Today we’ll discuss the life cycle of Gold Kist

- I served as Chairman of Gold Kist and was on the Board for 19 years

Topics of Discussion

- Gold Kist History
- Transition to a “chicken company”
- Governance issues of an homogenous board
- Conversion to a public company
- Attack and ultimate takeover

Gold Kist Rises from the Great Depression

- The Georgia Cotton Marketing Association, later to be known as Gold Kist was formed in 1933 by D.W. Brooks
- Formed to serve Georgia farmers’ input and marketing needs

Gold Kist: An Agent of Change

- GK grew and expanded its scope to become a $2 billion dollar per year company
- Began processing and marketing peanuts, pecans, pork and poultry
- Became a major player in U.S. Agribusiness
  - Largest poultry company
  - Largest peanut company
  - Largest pecan company
  - Over 100 farm supply stores

The Poultry Industry’s Growth Explodes

- Eventually, with the growth of the poultry industry, poultry became the mainstay
- Had 11 poultry complexes in Georgia, Alabama, North Carolina, South Carolina, Florida, and for a short time, Arkansas
Capital is in Short Supply

- Gold Kist had trouble keeping up under the capital constraints of the cooperative model
- Golden Poultry, eventually a publicly traded subsidiary, was formed in 1984
- Members saw Golden as a threat
- GK eventually bought back shares

Poultry Industry Matures— Goes Global

- Growth goes from an annual increase of 5-6% to 1-2% or flat
- South America and Mexico become players

Chicken Becomes King

<table>
<thead>
<tr>
<th>Year</th>
<th>Pork</th>
<th>Beef</th>
<th>Poultry</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>50</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td>2005</td>
<td>80</td>
<td>90</td>
<td>110</td>
</tr>
</tbody>
</table>

Annual Per Capita Retail Meat Consumption

Source: USDA & LMIC, 2006 & 2007 Forecast

Brazil: A Major Competitor

- 300% Growth in 6 years
- Market access (135 Markets)
- More export players
- Value driven Export strategy
  - Product diversification
  - Branding
  - Quality

Gold Kist Must Make Changes

- Divested peanut, pecan, retail and seed operation
- Concentrated efforts on meat protein—primarily poultry
- Leading the way to a cooperative with only poultry members and poultry directors

Success Breeds Discontent

- Financial success created huge amount notified equity—$360 million
- Traditional 20 year revolving
- "Big" years on the horizon
- Death benefit
- Members want the cash at the same time cooperative is losing market share
Natives Get Restless

- "It's our company, why do employees get health insurance and we don't?"
- "Why do we have to pay Management these big salaries and bonuses?"
- "We need to elect directors who will run the company and get rid of all these high-priced officers"

CEO, Bekkers Faces Challenges

November 2001

- "Would .... advantages of cooperative structure offset lack of access to public funds?"
- "How could he (Bekkers) deal with governance problems he foresaw?"

Bankrupt? Bankers Upset!

- Two directors suggest we take GK bankrupt in order to equalize members' ownership
- Bankers told: "We don't need you"
- Bankers are uneasy and express their feelings in board meeting and again at Annual Membership Meeting
- Banker: "You don't own GK, we do!"

Letter to Members—October 2002

"I have concern as to whether or not Gold Kist, as a cooperative, will have access to the capital necessary to continue to meet the demands of our customers. Over the past few years it has become evident that as cooperatives mature to the point that they are very much like their non-cooperative competitors, the advantages of being a cooperative is many times outweighed by the disadvantages of this type of business structure. The fact that many large cooperatives are now struggling financially is evidence of this. How to address this issue will pose a tremendous challenge for Gold Kist and other large cooperatives in the future."

Letter from defeated Chairman Smalley to members

Changes Are On The Way

- Georgia Governor vetoes bill to allow independent directors
- 2001—One dissident director elected
- 2002—Three incumbents defeated included Chairman and Vice-Chair
- 2003—One more dissident director elected, which would have triggered change in control

Bold Move

- Prior to the 5th new director being seated, board increased board from 9 to 11
- Appointed defeated Chairman and another defeated director to newly created seats
- This averted triggering costly change in control agreements (over $17 million, and would give management incentive to walk away)
- Banker is more at ease, but .........
**All Hell Breaks Loose!**

- Minority directors show up to board meeting with team of lawyers
- Petitions circulated to membership calling for removal of appointed directors
- Consultant specializing in conflict resolution in the board room is retained
- We learn to play in the same room, not necessarily together!

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**Gold Kist is For Sale!**

- **Perfect Storm**—over supply, Russian embargo, high grain prices
- **Summer 2003**—Board decides to explore strategic alternatives
  - Rabobank hired to evaluate sale process
- **By Winter 2003**—No adequate offers
- **January 2004**—Sales process ceased, board explores ways to recapitalize and address debt

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**Officers Hit the Road**

**March 2004**

- Fundamentals improve
- CEO and CFO road-show to seek capital
- Priced $200 mm of 10.25% notes due 2014 and restructured other indebtedness
- Wall Street did not understand cooperative structure and kept asking why we weren’t organized as a public company

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**And along came Bo…….**

**May-July 2004**

- Board has more meetings, facilitated by conflict resolution consultant
- Board votes unanimously to convert to for-profit company and IPO structure
- Merrill Lynch hired to advise
- Board rejects 3 unsolicited offers to purchase from Bo Pilgrim of Pilgrim’s Pride

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**Now to the Membership**

**July-August**

- Board, officers, Merrill and outside legal counsel host series of membership meetings
- Goal: To convince members of need to convert from cooperative to publicly traded, for-profit firm
- Ballot and prospectus sent to membership

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**What This Means to Members and to GK**

- Pay cash to members (get to choose how much cash/how much stock)
- Issue members shares in the “new” Gold Kist
- Pay down part of the debt
- Address other corporate needs (such as expanding further processing, new equipment and facilities)
Promise To Members

- 100% of their notified equity at time of conversion
- At least $60 million premium above members’ equity
- (Ended up being $66 million additional at closing price of $11/share)
- Current members would hold 74% of shares
- Something in it for everyone

We expect the value of Gold Kist as a for-profit company to exceed the value of notified equity.

This additional value will create a Premium, which as directed by the Gold Kist Bylaws will be distributed to current members in addition to Notified Equity.

The value of this premium will depend on a number of factors.

The allocation of value in the New Gold Kist will be based on:

- Your Notified Equity Position up to the date of conversion
- Your business with Gold Kist during last 5 fiscal years
- The market value of the company

The proposal allows Gold Kist to:

- Be a financially stronger and more flexible company
- Create liquidity for equity holders

August 2004

You will receive a packet containing:

- Disclosure statement-prospectus
- A statement of notified equity including notified equity allocated for fiscal 2004
- Your 2004 patronage refund
- A ballot
- A form on which you may elect to receive some portion in cash

Broiler Producer

Company-wide Production and Grower Pay Averages

<table>
<thead>
<tr>
<th>Typical 5-year Annual Grower Pay</th>
<th>Member Premium estimated at $60 million (Low Range)</th>
<th>Member Premium estimated at $240 million (High Range)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$120,000</td>
<td>$30,450</td>
<td>$125,800</td>
</tr>
</tbody>
</table>

* Based on a grower producing 2,400,000 lbs. annually at a grower pay rate of 5 cents per pound
Your New Gold Kist Packet

- Patron Equity Report
- Ballot
- Gold Return Envelope
- Instruction Letter
- Prospectus
- Redemption Request Form
- Taxpayer Identification Form
- White Return Envelope

October 2007

Your Equity through Fiscal Year 2004

- Estimated Additional Distribution
- Total Estimated Proceeds

Patron Equity Report

Members Approve!—Bo’s Back

September 2004
- Membership endorses conversion with a 96% favorable vote
- Board launches IPO
- Board rejects a $14/share unsolicited offer from Pilgrim’s

Majority Independent Board

- Board now consists of 9 directors
  - CEO—John Bekkers
  - 3 Farmer Directors from “old” board
  - 5 independent directors, including independent Chairman
    - Chairman-A. D. Frazier, CEO Dank
    - Ray Goldberg-Moffet Professor of Agribusiness, Harvard Business School
    - Wayne Woody-Formerly with KPMG
    - John Johnson-CEO of GHS cooperative
    - Randy Devening-Former CEO Foodbrands America

GKIS Listed on the Big Board!

October 2004
- IPO prices at $11/share and Gold Kist is now listed as GKIS on Nasdaq
- 100 members are instant millionaires!

November 2004—February 2006
- Trades up and down with a high of $24 prior to member lock-up ending

Guess Who’s Back!

February—Early August 2006
- Pilgrim’s privately submits 3 more unsolicited offers to the board
- All are evaluated and rejected as inadequate
**Bo Goes Public**

**August 2006**
- PPC publicly announces $20.00 per share offer and submits shareholder proposals to expand board, thus gaining control
- GK Board appoints independent committee to have discussions with Pilgrim’s Pride

**September 2006**
- PPC commences a tender offer for GKIS at $20.00 per share—the 9th if you are keeping score

**October 2006**
- GKIS rejects PPC offer and files a lawsuit to enjoin PPC from adding its own officers to the GKIS Board

**Bo’s In Charge!**

**November 2006**
- Pilgrim’s announce that 67% of GKIS shares have been tendered
- Meetings held between GKIS and PPC parties

**Final Days**

**December 2006**
- GKIS and PPC agree on an offer of $21/share
- $1.145 billion
- Definitive agreement signed

**Pilgrim’s Surpasses Tyson**

**January 2006**
- Transaction closes, as does the 73 year history of Gold Kist, the cooperative!
- Bo achieves goal of surpassing Tyson as largest poultry company

**Mixed Emotions**

- Sad, yet satisfying conclusion
- A giant among American agribusinesses disappears
- Members are still growing birds, now for Pilgrim’s Pride
- It is satisfying to see members capture the real value of their company while other cooperatives have disappeared with only memories and broken dreams
**Was Gold Kist Unique?**

- Members never invested anything
- Many members had never been farmers
- 100% Contract Producer/Members
- Homogenous Board
- No Independence on Board
- GK was a *food* company, not a marketing or supply cooperative anymore, thus, huge capital needs

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**The Facts: (According to Dan.........)**

- There will always be a place for farmer-owned cooperatives
- Cooperatives have a life cycle
- Success breeds unrest—Greed rules
- We, as farmers, have trouble letting managers manage and while boards direct
- Boards benefit from independent directors
- If you stick your head in the sand, you may let the member/owner’s value dissipate