

ARKANSAS COTTON GROWER'S ORGANIZATION, INC.

Minutes of the April 26, 2004
Board Meeting

Arkansas State Plant Board
Little Rock, AR

Members present were Chairman Ritter Arnold, Jack Carey, Laudies Brantley, Mark Bryles, Hal Hyneman, Darryl Little, Trent Felton and Charles Tilmon, Jr.

Cal McCastlain, legal counsel for ABWEF; *Danny Kiser*, *Michael Catanach*, *Lane Garner* and *Lora Harvey*, ABWEF; *Mark Stoll*, ASPB; *Cecil Williams, Jr.*, Cotton Producers of Missouri; *Mary Wagoner*, ABWEF; *Gerald Fullbright*, ASPB; *Terry Walker*, ASPB; *Randy Veach*, ASPB; *Allen Dobson*, Cross, Gunter, Witherspoon & Galchus; *Bill Robertson and Gus Lorenz*, University of Arkansas Extension Service; *Ken Pierce*, USDA/APHIS; *Claudette Harrod*, Arkansas Ag Aviation Association; *Timothy Johnson*, Plato Industries; *Carol Griffie*, Jonesboro Sun; *Richard Bransford*, Lonoke County Producers Gin; *Arnold Jochums*, Arkansas Attorney General; and *Don Alexander*, Arkansas Agricultural Council were also present.

Chairman Arnold called the meeting to order at 10:07 a.m. Jack Carey led the group in prayer. Introductions followed.

Approval of February 13, 2004 meeting minutes.

Mark Bryles moved to approve the minutes as presented. Trent Felton seconded and the motion carried.

Boll Weevil Action Committee

Jack Carey reported that the Boll Weevil Action Committee of the National Cotton Council met by conference call last week to discuss the allocation of FSA loan monies. When the committee first received each state's loan request and evaluated the total amount requested, there was a balance available of unallocated funds from which we had hoped to borrow at 4% to pay off some of our 6.75% and 6.5% loans. However, Tennessee recently passed a new referendum consolidating all of their districts into one (1), predicated on refinancing all of their existing debt at 4%. This absorbed \$27 million of the available loan funds off the top. There was also a large request from Texas, which included funds for refinancing and for the addition of new eradication areas. The total requested from all states equaled \$104 million, but only \$100 million was available. Everyone received a 4% pro-rata reduction which should not affect Arkansas if everything goes as planned. Arkansas will draw any available 4% 2004 loan monies left over after the allocation process to pay on outstanding FSA loans; next year, Arkansas will have priority at borrowing lower-interest monies to refinance higher-interest loans.

Legal Matters

Cal McCastlain reported on the status of the lawsuit involving the NE Delta. The Court issued its decision on April 7, 2004, and ruled in favor of the Plant Board on all counts. The plaintiffs have since filed a motion requesting the court to maintain control of the 2003 assessments collected in NE Delta until the matter is resolved on appeal. Mr. McCastlain stated that the Foundation should expect the plaintiffs to file a similar motion to keep 2004 assessments under court control until the matter is resolved. This led to considerable discussion about how a delay in collecting the assessments will impact cash flow for 2004 and 2005 and whether or not the Foundation could provide any assurances to the Plant Board that would affect their response to the Plaintiff's motion to hold the funds. Mr. Jochums of the Attorney General's office stated that given the nature of the case, unless other financial arrangements are made, the Plant Board is on notice it must hold or have arrangements to repay the funds in issue in the event it loses on appeal. Mr. McCastlain reported that he discussed this situation with FSA's lending representative, Richard Sharp. Mr. Sharp indicated that FSA would be very flexible in working with the Foundation if its cash flow is short as result of the frozen assessments. The Board directed Danny Kiser to contact Mr. Sharp and make preliminary contingency plans if the funds are not available in a timely manner.

Program Update.

Danny Kiser advised that supervisory and fulltime staff training has been completed for 2004. We are currently hiring and training seasonal employees. Planting for 2004 is underway. The SW Zone has approximately 50% of the cotton acreage planted. Growers have planted over 15% of the acres in the SE Zone and should have as much as 40-50 % planted by Monday. The Central Zone has planted less than 10% because of rain. The Ridge Zone is between 5% and 10% planted and the Delta has planted less than 5% up to this point.

The 2004 cooperative agreement has been completed and we have received \$5,475,000 as the second payment. This brings us to a total \$9,109,790 in APHIS grant monies for 2004.

All trapping supplies for 2004 are on hand. We have adequate supplies of 10mg granular dispensers on hand for 2004 and for 2005. During the fall of 2004 we will let bids to cover our 2006 needs.

All trucks, mules and trailers necessary to carry out the program for 2004 have been delivered and paid for.

We have only a single source for Malathion ULV in 2004 and the price has been raised from \$15.50 per gallon in 2003 to \$19.50 per gallon. The current 2004 budget reflects the higher price of 19.50 per gallon.

Danny Kiser reported that there will be a \$7-\$7 ½ million shortage in operating funds if we do not receive the 2003 and 2004 NE Delta assessments. Jack Carey has requested the National

Cotton Council hold \$12 million in FSA loan funds for Arkansas to cover long term needs created by not receiving the NE Delta assessments and to provide for any short term cash flow requirements during the 2004 season. FSA has set aside \$11,520,000 in loans for 2004 use in Arkansas. These monies will cover our 2004 Delta shortfall plus any short-term cash flow requirements. We do not receive money from the SEBWE Foundation until November, which creates a term short-term cash need in September and October. The loan monies that are available will provide for our short term cash flow requirement from August until we receive money from fall assessments and the SEBWE Foundation contributions at the end of the year.

Jack Carey stated that the 2005 money should be ready in October, but it may not be available until April or May.

Mr. Kiser also states that, as of now we have only made arrangements for money to cover the 2004 needs. No arrangements have been made for 2005, if we do not get funds from the Delta.

Laudis Brantley stated this Board's intention of putting the \$2.8 million contribution into the NE Delta could change if the program is not continued as anticipated. The original motion was based on an on-going program in the NE Delta--- in the absence of the program, the Foundation would redirect that money to the other Zones. The Board's commitment to subsidize the NE Delta Program was a last-ditch effort to encourage the start-up of the eradication effort in that Zone.

Cal McCastlain stated the Plant Board's proposed rules for the 2004 NE Delta Program are predicated on the Foundation's \$2.8 million subsidy offer. If that money is withdrawn, it would represent a material change to the NE Delta operational budget and would necessitate a change in the NE Delta assessments for this year. The Foundation's subsidy was to continue for two years.

Trent Felton requested a copy of the minutes with the exact wording used by Laudies Brantley regarding the money given to the NE Delta. The minutes will be given to the Board Members.

Financial Report.

The financial reports for the one-month ending March 31, 2004 was not available. The new

Chief Financial Officer, Lane Garner, is currently working on financials and those reports will be provided upon completion.

Lane Garner provided everyone with four (4) pages of financials that demonstrate the best to the worst scenarios when considering assessment collection from the NE Delta. Page one (1) assumes that assessments from the Delta come in this year. Page two (2) assumes that we get the 2004 assessments but the 2003 assessments are held up until the next period. Page three (3) assumes that 2003 and 2004 are held up until 2005. Page four (4) assumes that the 2003, 2004 and 2005 assessments are held up until 2006. Mr. Garner also stated that our cash flow, which brings you to an operating surplus or deficit, shows our available cash on hand and that is what is available to repay loans. Our proposed principal payment is what is currently due each October 1st for the next five (5) years without altering or renegotiating the schedule. If we do not receive the 2003 and 2004 money from the Delta this year, right now we are projecting a deficit of about \$1 ½ million from operations. We have a little over \$4 million cash on hand. We are going to have about \$2 ½ million available for potential principal repayment.

USDA UPDATE

Ken Pierce reported that the coordination of movement of cotton equipment into eradicated areas is in place. They are currently monitoring highways. Oklahoma has not planted yet but are expecting to plant up to 1,000 acres. Louisiana has not caught anything as of the last of March. We are coordinating a study with Plato.

TAC UPDATE

Gus Lorenz provided everyone with the approved 2004 Trapping Protocols. He also stated that areas have from low to very low numbers of boll weevils.

New Business.

There will be a public hearing in Burdette on May 18th, 2004 at 3:00 p.m. to gather comments. The Plant Board can take action on the 18th or at a later date.

There is also a public hearing on Boll Weevil quarantine on June 23rd, 2004.

Set next meeting date.

The next meeting date was set for Tuesday, May 25th, 2004 at 10:00 a.m.

Other Business.

Hal Hyneman moved that all board members needs to submit a letter on comments on the proposed regulation. Laudis Brantley seconded and the motion carried.

The meeting adjourned to executive session at 11:28 a.m. The meeting reconvened at 11:50 a.m.

With no further business the meeting adjourned at 12:39 p.m.

RITTER ARNOLD, Chairman