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# DELMARVA POULTRY COOPERATIVE INC.

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## PREFACE

In July 1976, the board of directors of the Delmarva Poultry Cooperative, Inc., of Delmar, Del., requested Farmer Cooperative Service to conduct a feasibility study to determine if a sound financial program could be developed for their member-growers.

In conducting the study, we surveyed the interest of growers and determined their geographic distribution, house capacities, and the financial returns they are receiving from present processors.

We reviewed the costs of renovating the facilities to be operated, utilizing data supplied by consulting engineers.

From data collected from growers and consulting engineers, we determined the capital requirements, projected operating costs, developed a program for producers to raise equity capital, and outlined a long-term financial program including debt service, member equity, capital contribution, and need for borrowed capital.

The authors appreciate the research analysis provided by Phillip Brown and Charles Powe, both of Farmer Cooperative Service. They are also indebted to the cooperative board of directors for extensive field work in preparation of this report.

## CONTENTS

	<u>Page</u>
Highlights . . . . .	iv
Background information . . . . .	1
Broiler production and distribution of growers . . . . .	2
Proposed facility and equipment needs . . . . .	4
Marketing agreement . . . . .	6
Development of cash flow data . . . . .	6
Capital outlay . . . . .	7
Hatchery . . . . .	7
Feed mill . . . . .	8
Processing . . . . .	10
Procurement . . . . .	11
Administration . . . . .	11
Cash received . . . . .	11
Loan package . . . . .	19
Benefits to members . . . . .	23
Organization of cooperative . . . . .	23
Appendixes . . . . .	27
A - Broiler price--feed cost relationship . . . . .	28
B - Marketing agreement . . . . .	39
C - By-laws . . . . .	46
D - Producer survey form . . . . .	62
E - Consultants' report on feed mill . . . . .	64
F - Broiler producer agreement . . . . .	66

## TABLES

1 - Distribution of growers by size of operation . . . . .	2
2 - Schedule of improvements . . . . .	5
3 - Vehicle needs . . . . .	5
4 - Projected cash flow, first operating fiscal year . . . . .	13
5 - Projected cash flow, second operating fiscal year . . . . .	14
6 - Projected cash flow, third operating fiscal year . . . . .	15
7 - Sales price and cost per pound of broiler dressed weight, first year's operation . . . . .	16
8 - Pro forma statement of operations . . . . .	17
9 - Pro forma balance sheet . . . . .	18

## CONTENTS (Continued)

	<u>Page</u>
10 - Bank loan, FmHA guarantee, and member equity . . . . .	19
11 - Producer equity accumulation . . . . .	19
12 - Debt service . . . . .	20
13 - Proposed straight line depreciation schedule . . . . .	21
14 - Summary of capital needs of first four periods of operation . . . . .	22
15 - Salaries and administration . . . . .	25
16 - Projected personnel requirements: Hatchery, feed mill, processing plants, procurement . . . . .	26

### APPENDIX TABLES

1 - Prices on ready-to-cook, icepacked and CO <sub>2</sub> chilled broiler fryers . . . . .	30
2 - Prices paid by farmers for broiler-grower feed . . . . .	31
3 - Regression analysis of relationship between average broiler prices and average feed costs . . . . .	34
4 - Schedule of deductions by Champion Foods Company . . . . .	55
5 - Producer payment schedule . . . . .	56
6 - Projected schedule of eggs set, chicks placed and birds shackled . . . . .	58
7 - Estimated weekly feed consumption and gradual startup of broiler production . . . . .	59
8 - Estimated feed ingredient, manufacturing and delivery costs per ton . . . . .	60
9 - Broiler prices: 9-city weighted average, Grade A icepacked, ready-to-cook broilers . . . . .	61

### FIGURES

1 - Geographic distribution of growers and location of facilities . . . . .	3
2 - Organizational chart . . . . .	24

### APPENDIX FIGURES

1 - Annual average broiler and grower feed prices . . . . .	32
2 - Monthly average broiler and grower feed prices . . . . .	33
3 - Average broiler prices . . . . .	36
4 - Broiler price break-even analysis . . . . .	37



## HIGHLIGHTS

Delmarva Poultry Cooperative, Inc., proposes to lease-purchase a hatchery and a feed mill and lease a poultry processing plant from Champion Foods Company on the Eastern Shore.

The cooperative will operate and manage a completely integrated production and processing operation. Poultry will be sold under a marketing agreement with Champion Chicken Products Corporation, which will purchase the entire output.

The cooperative will need about 100 grower-members with annual production of 22,400,000 broilers to supply 432,000 chickens a week to the processing plant.

The authors determined the cooperative's capital requirements, projected operating costs, developed a program for producers to raise equity capital, and outlined a long-term financial program.

The cooperative is incorporated in Delaware but also has clearance from the State securities commission to sell stock in Maryland.

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DELMARVA POULTRY COOPERATIVE, INC. 0/0

~~Raymond Williams~~, - Senior Cooperative  
Development Officer  
~~Priscilla Salant~~, ~~Economist~~

### BACKGROUND INFORMATION

In July 1976, the board of directors of Delmarva Poultry Cooperative, Inc., requested Farmer Cooperative Service to determine the economic feasibility of establishing a totally integrated poultry broiler operation for farmers in southern Delaware and the Eastern Shore of Maryland. The board of directors said that they had been approached by Richard Goldberger, president of Champion Foods Company, to see if the cooperative would be interested in leasing or purchasing facilities his company had recently acquired from the Production Credit Association and the Federal Land Bank Association of Salisbury. The facilities--a hatchery, feed mill, and processing plant--were formerly operated by Maryland Chicken Processors, and were acquired through a bankruptcy and foreclosure proceeding.

This study has been conducted on a priority basis with very limited time to develop data. The urgency of developing the data quickly was dictated by the time schedule formulated in an agreement between Champion Foods Co. and Delmarva dated July 30, 1976.

The board of directors had attempted to lease or purchase the same facilities about 2 years ago but could not get access to them because of the length of time it took for the bankruptcy proceedings to be completed. Much of the present interest of the board of directors and members results from the earlier effort to operate an integrated poultry operation.

Legal services in the preparation of the grower contract, marketing agreement with Champion Foods, review of consultant engineering reports, and numerous other matters were performed by an attorney in Salisbury, Md. An attorney in Georgetown, Del., prepared the articles of incorporation and bylaws, when the cooperative was formed.

The board of directors, by requesting the study, has expressed its desire to establish a viable cooperative that will permit growers to participate in an equitable production and marketing program. The growers want to share in the additional income derived when prices are favorable. They realize they will bear the continual risk of a fluctuating market.

The cooperative will be an instrument to stabilize the poultry industry on the Eastern Shore of Maryland, Delaware, and Virginia. The proposed

program should be viewed in a longrun perspective. Everyone familiar with the poultry industry understands that a sound program cannot be developed on a short-range basis.

The board of directors is fully aware that there are drastic price cycles, often of short duration, and that members will need to endure occasional lean financial years.

Nevertheless, a cooperative organization will enable them to share more equitably the benefits of successful times.

#### BROILER PRODUCTION AND DISTRIBUTION OF GROWERS

The projections in this study are based on data supplied by a sample of 38 growers. On the basis of the average annual production of 224,640 broilers per grower, it will require about 100 growers to supply 432,000 chickens a week to the processing plant. About 75 percent of the growers are situated within 25 miles of the feed mill. The growers in the sample have indicated they will purchase equity capital stock at the rate of \$150 per 1,000 house capacity.

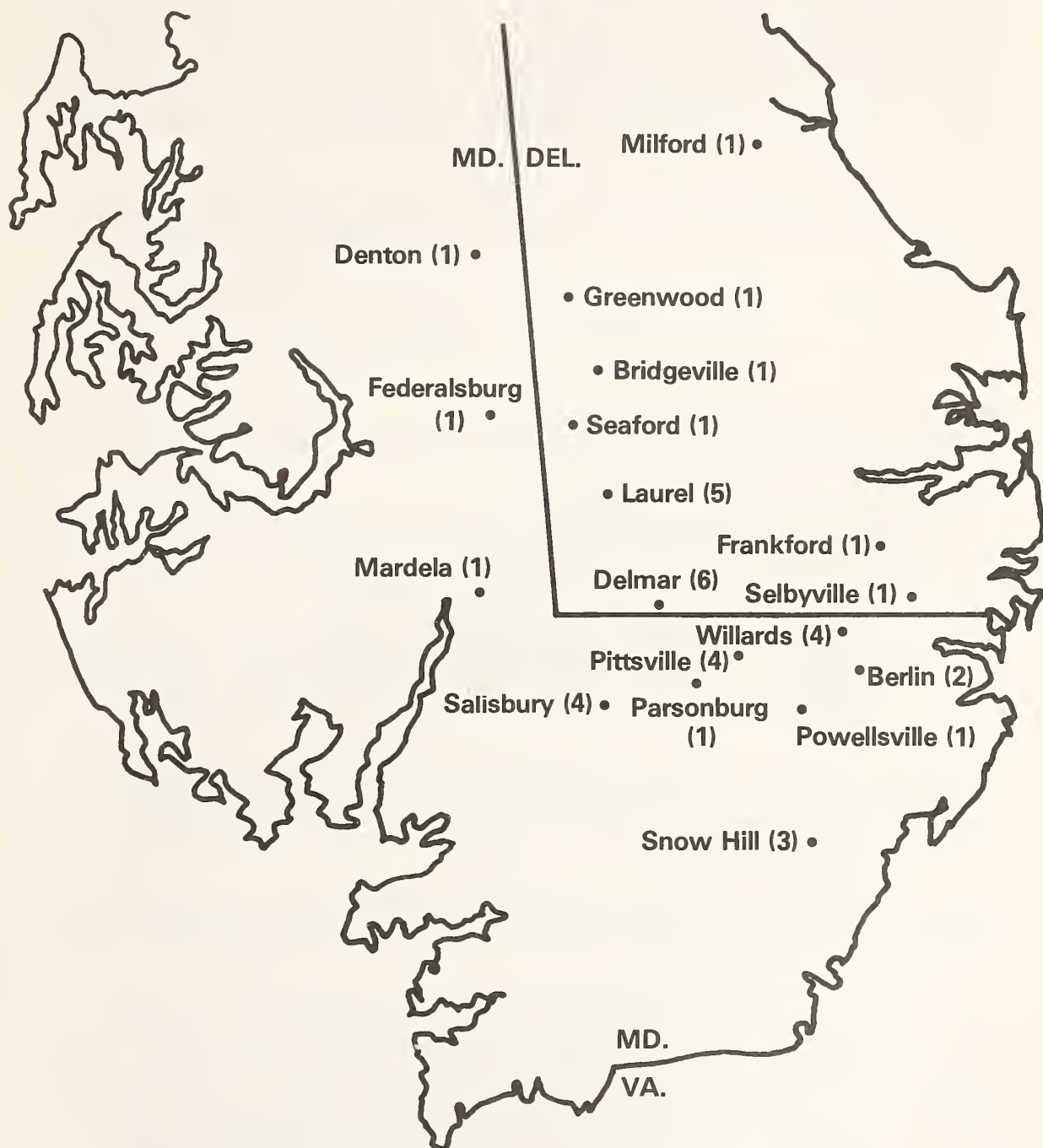
Distribution of the 38 growers by geographic location is shown in figure 1. Distribution by size of operations is shown in table 1.

Table 1--Distribution of growers by size of operation, 38 growers surveyed, Delmarva Poultry Cooperative, Inc.

Number of growers	:	Size of chicken flock <sup>1/</sup>	:	Total production
3		Less than 50,000		131,000
5		50,000 - 99,999		372,500
13		100,000 - 199,999		2,021,850
8		200,000 - 299,999		1,945,500
6		300,000 - 399,999		1,964,250
1		400,000 - 499,999		400,000
<u>2</u>		More than 500,000		<u>1,240,000</u>
38				8,075,100

<sup>1/</sup> Capacity, annual production.

Figure 1: Geographic distribution of growers and location of facilities Delmarva Poultry Cooperative, Inc.



The chickens will be grown under a performance contract on each member's farm. Baby chicks will be delivered to the farm by the cooperative. The cooperative sells and the grower grants the cooperative a purchase security interest in all chicks, feed, medications, and supplies furnished. Payment to the grower will be based on performance or cost per pound. The grower's cost will be compared with the weighted average cost of all flocks moved during the settlement period. The individual's performance will determine the rate per pound of payment that is outlined in appendix table 2.

The proposed cooperative contract is patterned after the grower contract between the Rockingham Poultry Cooperative of Broadway, Va., and its growers.

### PROPOSED FACILITY AND EQUIPMENT NEEDS

The cooperative plans to acquire the hatchery and feed mill on a lease-purchase agreement from Champion Foods Co. and to lease the processing plant.

The hatchery is at Parsonsburg, Md., and has a capacity of some 250,000 chicks per week. This capacity will meet about half of the needs of the cooperative. The rest of the chicks will be custom hatched.

The cooperative will acquire the feed mill at Laurel, Del., on a lease-purchase agreement. The mill, when operated on two shifts, will manufacture 2,500 tons per week, well in excess of the weekly grower needs of 1,700 tons.

The mill also has a storage capacity of 672,000 bushels of grain. The mill will be renovated and repaired, and will function as a modern facility. Feed formula needs will be prepared by a nutritionist. Feeds will be mixed by computer.

The mill will have complete facilities for grinding, mixing, pelleting, handling, and storage. The corporate offices of the cooperative will be located in the feed mill.

The cooperative will lease Champion's processing plant at Snow Hill, Md. The cooperative will improve and repair the plant and pay a token lease payment of \$1 each year over a 10-year period. The plant will operate two processing lines with a total weekly capacity of 432,000 birds. A schedule of the cost of repairing and improving the feed mill is included in the appendix. Data on the processing plant will be submitted to the board of directors and the prospective lender at a later date.



Table 2--Schedule of improvements, Delmarva Poultry Cooperative, Inc.

Facility	Cost
	<u>Dollars</u>
Hatchery	40,000
Feed mill	300,000
Processing plant	<u>350,000</u>
Total	690,000

The cooperative will purchase the necessary equipment for live haul, feed haul, delivery of chicks, field service cars, and vaccinators.

Truck, car, and equipment costs are shown in table 3.

Table 3--Vehicle needs, Delmarva Poultry Cooperative, Inc.

Item	Vehicle cost
	<u>Dollars</u>
Hatchery:	
Vans - vaccination (2)	15,873
Dump truck - used (1)	2,500
Buses - used (2)	5,000
Pickup truck - used (1)	2,500
Total	<u>25,873</u>
Feed mill:	
Diesel tractors (2)	42,484
Bulk trailers (2)	52,328
10 wheel delivery (1)	40,000
Cars (3)	12,900
Pickup - used (1)	2,500
Total	<u>150,212</u>
Processing plant:	
Vans - used (2)	4,000
Pickups - used (2)	5,000
Total	<u>9,000</u>
Procurement:	
Tractor trucks - used (7)	70,000
Trailers - used (15)	30,000
Total	<u>100,000</u>
Administration:	
Car (1)	<u>4,300</u>
Total vehicle needs	<u>289,385</u>

## MARKETING AGREEMENT

On July 30, 1976, the board of directors executed a marketing agreement with Champion Foods to purchase all poultry processed through the Snow Hill processing plant and the Nanticoke, Md., plant.<sup>1/</sup> The price paid the cooperative is based on the nine-city weighted average price, less charges for freight, packaging labor, and cost of packages. The marketing agreement is in appendix A.

The agreement calls for Champion Foods Co. to pay for processed poultry within 5 days after processing or on a daily basis if necessary. For this reason, we have not included loan funds to cover receivables in the cash flow.

## DEVELOPMENT OF CASH FLOW DATA

The following cash flow analysis covers the first 2 years of operation of Delmarva Poultry Cooperative. It is based on thirteen 4-week billing periods per year. In developing the analysis, we assumed the following startup schedule:

- |                   |  |
|-------------------|--|
| Week 2, Period 1: | Eggs placed in hatchery; feed mill begins operation to manufacture backup inventory and first period supply. |
| Week 1, Period 2: | Chicks placed with growers.  |
| Week 1, Period 4: | Snow Hill processing plant begins operation.   |

We have geared the startup to begin January 1 (Period 1). If the cooperative adhered to this schedule, the processing plant would start operations at 40 percent of its two-line capacity. By Period 5, 75 percent of plant capacity will be in use and by Period 6, the plant would be in full operation. All calculations on eggs set and broiler chicks placed have been based on this gradual startup schedule.

The year on the cash flow is based on thirteen 4-week periods. Therefore, regardless of the date of the start of operations, all capital needs, operating costs, and income can be tied to a specific period.

---

<sup>1/</sup> Chickens are plant processed at Snow Hill and further processed into parts, etc. for chill pack at Nanticoke by Champion Foods Co.

## Capital Outlay

1. Organizational startup
  - Includes cost of legal fees, membership recruitment, accounting, field personnel, office furniture, and miscellaneous expenses.
2. Inventories
  - Hatchery
    - Includes supply of feeder lids, chick boxes and vaccine. Total cost of \$7,676
  - Feed mill
    - Ingredients for feed production to supply co-op members for more than 5 days at 100 percent capacity. This reserve can supplement normal feed output of 1,746 tons per week as required at \$159.91/ton, ingredient cost. Total cost is \$223,558.
  - Processing plant
    - Boxes and packing materials. This is a revolving inventory. Total cost is \$31,500.

## Hatchery

3. Improvements
  - Includes cost of reactivating machinery, repairing roof, and general modernization. See consultant engineer's report on repair schedule.
4. Eggs and custom hatching
  - Eggs will be delivered to the hatchery @ \$.94 per dozen. Eggs over the hatchery's 250,000 chicks capacity will be custom hatched at \$.016 per chick, delivered.
5. Operating expenses
  - Includes electricity, \$17,346; fuel oil, \$7,640; supplies, \$10,702; maintenance and repairs, \$12,230; lids and chick boxes, \$12,386; gas and oil, \$15,000; insurance, \$3,000; and taxes, \$2,400 for an annual total of \$80,704. A 5% price increase is projected for 1978.



6. Labor
  - Nine workers @ \$61,180 and 25 vaccinators @ \$153,956. This includes 15% F.I.C.A. taxes and employee benefits. A 5% cost of living increase is projected for 1978.
7. Lease payment
  - \$859 per 4-week period at an annual total of \$11,171. First payment due after 9 periods of operation; second payment due after 12 periods. All thereafter payable each period.
8. Vehicles
  - Buses (2)
    - For delivering chicks to farms.
  - Dump truck
    - For carrying away egg shells and trash.
  - Vans (2)
    - For vaccination.
  - Pickup truck
    - For maintenance use.

#### Feed Mill

9. Improvements
  - Includes installation of a dust collecting turnhead and gravity spouting in the headhouse area, of new feeder conveyors, and of a computer batching system with micro-ingredient scaling. See consultant engineers' report on report schedule, appendix D.
10. Production costs--feed
  - 1,746 tons per week to supply operations at full capacity. This output will be reached in the fifth period after a gradual phase-in of production. Feed cost is based on an estimated \$165 per ton average of all mixes incurred in production. Delivered cost, minus expenses.
11. Medication, vaccine
  - Annual cost of \$207,480.
12. Labor
  - 5 workers at \$3.06 per hour plus 15% F.I.C.A. taxes and employee benefits at an annual cost of \$36,598. A 5% cost of living increase is projected for 1978.

- Maintenance labor
  - 1 foreman and 1 helper at an annual cost of \$21,122 (F.I.C.A. taxes and employee benefits included). A cost of living increase of 5% is projected for 1978.
- Delivery labor
  - 5 drivers @ \$6,825 + 15% F.I.C.A. taxes and benefits per year. A 5% cost of living increase is projected for 1978.
- Seasonal labor
  - During grain season (Sept.-Oct.), 1 scaleman, 1 clerk, 1 unloader and 2 grain handlers at a cost of \$4,345 per year. (F.I.C.A. taxes and benefits included.)
- Flock supervisors
  - Three @ \$13,650 + 15% F.I.C.A. taxes and benefits annually. A 5% cost of living increase is projected for 1978.
- 13. Operating expenses
  - Includes electricity, \$72,215; fuel oil, \$42,573; supplies, \$28,478; quality control, \$3,701; maintenance, \$28,477; nutrition service, \$13,200; insurance, \$13,200; gas and oil, \$55,000; and taxes, \$5,940 for an annual total of \$262,784. A 10% price increase is projected for 1978.
- 14. Contract
  - Payment to growers calculated at the average payment of \$.0276 per pound of marketable live weight. This excludes value of retain which is credited to producer's account.
- 15. Lease
  - \$6,451 per 4-week period at an annual total of \$83,683. First payment due after 9 periods of operation; second payment due after 12 periods. All thereafter due each period.
- 16. Vehicles
  - Diesel tractors (2)
    - For use in delivering feed to growers.
  - Bulk trailers (2)
    - For use in delivering feed to growers.

- 10-wheel delivery and pickup
- Used pickup truck
- Field service car
- For use in delivering feed to growers and picking up unused feed.
- For use by maintenance department.
- For use of flock supervisors.

### Processing

17. Improvements
  - Includes cost of reactivating machinery and of bringing operation up to sanitation codes. See consultant engineer's report on repair schedule.
18. Labor
  - 262 workers at \$3.06 per hour + 15% F.I.C.A. taxes and employee benefits and 2 line supervisors @ annual salary of \$8,000 + 15% F.I.C.A. taxes and employee benefits. Annual cost of \$1,936,115. A 5% cost of living increase is projected for 1978.
  - Indirect labor
    - Annual cost of \$456,019. This is outside personnel used to clean up after processing is through each day. A 5% cost of living increase is projected for 1978.
19. Operating expenses
  - Includes annual cost of packing materials, \$1,225,740; utilities, \$251,394; taxes and insurance, \$188,526; inspection and grading fees \$75,387; and miscellaneous costs \$43,983. Annual total of \$1,785,030. A 5% price increase is forecast for 1978.
20. Vehicles
  - Used pickup trucks (2)
    - For use by maintenance department.
  - Used vans (2)
    - For use in providing transportation to processing workers from outlying areas.
21. Deduction by Champion
  - See appendix.

### Procurement

- 22. Labor
  - 30 workers at \$150 per week + 15% F.I.C.A. taxes and employee benefits. A 5% cost of living increase is projected for 1978.
- Equipment
  - 6,000 coops at \$8.75 each with 20% depreciation.
- Operating expenses
  - Fuel cost of \$.10 per mile, average hauls of 30 miles one way. Repair cost of \$2,000 per truck per year, plus miscellaneous costs.
- Vehicles
  - Tractor trucks (7)
    - Reconditioned. For use in live haul.
  - Trailers (15)
    - Reconditioned. For use in live haul.

### Administration

- 23. Labor
  - See table 15.
- 24. Operating expenses
  - Office supplies, \$13,211; telephone, \$4,529; legal aid, \$26,405; and travel, \$6,605. Annual total of \$50,750.
  - Burrough's rental
    - For use in calculating grower payment.
- 25. Vehicle
  - Field service car.
- 26. Debt service
  - Principal and interest for all loans at 9%. See table 12.
- 27. Total outlay
  - Total expenses per period.

### Cash Received

- 28. Bank loan - organizational startup
  - Table 7.
- 29. Bank loan - working capital
  - Table 7.
- 30. Bank loan - improvements
  - Table 7.

- |                                 |  |
|---------------------------------|--|
| 31. Bank loan - labor           | - Table 7.   |
| 32. Bank loan - vehicles        | - Table 7.   |
| 33. Bank loan - inventories     | - Table 7.   |
| 34. Bank loan - live haul coops | - Table 7.   |
| 35. Member equity capital       | - \$150 per 1,000 broiler house capacity posted by each cooperative member.      |
| 36. Sales                       | - Seasonally adjusted price derived from 9-city weighted averages, as projected. |
| 37. Offal recovery              | - \$.01 per pound dressed weight.  |
| 38. Total cash received         | - Four week total of loans, sales and offal recovery.                            |
| 39. Total expenses              | - Total expenses per period.   |
| 40. Cash flow (outflow)         | - Account by period of cash flow or outflow.                                     |
| 41. Accumulated cash flow       | - Running account of cash flow.  |

Item	5th period: 6th period: 7th period: 8th period: 9th period: 10th period: 11th period: 12th period: 13th period: 14th period: 15th period: 16th period: 17th period: 18th period:
	4/23-5/20 : 5/21-6/17 : 6/18-7/15 : 7/16-8/12 : 8/13-9/9 : 9/10-10/7 : 10/8-11/4 : 11/5-12/2 : 12/3-12/30 : 12/31-1/28 : 1/29-2/24 : 2/25-3/24 : 3/25-4/22
Head to market (number)	1,296,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000 1,728,000
Average live weight (pounds)	3.8 3.8 3.8 3.8 3.8 3.8 3.8 3.8 3.8 3.8 3.8 3.8 3.8
Total live weight (pounds)	4,924,800 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400 6,566,400
Total dressed weight (yield) (pounds)	3,693,600 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800 4,924,800
Feed cost per pound/live weight	.1508 .1700 .1700 .1700 .1700 .1700 .1700 .1700 .1700 .1700 .1700 .1700 .1700
Chick & hatching cost	.0396 .0297 .0297 .0297 .0297 .0297 .0297 .0297 .0297 .0297 .0297 .0297 .0297
Medication/vaccine	.0032 .0024 .0024 .0024 .0024 .0024 .0024 .0024 .0024 .0024 .0024 .0024 .0024
Contract	.0276 .0276 .0276 .0276 .0276 .0276 .0276 .0276 .0276 .0276 .0276 .0276 .0276
Procurement	.0046 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034
Plant costs	.0559 .0489 .0489 .0489 .0489 .0489 .0489 .0489 .0489 .0489 .0489 .0489 .0489
General & administrative costs	.0046 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034 .0034
Hatchery costs	.0046 .0035 .0035 .0043 .0043 .0043 .0035 .0035 .0035 .0035 .0035 .0035 .0035
Feed mill costs	.0064 .0048 .0048 .0110 .0068 .0068 .0068 .0068 .0068 .0068 .0068 .0068 .0068
Debt service	.0128 .0096 .0096 .0096 .0096 .0096 .0096 .0096 .0096 .0096 .0096 .0096 .0096
Champion deduct	.0108 .0108 .0108 .0108 .0108 .0108 .0108 .0108 .0108 .0108 .0108 .0108 .0108
Total cost delivered	.3209 .3141 .3141 .3211 .3211 .3161 .3141 .3174 .3152 .3186 .3186 .3186 .3186
Cost @ 75% yield	.4279 .4188 .4188 .4281 .4281 .4215 .4188 .4232 .4203 .4248 .4248 .4248 .4248
Less byproduct recovery	.0100 .0100 .0100 .0100 .0100 .0100 .0100 .0100 .0100 .0100 .0100 .0100 .0100
Net cost per pound	.4179 .4088 .4088 .4181 .4181 .4115 .4088 .4132 .4103 .4148 .4148 .4148 .4148
Projected average sales price	.4388 .4494 .4535 .4486 .4403 .4337 .4164 .4090 .4065 .4164 .4237 .4314
Profit (loss) per pound dressed weight	.0209 .0406 .0447 .0398 .0222 .0222 .0076 .0042 .0038 .0016 .0089 .0166





Table 6--Projected cash flow, third operating fiscal year, Delmarva Poultry Cooperative, Inc.

Cash flow item	4-week billing periods											
	1	2	3	4	5	6	7	8	9	10	11	12
	Dollars											
<b>Capital outlay:</b>												
Organizational start-up	--	--	--	--	--	--	--	--	--	--	--	--
Inventories	--	--	--	--	--	--	--	--	--	--	--	--
<b>Hatchery:</b>												
Improvements	--	--	--	--	--	--	--	--	--	--	--	--
Eggs and hatching	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786
Operating expenses	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518
Labor	18,205	18,205	18,205	18,205	18,205	18,205	18,205	18,205	18,205	18,205	18,205	18,205
Lease payment	859	859	859	859	859	859	859	859	859	859	859	859
Vehicles	--	--	--	--	--	--	--	--	--	--	--	--
<b>Feedmill:</b>												
Improvements	--	--	--	--	--	--	--	--	--	--	--	--
Production costs - feed	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788
Medication/vaccine	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960
Labor	12,130	12,130	12,130	12,130	12,130	12,130	12,130	12,130	12,130	12,130	12,130	12,130
Operating expenses	22,225	22,225	22,225	22,225	22,225	22,225	22,225	22,225	22,225	22,225	22,225	22,225
Contract	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475
Lease	6,541	6,541	6,541	6,541	6,541	6,541	6,541	6,541	6,541	6,541	6,541	6,541
Vehicles	--	--	--	--	--	--	--	--	--	--	--	--
<b>Processing:</b>												
Improvements	--	--	--	--	--	--	--	--	--	--	--	--
Labor	202,479	202,479	202,479	202,479	202,479	202,479	202,479	202,479	202,479	202,479	202,479	202,479
Operating expenses	144,174	144,174	144,174	144,174	144,174	144,174	144,174	144,174	144,174	144,174	144,174	144,174
Vehicles	--	--	--	--	--	--	--	--	--	--	--	--
Deduction by Champion	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917
<b>Procurement:</b>												
Vehicles and live haul	27,158	27,158	27,158	27,158	27,158	27,158	27,158	27,158	27,158	27,158	27,158	27,158
<b>Administration:</b>												
Labor	18,949	18,949	18,949	18,949	18,949	18,949	18,949	18,949	18,949	18,949	18,949	18,949
Operating expenses	4,059	4,059	4,059	4,059	4,059	4,059	4,059	4,059	4,059	4,059	4,059	4,059
Vehicle	--	--	--	--	--	--	--	--	--	--	--	--
Debt service	39,470	39,470	39,470	39,470	39,470	35,294	35,294	35,294	35,294	35,294	35,294	35,294
<b>Total outlay</b>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,078,517</u>	<u>2,081,086</u>	<u>2,081,086</u>	<u>2,078,517</u>	<u>2,078,517</u>	<u>2,078,517</u>	<u>2,078,517</u>
<b>Cash received:</b>												
Bank loan - organizational start-up	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - working capital	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - improvements	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - labor	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - vehicles	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - inventories	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - live haul coops	--	--	--	--	--	--	--	--	--	--	--	--
Member equity capital	--	--	--	--	--	--	--	--	--	--	--	--
Sales	2,050,687	2,086,638	2,124,559	2,124,559	2,161,002	2,213,205	2,223,396	2,258,513	2,168,389	2,135,886	2,050,687	2,014,243
Offal recovery	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248
<b>Total cash received</b>	<u>2,099,935</u>	<u>2,135,886</u>	<u>2,173,807</u>	<u>2,173,807</u>	<u>2,210,250</u>	<u>2,262,453</u>	<u>2,282,644</u>	<u>2,307,761</u>	<u>2,217,637</u>	<u>2,185,134</u>	<u>2,099,935</u>	<u>2,063,491</u>
<b>Less: Total expenses</b>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,082,693</u>	<u>2,078,517</u>	<u>2,081,086</u>	<u>2,081,086</u>	<u>2,078,517</u>	<u>2,078,517</u>	<u>2,078,517</u>	<u>2,078,517</u>
<b>Cash flow (outflow)</b>	17,242	53,193	91,114	91,114	127,557	183,936	201,558	226,675	139,120	106,617	21,418	(15,026)
<b>Accumulated cash flow</b>	3,053,347	3,106,540	3,197,654	3,288,768	3,416,325	3,600,261	3,801,819	4,028,494	4,167,614	4,274,231	4,295,649	4,253,285



Table 4--Projected cash flow, first operating fiscal year Delmarva Poultry Cooperative, Inc.

Cash flow item	4-week billing periods														
	1	2	3	4	5	6	7	8	9	10	11	12	13		
	Dollars														
Capital outlay:															
Organizational startup	120,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Inventories	262,734	--	--	--	--	--	--	--	--	--	--	--	--	--	
Hatchery:															
Improvements	40,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Eggs and hatching	69,503	138,284	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	
Operating expenses	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	
Labor	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	
Lease payment	--	--	--	--	--	--	--	--	5,916	--	--	--	2,578	859	
Vehicles	25,873	--	--	--	--	--	--	--	--	--	--	--	--	--	
Feedmill:															
Improvements	300,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Production costs - feed	--	69,478	354,784	550,347	742,850	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	
Medication/vaccine	--	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	
Labor	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	
Operating expenses	5,000	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	22,225	
Contract	--	--	--	72,590	136,106	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475	
Lease	--	--	--	--	--	--	--	--	38,706	--	--	--	19,353	6,541	
Vehicles	150,212	--	--	--	--	--	--	--	--	--	--	--	--	--	
Processing:															
Improvements	350,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Labor	--	--	--	73,603	138,006	184,009	184,009	184,009	184,009	184,009	184,009	184,009	184,009	184,009	
Operating expenses	--	--	--	137,309	137,309	137,309	137,309	137,309	137,309	137,309	137,309	137,309	137,309	137,309	
Vehicles	9,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Deduction by Champion	--	--	--	28,367	53,188	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917	
Procurement:															
Vehicles and live haul	153,731	1,231	1,231	13,121	19,354	25,088	25,088	25,088	25,088	25,088	25,088	25,088	25,088	25,088	
Administration:															
Labor	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	
Operating expenses	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	
Vehicle	4,300	--	--	--	--	--	--	--	--	--	--	--	--	--	
Debt service	--	--	--	--	--	63,210	63,210	63,210	63,210	63,210	63,210	63,210	63,210	63,210	
Total outlay	1,545,383	300,197	642,005	1,161,327	1,512,803	2,064,786	2,064,786	2,064,786	2,111,581	2,066,959	2,064,786	2,086,717	2,074,197		
Cash received:															
Bank loan - organizational startup	120,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Bank loan - working capital	1,270,022	--	--	--	--	--	--	--	--	--	--	--	--	--	
Bank loan - improvements	690,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Bank loan - labor	263,275	--	--	--	--	--	--	--	--	--	--	--	--	--	
Bank loan - vehicles	289,385	--	--	--	--	--	--	--	--	--	--	--	--	--	
Bank loan - inventories	262,734	--	--	--	--	--	--	--	--	--	--	--	--	--	
Bank loan - live haul coops	52,500	--	--	--	--	--	--	--	--	--	--	--	--	--	
Member equity capital	672,000	--	--	--	--	--	--	--	--	--	--	--	--	--	
Sales	--	--	--	849,823	1,620,652	2,213,205	2,233,396	2,209,265	2,168,389	2,135,886	2,050,687	2,014,243	2,001,931		
Offal recovery	--	--	--	19,699	36,936	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248	
Total cash received	3,619,916	--	--	869,522	1,657,588	2,262,453	2,282,644	2,258,513	2,217,637	2,185,134	2,099,935	2,063,491	2,051,179		
Less: Total expenses	1,545,383	300,197	642,005	1,161,327	1,512,803	2,064,786	2,064,786	2,064,786	2,111,581	2,066,959	2,064,786	2,086,717	2,074,197		
Cash flow (outflow)	2,074,533	(300,197)	(642,005)	(291,805)	144,785	197,667	217,858	193,727	106,056	118,175	35,149	(23,226)	(23,018)		
Accumulated cash flow	2,074,533	1,774,336	1,132,331	840,526	985,311	1,182,978	1,400,836	1,594,563	1,700,619	1,818,794	1,853,943	1,830,717	1,807,699		

Table 8--Pro forma statement of operations,  
Delmarva Poultry Cooperative, Inc.

Item	: 1977 : 10 periods <u>1/</u>	: 1978 : 13 periods	: 1979 : 13 periods <u>2/</u>
	<u>Dollars</u>		
Income:			
Broilers	19,497,477	27,574,447	27,574,447
Offal	450,619	640,224	640,224
Gross income	<u>19,948,096</u>	<u>28,214,671</u>	<u>28,214,671</u>
Less: Per unit retains	158,112	224,640	224,640
Gross margin	<u>19,789,984</u>	<u>27,990,031</u>	<u>27,990,031</u>
Expenses:			
Feed	10,651,763	14,518,244	14,518,244
Eggs and hatching	2,350,434	2,532,218	2,532,218
Grower payment	1,660,946	2,359,175	2,359,175
Salaries and wages	2,137,207	3,128,178	3,278,057
Operating expenses	1,676,350	2,300,688	2,300,688
Depreciation <u>3/</u>	115,153	153,537	153,537
Procurement	233,179	339,599	353,054
Lease	73,953	86,200	96,200
Interest	147,296	211,444	160,583
Total expenses	<u>19,046,281</u>	<u>25,629,283</u>	<u>25,751,756</u>
Net earnings (loss)	743,703	2,360,748	2,238,275
Repayment ability:			
Capital retain	158,112	224,640	224,640
Net earnings	743,703	2,360,748	2,238,275
Total	<u>901,815</u>	<u>2,585,388</u>	<u>2,462,915</u>
Application of funds:			
Principal	358,392	420,376	319,115
Total	<u>358,392</u>	<u>420,376</u>	<u>319,115</u>
Net increase	543,423	2,165,012	2,143,800

1/ Tabulation begins in first period of plant operation.

2/ Plant capacity, broiler, and offal sales prices and per unit retains are held constant for 1979.

3/ Refer to table 10.

Table 9--Pro forma balance sheet, Delmarva Poultry Cooperative, Inc.

Item	:	1/1/77	:	1/1/78	:	1/1/79
<u>Dollars</u>						
Current assets:						
Cash		3,619,916		1,807,699		3,036,105
Inventories						
Feed	--	--		223,558		223,558
Hatching	--	--		153,765		153,765
Plant	--	--		31,500		31,500
Live broilers	--	--		1,001,551		1,002,841
Total current assets		<u>3,619,916</u>		<u>1,410,374</u>		<u>1,411,664</u>
Fixed assets:						
Leasehold improvements	--	--		690,000		690,000
Vehicles & equipment	--	--		341,885		341,885
Less depreciation	--	--		153,537		307,074
Total fixed assets		<u>--</u>		<u>878,348</u>		<u>724,811</u>
Total assets		<u>3,619,916</u>		<u>4,096,421</u>		<u>5,172,580</u>
Current liabilities:						
Accounts payable - growers	--	--		--		--
Operating notes - payable		263,888		266,802		165,542
Vehicle notes - payable		45,584		74,077		74,077
Facility notes - payable		48,920		79,500		79,500
Total		<u>358,392</u>		<u>420,379</u>		<u>319,119</u>
Long-term liabilities:						
Operating notes - payable		1,652,143		1,385,341		1,219,799
Vehicle notes - payable		243,801		169,724		95,653
Facility notes - payable		693,580		614,080		534,587
Total		<u>2,589,524</u>		<u>2,169,145</u>		<u>1,850,039</u>
Stockholder equity:						
Capital stock		672,000		672,000		672,000
Per unit capital retains	--	--		158,112		382,752
Net earnings, undistributed	--	--		676,785		1,948,670
Total		<u>672,000</u>		<u>1,506,897</u>		<u>3,003,422</u>
Total liabilities & equity		<u>3,619,916</u>		<u>4,096,421</u>		<u>5,172,580</u>

### Loan Package

The loan needs projected in this analysis are based on the assumption that a loan will be made by a New Jersey bank participating with a Maryland bank.<sup>1/</sup> The loan needs and equity capital supplied by the members are shown in tables 10 and 11. Debt service is shown in table 12.

Table 10--Bank loan, FmHA guarantee, and member equity,  
Delmarva Poultry Cooperative, Inc.

Item	: Total cost	: Equity capital	: Bank loan (with FmHA guarantee)
		<u>Dollars</u>	
Organizational startup	120,000	--	120,000
Leasehold improvements	690,000	--	690,000
Live haul equipment	52,500	--	52,500
Labor	263,275	--	263,275
Vehicles	289,385	--	289,385
Inventories (feed, packages, vaccine)	262,734	--	262,734
Operating capital	<u>1,942,022</u>	<u>672,000</u>	<u>1,270,022</u>
Total	3,619,916	672,000	2,947,916

Table 11--Producer equity accumulation, Delmarva Poultry Cooperative, Inc.

Producer equity	: Cumulative amount of equity	: Percentage of initial project cost
	<u>Dollars</u>	<u>Percent</u>
Startup	672,000	18.6
With retain, first year	830,112	22.9
End of second year	1,054,752	29.1
End of third year	1,279,392	35.3
End of fifth year	1,728,672	47.8

<sup>1/</sup> With an FmHA guarantee.

Table 12--Debt service for Delmarva Poultry Cooperative, Inc.

Loan purpose	: Length of : loan	: Loan : amount	: Principal & interest : 1st year	: Principal & interest : 2d year
<u>Dollars</u>				
Organizational startup	10	120,000	22,800	21,720
Working capital	10	1,270,022	241,803	230,349
Improvements	10	690,000	104,907	104,907
Labor	1	263,275	286,970	--
Vehicles (new)	5	167,885	48,686	45,665
Vehicles (used)	3	121,500	51,435	47,790
Inventories	10	262,734	49,919	47,554
Live haul coops	5	<u>52,500</u>	<u>15,225</u>	<u>15,130</u>
Total		2,947,916	821,745	513,115

Table 13--Proposed straight line depreciation schedule,  
Delmarva Poultry Cooperative, Inc.

Asset	Cost	Life	Percent depreciation annually	Annual depreciation allowance
	<u>Dollars</u>	<u>Years</u>	<u>Percent</u>	<u>Dollars</u>
Land	--	--	--	--
Buildings and facility improvements	690,000	10	10	69,000
New vehicles	167,885	5	20	33,577
Used vehicles	121,500	3	33-1/3	40,460
Chicken coops	<u>52,500</u>	5	20	<u>10,500</u>
Total	1,031,885			153,537

Table 14--Summary of capital needs for first four periods  
of operation, Delmarva Poultry Cooperative, Inc.

Capital requirement	:	Dollars
Organizational startup	.	120,000
Improvements		690,000
Vehicles		289,385
Inventories		262,734
Live haul coops		52,500
Growout costs <u>1/</u>		<u>2,205,297</u>
Total		3,619,916

1/ Includes eggs, chicks, feed, labor and other expenses as detailed in table 4. This is a one-time development cost handled on a revolving basis.



### Benefits to Members

Data from the 38 members sampled for the study shows that the average grower payment just prior to joining the cooperative was \$104 per thousand birds raised. The cash flow projects an average grower payment of \$105 per 1,000. In addition, we have projected a capital retain of \$10 per 1,000 chickens sold to be used as additional debt service. This will reflect a satisfactory debt equity ratio within 5 years. It is also anticipated that a patronage dividend of about \$10 per 1,000 chickens sold could be paid at the conclusion of each year's operation. The grower contract between the cooperative and the members was prepared by the co-op's attorney.

### ORGANIZATION OF COOPERATIVE

We have included in the administrative costs of this study adequate salary payments to attract the most professional and experienced personnel for top management. The management of an integrated poultry operation requires the most efficient use of all personnel. We emphatically recommend that an extensive recruiting program be utilized in selecting the general manager. He, in turn, should have the freedom to select his staff.



Figure 2: Organizational Chart

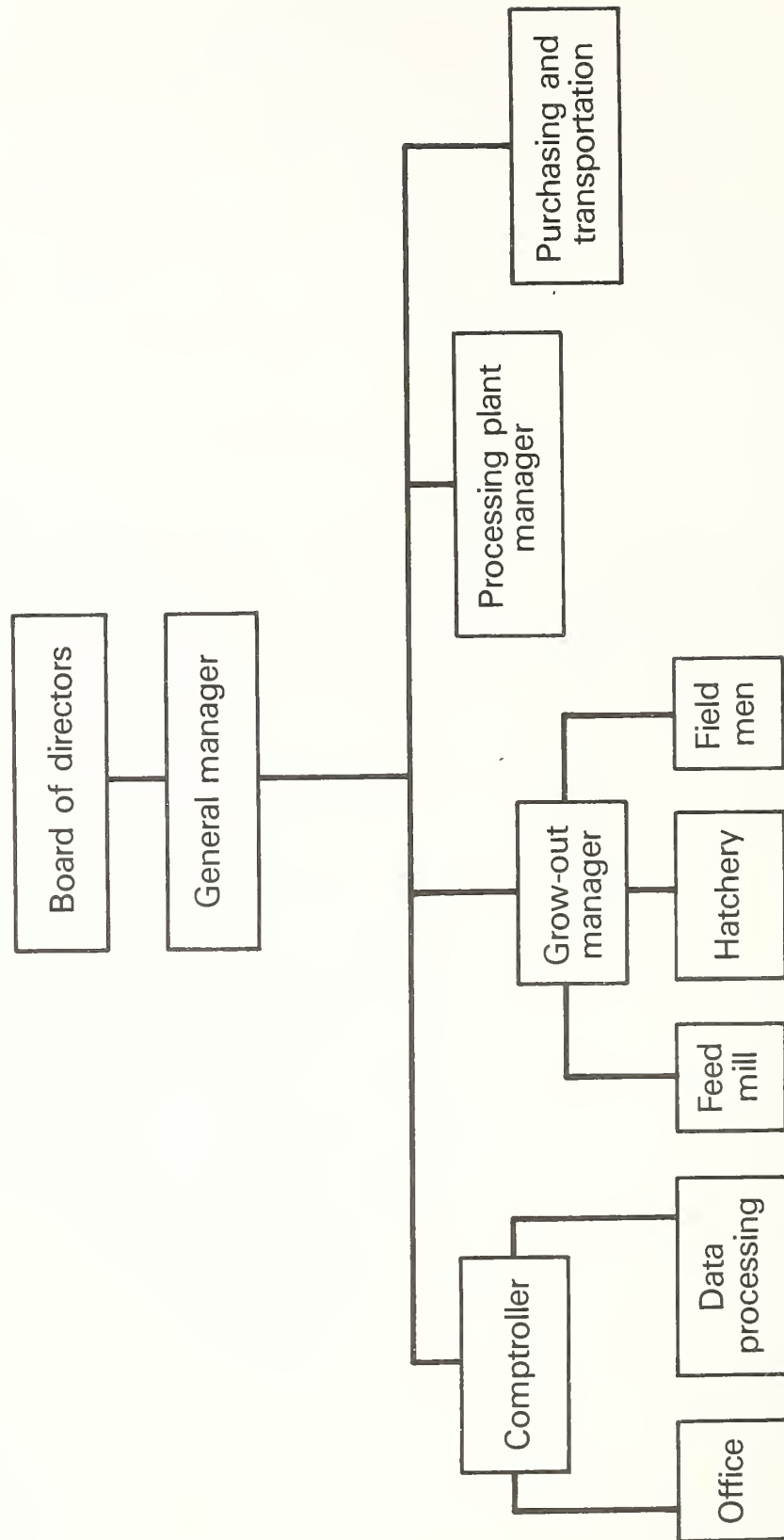


Table 15--Salaries and administration, Delmarva Poultry Cooperative, Inc.

Position	Annual salary <sup>1/</sup>
	<u>Dollars</u>
General manager	46,000
Comptroller	28,750
Grow-out manager	20,700
Processing manager	20,700
Purchasing/transportation manager	20,700
Feed manager	13,800
Hatchery manager	13,800
Secretary	8,050
Accountant and office manager	14,375
Assistant accountant	8,625
Clerks (4)	
Receptionist	6,900
Inventory control	7,176
Accounts - Receivable/payable	7,176
Flock settlements	<u>7,176</u>
Total	223,928

<sup>1/</sup> Includes 15 percent F.I.C.A. taxes and employee benefits.

Table 16--Projected personnel requirements: Hatchery, feed mill, processing plants, procurement, Delmarva Poultry Cooperative, Inc.

Position	Persons	Annual rate each	Annual cost <sup>1/</sup>	
			First year	Second year <sup>2/</sup>
	<u>Number</u>		<u>Dollars</u> -----	
Hatchery				
Laborers	9	5,911	61,180	64,239
Vaccinators	25	5,355	153,956	161,654
Feed mill:				
Flock supervisors	3	13,650	47,091	49,454
Laborers	5	6,365	36,598	38,428
Maintenance foreman	1	9,828	11,302	11,867
Maintenance helper	1	8,538	9,818	10,308
Delivery drivers	5	6,825	39,245	41,195
Seasonal labor	5	3/ 1,474	4,345	4,563
Processing plant:				
Line supervisors	2	8,000	18,400	19,320
Laborers	262	6,365	1,917,774	2,013,601
Indirect labor	--	--	456,619	478,820
Procurement:				
Drivers & catchers	30	7,800	269,100	282,555
Total	4/ 348	80,111	3,025,428	3,176,004

1/ Includes 15 percent F.I.C.A. taxes and benefits.

2/ Assumes 5 percent cost of living increase.

3/ Hired for two 4-week periods per year.

4/ Excludes indirect labor crew at plant.

## APPENDIXES

## APPENDIX A

### BROILER PRICE--FEED COST RELATIONSHIP

Estimates of the past relationship between feed cost and broiler prices are useful for projecting expenditures and receipts for a new broiler producing and marketing cooperative. The average difference in the prices of these two items is particularly important because one item requires the major outflow of funds and the other is the basis for payments to the cooperative.

Broiler prices have increased considerably in the last 3 to 4 years. Monthly broiler prices averaged 26.95 cents per pound during 1964-72 (app. table 9). From January 1973 to April 1976, the average monthly price of whole broilers was 41.84 cents per pound, 55 percent greater than in the 1964-72 period. This increase in the broiler price level was accompanied by a similar increase in the cost of broiler grower feed. In the same two periods, the cost of broiler grower feed rose from \$93.35 per ton to \$161.08 per ton, an increase of 73 percent (app. table 2). Consequently, a pound of feed has become more costly relative to a pound of meat. As might be expected there appears to be a strong association between changes in whole broiler prices and changes in the cost of grower feed (app. figs. 1 and 2).

Estimates of the relationship between the two price series vary with the time span considered and whether monthly or annual price averages are examined. About 70 percent of the variation in monthly broiler price can be explained by changes in feed cost from May 1971 to April 1976 and about 45 percent for the July 1972-April 1976 period (equations 2 and 3, app. table 3).

Almost 90 percent of the annual variation in broiler prices during 1964-75 was associated with variation in broiler grower cost. The use of annual averages eliminates small inconsistencies in monthly price movements and gives a higher correlation between the two price series (equation 5, app. table 3).

In general, these results support the view that during periods of relatively stable prices, small fluctuations in feed and broiler prices are relatively independent of each other, but during periods of major change, somewhat similar changes occur in the level of both prices.

Based on these relationships for past periods, broiler prices can be estimated for various levels of feed cost as follows:

<u>Equation</u>	<u>Broiler grower feed price</u>	<u>Estimated broiler price</u>
	<u>Dollars/ton</u>	<u>Cents/pound</u>
2	161.75	41.6860
3	161.75	41.7185
4	161.75	41.7926
5	161.75	41.5946
2	165	42.3604
3	165	42.3188
4	165	42.2213
5	165	42.2932
2	181	45.6804
3	181	45.2740
4	181	44.3317
5	181	45.6955

### Projected Prices

The price of broiler grower feed averaged \$161.75 per ton during March 1975 to June 1976. During most of this period, price has been relatively stable. It increased sharply in June to \$172 per ton and to \$181 per ton in July. The fact that prices have moved sharply upward, probably as a result of drought-reduced grain production in Europe, increases the chance that broiler feed prices will be higher for at least several months in the future. Consequently, it appeared prudent to project a price above \$161.75 per ton. Considering the difficulty of predicting future prices, \$165 a ton appeared a reasonable base price projection for the purpose of this study. The average feed price during the year may be higher or lower. If feed prices remain higher for several months, broiler prices may also increase. With feed cost averaging \$161 to \$162 per ton, broiler prices averaging 41 to 42 cents per pound would be expected, based on the average relationships discussed in the previous section. Given time for adjustment and a grower feed cost of \$165 per ton, broiler prices should be 42 to 42.5 cents per pound based on average relationships between the two prices.

### Seasonal Price Variation

Agricultural products are generally characterized by relatively predictable seasonal price changes over the period of a year. These normal seasonal changes should be taken into account in calculating the expected income and outlay for a cooperative broiler operation. The large change in the structure of broiler prices and feed costs that occurred during the past 3-4 years overwhelms and consequently masks any seasonal pattern that might otherwise be apparent in these data (app. figs. 3A & 3C).

Appendix table 1--Prices on ready-to-cook, icepacked and CO<sub>2</sub> chilled broiler-fryers in various areas in 1975

Area	Annual (unweighted) average of weekly prices <sup>1/</sup>	
	U.S. Grade A	Plant grade
	<u>Cents per. pound</u>	
Chicago	44.723	--
Cincinnati	44.647	44.673
Cleveland	44.881	44.733
Detroit	44.904	43.806
New York	45.254	44.330
Philadelphia	45.279	44.164
San Francisco	46.607	--
St. Louis	44.735	44.877
Washington-Baltimore	--	43.837
Nine-city average <sup>2/</sup>	45.074	
Alabama, f.o.b. dock	43.290	42.914
Mississippi, f.o.b. dock	43.775	41.740

<sup>1/</sup> In some cases, a weekly average price was not reported because of insufficient price data. The annual averages are based on those weeks for which a price was reported and may differ on number of weeks included.

<sup>2/</sup> The 9-city average is based on U.S. Grade A and plant grade.

Source: Agricultural Marketing Service. Poultry Market Statistics--1975 Annual Summary. Statistical Bulletin No. 550. U.S. Department of Agriculture. Washington, D. C. April 1976.



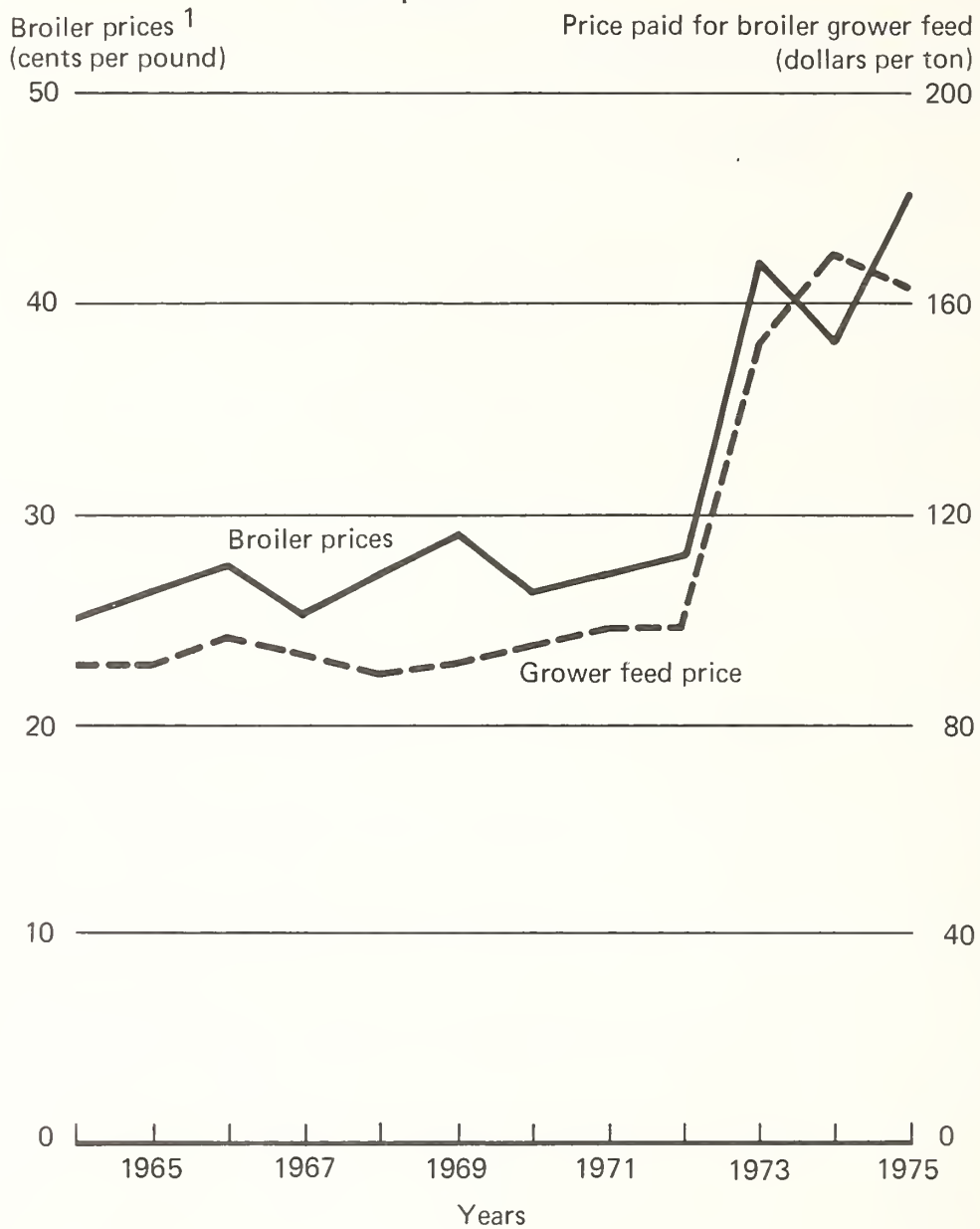
Appendix table 2--Prices paid by farmers for broiler-grower feed, mid-month average per ton, 1964-1976 <sup>1/</sup>

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
<u>Dollars</u>													
1964	92	91	92	91	91	91	90	90	91	91	91	91	91
1965	91	92	91	91	91	92	92	93	92	91	90	91	91
1966	90	93	92	92	92	92	95	97	98	97	95	96	94
1967	96	95	94	94	93	94	94	93	93	91	90	90	93
1968	90	90	90	89	89	88	89	88	88	88	89	88	89
1969	88	88	89	93	90	92	92	92	92	90	90	91	91
1970	93	94	94	93	94	93	94	95	97	98	99	99	95
1971	99	98	100	100	99	100	99	98	96	94	94	95	98
1972	96	94	95	96	96	96	96	98	98	100	102	112	98
1973	120	128	133	130	146	168	163	182	169	163	155	165	152
1974	170	169	165	156	151	151	157	180	176	185	183	160	169
1975	176	167	161	164	161	162	161	163	164	164	158	180	163
1976	158	160	160	159	161	172	181						

<sup>1/</sup> Beginning January 1969 "Complete" ration feed specified which is fed without further mixing or supplementation. No specification as to "Completeness" was made prior to January 1969 for broiler growers.



Appendix Figure 1: Annual average broiler and grower feed prices



<sup>1</sup>9-city weighted average

Appendix Figure 2: Monthly average broiler and grower feed prices



<sup>1</sup>9-city weighted average

Appendix table 3--Regression analysis of relationship between average broiler prices and average feed costs, based on monthly and annual data series <sup>1/</sup>

Equation	Type of data	Time period	Average broiler price	Constant a	Slope b	Average feed price	Student's t and significance <sup>2/</sup>	Squared correlation coefficient
1	Monthly	1/64 - 12/71	26.7985	27.9516	-.0124	92.7396	-2.060	-.0004
2	Monthly	5/71 - 4/76	37.1622	8.1229	.2075	139.9667	11.4511**	.6934
3	Monthly	7/72 - 4/76	40.1439	11.8433	.1847	153.2391	6.0120**	.4510
4	Monthly	5/73 - 4/76	42.1914	20.4578	.1319	164.7778	1.3469	.0507
5	Annual	1964 - 75	30.6683	7.2065	.2125	110.3325	9.3770**	.8979

<sup>1/</sup> The equation for the regression lines is of the form  $Y = A + BX$  where  $Y$  = 9-city average broiler price in cents per pound and  $X$  = average broiler grower feed cost in dollars per ton.

<sup>2/</sup> \*\* Indicates a significant relationship at the 1% level of probability.

An examination of prices for 1964-71 indicated less variation in both broiler and feed prices (app. figs. 3B & 3D). Consequently, this period was selected as the basis for estimating seasonal price patterns. The differences between monthly average price during this period and the overall average price for the period were used to develop the following seasonal adjustment factors.

#### Seasonal Price Adjustment Factors

<u>Month</u>	<u>Broilers</u>	<u>Broiler grower feed</u>
	<u>Cents per pound</u>	<u>Dollars per ton</u>
January	-0.187	-0.365
February	.699	-.115
March	.690	.010
April	-.113	.135
May	.560	-.365
June	1.053	.010
July	1.737	.385
August	.577	.510
September	-.054	.635
October	-1.349	-.240
November	-1.391	-.490
December	-2.229	-.115

In the data documented in this study for Delmarva Poultry Cooperative, Inc., a \$.01 change in wholesale broiler prices causes a \$49,000 change in dollar income each 4-week billing period. If market prices are consistently \$.01 lower than FCS projections for the first year of operations, accumulated cash will be reduced by \$640,120 to \$1,167,579.

Changes in feed costs will also affect the cooperative's financial condition. For example, if costs per ton are \$10 lower than our projections, the accumulated cash flow will increase by almost \$70,000 a 4-week period. In 1 year, this amounts to \$907,790.

In the long run, the success of a poultry enterprise depends on the relationship between broiler price and feed cost. A drop in the first can be balanced by a drop in the second and vice versa. As shown in appendix figure 4, all factors except feed costs and prices are held constant. The break-even point is shown as feed and broiler prices change.

### Appendix Figure 3:

Figure A: Average monthly broiler prices, 5 years, May 1971—April, 1976<sup>1</sup>

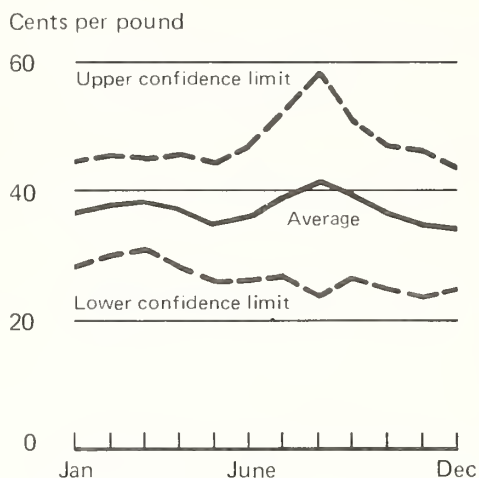


Figure B: Average monthly broiler prices, 8 years, January 1964—December, 1971<sup>1</sup>

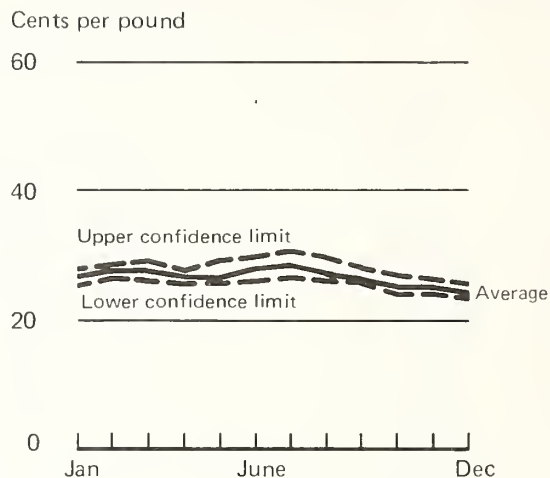


Figure C: Average monthly prices for broiler grower feed, 5 years, May 1971—April 1976<sup>1</sup>

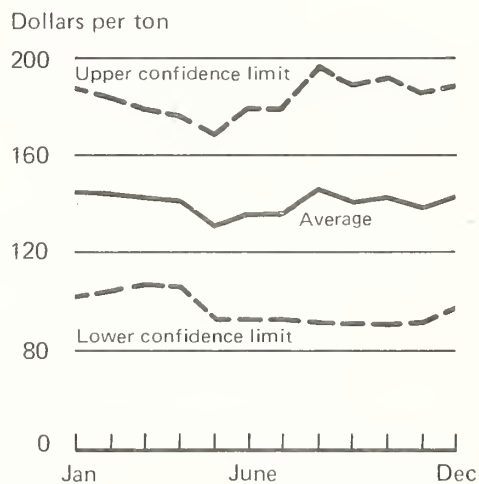
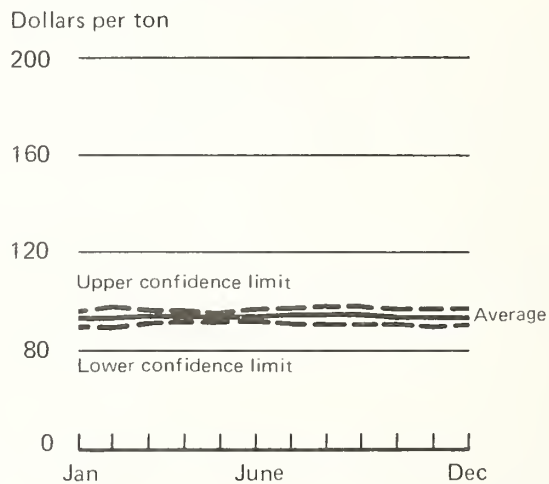
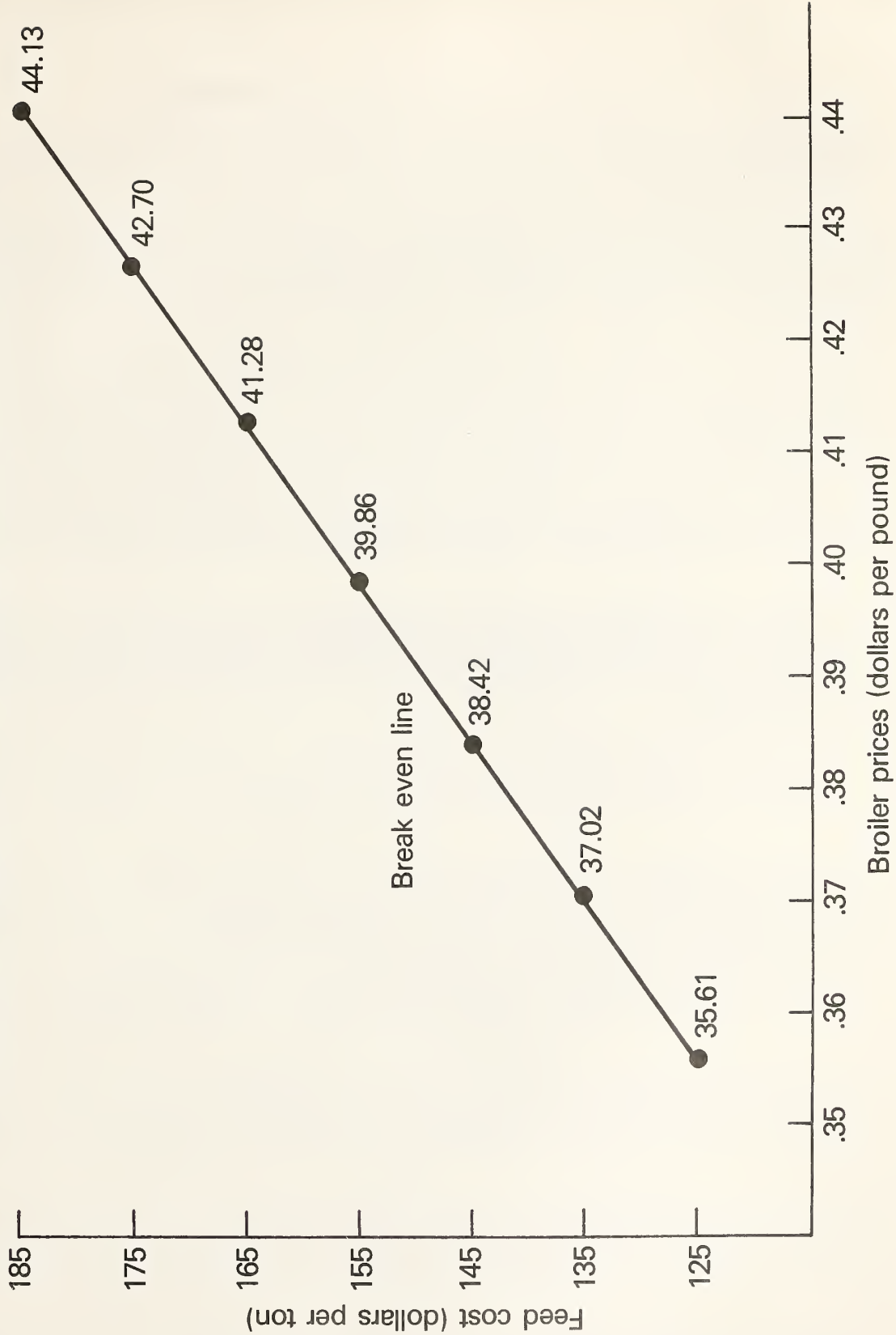


Figure D: Average monthly prices for broiler grower feed, 8 years, January 1964—December 1971<sup>1</sup>



<sup>1</sup>The confidence limits shown are an indication of the variation that existed in the prices used in calculating each of the monthly averages. The greater the fluctuation in price for a given month from one year to another during the 5 or 8 year period indicated, the more difference there is between the upper and lower confidence limits.

Appendix Figure 4: Broiler price break-even analysis



## Potential Impact of Price Relationships

A feasibility analysis involving a large cash flow operation depends on developing production efficiency for economic survival in the long run. A critical problem can arise in the short run--namely, the price relationship between selling price and purchased inputs. Broiler production is particularly sensitive because feed ingredient constitutes a major part of total production costs and feed ingredient prices have had price fluctuations in recent years.

The problem is further accentuated because broiler prices have also fluctuated. And, generally, margins have been narrow. With the fluctuating feed ingredient prices and selling prices of broilers, the potential exists for shortrun high losses or earnings. We emphasize that the potential does exist. In appendix A, we have analyzed to some degree the type of risk that may be involved. We have also made every effort to base our projected broiler selling prices and feed ingredient prices on the best estimates available since the relationship between these two price series will determine net operating results to a large degree.

In effect, our feasibility study suggests operating results based upon realistic projection of prices. Our analysis of risks suggests there must be astute financial management to prevent dissipation of the equity capital. Insofar as it is practical, the risk position must be absorbed by the members.



## APPENDIX B

### MARKETING AGREEMENT

THIS AGREEMENT, Made this \_\_\_\_\_ day of July, A.D., 1976, by and between CHAMPION CHICKEN PRODUCTS CORPORATION, a Maryland corporation, hereinafter referred to as "Champion," and DELMARVA POULTRY COOPERATIVE, INC., a cooperative organized under the laws of the State of Delaware, hereinafter referred to as "Cooperative."

WHEREAS, Champion has entered into certain contractual arrangements with the Federal Land Bank of Baltimore and several other production credit associations for the purchase of several of the operating properties formerly belonging to Maryland Chicken Processors, Inc., among which are the Feed Mill located at Laurel, Delaware, the Hatchery located at Parsonsburg, Maryland, and the Processing Plant located at Snow Hill, Maryland; and

WHEREAS, it is Champion's desire and its basic motivation for entering into this Agreement that the Mill, Hatchery and Processing Plant be operated in such a fashion that Champion be assured of a constant supply of the highest quality product at the most competitive cost; and

WHEREAS, the Cooperative is interested in securing the use of the afore-said properties in such a fashion and for a period of time as to complete its corporate structure and induce the participation of member-growers in its organization; and

WHEREAS, as of the execution of this contract, it is conceded that the Cooperative has not yet completed its organizational steps, and the commitments herein contained on behalf of both parties are understood to be expressly contingent upon the Cooperative completing its various organizational steps substantially in line with the hereinafter discussed time frame and Champion's execution of formal documentation with the banks which now hold legal title to the property;

WHEREAS, any of the contingencies hereinafter expressed relating to the organization of the Cooperative are to be judged, insofar as their progress is concerned, unilaterally by Champion, subject to the terms and conditions hereinafter set forth; and

WHEREAS, Champion's written notification to the Cooperative of its determination that satisfactory progress is not being made shall be deemed sufficient to declare this contractual arrangement null and void from that day forward; and

WHEREAS, it is agreed that in the event of said notification, Champion shall not be responsible in any way to the Cooperative for any damages accruing to said Cooperative by virtue of the cancellation of this contract.

NOW, THEREFORE, THIS AGREEMENT WITNESSETH: That in consideration of the covenants and conditions hereinafter contained, one to the other, and other valuable consideration, receipt of which is hereby acknowledged, Champion and the Cooperative do hereby agree as follows:

1. Subject to the contingencies hereinafter contained, Champion does hereby agree to lease to the Cooperative the Feed Mill located at Laurel, Delaware, for a term of seven (7) years. The total rent to be paid by the Cooperative during that 7-year period shall be FIVE HUNDRED EIGHTY-SEVEN THOUSAND DOLLARS (\$587,000.00), which said sum shall be payable in eighty-four (84) equal monthly installments due in advance. The said lease shall be a net lease in all respects, the Cooperative being responsible for all expenses related to the property from the date of the lease, including, but not limited to, taxes, insurance, payroll, maintenance, assessments, etc. Said lease shall contain an option to the Cooperative to purchase said Mill at the end of the term of said lease for the sum of ONE DOLLAR (\$1.00). The property shall be leased to the Cooperative in such state as it shall be on the date of the lease. Except in the event of insolvency, bankruptcy or liquidation all personalty and improvements added to the Mill by the Cooperative which can be removed without placing the Mill in worse condition than it is on the date of said lease, shall remain the property of the Cooperative and may be removed by them in the event of default or expiration of this lease. The Cooperative shall be expressly granted the right of prepayment, without penalty, of the aforesaid rental, in which event Champion shall execute a deed conveying good and merchantable fee simple title to said property to the Cooperative. In the event the Cooperative shall be in default in the terms of said lease, Champion shall provide written notice to the Cooperative of said default, and the Cooperative shall have ninety (90) days to cure said default after receipt of said written notice, without further penalty, except that the said time to cure said default shall be sixty (60) days for a monetary default. In the event the Cooperative shall default after said notice in the terms of said lease, all payments made to Champion shall be considered rent, and the said option shall be declared null and void.

2. Subject to the contingencies hereinafter expressed, Champion does agree to enter into a lease with the Cooperative for the Hatchery at Parsonsburg, Maryland, for a term of seven (7) years, for a total rent of SEVENTY-EIGHT THOUSAND TWO HUNDRED DOLLARS (\$78,200.00), payable in eighty-four (84) equal monthly installments in advance. Said lease shall also be a net lease as hereinabove expressed. Champion agrees to give to the Cooperative an option to purchase this property at the end of the lease term for the sum of ONE DOLLAR (\$1.00). This lease shall be subject to all of the terms and conditions of paragraph 1 in regard to personal property and improvements, prepayment and default.

3. Subject to the herinafter mentioned contingencies, Champion does agree to lease to the Cooperative the Processing Plant at Snow Hill, Maryland, for the sum of ONE DOLLAR (\$1.00) per year for a term of seven

(7) years. Said Plant shall be leased in the condition in which it is on the date of said lease. Said lease shall be a net lease in all respects as hereinabove mentioned. Any improvements required to the property shall be at the expense of the cooperative, subject to the feasibility and structural studies hereinafter set forth. This lease shall be subject to the same agreements as to personalty and default as hereinabove set forth, but there shall be no purchase option. In the event the Cooperative shall vacate the property during the term, the lease shall be declared null and void. In addition, this lease shall be subject, at the option of the Cooperative, to a 3-year term of renewal, upon the same terms and conditions as herein and hereafter set forth.

4. In consideration of the above, and simultaneously with the execution of the aforesaid leases, the Cooperative does hereby agree to enter into a sales agreement with Champion subject to the following terms and conditions:

A. For a period seven (7) years, subsequent to the execution of said lease and sales agreement, the Cooperative will sell to Champion, and Champion will purchase from the Cooperative, all of the poultry processed by the Cooperative from its Snow Hill Processing Plant, and all other poultry processed by the Cooperative from whatever location that poultry shall be processed, to and including a maximum output of four hundred eighty thousand (480,000) chickens per week, and in no event less than two hundred thousand (200,000) chickens per week, for the term of said agreement, at a price agreed upon and attached hereto as Exhibit "A" and incorporated herein by reference as if more fully set forth herein. It is agreed that the poultry furnished Champion shall conform in all respects to the quality requirements of Champion, which said requirements are attached hereto as Exhibit "B" and incorporated herein by reference as if more fully set forth herein. It is further agreed that a "U.S.D.A. inspector shall determine what chickens fall within that grade of "U.S.D.A. Grade A" and "Plant Grade A," and/or below, and his determination shall be final and binding on the parties. The Cooperative shall, at its option, determine whether it shall grade, separate and weigh separately "U.S.D.A. Grade A," "Plant Grade A" and others and avoid the further deductions specified in Item 8 of the Pro Forma, page 64, or whether it shall mix its birds together, in which event the aforesaid deduction shall be taken. In addition, it is agreed that the Cooperative can cut up its undergrades and sell at prices for parts pursuant to the nine-city average, less a \$3.20 deduction per CWT. It is further agreed that Exhibit "A" shall be adjusted at each anniversary date of the sale agreement for inflation, deflation, etc., as appropriate, as to Items A, B and C on said Pro Forma. It is further agreed that this contract assumes that the Cooperative shall grow and produce for Champion "broilers" as that term is normally used and accepted in this locale at this time, which, in essence, shall be defined to mean chickens of an average weight of 3.80 pounds, plus or minus .10 pounds, and any change in size shall result in negotiation of the price to be paid therefor. It is further agreed that the bill of the Cooperative to Champion for the



chickens produced shall be on a weekly basis, and said bill shall be paid in cash within five (5) working days after receipt of said bill. It is further agreed that, subject to the right of Champion to purchase and the obligation of the Cooperative to sell to Champion all birds produced at Snow Hill, in the event the Cooperative shall have and operate other processing plants, then the Cooperative can market and shall have the right to market all birds which it produces over four hundred eighty thousand (480,000) birds per week to whatever sources and markets it can obtain or locate.

B. It is agreed that in no event shall this Agreement or any subsequent agreement made pursuant to this Agreement be construed to create a partnership between the Cooperative and Champion, nor shall it be construed to in any way involve Champion in the management and control of the Cooperative.

C. Poultry will be furnished to Champion by the Cooperative on a schedule submitted by Champion in advance, commensurate with Champion's marketing requirements, provided, however, that Champion shall not require more than twenty-five percent (25%) of its weekly requirements on any given day, and subject further to the requirement that Champion will take from the Cooperative all chickens within twenty-four (24) hours of processing, excepting that its Monday deliveries shall consist to the necessary extent of poultry processed on Friday, which it will pick up on Monday. All chickens shall be FOB the Cooperative's dock and shall be weighed immediately after processing by the Cooperative, and that weight shall be used in determining the bills for said poultry. Champion agrees to take said poultry on the day required and to remove the same from the premises of the Cooperative as agreed and as specified herein.

5. The Cooperative will assume all costs of the aforesaid plants upon the execution of the leases. The rent for the various premises will begin on the date the Snow Hill Plant begins operation, or March 1, 1977, whichever shall first occur. The Cooperative shall have complete access to all properties upon execution of the aforesaid leases.

6. Champion's lease to the Cooperative of the Snow Hill Plant shall contain an assignment of Champion's lease agreement with the Town of Snow Hill for the waste disposal system located adjacent to the Plant. It is understood that whatever obligations are placed upon Champion therein shall become the obligations of the Cooperative from the date of said lease, subject to the right of the Cooperative to participate in all negotiations and contest, through courts, administrative bodies or other available avenues, any or all requirements which may be placed upon it or Champion. Champion is currently negotiating with the Town of Snow Hill to determine the cost of placing that facility in operation, and with the State of Maryland Worcester County, Maryland, as to the eventual schedule for the upgrading of said treatment facility, which said information shall be conveyed to the Cooperative without charge. Whatever expenses are required for the start-up of said treatment facility and its eventual regulatory compliance shall be considered capital costs

of the property and shall become the obligation of the Cooperative, subject to the provisions affecting improvements to said property expressed in paragraph 1 hereof. The parties hereto also recognize that the sewage treatment facility can limit the productivity of said Snow Hill Processing Plant, and in the event that any governmental body restricts production at that facility to under two hundred thousand (200,000) birds per week, the same shall not be a default under this Agreement.

7. The agreements or leases to be negotiated shall provide that upon condemnation by public authority of any of the aforesaid properties during the term of the leases, the Cooperative shall be entitled to reimbursement for the book value of the improvements made to the Plants, if those improvements shall be rendered useless to the operation by said condemnation provided, however, that in the event any condemning authority is willing to pay in excess of book value to the Cooperative, but not to the detriment of Champion, said excess shall remain the property of the Cooperative.

8. The obligations contained herein on behalf of Champion shall be required so long as the following enumerated conditions or schedule shall be substantially performed by the Cooperative, provided, however, that the Cooperative shall be allowed a thirty-day (30) grace period for delays beyond its control, including delays caused by any bank in not being able to extend a commitment:

August 4, 1976 - This contract between Champion and the Cooperative executed by all parties.

August 30, 1976 - Engineering studies, including structural soundness of all facilities, completed to the mutual satisfaction of both parties.

September 15, 1976 - Feasibility study completed to the satisfaction of the Cooperative, Champion and U.S.D.A.

October 1, 1976 - All leases, options, sales agreements, etc., between the Cooperative and Champion executed.

October 1, 1976 - Financing approved for Cooperative and bank loans committed.

November 15, 1976 - Subscription to capital stock completed to the satisfaction of the lender.

January 15, 1977 - Plant modernization at Snow Hill completed and U.S.D.A. approval secured.

February 15, 1977 - Start-up for Snow Hill.  
(Hatchery and Feed Mill to have been started up prior to this date.)

B. All contractual commitments shall recite and be expressly conditioned upon the Cooperative's meeting U.S.D.A. standards in all of the facilities at start-up and the maintenance of said standards during the term of any lease agreement.

C. Champion's obligation to the Cooperative shall be further contingent upon the Cooperative producing a product consistently meeting quality standards established by Champion, and it is further expressly stated that Champion's quality requirements shall be the same as those established by the U.S.D.A. Any requirements of Champion above and beyond U.S.D.A. requirements and size requirements as hereinbefore stated shall be at the additional cost of Champion at a price to be negotiated and agreed upon.

D. It is agreed by Champion and the Cooperative that financing for the Cooperative venture shall be considered adequate and reasonable if the same shall be committed at three (3) points over the prime rate or less.

9. It is agreed that in no event shall this contract be recorded among the Land Records of either Wicomico or Worcester County, Maryland, or Sussex County, Delaware. It is further agreed that in the event this contract shall be recorded, it shall not be deemed a lien upon any of the above mentioned premises and that any subsequent purchaser from Champion, its successors or assigns, shall be authorized to rely upon the representations of Champion that the contingencies contained herein have been breached and this contract declared null and void. It is further agreed, however, by the parties hereto, that to the extent possible the parties will execute such documents as are necessary and take such steps as may be necessary to assure the ability of Champion to convey the properties hereinabove mentioned to the Cooperative at the end of the 7-year lease period by fee simple, merchantable title.

10. The parties hereto agree that in the event the Cooperative shall exercise a 3-year renewal of its lease on the Snow Hill Plant, then during the last twenty (20) months of said 3-year renewal, the Cooperative may, at its option, market its poultry to others, in an increasing quantity, cumulatively, of five percent (5%) per month of its total output during the last twenty (20) months of said renewal, so that the Cooperative and Champion shall have a gradual phase-out of their relationship so that at the end of the twenty-month period one hundred percent (100%) of the Cooperative's output may be sold to others.

11. Champion and the Cooperative agree that if the Cooperative, during the terms of the agreement to be negotiated, shall sell its products in open competition with Champion, except as specifically provided in this agreement or the agreements to be negotiated, to-wit, birds produced in excess of four hundred eighty thousand (480,000) per week, or during the 3-year renewal period, that shall be deemed to be a breach of all agreements negotiated between them, but no other breach of any agreement shall be deemed to be a breach of all agreements.

12. This contract represents the entire agreement between the parties to date. No oral representations heretofore made shall be considered to alter the terms or conditions of this contract. This contract is entered into in the State of Maryland and shall be deemed to be construed under the laws of the State of Maryland. The parties hereto acknowledge, however, that there are further negotiations and agreements to be entered into and negotiated between the parties, including a lease-purchase agreement for the Laurel, Delaware, Feed Mill; a lease-purchase agreement for the Parsonsburg, Maryland, Hatchery; a lease agreement for the Snow Hill, Maryland, Processing Plant; and a buy-sell agreement for the output of the Cooperative pursuant to paragraphs 1, 2, 3 and 4 hereof.

AS WITNESS our hands and seals, the day and year first above written, at Salisbury, Wicomico County, Maryland.

ATTESTED BY:

CHAMPION CHICKEN PRODUCT CORP.

\_\_\_\_\_  
Secretary

BY \_\_\_\_\_ (SEAL)  
President

ATTESTED BY:

DELMARVA POULTRY COOPERATIVE, INC.

\_\_\_\_\_  
Secretary

By \_\_\_\_\_ (SEAL)  
President



## APPENDIX C

### BY-LAWS--DELMARVA POULTRY COOPERATIVE, INC.

#### ARTICLE I--MEMBERSHIP

All Growers, as defined in the corporation's Certificate of Incorporation, who are parties to a Broiler Producer Agreement with the corporation, shall be entitled to purchase common stock of the corporation and all such stockholders shall be deemed Members of the corporation. No Grower shall be entitled, in any one calendar year, to market through the corporation more than one thousand chickens per each share of common stock held by said Grower. There shall be no limit, other than any that may be imposed by the corporation's Certificate of Incorporation, upon the number of shares of common stock which may be issued to any one Member, except that no Member shall become the owner of more than five percent of the outstanding common stock of the corporation.

#### ARTICLE II--MEETINGS OF MEMBERS

Section 1--Annual Meeting. The annual meeting of the Members of this corporation shall be held in the City of Delmar, State of Delaware, at 7:00 o'clock, P.M., on the First Wednesday in April of each year, or on any day which the Board of Directors (hereinafter called the "Board") shall designate at least 30 days in advance of the date specified above.

Section 2--Special Meetings. Special meetings of the Members of the association may be called at any time by order of the Board, and shall be called at any time upon written request of at least Fifty-One percent (51%) of the Members; provided, however, that in no case shall the required number of signatures to such a request be less than Fifty-One percent (51%) of the total number of Members. The request shall state the time, place and object of the meeting.

Section 3--Notice of Meetings. Written or printed notice of every regular and special meeting of Members shall be prepared and mailed to the last known post office address of each Member not less than ten (10) days before such meetings. Such notice shall state the object or objects thereof and the time and place of meeting. No business shall be transacted at special meetings other than that referred to in the call.

Section 4--Voting. Each Member shall be entitled to only one vote upon each matter submitted to a vote at a meeting of the Members. All questions shall be decided by a vote of the majority of the Members voting thereon, except as otherwise provided by law. Voting by proxy or cumulative voting shall not be permitted. Absent Members may vote on any question other than the removal of directors by signed ballot transmitted to the Secretary by mail. Such ballots shall be counted

only in the meeting at the time in which such vote is taken provided that all Members have been notified in writing , pursuant to action by the Board, of the exact wording of the motion or resolution upon which such vote is taken, and a copy thereof is forwarded with and attached to the vote of the Member voting.

Section 5--Quorum. As long as the total number of Members does not exceed Three Hundred (300), ten (10) Members or ten percentum (10%) of the total number of Members, present in person, whichever shall be the larger, shall constitute a quorum. In case the total number of Members shall exceed Five Hundred (500), Fifty (50) Members or five percentum (5%) of the Members, present in person, whichever shall be the larger, shall constitute a quorum. If less than a quorum is present at any meeting, a majority of those present in person, may adjourn the meeting from time to time without further notice.

Section 6--Order of Business. The order of business at the annual meeting shall be:

1. Determination of quorum.
2. Proof of due notice of meeting.
3. Reading and disposition of minutes.
4. Annual reports of officers and committees.
5. Unfinished business.
6. New business.
7. Election of directors.
8. Adjournment.

### ARTICLE III--DIRECTORS AND OFFICERS

Section 1--Number and Qualifications of Directors. The corporation shall have a Board of Nine (9) Members. Each director shall be a Member.

Section 2--Conflict of Interest Provision. Effective April 1, 1975, no person shall be eligible for the office of director if he is in competition with or is affiliated with any enterprise that is in competition with the corporation. If a majority of the Board finds that any time following a hearing that any director is so engaged or affiliated, he shall thereupon cease to be a director.

Section 3--Election of Directors. The incorporating directors shall serve until the first annual meeting of the Members or until their successors have been elected and qualified. The incorporating directors shall divide the territory served by the corporation into three (3) districts on the basis of geographic areas in which the number of Members of the corporation is approximately the same.

Each year the Board shall establish a redistricting committee comprised of one Member, not a director, from each district. The redistricting committee shall meet at least 120 days prior to the annual meeting

and may redistrict the territory served by the corporation as may be deemed advisable. A map and description of the current districts shall be maintained in the principal office of the corporation.

The Board shall determine the time and place within each district for meetings to elect directors. Such district meetings shall be held not less than 30 days nor more than 90 days before the annual meeting. Notice of district meetings, together with a statement of the purpose, shall be mailed to each Member in the district at least ten (10) days before the meeting. Those Members present shall constitute a quorum. The chairman selected by the Members present shall certify to the Secretary of the corporation within five (5) days the selection of the director or directors from that district.

At the first annual meeting of the corporation, three (3) directors shall be elected for a term of one (1) year; three (3) directors shall be elected for a term of two (2) years; and three (3) directors shall be elected for a term of three (3) years. Thereafter, each director shall be elected for a term of three (3) years, except that an election to fill a vacancy occurring other than by reason of the normal expiration of a term shall be for the remainder of that term.

Section 4--Election of Officers. The Board shall meet within thirty (30) days after the first election and within thirty (30) days after each annual election and shall elect by ballot a President, Vice President, Secretary and Treasurer (or a Secretary-Treasurer), each of whom shall hold office until the election and qualification of his successor unless earlier removed by death, resignation, or for cause. Vacancies in such offices shall be filled by the Board through election by ballot. The President and Vice President shall be Members of the Board.

Section 5--Vacancies. Whenever a vacancy occurs in the Board, other than from the expiration of a term of office, the remaining directors shall appoint a member to fill the vacancy until the next regular meeting of the Members.

Section 6--Board Meetings. In addition to the meetings mentioned above, regular meetings of the Board shall be held monthly or at such other times and at such places as the Board may determine.

Section 7--Special Meetings. A special meeting of the Board shall be held whenever called by the President or by a majority of the Directors. Any and all business may be transacted at a special meeting. Each call for a special meeting shall be in writing, signed by the person or persons making the same, addressed and delivered to the Secretary, and shall state the time and place of such meeting. On the signing of a waiver of notice of a meeting, a meeting of the Board may be held at any time.

Section 8--Notice of Board Meetings. Oral or written notice of each meeting of the Board shall be given to each director by or under the supervision of the Secretary not less than 48 hours prior to the time of the meeting, but such notice may be waived by all the directors, and appearance at the meeting shall constitute a waiver of notice thereof.

Section 9--Compensation. The compensation, if any, of the Members of the Board and of the executive committee shall be determined by the Members of the corporation at any annual or special meeting of the association. No Member of the Board shall occupy any position in the corporation on regular salary.

Section 10--Quorum. A majority of the Board shall constitute a quorum at any meeting of the Board.

#### ARTICLE IV--DUTIES OF DIRECTORS

Section 1--General Powers. The Board shall direct the business and affairs of the corporation and shall exercise all of the powers of the corporation except such as are by law, the Certificate of Incorporation, or these bylaws conferred upon or reserved to the Members. The Board shall adopt such policies, rules and regulations not inconsistent with law, the Certificate of Incorporation, or these bylaws, as it may deem advisable.

Section 2--Employment of Manager. The Board shall have power to employ a manager, define his duties and fix his compensation.

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

Section 4--Accounting System and Audit. The Board shall have installed and maintained an adequate system of accounts and records. At least once in each year the Board shall obtain the services of a competent and disinterested public accountant, who shall audit the books and accounts of the corporation and render a report in writing thereon, which report shall be submitted to the Members of the corporation at their annual meeting. This report shall at a minimum include a statement of services rendered by the corporation, a balance sheet, an operating statement for the fiscal period under review, and the total number of stockholders.



## ARTICLE V--DUTIES OF OFFICERS AND MANAGER

Section 1--Duties of President. The President shall: (1) Preside over all meetings of the corporation and of the Board, (2) call special meetings of the Board, (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 corporation as he may be authorized or directed to sign by the Board; provided, however, that the Board may authorize any bonded person to sign any or all checks, contracts, and other instruments in writing on behalf of the corporation. The President shall perform such other duties as may be prescribed by the Board.

Section 2--Duties of Vice President. In the absence or disability of the President, the Vice President shall perform the duties of the President.

Section 3--Duties of Secretary. The Secretary shall keep a complete record of all meetings of the corporation and of the Board and shall have general charge and supervision of the records of the corporation. He shall sign all stock certificates with the President and such other papers pertaining to the corporation as he may be authorized or directed to sign by the Board. He shall serve all notices required by law and by these bylaws and shall make a full report of all matters and business pertaining to his office to the Members at the annual meeting. He shall keep complete stock ownership records. He shall make all reports required by law and shall perform such other duties as may be required of him by the corporation or the Board.

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

Section 5--Duties of Manager. The Manager shall perform such duties and shall exercise such authority as the Board may from time to time vest in him. Under the general supervision of the Board, the Manager shall have general charge of the ordinary and usual business operations of the corporation including the purchasing, marketing, and handling of all products and supplies handled by the corporation. He shall render annual and other statements in the form and in the manner prescribed by the Board. He shall employ, supervise and dismiss any and all employees of the corporation.

## ARTICLE VI--EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 1--Powers and Duties. The Board may, in its discretion, appoint from its own membership an executive committee of five (5) members, determining their tenure of office and their power and duties. The Board may allot to such executive committee all or any stated portion of the functions and powers of the Board subject to the general direction, approval, and control of the Board. Copies of the minutes of any meeting of the executive committee shall be mailed to all directors within seven (7) days following such meeting.

Section 2--Other Committees. The Board may, in its discretion, appoint such other committees as may be necessary.

## ARTICLE VII--STOCK CERTIFICATES

Section 1--Common Stock. Each certificate of common stock shall contain a provision that the corporation shall have an option to redeem the stock at par value plus declared and unpaid dividends when the owner thereof has for a period of twelve (12) months done no business with the corporation, and shall contain a further provision that no sale or transfer of stock shall be valid without the written consent of the corporation, and, if the corporation withholds its consent to such sale or transfer, then the corporation shall redeem such stock at par value plus declared and unpaid dividends.

Section 2--Preferred Stock. Each certificate of preferred stock shall show on its face the preferences, privileges, voting rights, or restrictions and qualifications of such stock as specified in the Certificate of Incorporation.

## ARTICLE VIII--STOCK AND STOCKHOLDERS; FINANCIAL OPERATIONS

Section 1--Sale, Transfer and Redemption of Common Stock. The common stock of the corporation may be issued or transferred only to Growers who are parties to a Broiler Producer Agreement with the corporation. The corporation shall consent in writing to and recognize a transfer on its books of its common stock to any Grower who is a party to such an agreement, provided that such Grower will not, after such transfer, hold more than five percent (5%) of the corporation's common stock then outstanding. In the event that the corporation is prevented by this provision from consenting to a request for a transfer of its common stock it shall, not more than thirty (30) days after a receipt of a bona fide request to consent to such transfer requested by the holder of such stock, redeem such stock by paying to the holder thereof its par value plus any declared and unpaid dividends thereon. The Board may, in its discretion, authorize the issuance of common stock to any eligible Grower for such consideration equal to or in excess of the

par value as the Board may determine, provided that no common stock shall be issued to any Grower if, after such issuance, such Grower would hold more than five percent (5%) of the corporation's common stock then outstanding.

Section 2--Reserve Funds. The Board, after making provision for the payment of dividends on the preferred stock, and before payment of dividends on the common stock or the distribution of any patronage refund shall set aside ten percent (10%) of the total net earnings of the corporation, annually, for a reserve fund, until the reserve fund equals at least thirty percent (30%) of the paid up capital stock.

In addition, the Board may, in its discretion, for any necessary purpose, set aside an additional amount out of total net earnings to be paid into the reserve fund. The reserve fund shall be available for such necessary purposes as are designated and authorized by the vote of two-thirds of the Members of the Board at a duly assembled meeting of the Board.

Section 3--Patronage Refunds. The corporation shall declare patronage dividends within 8 1/2 months following the close of each annual accounting period at least equal to the corporation's net earnings from patronage during such annual accounting period including amount set aside for the reserves described in Section 2 above, according to the volume or value of each patron's patronage. Such patronage dividends may be declared in cash or by written notice of allocation. The corporation shall, within 8 1/2 months after the close of each fiscal year, notify each patron, in the form of either a qualified or non-qualified written notice of allocation (as defined in 26 U.S.C. § 1388), of the amount in the revolving reserve fund credited to his account. The books and records of the corporation shall be set up and kept in such a manner that at the end of each fiscal year the amount credited to any patron by means of written notices of allocation is clearly reflected and credited in an appropriate record to the account of such patron.

All net earnings from non-patronage sources, received by the corporation from its operations 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 part of the amount credited to the accounts of patrons as herein provided.

Amounts paid to patrons by written notice of allocation shall be deemed to be debts of the corporation, subordinate to all other debts of the corporation at any time outstanding. Accordingly, in the event of a liquidation or dissolution of the corporation, and in accordance with the corporation's Certificate of Incorporation, the corporation, after satisfying all other creditors, shall make payments to patrons in the order of priority according to the year in which allocations were made, the first allocation being the first repaid, prior to making any payment to holders of the preferred stock or the common stock of the corporation.



No stockholder or patron shall be entitled to payment in cash of amounts represented by non-qualified written notices of allocation or by qualified notices of allocation as to which the holder's right of redemption has expired, except as provided by the Board. If, at any time, the Board shall determine that the financial condition of the corporation will not be impaired thereby, the amount credited to patrons' accounts in respect of written notices of allocation may be retired in full or in part by payments in cash to patrons to whom such notices were issued. Any such retirement shall be made in order of priority according to the year in which allocations were made, the first allocation being the first retired.

Notwithstanding any other provision of these by-laws, the Board, may, in its discretion, retire any amount represented by written notices of allocation on such terms and conditions as may be agreed upon by the parties in any instance in which the interests of the corporation and its patrons are deemed to be furthered thereby and funds are determined by the Board to be available for such purpose.

Section 3--Transfer of Written Notices of Allocation. No assignment or transfer of any amount credited to the account of a Member as represented by a written notice of allocation shall be binding on the corporation without the consent of the Board nor until it shall have been entered in the books of this corporation.

Section 4--Consent. Each person who hereafter applies for and is accepted to membership in the corporation and each Member of the corporation on the effective date of this by-law 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 January 1, 1975, which are made in qualified written notices of allocation (as defined in 26 U.S.C. § 1388), and which are received by him from the corporation, will be taken into account 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 qualified notices of allocation are received by him.

Section 5--Consent Notification to Members and Prospective Members. Written notification of the adoption of the Article, a statement of its significance and a copy of this provision shall be given separately to each Member and prospective member before he becomes a member of the corporation.

#### ARTICLE IX--FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of January of each year and shall end on the thirty-first day of December of the same year.

## ARTICLE X--MISCELLANEOUS PROVISIONS

Section 1--Waiver of Notice. Any Member or Board Member may waive in writing any notice of a meeting required to be given by these by-laws. The attendance of a Member or Board Member at any meeting shall constitute a waiver of notice of such meeting by such Member or Board Member, except in case a Member or Board Member attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

Section 2--By-Laws Typed. After adoption, these by-laws, preceded by the Articles of Incorporation, shall be typed and xeroxed and a copy thereof shall be delivered to each Member and to each person who later becomes a Member of the corporation as shown on the books of records.

Section 3--Seal. The corporate seal of this corporation shall have inscribed on it the name of the corporation, "Delmarva Poultry Cooperative, Inc.," the State of incorporation, and the year of incorporation.

## ARTICLE XI--AMENDMENTS

The by-laws may be amended at any regular meeting of the Board by a vote of the majority of the Members of the Board then in office, provided that notice of any such proposed amendment shall be given by mailing a copy of such proposed amendment to all Members, not less than ten (10) days prior to the meeting of the Board at which such proposed amendment is to be acted upon.

The above authority vested in the Board to make, alter, amend or repeal these by-laws is subject to the power of the stockholders to change or repeal such by-laws. The By-laws may be changed or repealed by a vote of a majority of Members of the corporation at any annual or special meeting of Members, provided that notice of all amendments proposed by the Members shall be mailed to all Members of the corporation not less than ten (10) days before the date of such meeting at which the proposed amendment is to be acted upon.

#### Appendix table 4--Schedule of deductions by Champion Foods Company

Prices paid to Delmarva Poultry Cooperative are based on the 9-city weighted average. From that price, the following deductions will be made:

Packaging labor	\$ .0044
Packing materials	.0165
Freight charges	<u>.0100</u>
Total	\$ .0309

The charge for packing material is covered under operating expenses at the Snow Hill processing plant. The remaining \$.0144 is shown as a deduction by Champion Foods on the cash flow analysis. It is calculated on all of the dressed weight produced.

## Appendix table 5--Producer payment schedule

### Step 1

The biweekly<sup>1/</sup> grow-out payment will be determined from the sum of money received from Champion Foods Co. less charges for Delmarva Poultry operating costs and producers' base costs applicable to the biweekly settlement period as described below:

#### Average Grower Payment Determination

From:	Funds received from Champion for marketable broilers after deducting charges for processing and shipping.
Deduct:	Charges for catch and live haul, and budgeted amounts for grow-out supervision and all Delmarva administrative and overhead costs.
Equals:	Grower payment pool.
Live weight basis:	Determine total base revenue per pound by dividing grower payment pool by total marketable broiler weight, live weight basis.
From:	Total base revenue per pound live weight basis.
Deduct:	Base cost per pound for all growers in biweekly period, live weight basis.
Equals:	Average grower payment, unadjusted for individual grower performance.

<sup>1/</sup> Or weekly.

Individual incentive adjustment and payment determinations

From: Base cost per pound for all growers in biweekly period, live weight basis.

Deduct: Individual producer's base cost per pound applicable to the biweekly period.

Equals: Positive or negative difference of producer from weighted average base cost in cents per pound.

Incentive factor: Multiply difference by 1.5, retaining minus sign when applicable.

Equals: Adjusted difference.

Add: Average grower payment to adjusted difference, considering minus sign when applicable.

Equals: Payment rate per pound of marketable weight, live weight basis, before capital retain.

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NOTE: The incentive factor is designed to reward efficient producers and discount payments to less efficient producers. By increasing this factor, the variation between grower payments widens and vice versa. In this example, 1.5 was used. This represents a 50% incentive factor applied to the difference between the grower's base cost and the average base cost of all growers in the settlement period. Had, for example, the incentive factor been 1.25 instead, a smaller difference would result in the calculations.

Appendix table 6--Projected schedule of eggs set, chicks placed and birds shackled for operational startup of Delmarva Poultry Cooperative, Inc.

Billing: period :	Week :	Eggs set in hatchery <u>1/</u> :	Broiler chicks placed <u>2/</u> :	Birds shackled <u>3/</u>
		<u>Number</u>		
1	1			
	2	221,823		
	3	221,823		
	4	221,723		
Total		665,469		
2	5	221,823	181,895	
	6	415,918	181,895	
	7	415,918	181,895	
	8	415,918	181,895	
Total		1,469,577	727,580	
3	9	415,918	341,053	
	10	554,557	341,053	
	11	554,557	341,053	
	12	554,557	341,053	
Total		2,079,490	1,364,212	
4	13	554,557	454,737	172,800
	14	554,557	454,737	172,800
	15	554,557	454,737	172,800
	16	554,557	454,737	172,800
Total		2,218,228	1,818,948	691,200
5	17	554,557	454,737	324,000
	18	554,557	454,737	324,000
	19	554,557	454,737	324,000
	20	554,557	454,737	324,000
Total		2,218,228	1,818,948	1,296,000
6	21	554,557	454,737	432,000
	22	554,557	454,737	432,000
	23	554,557	454,737	432,000
	24	554,557		
Total		2,218,228	1,818,948	1,728,000
Total 1st yr.		26,316,618	20,281,272	15,811,200
Total 2d yr.		28,836,964	23,646,324	22,464,000

1/ Startup schedule: Period 1 - 40% capacity; period 2 - 75% capacity; period 3 - 100% capacity. At plant capacity, 11,520 birds an hour are processed. Plant is operated 7 1/2 hours per day, 5 days per week, 4 weeks per period, 13 periods per year with 2 lines in use.

2/ Hatchability is calculated at 82%.

3/ Field and plant condemnation is calculated at 5%.



Appendix table 7--Estimated weekly feed consumption with gradual startup of broiler production, Delmarva Poultry Cooperative, Inc.

Periods 1 & 2 <u>1/</u>		:	Periods 3 & 4		:	Period 5	
Week	Tons	:	Week	Tons	:	Week	Tons
1	26.7		9	<u>2/</u> 997.2		17	<u>4/</u> 1,746.0
2	69.4		10	1,097.4		18	1,746.0
3	131.5		11	1,240.0		19	1,746.0
4	206.0		12	2,427.6		20	1,746.0
5	316.3		13	<u>3/</u> 1,481.8			
6	473.8		14	1,553.0			
7	675.5		15	1,650.9			
8	<u>884.8</u>		16	<u>1,746.0</u>			
Total	2,784.0			1,746.0			6.984.0

1/ Pre-Snow Hill operation.

2/ Snow Hill plant begins operating at 40%.

3/ Snow Hill plant operates at 75%.

4/ Snow Hill plant operates at 100%.



Appendix table 8--Estimated feed ingredient, manufacturing and delivery costs per ton, Salisbury, Md., as of 10/5/76

Ingredient or cost	Pounds in ton	Cost per pound		Total cost per ton
		Cents	Dollars	
Corn	1,340	5.0		67.00
Soybeans	200	10.6		21.20
Fish meal	60	17.0		10.20
Bakery byproducts	80	5.5		4.40
Gluten	100	16.3		16.30
Fat	40	15.7		6.28
Poultry blend and meal	140	12.0		16.80
Miscellaneous	40	10.0		4.00
Micro mix	--	--		4.25
Manufacturing	--	--		4.50
Delivery	--	--		3.00
Total cost per ton				157.93

Appendix table 9--Broiler prices: 9-city weighted average, Grade A icepacked, ready-to-cook broilers, monthly average per pound, 1964-76  $\frac{1}{2}$

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Average
	Cents												
1964	25.31	25.21	25.07	24.70	24.55	25.20	26.52	26.21	26.04	25.69	25.54	24.36	25.37
1965	25.74	26.65	27.26	26.53	26.73	27.58	27.20	26.71	25.84	25.34	25.93	25.84	26.44
1966	28.64	29.04	29.97	28.10	29.54	29.45	29.55	28.39	26.82	24.46	25.05	22.61	27.64
1967	25.38	27.25	26.14	25.66	25.22	25.64	27.09	24.96	24.90	23.83	22.85	22.92	25.15
1968	25.58	28.60	27.80	26.85	27.77	28.14	29.01	28.19	27.26	25.03	25.75	25.80	27.15
1969	27.25	28.41	28.90	28.34	29.82	30.71	32.49	31.07	29.40	28.48	27.41	26.47	29.06
1970	28.64	27.36	27.78	26.60	26.80	26.62	26.05	25.50	26.46	24.90	25.92	24.41	26.42
1971	26.36	27.46	26.99	26.71	28.44	29.48	30.38	27.98	27.24	25.88	24.81	24.15	27.16
1972	27.08	28.09	28.12	25.71	27.11	28.64	29.70	29.16	30.11	28.20	27.62	28.17	28.14
1973	32.78	37.28	41.13	43.58	41.57	41.69	49.05	60.30	48.36	40.01	34.45	36.12	42.17
1974	39.69	39.41	38.76	36.30	35.64	34.05	36.41	36.84	39.89	39.32	41.94	40.71	38.25
1975	41.64	41.37	40.72	40.06	42.88	48.05	51.20	49.96	49.66	47.73	45.82	41.79	45.07
1976	41.89	42.68	41.93	41.00									

1/ The 9 cities are Chicago, Cleveland, Detroit, Los Angeles, New York, Philadelphia, Pittsburgh, St. Louis, and San Francisco.

2/ The 9-city average price is computed by weighting by loads the U.S. grade and plant grade sales for each of the 9 cities indicated and weighting the city averages by their metropolitan area population.

## APPENDIX D

### PRODUCER SURVEY FORM--DELMARVA POULTRY COOPERATIVE, INC.,

1. Name of producer \_\_\_\_\_
2. Post office address \_\_\_\_\_
3. My farm is located \_\_\_\_\_ miles \_\_\_\_\_ of \_\_\_\_\_
4. Capacity of poultry houses (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 1975 \_\_\_\_\_ ,  
1976 (through 6/30) \_\_\_\_\_
10. Estimated net poultry income after all direct expenses were deducted  
(electric, gas, water, heat, fuel, litter, hired labor, etc.) in  
1975 \_\_\_\_\_ , 1976 (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 E



9875 W. GRAND LEDGE HWY. • SUNFIELD, MICHIGAN 48890  
(517) 566-8041

Sept. 3, 1976

Delmarva Poultry Co Op Inc.  
Box 2  
Delmar, Del. 19940

Att: Lester Richardson

Gentlemen:

I want to take this opportunity to thank you for inviting us to advise you in the renovation of the Feed Plant at Laurel, Delaware.

I am familiar with the plant and I will outline for you various ways the plant can be put back into service.

### Plan One:

The plant is capable of manufacturing feed in its present state with only minor maintenance and repairs. The electrical system will have to be checked and then the mechanical systems will have to be checked and put into working order. Bins will need to be checked and cleaned. Pits will need to be cleaned and drained if there is water in them. The estimated cost to accomplish this is \$25,000.00

### Plan Two:

The areas where the most efficiency and maintenance reduction can be accomplished are as follows:

1. Remove the conveyors in the headhouse area (bin tops) and install a dust collecting turnhead and gravity spouting. This would save repairing the existing conveyors. The estimated cost to make this change would be \$100,000.00 to \$125,000.00
2. Remove the existing air controlled slide gates on the ingredient bins. Modify the bin bottoms and install feeder conveyors discharging into the weigh hopper. Modify the existing scale hopper to provide quick discharge. Install a computer batching system with micro ingredient scaling system. The estimated cost would be \$175,000.00 to \$225,000.00

FEED MANUFACTURING FACILITIES • STEEL FABRICATION • GRAIN RECEIVING & STORAGE • ENGINEERING SERVICES

Page 2

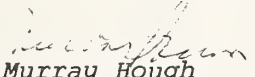
The inherent advantage of remodeling the distribution and batching system is that the plant is out of operation and is less costly at that time.

We are very interested in working with you on your requirements for putting the plant into operation. As I told you at our recent meeting at Salisbury, we are equipped and capable of providing complete service from Engineering through start up.

Thanking you again, we remain

Sincerely,

Hough Bros. Inc.

  
Murray Hough  
President

MH:vh



## APPENDIX F

### BROILER PRODUCER AGREEMENT

This Agreement between \_\_\_\_\_ hereinafter called Association and the undersigned PRODUCER hereinafter called PRODUCER.

#### WITNESSETH:

1. The Association hereby sells, extending credit therefor, and the PRODUCER hereby purchases, baby chicks to be raised by the PRODUCER, as hereinafter set forth.

The farm (or farms) on which PRODUCER's commercial operation is carried on is located and has a total capacity as follows:

Number and Size of House  
Location, road number, etc.

2. The ASSOCIATION also agrees to sell to PRODUCER, extending credit therefor, and PRODUCER agrees to buy from the ASSOCIATION, at ASSOCIATION'S cost, all feed, medication, and supplies necessary to raise said chicks to marketable broiler size.
3. PRODUCER grants unto the ASSOCIATION a purchase money security interest in all chicks, feed, medication, and supplies furnished hereunder, and the PRODUCER agrees to execute an appropriate financing statement upon request of the ASSOCIATION and in a form satisfactory to it.
4. ASSOCIATION is given full authority to determine when chicks are sufficiently grown to be marketable and PRODUCER authorizes ASSOCIATION as his agent to determine to whom they shall be sold, to contract for their sale, and to receive and account for the proceeds therefrom.
5. The proceeds from the sale of said chicks shall be applied so the PRODUCER will receive payment based on the following:
  - A. ASSOCIATION agrees to pay or account to PRODUCER for marketable broilers weighed at poultry processing plant based on the following procedure.
    1. Total base cost shall include delivered feed cost, chick cost (total chicks placed at uniform price), and medication expense actually incurred. (Base cost per pound is determined by dividing total cost of the flock by the total marketable weight.)

2. PRODUCER payments shall be computed on the flock's base cost per pound. The PRODUCER'S base cost shall be compared to the weighted average base cost of all flocks moved during the twice monthly settlement period. The first settlement period each month shall commence on the first day of the month and run through the fifteenth day of the month. The second settlement period of each month shall commence on the sixteenth day of the month and run through the last day of the month.
  - (a) Weighted average base cost will be established for the settlement period. PRODUCER'S base cost will be compared to the weighted average base cost determined by settlement period.
  - (b) "A very high cost flock" is defined as one whose base cost exceeds the weighted average base cost of the settlement period average by 1.5 cents per pound or more, and will be excluded in computing the weighted average base cost.
- B. The rate per pound for calculating PRODUCER'S payment will be determined in accordance with the Payment Table attached which is made a part of this Agreement.
- C. The Association will compensate the PRODUCER by an amount equal to \$7.00 per 1,000 broilers per settlement period in the event of a disaster involving 100 percent of the flock due to: acts of God, including but not limited to fire, windstorm, flood, hail; disposal of flock to meet requirements of USDA Inspection Service due to contamination by chemicals, insecticides, herbicides, medications and vaccines if such applications are approved by the ASSOCIATION; disposal of the flock due to disease or diseases prior to marketing; (in the event that less than 100 percent of the flock is considered a disaster because of any of the above, payment to the PRODUCER will be based on the percentage of the flock involved in the disaster with the remaining portion of the flock settled on the regular payment schedule). In the event of a "disaster," as described in this paragraph 5(C), the PRODUCER shall be relieved and discharged of any and all debts which are attributable to those broilers for which a "disaster" payment is allowed pursuant to this paragraph, and which are owed to the ASSOCIATION in accordance with paragraphs 1, 2, and 5(A) of this Agreement.
- D. Payment to the PRODUCER will be mailed to him no later than five (5) working days after the close of the settlement period, provided the PRODUCER has furnished the information necessary to complete the settlement. Any national or state holiday occurring in this time period will extend the period accordingly.

6. Should PRODUCER sell or dispose of any or all of the broilers produced under this Agreement without the consent or approval of the ASSOCIATION, the PRODUCER shall remain fully liable for the cost of all baby chicks, feed, medication, and supplies furnished under this Agreement, plus two cents (2¢) per pound sold in violation of this Agreement, as agreed liquidated damages.
7. PRODUCER shall furnish land, suitable all weather, rights of ways, buildings, equipment, fuel, litter, electricity, water, and labor necessary to raise chicks to marketable size and shall keep chicks separate and apart from all other poultry as directed by the ASSOCIATION.
8. The PRODUCER agrees to use feed, medication, and supplies sold hereunder solely to raise chicks and for no other purpose and to use only those medical and sanitation supplies recommended by the ASSOCIATION. The PRODUCER further agrees to devote his best care and attention to properly raise chicks and to follow the ASSOCIATION'S approved practices in doing so.
9. PRODUCER agrees not to use any drugs or sprays in or around the broiler house that may be harmful to the broilers during growing or cause, or contribute to causing, the broilers to be condemned because of an illegal amount of residue, unless such applications are approved by the ASSOCIATION.
10. The PRODUCER agrees that if he (a) abandons the flock or (b) fails to properly care for the grow-out of a flock after reasonable notice thereof from the ASSOCIATION (ASSOCIATION shall have the sole right to determine if the flock is being properly cared for and grown out), or (c) fails to properly perform under the terms of this Agreement after reasonable notice from the ASSOCIATION of his failure to do so, the ASSOCIATION shall have the right to enter upon the premises of the PRODUCER without legal process and either (1) remove the flock, feed, supplies and medications delivered hereunder or (2) service the flock on the PRODUCER'S premises, all without being guilty of trespass, forcible entry or detainer or other tort, in which latter case the actual expenses of labor, utilities and other costs shall be charged to the PRODUCER'S account with the ASSOCIATION.
11. The ASSOCIATION agrees to place broiler chicks at the assessed number agreed upon, or in numbers as closely approximating that number, as chicks available and conditions in the market dictate.
12. The ASSOCIATION agrees that in the event the hatch or market conditions make full placement not feasible, the "grow-out interval" will be extended rather than placement numbers cut whenever possible. Adjustments in placement may be made on a seasonable basis or as scientific management practices indicate.

13. In the event that a PRODUCER wishes to change the assessed placement value for any poultry house currently in production, he can submit a request in writing for that expansion or contraction for any production unit. The Board of Directors will evaluate the request based upon production record, house dimension and equipment. The Board of Directors will then reply in writing to all such requests for changes in assessed compactiy individually by production unit.
14. The PRODUCER hereby agrees and allows the ASSOCIATION to reduce his settlement payment, as computed in accordance with Paragraph 5, hereinabove, by the amount of \$10.00 per one thousand (1,000) broilers marketed during the settlement period, and the same shall constitute "per unit capital retains" evidenced by "per unit retain certificates" issued to the PRODUCER within 8½ months following the close of the ASSOCIATION'S fiscal year. Furthermore, the PRODUCER hereby agrees to include in his gross income the face amount of any "per unit retain certificates" issued by the ASSOCIATION to him on and after the            day of            1976.

READ, CONSIDERED AND SIGNED AT \_\_\_\_\_,

THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 197 \_\_\_\_.

PRODUCER'S SOCIAL SECURITY NO. \_\_\_\_\_

PRODUCER'S SIGNATURE

\_\_\_\_\_  
(Print Producer's Name Here)

ADDRESS \_\_\_\_\_

COUNTY \_\_\_\_\_ STATE \_\_\_\_\_

ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 19 \_\_\_\_.





**FARMER COOPERATIVE SERVICE**  
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service 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.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.