-	203,709	203,661	203,661
Producers--feed, chicks	-	360,262	360,262	360,262
Total current assets	723,747	623,421	624,807	623,385
Fixed assets				
Vehicle	6,000	6,000	6,000	6,000
Less: Depreciation	-	2,000	4,000	6,000
Total fixed assets	6,000	4,000	2,000	0
Other assets				
Guarantee-deferred charge	4,653	3,102	2,721	2,205
TOTAL ASSETS	734,400	630,523	629,528	625,590
Current liabilities 1/				
Accounts payable				
Producers	-	17,392	17,810	17,154
Operating note payable	141,670	184,171	249,171	154,999
Vehicle note payable	1,540	2,002	2,002	456
Total term liabilites	143,210	203,565	268,983	172,609
Long-term liabilities 1/				
Operating note payable	368,330	184,159	64,988	90,002
Vehicle note payable	4,460	2,458	456	-
Total term liabilites	372,790	186,617	65,444	90,002
Stockholder equity:				
Capital stock	218,400	218,400	218,400	218,400
Per unit capital retains	-	17,976	43,056	110,736
Retained allocated earnings	-	-	3,172	27,550
Net earnings, undistributed	-	3,965	30,473	6,293
Total equity	218,400	240,341	295,101	362,979
TOTAL LIABILITIES AND EQUITY	734,400	630,523	629,528	625,590

1/ Principal portion of notes only, excludes interest.

Table 11--Projected unit costs and returns after field condemnation

Item	Costs and returns					
	1978-79	1979-80	1980-81	1978-79	1980-81	1981-82
	Dollars/pound			Dollars/1,000 boilers		
Income:						
Broiler sales	0.2113	0.2143	0.2143	845.42	857.07	857.08
Catching	.0040	.0040	.0040	16.16	16.16	16.16
Less: retain	.0009	.0010	.0027	3.71	4.06	10.96
Gross margin	.2144	.2173	.2156	857.87	869.17	862.28
Expenses:						
Catching	.0040	.0040	.0040	16.16	16.16	16.16
Salaries, expenses, depreciation	.0032	.0025	.0025	12.82	10.06	10.06
Interest	.0024	.0018	.0018	9.48	7.29	7.08
Total expenses	.0096	.0084	.0083	38.46	33.51	33.30
Net for distribution	.2048	.2089	.2073	819.40	835.65	828.98
Distribution as:						
Chick cost	.0299	.0299	.0299	119.75	119.75	119.75
Feed cost	.1554	.1550	.1550	621.77	619.94	619.94
Growout payment	.0193	.0228	.0221	77.06	91.03	88.27
Net earnings	.0002	.0012	.0003	.82	4.93	1.02

Table 12--Projected grower returns after field condemnation under alternative assumptions

Situation	Returns					
	1978-79	1979-80	1980-81	1978-79	1979-80	1980-81
	Dollars/pound			Dollars/1,000 broilers		
Transportation share						
Growout payment, table 11	0.0193	.0228	.0221	77.06	91.03	88.27
$150/load of 7,500 birds	.0050	.0050	.0050	20.20	20.20	20.20
Total payment	.0243	.0278	.0271	97.26	111.23	108.47
Transport-market share						
Growout payment	.0193	.0228	.0221	77.06	91.03	88.27
$75/load	.0025	.0025	.0025	10.10	10.10	10.10
Plus 1 percent on UB	.0036	.0036	.0036	14.47	14.47	14.47
Total payment	.0254	.0289	.0282	101.63	115.60	112.84
Interest savings						
Growout payment	.0193	.0228	.0221	77.06	91.03	88.27
9.5% on cumulative cash flow	.0009	.0006	.0007	3.76	2.27	2.77
Total payment	.0202	.0234	.0228	80.82	93.30	91.04

APPENDIX A

SURVEY INFORMATION

SHENANDOAH VALLEY POULTRY COOPERATIVE

1. Name of producer _____

2. Post office address _____

3. My farm is located _____ miles _____ of _____

4. Capacity of poultry house (per flock) a. _____
   b. _____ c. _____ d. _____
   e. _____

5. Age of poultry houses a. _____ b. _____
   c. _____ d. _____ e. _____

6. Number of flocks raised per year _____; yearly
   capacity _____.

7. Name of processor you are presently producing for _____
   _____; address _____

8. Distance from your farm to processing plant _____;
   to feed mill _____.

9. Estimated gross income (after deducting chicks, feed and
   medication costs) from processor during 1976 _____,
   1977 (through 6/30) _____.

10. Estimated net poultry income after all direct expenses were
    deducted (electric, gas, water, heat, fuel, litter, hired labor,
    etc.) in 1976 _____, 1977 (through 6/30) _____.

11. Do you want to join and participate in a cooperative that
    would supply you with chicks, feed; and supplies under contract
    and process and market the broilers? Yes ___, No ___.

12. If yes, are you willing to invest equity capital in the
    cooperative in proportion to poultry house capacity? Yes ___,
    No ____

13. What was the payment you received for the last flock sold
    (payment per thousand)? $_____

Appendix B--Projected 9-city weighted average quarterly price for broilers

Quarter	1978	1979	1980
		Cents/pound	
1	-	37	37
2	38	38	38
3	39	40	40
4	35	36	36

APPENDIX C

BYLAWS

OF

VALLEY POULTRY MARKETING COOPERATIVE, INC.

ARTICLE I

General

The Articles of Incorporation of Valley Poultry Marketing Cooperative, Inc., are hereby made a part of these bylaws and all matters hereinafter contained in these bylaws shall be subject to such provisions in regard thereto, if any, as are set forth in the Articles of Incorporation. All references in these bylaws to the Articles of Incorporation shall be construed to mean the Articles of Incorporation as from time to time amended.

ARTICLE II

Membership

Section 1. Eligibility. Any person, firm, partnership, corporation, cooperative association of bona fide producers of agricultural products, and association, including both landlords and tenants in share tenancies, who is a bona fide producer of poultry or other agricultural products in the territory in which the Association is engaged in business and who desires to patronize this Association and who meets such conditions as may be prescribed by the board of directors is eligible to become a member of this Association by executing a membership marketing contract with this Association and acquiring one share of common voting stock of this Association at the par value of $25.00. Such membership is subject to the restrictions and conditions, and may be terminated as provided hereafter in these bylaws. Whenever the words "member, members or membership" are to be used in these bylaws, they shall refer, unless the context shows otherwise, to those active members of the Association who hold a valid membership marketing agreement and one share of common voting stock, by virtue of which they shall be entitled to vote in any meeting of the members of the Association.

Section 2. Granting Membership. Any nonmember patron of this Association who is eligible for membership as provided in the preceding section and who pays $25.00 for a share of common voting stock may become a member of this Association by accepting and retaining a share of common stock issued to him. A new membership may be granted only upon recommendation by management and approval by the Board of Directors.

Section 3. Membership Roll. There shall be maintained in the offices of the Association a roll of all of the members showing their addresses.

Section 4. Subscription to Capital. In addition to paying for one share of common voting stock, each member of this Association, by virtue of his membership, and each patron (both member and nonmember alike), in consideration of the services performed by the Association, shall, and does subscribe and agree to furnish his prorata share of capital for the Association in the manner provided for in these bylaws.

Section 5. Duties of Members. Each member shall properly and in good faith comply with and be subject to these bylaws and any amendments thereto and with the terms and conditions of all agreements with the Association to be performed on his part.

Section 6. Termination. A member may withdraw from membership in the Association and such termination by a member shall be effective from the date of receipt by the Association of a written notice of termination or upon the sale by a member of all of his common voting stock. If the board of directors shall determine, in its sole discretion, that a member has ceased to be an eligible member by no longer qualifying as a producer or cooperative association of producers within the meaning of applicable federal and state laws and regulations, or has not, for a period of one year marketed through the Association under a valid marketing agreement, or does not have a valid marketing agreement with the Association, or is no longer growing poultry in the territory served by the Association, or has failed to perform any of the covenants, terms or conditions contained in the agreement upon which common stock was issued to him, or of any contract between him and the Association, or has violated any of the provisions of the laws under which the Association is organized, or the provisions of these bylaws, or has acted in a manner prejudicial to the best interests of the Association, or upon recommendation of management, it may terminate his membership. In addition, the board of directors, in its sole discretion, may cease to do business with and terminate the membership of any member at any time, without cause. No action taken hereunder shall impair the obligations or liabilities of any party under any contract with the Association, which may be terminated only as provided therein, nor shall it affect any claims of the Association against the members.

All terminations of membership, voluntary and involuntary, shall be reported to the board of directors by management. The board of directors shall have the final approval of all terminations in membership.

In any of the above situations, the shares of common stock of such member shall become non-voting stock, and, at its option, the Association may redeem the common stock of such member at its book or par value, whichever is less as determined by the Board of Directors in its sole discretion. Upon the payment or tender of such amount, said common stock shall become the property of the Association, and the certificate representing it shall be surrendered to the Association.

Section 7. Death. The death of any member shall automatically cancel his membership in this Association. Pursuant to the provisions of Article X, Section 4, of these bylaws, all or any portion of the patronage allocations, however evidenced, standing in a deceased member's name, may in the sole and absolute discretion of the board of directors be paid to his estate after first deducting therefrom any claims that the Association may have against the member or his estate.

Section 8. Liability. Except for debts lawfully contracted by him with the Association, no member or patron shall be liable for the debts of the Association to an amount exceeding the sum remaining unpaid on his subscription to capital in the Association; except that any equities acquired through patronage shall be subordinate to all other obligations of the Association, and losses of the Association may be allocated to outstanding patronage equities on an equitable basis as provided in Article X, Section 2, herein.

Section 9. Nonmember Patrons. The Association, if it elects to do business with nonmembers, shall deal with nonmember patrons including any cooperative association of producers, in all respects on the same basis as members, insofar as the same may be done in compliance with federal and state laws and regulations applicable to farmers' marketing cooperatives, but such nonmember business shall not exceed fifty percent (50%) by value of the total marketing business and shall be handled on the same basis as that transacted for members.

Section 10. Consent Under the Internal Revenue Code. Each person who hereafter applies for and is accepted to membership in this Association and each member of this Association on the effective date of this bylaw who continues as a member after such date shall, by such act alone, consent that the amount of any distributions with respect to his patronage occurring after December 31, 1962, which are made in written notices of allocation (as defined in 26 U.S.C. 1388) and which are received by him at their stated dollar amounts in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received by him.

Section 11. Representative of Member. If any member is other than a natural person, such member may be represented by any individual, associate, officer or manager or member thereof, duly authorized in writing and filed with the Secretary of the Association.

Section 12. Membership Interest. Except as provided in Article XII, Dissolution, a member, active, terminated or deceased, shall not be deemed to have any property rights or financial interests in the Association other than as may be evidenced on the books of the Association as a capital investment of such member or as a patronage allocation credited to the account of such member or to be credited to the account of such member, and except for the optional redemption by the Association of his common stock, and the discretionary settlements pursuant to the provisions of Article X, Section 4, such member shall be paid in the manner and at the time such payment would have been paid had such membership been continued.

ARTICLE III

Meetings

Section 1. Annual Meetings. Following the year in which the organizational meeting of the members is held, annual meetings of the Association will be held in January of each year, the exact time and place to be determined by the Board of Directors.

Section 2. Special Meetings. Special meetings of the members of this Association may be called at any time by the President upon resolution of the Board of Directors or upon written petition to the President, signed by ten percent (10%) of the members of the Association. The purpose of every special meeting shall be stated in the notice thereof, and no business shall be transacted thereat except such as is specified in the notice.

Section 3. Notice. Unless otherwise required by law, notice of any meeting of members shall be mailed by the Secretary to each member of the Association at least ten (10) days prior to the meeting. Notices and service thereof may be waived in writing and by attendance in person at any meeting or by mail ballot of all the members.

Section 4. Quorum. At any meeting of the membership of the Association, one-third (1/3) of the members of the Association or five (5) members of the Association, whichever number shall be less, who are present in person or by mail ballot shall constitute a quorum for the transaction of business, but in the event a quorum is not present such meeting may be adjourned from time to time by those present until a quorum is obtained.

Section 5. Voting Rights. Each member shall have one vote at all meetings of the membership of the Association. Firms, partnerships, corporations or associations holding membership in the Association may be represented and vote by any individual who is duly authorized by written authority from such enterprise.

Section 6. Proxy Voting. No cumulative or proxy voting shall be allowed, but any member may vote by mail on any specific question presented on a ballot prepared under the direction of the Board of Directors, which ballot must be received on or before the date specified by the Board of Directors. The Board of Directors shall have the sole discretion as to when to present an issue to the membership by mail ballot. The Board of Directors shall have no duty to provide mail ballots for the annual meeting of members.

Section 7. Order of Business. To the extent practicable, the order of business and the items to be covered at the annual meeting of the members shall be:

A. Determination that a quorum is present;

B. Proof of due notice of meeting;

C. Reading and disposal of any unapproved minutes;

D. Annual reports of officers, management and committees;

E. Unfinished business;

F. New business, including election of directors;

G. Adjournment.

ARTICLE IV

Directors

Section 1. Number and Qualification. The business of this Association shall be managed, conducted and controlled by a board of directors consisting of five (5) elected directors, each of whom shall be a member in good standing of this Association, and one (1) public director.

In order to qualify as a director (other than as a public director), a member must be a current and active patron of the Association, or have qualified as such within the past twelve (12) months.

No person shall be eligible for the office of director if he is in competition with or affiliated with any enterprise that is in competition with the Association, or has any interests that are adverse to those of the Association, and if a majority of the Board of Directors find, at any time, that a director is so engaged or affiliated or has such interests, he shall thereupon cease to be a director, and his seat shall be declared vacant.

No person shall be eligible for nomination, election or appointment as a director, who has reached his seventieth (70th) birthday. However, any incumbent director who has reached his seventieth (70th) birthday during his term of office may fulfill such term, after which he will not be eligible for nomination, election or appointment.

At the first meeting of the Board of Directors in each calendar year, the qualifications of each director shall be examined by the Board of Directors. If, at this meeting, a majority of the Board of Directors finds that any director, whether serving a current term or seeking re-election, is ineligible to serve on the Board, he shall be requested to submit his resignation in writing in time to create a vacancy which can be filled for his unexpired term by the election of directors at the Association's annual meeting.

Section 2. Election and Appointment of Directors. At the first meeting of the members of this Association, directors shall be elected to succeed the incorporating directors. Two (2) directors shall be elected for one (1) year and three (3) directors shall be elected for two (2) years. Thereafter, each director shall be elected for two (2) years. All directors shall be elected by secret ballot and the nominee receiving the greatest number of votes shall be elected.

Each director shall hold office for the term for which he is elected or appointed and thereafter until his successor is elected or appointed, and qualifies.

Section 3. Nominations. Prior to the date of a meeting of the members at which board members are to be elected, the President shall appoint a nominating committee consisting of three (3) members, with the President of the Association serving as ex-officio chairman. The nominations for board members shall not necessarily include more than one candidate for each position to be filled at the membership meeting; although at the membership meeting nominations from the floor for directors shall be permissible.

Section 4. Compensation. Reasonable compensation shall be paid to each director for attending meetings of the Board of Directors, meetings of the executive committee, meetings of other appointed committees of the Board, and other meetings in which a director is requested to participate. Such compensation paid to directors for such meetings shall be reported monthly.

Section 5. Removal. Any member may ask for the removal of a director by filing charges with the Secretary or President of the Association, together with a petition signed by ten percent (10%) of the members requesting the removal of a director in question. The removal shall be voted upon at the next meeting of the members, and by two-thirds (2/3) of the voting power of the members voting thereon, the Association may remove the director. The director whose removal is requested shall be served with a copy of the charges against him not less than ten (10) days prior to the meeting and shall have an opportunity at the meeting to be heard in person and by counsel and to present evidence; and the members requesting the removal shall have the same opportunity.

Section 6. How Vacancies Created. A vacancy shall occur when a director's seat shall be declared vacant under the provisions of any of these bylaws, by death, or by failure of a director to attend three consecutive directors' meetings, regular or special, without justification or cause satisfactory to a majority of the other members of the Board of Directors.

Section 7. Filling of Vacancies. When a vacancy occurs on the Board of Directors other than by removal, the remaining members of the Board, by a majority vote, shall fill the vacancy until the next annual meeting. At the next annual meeting the unexpired term of the seat vacated shall be filled in the same manner as originally filled, and the successor director elected by the remaining Board of Directors shall serve until his successor is so elected.

Section 8. Quorum. A majority of the Board of Directors shall constitute a quorum at any meeting of the Board.

Section 9. Meetings. The Board of Directors shall meet in the offices of the Association, or elsewhere, at such times or times as may be set by the Board of Directors. Special meetings of the Board of Directors shall be held on call of the President or upon written request of a majority of the directors.

Section 10. Notice of Meetings. Notice of both regular and special meetings of the Board shall be mailed by the Secretary to each member of the Board at his last known post office address not less than five (5) days before any such meeting, and notices of any special meeting shall state the purpose thereof. On the signing of a waiver of notice of a meeting (regular or special), a meeting of the Board of Directors may be held at any time.

Section 11. Consent Meetings. Any action which may be taken at a meeting of the Board of Directors or of a committee, may be taken without a meeting if a consent in writing setting forth the action so to be taken, shall be signed either before or after such action, by all of the directors, or all of the members of the committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote.

Section 12. Order of Business. The recommended order of business at any regular or special meeting of the Board of Directors shall be:

A. Calling the roll;

B. Proof of due notice of meeting;

C. Reading and disposal of minutes;

D. Unfinished business:

E. New business;

F. Adjournment.

Section 13. Employment. No director of this Association other than one who is acting as an elected officer of the Association and receiving a regular salary therefor, shall receive compensation or allowance for

services rendered the Association for more than thirty (30) days in any one year, exclusive of the periods for which compensation is paid for attendance at directors' meetings or at meetings of any duly appointed committee. Provided, however, that this Section shall not apply to any contract between the Association and a director which shall have been found by a majority vote of the Board to be fair and equitable, and provided, further, that the interested director shall not be present when such contract is discussed and approved or disapproved and a vote taken, and provided, further, that any such contract shall be reviewed annually and any change in the contract, and its continuation shall be approved or disapproved by a majority of the Board.

ARTICLE V

Duties of Directors

Section 1. General Powers. Subject to the limitations of the Articles of Incorporation, of the bylaws and of the statutes of the Commonwealth of Virginia relating to action which shall be authorized or approved by members, all corporate powers shall be exercised by or under the authority of, and the business and affairs of Valley Poultry Marketing Cooperative, Inc., shall be controlled by the Board of Directors.

Section 2. Employment of General Manager. The Board of Directors may employ or authorize the employment of a general manager, and fix his compensation. The General Manager, who shall serve at the pleasure of the Board of Directors, shall have charge of the business of the Association under the direction of the Board of Directors.

Section 3. Bonds and Insurance. The Board of Directors shall require the General Manager and all other officers, agents, and employees charged by the Association with responsibility for the custody of any of its funds and negotiable instruments to give adequate bonds. Such bonds, unless cash security is given, shall be furnished by a responsible bonding company and approved by the Board of Directors, and the cost thereof shall be paid by the Association. The Board of Directors shall provide for the adequate insurance of property of the Association or property which may be in the possession of the Association, or stored by it, and not otherwise adequately insured, and in addition, provide adequate insurance covering liability for accidents to all employees and the public.

Section 4. Depository. The Board of Directors shall have the power to select one or more banks to act as depositories of the funds of the Association and to determine the manner of receiving, depositing and disbursing the funds of the Association and the form of checks and the person or persons by whom the same shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof.

Section 5. Audits. At least once each year the Board of Directors shall secure the services of a certified public accountant, who shall audit the books and records of the Association and render a report in writing thereof, which report, or a condensation of the information contained thereof, shall be submitted to the members of the Association. A copy of the audit shall be filed with the Commissioner of Agriculture and Immigration within six (6) months after the close of the fiscal year of the Association.

Section 6. Marketing Agreement. The Board of Directors shall approve and adopt any marketing agreements which the Association has with its producer-members.

ARTICLE VI

Executive Committee and Other Committees

Section 1. Executive Committee. The Board of Directors may, in its discretion, elect from its own body an executive committee of not less than three (3) nor more than five (5) members (exclusive of the President), determine their tenure and their powers and duties. To the extent provided by law, the Board of Directors may delegate to such executive committee all or any stated portion of the functions and powers of the Board of Directors, subject to the general direction, approval and control of the Board. The President of the Association shall, by virtue of his office, serve as a member of the executive committee. Minutes of said executive committee meetings shall be read and approved at the next regular meeting of the Board of Directors.

Section 2. Other Committees. Other committees may be established by resolution of the Board of Directors specifying the number of members and prescribing the committee functions and duties. Such other committees may include individuals who are not members of the Board.

ARTICLE VII

Officers and Duties

Section 1. Election of Officers. The officers of the Association shall be elected by the Board of Directors within thirty (30) days after each annual election of directors at the meeting of the members. The officers of the Association shall be a President, Vice President, a Secretary and a Treasurer and shall serve until their successors are elected. The Board may also appoint one or more assistant secretaries or assistant treasurers and any other corporate officers which it may see fit in its discretion to designate. The President and Vice President shall be elected by the directors from their number. The President may not be elected to that office more than two successive times. One person may hold two or more offices except that the offices of President and Secretary may not be held by the same person.

Section 2. Duties of President and Vice President. The President shall (1) preside over all meetings of the Association and of the Board of Directors; (2) call special meetings of the Board of Directors; (3) perform all acts and duties usually performed by an executive and presiding officer; and (4) sign all stock certificates and such other papers of the Association as he may be authorized or directed to sign by the Board of Directors. The President shall perform such other duties as may be prescribed by the Board of Directors. In the absence of the President, the Vice President shall assume the powers and duties of the President.

Section 3. Duties of Secretary. The Secretary shall keep a complete record of all meetings of the Association and of the Board of Directors and shall have general charge and supervision of the books and records of the Association. He shall sign all membership and stock certificates with the President and such other papers pertaining to the Association as he may be authorized or directed to sign by the Board of Directors. He shall serve all notices required by law and by these bylaws and shall make a full report of matters and business pertaining to the Association as he may be authorized or directed by the Board of Directors. He shall keep the corporate seal and affix it to all papers requiring a seal. He may act as secretary of the executive committee. He shall make and file all reports required by law and shall perform such other duties as may be required of him by the Association or the Board of Directors. Upon the election of his successor, the Secretary shall turn over to him all books and other property belonging to the Association that he may have in his possession.

To assist the Secretary in keeping minutes at all meetings of the Association and of the Board of Directors, he may employ the services of a recording secretary or use electronic recording devices as long as he informs those present at any meeting that such recording aids are being employed.

Section 4. Duties of Treasurer. The Treasurer shall perform such duties with respect to the finances of the Association as may be prescribed by the Board of Directors.

Section 5. Delegation of Duties. Any of the above duties may be delegated by the Board of Directors to any assistant officers that they may approve or elect.

Section 6. Removal. Any member may bring charges of misconduct or incompetency against an officer by filing them with the Secretary or President of the Association, together with a petition signed by ten percent (10%) of the members requesting the removal of the officer in question. The directors shall hold a hearing on the removal petition and shall vote upon the removal of the officer at the first meeting of the Board held after the hearing on the charges, and the officer may be removed by a majority vote, notwithstanding any contract the officer may have with the Association, which shall terminate upon his removal,

anything in the contract to the contrary notwithstanding. The officer against whom such charges are made shall be served with a copy of the charges not less than ten (10) days prior to the hearing, and shall have an opportunity at the hearing to be heard in person and by counsel, and to present evidence, and the persons making the charges shall have the same opportunity.

ARTICLE VIII

Duties of General Manager

Section 1. In General. Under the direction of the Board of Directors the General Manager shall have general charge of the ordinary and usual business operations of the Association, including the purchasing, marketing and handling of all products and supplies handled by the Association. He shall, so far as practicable, endeavor to conduct the business in such a manner that the patrons will receive just and fair treatment. The General Manager shall deposit all money belonging to the Association in banks selected by the Board of Directors, and if authorized to do so by the Board of Directors, shall make all disbursements by check therefrom for the ordinary and necessary expenses of the business in the manner and form prescribed by the Board of Directors. Upon the appointment of his successor, the General Manager shall turn over and relinquish control to the Association all money and property belonging to the Association which he has in his possession, or over which he has control.

Section 2. Duty to Account. The General Manager shall be required to maintain his records and accounts in such a manner that the true and correct condition of the business may be ascertained therefrom at any time. He shall render annual and periodical statements in the form and in the manner prescribed by the Board of Directors. He shall carefully preserve all books, documents, correspondence and records of whatever kind pertaining to the business which may come into his possession.

Section 3. Control of Employee. The General Manager shall employ, supervise, and dismiss all agents and employees of the Association. No close relative of the General Manager, of a director, or of an officer of the Association may be employed by the Association for any management or supervisory position without the express consent of the Board of Directors.

ARTICLE IX

Method of Cooperative Operation

Section 1. General. This Association shall be so operated that the patrons of the Association, members and nonmembers alike, will be treated on a fair and equitable basis in the performance of services for them.

Section 2. Furnishing Supplies and Services. The patrons desiring to market commodities through the Association shall be subject to the regulations adopted by the Board of Directors governing the delivery of poultry and other agricultural products and their handling and marketing by the Association on a cooperative non-profit basis, and as may be prescribed by marketing agreements between the Association and its producer members.

In furnishing services such as marketing products, providing supplies and equipment, or otherwise making facilities or services available to patrons, the Association's operations shall be so conducted that all patrons, members and nonmembers alike, will through their patronage furnish capital for the Association. To assure that the Association will operate on a service-at-cost basis the Association is obligated to account on a patronage basis to all its patrons, members and nonmembers alike, for all amounts received from the furnishing of these services in excess of operating costs and expenses properly chargeable against the type of service furnished, including any interest and dividends paid on any form of capital to the Association. All such amounts in excess of operating costs and expenses at the moment they are furnished by the patrons are received by the Association with the understanding that they are provided as capital.

ARTICLE X

Patronage Capital

Section 1. Patron's Contribution to Capital. All capital, whether heretofore or hereafter furnished by patrons, howsoever evidenced, shall be subject in all respects to the provisions of these bylaws regarding such capital. Except for Capital Stock hereinafter defined under Article XI, all capital funds of patrons shall be herein designated as "Patronage Capital." This Association shall be so operated that the active patrons of the Association, members and nonmembers alike, will currently furnish money through their patronage for capitalizing the Association and with the view of revolving the capital furnished in earlier years by the patrons and others. In order to further this objective and in consideration of the privileges of participating in the cooperative services rendered by the Association and in recognition of their responsibility for providing capital in proportion to their patronage to adequately finance the cooperative activities in which the Association is engaged, the patrons of the Association agree to invest on a patronage basis in the capital of the Association in the manner and to the extent for which provision is made in Section 2 of this Article.

Section 2. Method of Distribution of Patronage Capital. In order to induce patronage and to assure that this Association will operate on a service-at-cost basis relative to all its transactions with its patrons, it is obligated to account on a patronage basis to all of its patrons, members and nonmembers alike, for all amounts received on account of rendition of services and on account of the sale or

disposition of commodities furnished by them to the Association or purchased by them from the Association, over and above the costs and expenses of the Association in handling such commodities and in furnishing such services, and the fair part of the general operating costs and expenses of the Association properly chargeable to each type of commodity or service, including valuation reserves and interest and dividends on capital. The Association is hereby obligated to pay all such amounts to the patrons in cash refunds or by credits to a capital account for each patron within a reasonable time after the close of each fiscal year, and the patrons are hereby obligated to invest on a patronage basis in the capital of the Association such sums as the Board of Directors shall prescribe for that year, not exceeding in the aggregate the amounts due the patrons by the Association as hereinafter provided. The legal offset of the payments due the patrons against the obligations of such patrons to subscribe for capital as provided herein shall constitute full and complete discharge of the obligations of the Association to make payments as herein provided to the end, that all such amounts due the patrons shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished corresponding amounts for capital in the Association. All such capital funds furnished by the patrons may be used by the Association for any purpose deemed advisable by the Board of Directors.

The books and records of the Association shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron. The Association shall within eight and one-half (8-1/2) months after the close of the fiscal year notify each patron, in the form of a written notice of allocation (as defined in 26 U.S.C. 1388), of the amount of capital so credited to his account.

In the event the Association suffers a loss in any year, the Board of Directors shall prescribe the basis on which capital furnished by patrons in prior years or patronage payments due patrons in future years shall be reduced on account of any such loss so that it will be borne by the patrons as equitably as the Board of Directors finds practicable.

Section 3. Revolving the Patronage Capital. In order to further the cooperative character of this cooperative, the Association shall revolve its patronage capital howsoever it may be evidenced, from time to time, as funds are determined by the Board of Directors to be available for that purpose, but except as herein otherwise provided, the patronage capital that is retired in a given year, in whole or on a prorata basis, shall be the oldest outstanding and unexhausted patronage capital of the Association.

Section 4. Discretionary Settlement. Notwithstanding any other provisions of these bylaws, the Board of Directors, in its discretion, shall have the power at any time to pay off or retire or secure a release or satisfaction of any patronage capital in any instance: (a) in which the amount is relatively small and the interests of the Association are deemed to be furthered thereby; (b) to compromise or settle a dispute between a holder thereof and the Association; (c) to facilitate the settling of an estate of a deceased or bankrupt member or the winding up and liquidation of a corporate member (see Article II, Section 7); (d) to close out a holder's interest when he has moved from territory served by the Association; or (e) to close out a holder's interest who has retired from farming. In any instance in which a holder of patronage capital desires to sell the same, it may be purchased by the Association on such terms and conditions as may be agreed upon if the Board of Directors finds that the best interests of the Association would be furthered by doing so.

Section 5. Accumulated Reserve. All reserves accumulated prior to the adoption of these bylaws shall insofar as possible be treated as capital reserves and subject in all respects to the provisions of these bylaws regarding the handling and treatment of capital reserve credits.

Section 6. Capital Reserve Accounts. A record of all credits to patrons in the capital reserve accounts shall be kept and maintained by the Association and such credits shall be transferable only on the books of the Association and no transfer of credits to patrons in the capital reserve accounts of the Association shall be binding upon the Association unless so transferred. All debts of the Association, both secured and unsecured, shall be entitled to priority over all outstanding credits to patrons in the capital reserve accounts of the Association. This Association shall have a lien on all credits to patrons in the capital reserve accounts for all indebtedness of the holders thereof to the Association.

Section 7. Treatment of Income not Derived from Patronage. All other amounts, such as interest and other amounts from nonpatronage sources, received by the Association from its operation in excess of costs and expenses shall, insofar as permitted by law and to the extent practicable, be allocated to its patrons on a patronage basis and any amount so allocated shall be included as a part of the capital credited to the accounts of patrons as herein provided.

Section 8. Setoff. The Association shall be entitled to setoff against any claims which it may have against any patron, any amounts which the Association may owe the patron.

Section 9. Capital Gains and Losses. Whenever the Association disposes of a capital asset upon which there is a resulting gain or loss, such gain or loss shall be apportioned among the patrons as equitably as the Board of Directors finds practical.

Section 10. Restriction on Transfer. No transfer of any patronage capital as defined under this Article shall be effective until transferred on the books of the Association.

Section 11. Unclaimed Funds. Notwithstanding any other provision of these bylaws, if a patron or any other person, firm or corporation who is entitled to receive any funds from the Association for any reason whatsoever, fails to claim such funds within one year after payment of the same has been made available to him by notice or check mailed to him at his last known address, and such further notice as is provided for hereinafter, such failure shall be and hereby constitutes an extinguishment of his claims and shall be and is an irrevocable assignment of such fund by such patron, person, firm or corporation to the Association. If any such fund is so extinguished and assigned to the Association, the Association shall treat the amount of such fund as incidental income and shall allocate the amount involved on a patronage basis to the patrons of the Association, members and nonmembers alike, in the fiscal year in which such assignment is made. All such incidental income derived from such assignments to the Association shall be handled, distributed and treated in a manner consistent with the provisions of these bylaws. The further notice herein provided for shall be sent by certified U.S. mail to the last known address of such patron, other person, firm or corporation, and such further notice shall also be published in a newspaper having for its general circulation the territory of the last known address of such patron, other person, firm or corporation, and such publication shall run once a week for two successive weeks. The assignment and extinguishment of the claim to such fund by such patron or other person, firm or corporation, shall be final and effective sixty (60)days after the further notice was given by mail and publication.

ARTICLE XI

Capital Stock

Section 1. Common Stock. Membership in the Association shall be evidenced by owning at least one share of common voting stock in the Association, subject to the terms and conditions as set forth in the articles of incorporation and these bylaws. Each certificate of common stock shall show on its face the privileges, voting rights, or restrictions and qualifications applicable to said stock as specified in the articles of incorporation, including the following language:

> The common stock of this Association may be purchased, owned and/or held only by producers who shall patronize the Association in accordance with uniform terms and only such persons shall be regarded as eligible members of the Association. In the event the Board of Directors of the Association shall find that any of the common stock of this

Association has come into the hands of any person who is not an eligible member, or that the holder thereof has ceased to be an eligible member, such person shall have no rights or privileges on account of such stock or vote or voice in the management or affairs of the Association (other than the right to participate in accordance with law in case of dissolution and to receive the par or book value of such stock, whichever is less, in event of its sale or transfer as herein provided), and the Association shall have the right (a) to purchase such stock at its book or par value, whichever is less, as determined by the Board of Directors of the Association, in its sole discretion, and on the failure of the holder to deliver the certificate or certificates evidencing any such stock, the Association may cancel the same on its books, or (b) to require the transfer of any such stock at such book or par value to any person eligible to hold the same, and on the failure of the holder to deliver the certificate or certificates evidencing any such stock, the Association may cancel the same on its books and issue a new certificate or certificates in lieu thereof to any such person. The common stock of this Association may be transferred only with the prior consent of the Board of Directors of the Association and on the books of the Association and then only to persons eligible to hold the same, any rights or privileges on account of such stock or vote or voice in the management or affairs of the Association. Each eligible holder of common stock shall be entitled to only one vote in any meeting of the stockholders, regardless of the number of shares of stock owned by him. This Association shall have a lien on all of its issued common stock and on dividends declared thereon for all indebtedness of the holders thereof to the Association. Noncumulative dividends, not to exceed 6 percent (6%) per annum, may be paid upon the common stock (when funds are available thereof), if, as, and when declared by the Board of Directors, after the payment of dividends of not to exceed six percent (6%) per annum on the preferred stock. In the event of any liquidation, dissolution or distribution of the assets of the Association, the holders of common stock shall be entitled to the par value thereof and shall not share otherwise in the distribution of assets of the Association.

Section 2. Preferred Stock. Preferred stock may be issued for not less than its par value for cash or in exchange for real, personal or other property at valuations determined by the Board of Directors. The preferred stock may be issued and held by any person, firm or corporation. Each certificate of preferred stock shall show on its face the preferences, privileges, voting rights, restrictions and qualifications of such stock as specified in the articles of incorporation, including the following language:

The preferred stock of this Association may be purchased and held by any person, firm or corporation. It shall carry no voting rights. The right is reserved by the Association at any time to redeem in whole or any part the outstanding shares of preferred stock by paying for each share of said stock the par value thereof in cash plus all unpaid dividends accrued thereon at the date fixed for such redemption. Cumulative dividends of six percent (6%) per annum shall be paid on all outstanding shares of preferred stock before any dividends may be paid on the outstanding common stock and before any patronage refunds or additional payments on products marketed through the Association may be paid to the patrons. At the discretion of the Board of Directors, all dividends or distributions of the Association, or any part thereof, may be paid in certificates of preferred stock and/or credits on preferred stock, or ad interim certificates representing fractional parts thereof, subject to conversion into full shares. Upon the liquidation, dissolution or distribution of the assets of the Association, the holders of the outstanding preferred stock shall be paid the par value thereof and all unpaid dividends which have accrued thereon, and said preferred stockholders shall be entitled to no other assets of the Association.

Section 3. Transfer of Stock. The common stock of the Association may be transferred only with the consent of the Board of Directors, and any member disposing of all of his common voting stock shall be considered to have automatically terminated his membership in the Association.

The preferred stock of the Association may be freely transferred to any person, firm or corporation.

Transfer of shares shall be made only on the books of the Association by the holder in person or under power of attorney duly executed, witnessed and filed with the Association, and upon surrender of the outstanding certificate of such shares. Transfers will be made only when the stockholder is not delinquent in his indebtedness to the Association. For the purpose of determining stockholders entitled to notice of any meeting of members, or entitled to receive payment of any dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors may provide that the stock transfer books shall be closed for a stated period not to exceed thirty (30) days. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders, such date in any case to be not more than thirty (30) days prior to the date on which the particular action, requiring such determination of stockholders is to be taken.

Section 4. Lost or Destroyed Certificates. When a certificate has been lost or destroyed, a new certificate may be issued therefor upon satisfactory proof of such loss or destruction and upon the giving of a bond, if required by the Board of Directors, with sufficient surety to be approved by them to protect the Association or any person injured by the issue of the new certificate from any liability or expense which it or they may incur by reason of the original certificate remaining outstanding or by reason of the issue of the new certificate.

ARTICLE XII

Dissolution

In the event of any liquidation or dissolution or winding up (whether voluntary or involuntary) of the Association the assets of the Association shall be used and distributed in the following order:

(I) Payment of the Association's debts;

(II) Payment to the holders of the outstanding preferred stock, the par value and unpaid dividends which have accured thereon.

(III) Payment of the current year's patronage allocations;

(IV) Payment to the holders of common stock the par value thereof;

(V) Remaining assets and funds to be paid without priority to and distributed among all participating members and nonmembers alike, in accordance with their patronage with the Association, as reflected on the books of the Association.

ARTICLE XIII

Miscellaneous Provisions

Section 1. Fiscal Year. The fiscal year of this Association shall begin on the Sunday nearest January 1st and shall end on the Saturday nearest December 31st of each year.

Section 2. Seal. The seal of the Association shall consist of two concentric circles between which shall be the name of the Association, and year of its incorporation, and in the center shall be inscribed the word "SEAL," the impress of which is placed thereon.

Section 3. Gender. Any gender used herein shall be deemed to refer to any other gender more grammatically applicable to the party to whom such use of gender relates. The use of singular herein shall be deemed to include the plural and, conversely, the plural shall be deemed to include the singular where the sense of these bylaws would so require.

ARTICLE XIV

Amendments

Section 1. By the Members. These bylaws may be amended or revised by a two-thirds (2/3) vote of the members voting thereon at any regular or special meeting of the members or by consent of two-thirds (2/3) of the members voting thereon by mail ballot, provided written notice of the proposed bylaws, amendments, or revisions shall have been mailed to each member at his last known address at least ten (10) days prior to any such meeting or ten (10) days prior to the date on which the mail ballot must be returned to be counted. The bylaws made by the Board of Directors may be repealed or amended, and new bylaws adopted by members, and the members may prescribe that any bylaws made by them shall not be altered, amended or repealed by the Board of Directors.

Section 2. By the Board of Directors. Except as to those bylaws made by the members which expressly cannot be altered, amended or repealed by the Board of Directors, the Board of Directors may amend, revise, repeal and adopt new bylaws by a two-thirds (2/3) vote of the Board of Directors voting thereon at any meeting, provided that written notice of the proposed bylaws, amendments or revisions, shall have been delivered or mailed to each director at least ten (10) days prior to the date of any such meeting. This notice requirement may be waived in writing by two-thirds (2/3) of the full Board of Directors.

Other Publications Available

Delmarva Poultry Cooperative, Inc. Raymond Williams, Priscilla Salant. SR 153. 1977. 69 pp.

Alabama Broiler Producers Cooperative. Raymond Williams, Phillip F. Brown, Charles Powe. SR 151. 1977. 88 pp.

What Are Patronage Refunds? David Volkin. CIR 9. Revised 1977. 6 pp.

Farmer Cooperative Publications. CIR 4. Revised 1977. 42 pp.

Handling Net Margins Under Federal Tax Laws. Inf. 39. Revised 1976. 6 pp.

Sample Legal Documents, Part I. Legal Phases of Farmer Cooperatives. Morrison Neely. Inf. 100. 1976. 42 pp.

What Are Cooperatives? C. H. Kirkman, Jr. CIR 11. Revised 4520 1975. 12 pp.

Members Make Co-ops Go. C. H. Kirkman, Jr. CIR 12. Revised 1975. 12 pp.

Economic Development Through Cooperatives. Raymond Williams. USDA. PA. 1088. 1974. 19 pp.

How to Start a Cooperative. Irwin W. Rust. CIR 7. Revised 1972. 18 pp.

Manager Holds an Important Key to Co-op Success. C. H. Kirkman, Jr. CIR 16. Revised 1972. 12 pp.

Improving Management of Farmer Cooperatives. Milton L. Manuel. GR 120. Revised 1972. 47 pp.

Financing New Cooperatives. Raymond Williams. USDA Program Aid. 1979. 32 pp.

For copies, write Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture, Room 550, GHI Building, 500 12th St., S.W., Washington, D.C. 20250.

COOPERATIVE PROGRAM

U.S. Department of Agriculture
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The Cooperative Program of ESCS provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

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