

Iowa Agricultural Finance Corporation

Equity for the Food Capital of the World



January 7, 2000

Dennis Prouty, Director
Legislative Fiscal Committee
State Capitol
Des Moines, IA 50319

RE: Iowa Agricultural Finance Corporation – Fiscal Committee Requests

Dear Mr. Prouty:

Pursuant to questions posed to and the subpoena served on Daniel Pitts Winegarden, IAFC's executive officer, we are delivering the following material.

- One-page summary of IAFC and its tecTERRA Food Capital Fund.
- List of IAFC Board Members with brief bios. These citizens serve without compensation. IAFC's business model and investment standards reflect Board Members' practical experience, including both successes and failures.

Materials relevant to IAFC's appearance January 11, 2000 include:

- Responses to Questions Posed.
- A Timeline showing significant points of progress since Legislative passage of 1998 Senate File 2415, and illustrating the speed in implementation of a volunteer board meeting every 30-45 days on average to accomplish the objectives of the Act.
- A one-pager on Marketing progress since initiating active operations.

The subpoenaed materials were previously provided to IDIED in response to prior requests. But are repeated here and supplemented with additional material not required but potentially helpful to your deliberations.

- IAFC Board minutes for all meetings for which there are minutes – containing all relevant resolutions. There are no proposed resolutions. The only minutes not previously provided are for December 1, 1999. They are provided but are still in draft form, not yet approved by the Board.
- IAFC Written Consents – while not requested, two written consents seemed relevant to the scope of questions posed and are included:
 - Sept. 18, 1998 approving the Loan Agreement with IDIED.
 - June 24, 1999 approving creation of the tecTERRA Food Capital Fund in reliance upon IDIED's opinion that it complies with the Act.

- Contracts or other relevant agreements:
 - Loan Agreement with IDED.
 - Limited Partnership Agreement creating tecTERRA Food Capital Fund.
 - Accompanied by an opinion letter by IDED (IAFC's lender) approving and authorizing the Limited Partnership Agreement, executed by IDED's General Counsel.
 - Memorandum of Agreement between IAFC and U.S. Bancorp Piper Jaffray, Inc. for placement agent or investment banking services.
- Prospectus – the Private Placement Memorandum (PPM) for tecTERRA Food Capital Fund (#082). The PPM is numbered for tracking purposes to comply with securities regulations.

Please keep in mind, pursuant to U.S. securities laws that the PPM should not be distributed or shared with anyone without the appropriate cautionary restrictions. It should not be distributed. Under no circumstances shall this PPM constitute an offer to sell or a solicitation of an offer to buy. Nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of the jurisdiction. The limited partnership units offered under the PPM are not available to the general public as the offering is being conducted under the limited offering exemption from securities registration. Only qualified institutional investors and accredited individual investors are eligible to become limited partners.

Finally, several items are included to illustrate the consistency of IAFC's business development and policies to advance producer involvement in value-added agricultural processing opportunities.

- 1998 Annual Report, previously provided to all legislators, the Governor and IDED. (1999 Annual Report is in final development and will be provided when available.)
- Materials used by IAFC Board Members in presentations to Legislative Committees and other forums during the 1999 Legislative session, including:
 - A Short History of State Assistance (short version) –
 - A Short History of State Assistance (long version) –

These materials reflect IAFC's vision, mission, and lessons learned by past state government efforts in Iowa to assist capital formation through various public, quasi-public and private entities. They conclude with the 10 Key Points consistently used to explain IAFC's investment plans throughout the winter of 1998 and all of 1999.
- A summary used in recent Public Forums including an update on IAFC and its tecTERRA Food Capital Fund.

We believe these materials comply with the agreed upon terms of the Loan Agreement between the Department of Economic Development and the Iowa Agricultural Finance Corporation. We further believe they are fully responsive to the subpoena issued December 22 (though not received until after Christmas).

All Board resolutions are a part of or identified in our minutes. If there is any specific document which you need pursuant to the Loan Agreement let us know.

As you know, pursuant to the loan agreement IDED as our major creditor is notified of and participates in IAFC Board meetings. (A typical role for major creditors in the private sector.)

The Private Placement Memorandum was reviewed and approved by IDED prior to issuance. We are working closely with IDED on several projects including some in the pipeline likely to be finalized in the near future, but not yet ready or permitted for public disclosure under confidentiality agreements with the companies.

In addition we have now held three public forums since beginning active operations with 97 attendees:

- a. September 10, 1999, Wallace Foundation Outreach Center, Lewis, Iowa;
- b. October 27, 1999, Iowa Lakes Community College, Emmetsburg, Iowa; and
- c. December 1, 1999, Upper Iowa University, Fayette, Iowa.

We hope this is fully responsive to your request, but please don't hesitate to give me a call if there is any further information that we should be providing.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel Pitts Winegarden". The signature is fluid and cursive, with a long horizontal line extending to the right.

Daniel Pitts Winegarden
President, Iowa Agricultural Finance Corporation

cc: Fiscal Committee Members
IAFC Board Members
Dorsey & Whitney LLC

Iowa Agricultural Finance Corporation & tecTERRA Food Capital Fund

The Iowa Agricultural Finance Corporation (IAFC) is a private, for-profit corporation and recipient of a \$25 million loan through IDED under Iowa Code 15E.208 (the Iowa Agricultural Processing Finance Corporation Act, or the "Act").

The Act requires IAFC to invest the State loan into value-added processing ventures and biotechnology companies that benefit Iowa and involve agricultural producers in the benefits. IAFC especially seeks to create opportunities for agricultural producer involvement such as ownership or other benefits from growing Iowa's food, fiber and agricultural industry beyond the farm gate.

Tom Urban, Chairman	Former Chairman, CEO and President of Pioneer Hi-Bred International
Duane Acker, Vice-chair	Former President, Kansas State University, and current President of SouthWest Iowa Egg, an ag value-added cooperative in Atlantic.
Steve Morain, Secretary	General Counsel, Iowa Farm Bureau Federation.
Leslie Miller, Treasurer	Vice President, Iowa State Savings Bank, Knoxville, Iowa and instructor at ISU's ag credit school.
Jeff Plagge	President, First National Bank of Waverly and Chair of American Bankers Rural Economic Development Task Force.
Wayne Seaman	Immediate past CEO, West Central Cooperative, a successful Iowa cooperative growing through emphasis on niche marketing and ag value-added activities.
Jack May	President of Kent Feeds, Muscatine, Iowa.
John Bloomhall	CEO Diamond V Mills, Cedar Rapids, Iowa, an innovative grain processor and feed company.
<p><i>Jack May resigned following a family health crisis but served over a year shaping IAFC's business plan. John Bloomhall was elected December 1 to fill the vacancy and contributes similar practical experience in the processing business.</i></p> <p><i>The following Board Members were elected to an expanded Board, December 1, 1999. Each is intended to bring increased agricultural producer experience (meat and grains) to IAFC's Board as strategies to engage farmers in successful, profitable value-added enterprises are pursued.</i></p>	
Paul Hill	Chairman and CEO of Iowa Turkey Growers Cooperative and West Liberty Foods, an experienced food processing entrepreneur.
Bill Horan	Past President, Iowa Corn Growers Association.

IAFC's Board of Directors serves without compensation.

The Act specifically calls for a private corporation to make business judgment investment decisions. IAFC recruited a top notch Board to guide the corporation both in its profit mission and public mission. The ultimate shareholders of IAFC are agricultural producers who participate in IAFC investments. The Board's fiduciary duty to IDED to repay the State loan and its duty to its ultimate shareholders requires that both IAFC be structured as a profitable, self-sustaining business and that IAFC's investments be profitable and successful. It is not helpful to involve producers in business failures.

Changes requested by IAFC to the original Act were effective July 1, 1999. These changes are intended to make it easier for agricultural producers to buy IAFC shares from the profits of successful investment ventures and to facilitate raising matching private investments.

The State's desire to leverage private equity to "match" the State loan is one reason IAFC was formed as a private company. Constitutional prohibitions prevent the State from doing this directly.

To raise additional capital from private investors, IAFC formed tecTERRA Food Capital Fund. tecTERRA is the mechanism for both raising additional private equity and placing investments into targeted businesses. tecTERRA is a limited duration (10 years) limited partnership. IAFC's proceeds will payback the State loan and the remainder will be available for reinvestment in new growth opportunities as IAFC is intended as a permanent addition to Iowa's business financing mix.

To date, tecTERRA has raised an additional \$18 million to put to work for Iowa. The Fund currently has \$43 million under management. tecTERRA hopes to raise a total of \$55 million if all limited partnership units are fully subscribed.

tecTERRA became operational August 12 (shortly after the statutory amendments became effective). The first emphasis was on raising matching private funds.

The first business investments are now starting to reach completion.

As reported in the 1998 Annual Report, IAFC targets equity or equity-like investment opportunities for several reasons. Debt financing is available from a variety of public and private sources and could have been administered by a State agency. IAFC's

unique market niche is equity – when the bank says, "It's a great idea, but you need more cash to get a loan."

Equity can leverage additional dollars of debt (loan financing). Emphasizing equity maximizes the State loan's strategic impact.

To provide proper management and placement of IAFC's \$25 million loan and to assure private investors of professional, business-driven judgment, IAFC partnered with Cybus Capital Advisors as a co-general partner in tecTERRA and the Fund's financial manager. Cybus is an experienced national investment-banking firm with almost \$2 billion of financing experience in the food and agricultural sector over the last twelve years. Cybus is headquartered in Des Moines, but has branch offices in Colorado, California and Florida.

Cybus finds and recommends investment opportunities that meet the Act's requirement to make a profit. IAFC's Board of Directors assures that the recommended investments meet the Act's public purpose eligibility standards. *A qualified investment must pass both tests.* An investment must be both a good business opportunity supported by appropriate business planning, managerial talent and marketing capacity and it must fall within the public purpose of the Act.

Production agriculture is not a focus -- a business must have some further processing or biotechnology aspect.

The Act's desired outcome and IAFC's mission is promoting growth food business with ag producer ownership in the benefits, especially ownership. To achieve this objective IAFC works from two directions. First by helping producers build or participate in successful businesses able to attract private equity and debt on business merit. Second by involving producers in successful businesses by finding firms "for sale" in whole or in part, that tecTERRA can bring to Iowa or connect to producers.

Success requires putting all the pieces together from both producers and strategic business partners.

IDED plans to work closely with the private IAFC investment fund to help foster growth in these targeted industries.

For more information contact: Daniel Pitts Winegarden, IAFC President and tecTERRA Administrative Director, at 515/242-4998 or via e-mail at daniel.winegarden@tecterra.com.