OPERATIONS REVIEW AND ANALYSIS

PREPARED FOR

MATANUSKA MAID

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I. OVERVIEW

A. BACKGROUND

The Creamery Corporation is a commercial dairy processing firm headquartered at Anchorage, Alaska. Feed manufacturing also occurs at a satellite facility located at Palmer. The company uses the trade name MATANUSKA MAID in transacting its business and is generally identified accordingly. Further references in this OPERATIONS REVIEW AND ANALYSIS, therefore, will utilize Matanuska Maid rather than the official corporate name provided by the Alaska Attorney General's office.

An unusually stormy series of events plagued Matanuska Maid for several years. Unsatisfactory financial performance during an extended period of time as a cooperative caused eventual bankruptcy in 1983. The State Of Alaska assumed ownership subsequently in an effort to assure continued local market access for Anchorage area dairy farms. Substantial financing via state funds through the "Point MacKenzie Project" was also provided to individuals from a variety of backgrounds to encourage expansion of milk production near the level being processed by Matanuska Maid.

The Alaska Revolving Loan Fund was established by the State for the purpose of "promoting the more rapid development of agriculture as an industry throughout the state by means of long-term, low-interest loans". The ARLF Board is comprised of five individuals who are appointed by the Governor subject to confirmation by the Alaska State Legislature.

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Despite having virtually no dairy understanding, the ARLF Board reportedly also assumed basic responsibility for regular oversight of Matanuska Maid's business and financial operations. A general concensus of those interviewed by Business Counsel during November 19-21, 1989, and subsequently, indicated that the arrangement has been considerably less than satisfactory from a business operating perspective despite positive intentions.

Consumer response to Matanuska Maid products up to the time of Business Counsel's November visit had remained surprisingly strong irrespective of the firm's financial and political turmoil...the latter also being linked with controversy involving the Point MacKenzie Project. Previous market surveys by various sources have contended that a strong percentage of Alaskan consumers are willing to pay upper level prices for food items that originate from within the state, providing quality is perceived to be excellent.

Data for this ORA cover a time frame from 12/31/84 through 12/31/90. An earlier consulting report that is discussed in Chapter III states that Matanuska Maid's cash flow became seriously deficient during October, 1982. Balance Sheet data for 12/31/82 also included a deficit Net Worth of ($563,163).

The prior consulting report's authors stressed several times that most of the Cooperative's financial problems were directly attributable to unrealistically high prices being paid to local producers for raw milk. Poor plant management was also cited.

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Still, the point was emphasized that unless producers could operate profitably based upon "real Alaska costs", continuation of the original Matanuska Maid would not be likely. Chapter 11 bankruptcy was declared during November, 1983.

B. SUBSEQUENT FINANCIAL EVENTS

Total Cash Revenue climbed consistently during 1985-89 by an impressive 59.9% cumulatively from 1985's $9,003,262 to $14,389,401 in 1989. An additional 4.6% increase to $15,051,866 is budgeted for 1990. Furthermore, financial data reveal the present Matanuska Maid management team's budget forecasting record concerning Sales have ranged from 1987's 86.9% accuracy to 96.6% for 1989. Partial year data through May of 1990 reportedly continue in the high 90s.

Total Cash Expense also moved upward during 1985-89 by a cumulative 57.1% from 1985's $8,917,568 to $14,552,576, during 1989. Another 3.9% increase to $14,552,576 is projected for 1990. Current management's forecasting performance with Expense has been equally impressive by remaining within 90.6% to 94.7% accuracy throughout 1986-89. Business Counsel's observation of other management groups has established that Income/Expense forecasting and control results fall within 60-80% accuracy much more often than above 90%.

Profitability as reflected by Cash Surplus (Deficit) From Operations still remained undesirable during the ORA's middle years. Results jumped from 1985's ($34,409) Cash Deficit representing (0.4%) Gross Loss On Revenue to $201,827 Surplus and 1.6% Gross Margin in

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1986...plunged sharply during 1987 to a ($619,793) Deficit equaling (5.1%) Gross Loss followed by partial recovery to a still negative ($246,627) Deficit amounting to (1.9%) Gross Loss...then continued improving to 1989's five year high of $363,035 Cash Surplus From Operations totaling 2.5% Gross Margin On Cash Revenue. Cumulatively from 1987 forward, therefore, Cash Operating Profitability zoomed by 158.6% from a ($619,793) Deficit to a $363,035 Surplus. Management's budget forecast for 1990 indicates further strengthening to $481,290 Cash Surplus providing 3.2% Gross Margin On Revenue.

Matanuska Maid's Balance Sheet @ Book Value reveals sustained improvement throughout the study period of 12/31/84 through 12/31/90. The value of Total Assets climbed annually from an initial $1,470,024 on 12/31/84 to 12/31/89's $6,516,575...representing a significant 343.3% gain despite subtracting ($1,058,926) for cumulative depreciation charges for the five year period. Budget data for 12/31/90 include a (5.8%) reduction of Total Assets @ BV equaling ($379,411), primarily as a result of ($353,116) additional depreciation.

While no financial data reflecting probable Fair Market Values were provided for this study, interview responses from several parties during Business Counsel's November, 1989, visit to the Anchorage area did not disclose any suggestion of lower FMVs. Direct inquiry to the Alaska Attorney General's office on 6/12/90 also received assurance that the financial and operating data which Matanuska Maid management provided for this report could be accepted as being factual.

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II. BUSINESS DESCRIPTION

A. OPERATIONS

The Creamery Corporation dba Matanuska Maid is structured as an Alaska corporation having its headquarters at Anchorage, Alaska, plus satellite feed manufacturing facilities at Palmer. All of the Corporation's ownership is maintained by the State Of Alaska through the Alaska Revolving Loan Fund.

The firm was originally operated for several years prior to late 1983 as a conventional agricultural cooperative. Total ownership was reportedly maintained by a group of approximately nine area dairy producers. Less than satisfactory operations on a sustained basis eventually resulted in Chapter 11 bankruptcy proceedings being filed during November, 1983. State officials determined subsequently that Alaska's combined agricultural and consumer interests would be served best by assuming temporary ownership and providing a reasonable amount of new capital via ARLF.

Parallel encouragement was also being directed by State sources to expanding local milk production by establishing a series of new dairies in an area known as the "Point MacKenzie Project". Its location is across the Knick Arm from Anchorage southwest of Wasilla. Despite being approximately only 7-10 miles distant by water, milk pick-ups require Matanuska Maid trucks to travel approximately 140 miles round trip...a significant portion being via rough, non-hard surface roads imposing above normal transportation and vehicle

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maintenance costs.

Matanuska Maid manufactures and distributes a reasonably complete line of proprietary brand dairy products as well as "private label" items prepared on a custom basis for various Alaska based wholesale and/or retail sources. Private labeling is often conducted by food and other manufacturers in order to improve economies of scale for their proprietary product lines.

Dairy items being sold during November, 1989, included both whole and low fat milk in several container sizes...cultured products represented by cottage cheese, sour cream, and several flavors of yogurt...plus egg nog as a special item during the holidays. Business Counsel tasted samples of the entire product line that was in inventory at Anchorage on 11/20/89. Yogurt constituted the only item that was considered personally as warranting improvement. Conversely, even that reaction could have reflected individual bias arising from previous involvement in dairy product development and manufacturing.

Matanuska Maid's future appears to be linked irretrievably to pending political decisions. Strong pressures have developed that reflect short term expediency stemming from subsurface agenda rather than long term solutions to finite problems. Frustrations have been fanned by misguided, at best, and patently untrue, at worst, rhetoric concerning events within the Point MacKenzie project as well as Matanuska Maid itself.

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Various newspaper articles forwarded to Business Counsel have contained inexcusably twisted and inaccurate reporting. Certain sensitively positioned individuals in the Anchorage area also exerted minimal effort to conceal from Business Counsel their preferences that Matanuska Maid fail as futherance of private objectives. A major grocery executive was clearly hostile for what seemed to be purely competitive reasons.

Perhaps lost in all of the turmoil is the simple fact that State Officials will ultimately determine who controls and does what with Matanuska Maid. An investment on 12/31/89 of $6,516,575 having a reported Net Worth of $4,873,914 equaling 74.8% Equity @ Book Value reinforced by a strong 218.7% Liquidity is no inconsequential matter!

B. COROLLARY CONSULTANT REPORTS

1. Matanuska Maid

An extremely relevant consulting study dated 7/10/84 was prepared by a team of nine experts from Washington State University plus a former CEO of a major dairy cooperative in Wisconsin. The following, key quotations appeared in the report...some of them more than once.

a. "Reorganization of Matanuska Maid was considered to be feasable, assuming strong fiscal and management control and the assumption of an aggressive marketing posture."

b. "Matanuska Maid has the potential to operate aggressively in the Alaskan local markets in a competitive and profitable manner."

c. "Prices paid to producers should be adjusted and modified based upon market conditions and the ability to compete

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effectively as the creamery is the marketing extension of the producers rather than a buyer of raw milk at producer directed prices."

d. "Should the dairy industry fail, the recently developed barley industry will be seriously impacted, and State plans for development of a red meat industry will also suffer as dairy herd cull cattle are an important source of herd beef."

e. "Alaskan based producers' share of the total fluid monthly milk market stands at 26.1%."

f. "If the total additional production possible through the Point MacKenzie project (1,405,000 pounds monthly) is fully realized, total annual Alaskan production would be 38.5% of the total current fluid milk market."

g. "For Alaskan processors to remain competitive, the price of milk per CWT could not exceed the costs to import milk from the Puget Sound area of Washington State."

h. "Alaskan producers will have to become more sophisticated in their marketing, become more sensitive to pricing in the marketplace, increase their sensitivity to consumer needs."

i. "To internally finance new processing facilities would require that local milk production be at least 5.25 million pounds per month."

j. "For the majority of its corporate life, Mat-Maid has not been competently managed from either an internal or a directoral standpoint."

k. "Owners of the cooperative have consistently acted in a manner destructive to the independent survival and economic health of Mat-Maid."

l. "The consulting team found no record of any other direct benefit beyond Mat-Maid being a guaranteed buyer of milk at a producer dictated price."

m. "Equipment, though somewhat dated is for the most part adequate for a 400-500% through-put increase."

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n. "The anticipated additional raw milk production possible through the Point MacKenzie project is at a level high enough to allow strong market penetration and efficient plant production, if properly managed."

o. "Non-fluid milk product lines should be expanded to maximize cash flows."

p. "The historical approach to milk pricing taken by Mat-Maid producers has been to base milk price, regardless of actual costs and market realities, on FOB Seattle plus shipping costs, or, on maximization of producer revenue at the expense of Mat-Maid's economic health. Compounding this problem is the finding that the State Of Alaska used much of these erroneous pricing data in their projections for the Point MacKenzie project."

q. "It is the opinion of the consulting team that a producer price of $19.00/CWT should be established. The current pricing structure of $22.60/CWT is based in a marketing move made in July of 1982. Serious cash flow deficiencies began to occur in October, 1982. The assessment of the consulting team is that the majority of these deficiencies are directly related to retaining the $22.60/CWT price."

r. "There should be some protective mechanism provided to guard against abuse of the cooperative through farm milk price increases not based on the realities of the market and actual costs of production."

s. "It is unsound and impractical to base the pay price on the Puget Sound Class I price plus the cost of transportation of either bulk or packaged milk from Seattle to Anchorage. That will simply price Mat-Maid out of the market."

t. "Producers should assume an equity position within Mat-Maid. The level required to ensure that the recovery plan properly functions is $12/CWT of one month production per existing and future producers supplying milk to Mat-Maid."

u. "The problems faced by Mat-Maid are not simply its own. The problem of Mat-Maid survival is an Alaskan problem."

v. "Any goal established should be based in good business practices including management, marketing, finances, and fiscal control."

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w. "Mat-Maid appears to have a high name identity in the Alaskan market."

x. "It is important that a financial lender get assurances from the State that it will initiate and enforce a more rigorous quality inspection program. This should enhance Mat-Maid's ability to compete, especially with producer-handlers from the State of Washington."

2. BUSINESS COUNSEL'S COMMENTS

a. Items "a & b"...Still valid if done correctly.

b. Items "c, g, & p-s"...Personal interviews with past, present, and potential local dairy owners on 11/20-21/89 identified uniform conviction that a dairy processing plant's sole justification for existence is to maximize prices to its producers. None of those interviewed considered Operating Profitability and Return On Investment for Matanuska Maid to be either desirable or necessary.

c. Items "d-f,i & u"...Continue to be strategically crucial.

d. Items "h, j-l"...Current management has apparently corrected the most critical of these problems. The present oversight responsibility of the ARLF Board is impractical, however, since its political nature invites uninformed criticism from external sources and prevents important operating as well as physical plant decisions from being made based primarily upon present and future profitability of the corporation.

e. Item "m"...Has been partially corrected, although further modernization needs to occur.

f. Item "o"...Major strides have been made. Operating a dairy processing plant in today's competitive and economic environment without a broad product line is not feasible.

g. Item "t"...Theoretically sound, providing majority control remains in other hands to assure Matanuska Maid's ability to operate as a profitable business.

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3. Point MacKenzie Project Dairies

a. University Of Alaska/Alaska Department Of Agriculture Report "Costs Of Producing Milk Alaska - 1979"...Quotations

(1) "Ten dairy producers participated in the survey."

(2) "Direct costs included hired labor, milk hauling charges, artificial insemination, fuel, interest on operating capital, overhead, and miscellaneous expenses."

(3) "Indirect costs included management fees, payments for family and operator labor, depreciation, interest, property taxes, insurance, and depreciation."

(4) "The total cost per cwt in the Matanuska Valley was $19.03, which is considerably higher than the cost of $10.05 for the Pacific Northwest."

(5) "The largest cost item is feed, $7.71 per cwt, or 41%."

(6) "Typically, production costs vary widely from farm-to-farm, depending mostly on the size of operation and management techniques."

b. University Of Alaska Report..."Potential Milk Production In The Point MacKenzie Area Of Southcentral Alaska" - September 1980, Bulletin 58...Quotations

(1) "Data include four sizes of dairies - 50, 75, 100, and 150 cows milked daily."

(2) "Interior temperatures of all barns are kept at a minimum of 45 degrees F. throughout the year."

(3) "Included in the costs is a charge for operator labor of $15,000 per year."

(4) "Land-clearing costs and purchase price are included in silage (haylage) costs."

(5) "Total capital investment (not including cows) for four facility sizes...50 cows @ $492,570...75 cows @ $678,990... 100 cows @ $921,686...and 150 cows @ $1,241,711."

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(6) "An interest rate of 6%, that charged by Alaska Agricultural Revolving Loan Fund, is charged against the capital investment. A 9% interest charge is leveled against operating capital."

(7) "The milk production required to cover all costs generally decreases as herd size increases. The 50-cow dairy farm requires an annual, average, per-cow production of 16,646 pounds of milk. This decreases to 15,124 pounds for a herd of 150 cows."

(8) Table 21: "Quarterly Projection Of Revenues And Expenses For The 150-Cow Dairy Farm"

* Cash Receipts are illustrated at $483,744 annually in the fourth year, based upon 15,124 pounds of milk per cow @ $16.84 cwt for milk.
* Cash Expenses are projected at $351,340 annually in the fourth year.
* Net Profit is expected to be at $132,404 annually in the fourth year. (Business Counsel's note: thus providing an outstanding 27.3% Gross Profit On Cash Revenue)
* Interest Expense does <u>not</u> appear as an expenditure.
* Principal Payments do <u>not</u> appear as a Cash Flow item.

c. Washington State University Report...Quotations

(1) "The research performed raises questions over the administration of the Point MacKenzie agricultural project. Existing guidelines could be creating diseconomies of scale due to the cost of construction, transportation, feed and similar considerations associated with the Alaskan dairy industry."

(2) "The optimum investment per cow for the State of Alaska is at the $7,000/cow level. The optimum production level is 15,000 lbs. or greater at a $7,000/cow investment."

(3) "The majority of the operators interviewed were either unable or unwilling to provide detailed cost information."

(4) "The model used assumes a herd size of 191 cows milking...a total capital investment of $1,340,000...producer equity at $340,000...total debt of $1,000,000 to the State of Alaska based upon a 25 year loan @ 8% interest...with a maximum loan payment of $7,720 per month, representing $92,640 annually."

4. <u>BUSINESS COUNSEL'S COMMENTS</u>

a. University Of Alaska/Alaska Department Of Agriculture Report "Costs Of Producing Milk Alaska - 1979"...Failed to disclose investment dollars for land, buildings, machinery, cows, etc. Calculating critically important capital movement efficiency ratios/indices such as Sales To Fixed Assets @ Book Value, Sales To Inventory @ Fair Market Value, Debt Added Per Dollar Of New Sales, and others is consequently impossible.

- BUT -

b. The University Of Alaska's Bulletin 58 feasibility study for a 150 cow, free stall dairy illustrated capital costs of $1,241,711, not including land. Based upon 16,000 lbs. of milk per cow @ $19.50/cwt, the Sales To Fixed Assets @ BV index of <u>62.8¢</u> (less land) would be disastrously below the <u>$1.20</u> guideline that should normally be expected to be necessary to achieve <u>10%</u> Gross Profit On Cash Revenue consistently.

- MOREOVER -

Items b (5) & (8)...Total Capital Costs of <u>$1,241,711</u> are linked with Total Revenue based upon <u>15,124</u> pounds of milk per cow @ <u>$16.84/cwt</u>. The resulting <u>Sales To Fixed Assets @ BV index of</u> <u>39.0¢</u> would definitely be financially suicidal very rapidly.

- PLUS -

Based upon an Inventory value of <u>$386,086</u> just for cows and calves, the Sales To Inventory <u>index @ $1.25</u> would be <u>(16.7%)</u> below the <u>$1.50</u> index that is normally essential in order to realize <u>10% GPOCR</u> consistently.

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- AND -

Assuming $1,000,000 Debt charged a 10% Interest Rate, Interest Expense % Of Total Revenue would be a prohibitive 20.7% index as opposed to 16% that should be considered maximum.

- THUS -

Current Liabilities % Of Total Revenue required for debt principal payments based upon 20 year amortization equals an additional 10.3% of Total Revenue.

- AS -

A capital investment of $8,278 per cow for land, buildings, and machinery is included in pro forma data, with another $1,000 to $1,500 being required for cows and calves.

Item b (8)...Omission of Interest Expense seriously overstates potential profitability in operations having "model" Net Worth representing a dangerously low 20-26% Equity.

Item b (8)...Omitting Principal Payment requirements for each year grossly understates Total Cash Flow that must be generated.

c. Washington State University Report

Item c (2)...Based upon a Sales To Fixed Assets index of $1.20 as is normally required to earn 10% Gross Profit On Cash Revenue consistently, an average milk price of approximately $56.00/cwt would actually be necessary for dairies averaging 15,000 pounds of milk per cow in facilities having an average fixed asset investment of $7,000 per cow.

Item c (4)...Most macroeconomic studies involving proposed agricultural operations illustrate profit/loss based almost exclusively upon production oriented standards with minimal attention to the inviolate, quadrangular relationships between assets, liabilities, sales, and expense. Development recommendations that require both heavily subsidized financing and product sales prices virtually assure eventual financial difficulties.

d. Ferguson Group (Tulsa) Ltd. Alaska Dairy Reports

Two dairies were studied that received State funding. Initial Cash Investments during 1984-88 varied from approximately $1,663,000 to $2,218,248, without considering depreciation...or $9,395 to $9,645 per cow. Loans were provided that permitted Total Liabilities in the two cases to reach $2,008,685 and $2,371,666. Net Worth @ BV plummeted in one from an already unviable $26,823 representing 2.8% Equity to ($1,121,323) Negative Net Worth and (126.4%) Deficit Equity. The other followed a similar path from ($231,085) Negative Net Worth @ BV equaling (14.5%) Deficit Equity to ($1,340,171) Negative Net Worth and (129.9%) Deficit Equity.

- BUT -

Despite the crushing debt loads, unusually lenient credit terms restricted Interest Expense % Of Total Revenue in both to ordinarily easily sustainable indices of 10.4% to 13.6%. Properly structured agricultural production enterprises should have no difficulty supporting 15-16% IE%TR index levels.

- AND -

Sales To Fixed Assets were initially at seriously low 33.6¢ to 58.6¢ indices, compared to $1.20 as is normally required to provide just 10% Gross Profit On Cash Revenue. Clearly, however, 10% GPOCR could not even begin to support the existing Debt burdens.

- SO -

Milk price requirements to support the dairies' internal capital structures increased from approximately $26.40/cwt to $50.90 per cwt...the entire range being unrealistically high in relation to prices that processing plants can afford to pay.

C. FEED MANUFACTURING

Data provided for this OPERATIONS REVIEW AND ANALYSIS are not structured to enable thorough analysis of the operations at Palmer or any other satellite facilities that may exist. Management's interview responses did not indicate any specific internal concern regarding Palmer. Neither initial instructions nor subsequent conversations with the Alaska Attorney General Office's personnel disclosed substantive interest in examining the feed manufacturing enterprise. Conversely, divestiture or simple termination may be advisable if the area's livestock and poultry populations do not provide an adequate sales opportunity for reasonable economies of scale.

D. GENERAL

Matanuska Maid's present management system appears to be based upon a results oriented style reinforced by adequate manufacturing and financial data. Systematic, monthly monitoring apparently occurs regularly within an appropriate accrual accounting system.

The Corporation's management team realize that their business affairs have reached a crossroads which is crucial strategically. The need for sustained improvement of profitability is crystal clear. Little margin for error exists because of current political pressures.

Management has identified 21 short and long term goals which are desired to be achieved. Success appears to be rationally probable for most of the objectives if key recommendations within this report are followed. Implementing properly structured business planning and control procedures will be crucial

Business Counsel encountered no visible resistance to either interview questions or subsequent requests for copies of detailed financial records prepared exclusively for management's internal use. One negative point, however, is that completion of this ORA was

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delayed for 3-4 months pending receipt of specialized forms utilized by Business Counsel in its analysis plus some additional documents that were requested.

Unusual budget forecasting accuracy of 86.9% to 96.6% for Total Cash Revenue accompanied by 90.6% to 97.7% for Total Cash Expense is revealed in the Corporation's financial data for 1985 through 1989. As a result, reasonable performance in relation to management's forecast of continued, significant improvement of Cash Surplus From Operations during 1990 to $481,290 representing 3.2% Gross Profit On Cash Revenue appears rational.

Being aware of a business' exact, current status is acutely important. Yet knowing precisely how management arrived there, plus where the operation will be next year, is equally necessary in any business situation. Prevailing sensitivities surrounding the total Alaskan dairy situation render the requirement even more essential than in a conventional business environment.

Financial results forecast for 1990 signal continuation of a significantly favorable trend reversal that has been progressing since 1987. Cash Surplus From Operations is budgeted to increase by another 32.6% to $481,290...thus cumulative improvement of 177.6% equaling $1,101,083 from 1987's ($619,793) Cash Deficit. Assuming management's insistence is correct that political considerations forced the plant to purchase approximately $700,000 of unneeded milk from local producers during 1987 which was subsequently "dumped down the sewer" suggests that the turnaround actually began from an internal perspective in 1987, perhaps even 1986.

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Achieving sustained improvement from 1990 forward will reflect both ownership's and management's dedication reinforced by concentration upon increasing Total Sales while constraining Total Expense in the achievement of improved economies of scale. Alaska State Authorities will need, consequently, to permit Matanuska Maid to operate as a conventional business endeavor serving a competitive market environment without artificial constraints. Whether, or not, such an objective can occur within the confines of State ownership is debatable.

Fluid milk and its further processed derivatives are classic commodity products characterized by inelastic demand irrespective of certain proprietary brand differentiations. Significant production cyclicality and price volatility occur on national and regional basis even though a federal supply management program exists. Yet carefully orchestrated production arrangements coordinated with wholesale and retail market development can reduce price risk in vertically integrated operations to almost zero.

This OPERATIONS REVIEW AND ANALYSIS has three basic purposes. First, Business Counsel has been instructed to evaluate Matanuska Maid's past and current operating status in relation to future viability. Secondly, attention is being directed to inherent problems that exist concerning the establishment of competitive dairy production in Alaska. Thirdly, alternative possibilities for the Company's practical return to the private sector are examined briefly. A $15,051,261 Sales business operating in a cyclical, commodity industry is simply much too large and complex to be handicapped by an inconsistent mission reflecting unrealistic and volatile policies that attract unrelenting media harassment.

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III. PROFILE OF MANAGEMENT'S INTERNAL CRITIQUE

This chapter summarizes observations and opinions which were expressed by five members of the Corporate management team. Responses to a formal questionnaire were recorded during the initial Fact Finding Conference which occurred at Matunuska Maid's office in Anchorage, Alaska.

General agreement regarding internal strengths and weaknesses was registered in most instances. Significantly divergent views were quite rare. Certainly the following responses should be useful as a foundation for future planning.

Review of the Internal Critique and related discussions prompts three fundamental conclusions from Business Counsel. First, a foundation of basic harmony and mutual respect was apparent within Matanuska Maid's management and supporting staff personnel...existing tensions being normal products of extraneous factors concerning uncertainties relative to ARLF, the Point MacKenzie Project controversy, and a dispute whether the General Manager's employment contract is valid. Secondly, actions to enable the Corporation to operate within a more normal and realistic business atmosphere should be implemented without delay. Thirdly, the basic skills and motivations that are essential to develop a more productive management system appear to be available through a combination of existing personnel plus outside, professional, advisory support.

The following observations of a much more specific nature should be considered in context with other sections of this report.

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PRODUCTION SUMMARY

* Three managers perceived processing production strategies to be effective while two were neutral. All but one agreed that inadequate plant goals have represented a fundamental business weakness even though existing goals are being reached.

* Modern technology utilization was noted unanimously as being a plant weakness. Previous application of professional assistance involving operations was rated unanimously as an internal strength.

* Four of five individuals ranked their knowledge of plant production costs as being a weakness. The same responses were directed to the plant's production efficiency, plus the existing facilities and equipment were assessed negatively by all five respondents.

* Despite the plant's production cost trends being viewed unanimously as a fundamental business strength, the ratio of equipment owned to production was also checked unanimously as a weakness. The plant's facilities were cited for being old and inadequately equipped with too much labor being required.

* Normal weather conditions as well as the plant's existing pest control procedures garnered either positive or neutral responses.

* Previous stability of input prices was accepted generally as having been a business strength, although the area's feed supply for livestock was gauged unanimously as being weak.

* Mixed responses arose regarding breeding stock quality/genetic programs. No one critiqued current livestock nutrition programs as being inadequate or felt negatively regarding the prevailing size of the area's dairy production units.

* Expansion rates for both the previous five years and the next five years were believed unanimously as representing fundamental business strengths. Each member of the management team stressed that the plant needs additional automated equipment.

PRODUCTION SUMMARY

Strength	Weakness	Neither
46%	42%	12%

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MARKETING SUMMARY

* Even though four of five respondents perceived the Corporation's marketing plan/pricing strategy to be a weakness, the same majority considered that quality standards have been an integral part of the existing strategy.

* Management's ability to track market trends was believed unanimously as being an internal strength...as was the impact of the firm's geographic location for marketing dairy products.

* Prior utilization of professional marketing counsel received no negative reflections.

* Everyone considered the average price received per cwt of fluid milk to be a weakness. Producer income per cow was also acknowledged unanimously as being a strategic weakness.

MARKETING SUMMARY

Strength	Weakness	Neither
45%	35%	20%

FINANCE SUMMARY

* The existing business/financial strategy was regarded as being an internal weakness by each respondent, as was the lack of a completely effective computerized Management Information System.

* Four of five individuals concluded that detailed profit/cost center records and analysis are internal strengths...plus the present accounting system's basic adequacy received an identical response.

* Everyone perceived budget development as a fundamental management strength. While no one regarded monthly budget monitoring to be weak, neither formal quarterly budget analysis nor financial ratio analysis was rated as a strength.

* Both long and short term credit availability received mixed reactions, plus lender relationships were assessed unanimously as representing a strategic weakness.

* Either negative or neutral responses appeared concerning the business' capitalization, equity position, current ratio, and present mix of long and short term credit.

* Responses to basic profitability, cash flow, and return on assets reflected general dissatisfaction with both past and present results. Conversely, sales relative to investment in fixed assets as well as inventory were considered to be operating strengths.

* Everyone concurred that the Company's prior formal debt strategy had not been a positive factor...nor had previous utilization of business and financial counsel.

FINANCE SUMMARY

Strength	Weakness	Neither
27%	52%	21%

PERSONNEL SUMMARY

* Appropriate division of both planning and management were checked by each individual as being internal business strengths. Overall staffing strength received positive reactions as well.

* Consistent observance of monthly management meetings and quarterly review of product performance were believed unanimously to be key strengths. Quarterly review of budget performance received varied responses.

* Written personnel policies and formal job description/compensation schedules were rated unanimously as internal strengths. Replies were mixed concerning the extent to which employee suggestions have been encouraged.

* The absence of incentive compensation was viewed unanimously as a Corporate weakness.

* Employee morale was assessed unanimously as being excellent despite prior conflicts with the Teamsters Union. Negative union reaction was also cited as interfering with the development of an evaluation system for hourly labor.

* Everyone indicated that capable legal counsel had been utilized previously, but unanimous accord was also noted that neither business nor accounting counsel had been used effectively during the past.

PERSONNEL SUMMARY

Strength	Weakness	Neither
61%	30%	9%

OPERATING AND COMPETITIVE FACTORS

* Milk Purchase Costs

  Local..........$22.00/cwt raw at farm
  Out-of-state...$22.10/cwt pasteurized average for 1989, varies with Federal Order prices

* Percentage Of Milk Purchased Out-Of-State

  Fluid...............50% for 1989
  Further processed...none

* Milk Solids Non-fat Price

  Purchased...currently 90¢/cwt FOB Anchorage
  Sold........none

* Matanuska Maid's Selling Prices

  Whole milk.......$3.79/gallon average retail (set by retailers)
  2% milk..........$3.69/gallon average retail (set by retailers)
  1% milk..........none sold
  Skim milk........$1.89/half gallon only average
  Other drinks.....none sold
  Whipping cream...$1.69/pint average (ultra-pastuerized)
  Yogurt...........59¢/8 ounce cup average
  Frozen yogurt....none sold
  Cottage cheese...$1.59/pint average
  Hard cheese......none sold
  Ice cream........none sold

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* Competitors' Selling Prices

Whole milk.......$3.69/gallon average retail (set by retailers)
2% milk..........$3.55/gallon average retail
1% milk..........$3.35/gallon average retail
Skim milk........$3.29/gallon average retail
Other drinks.....none
Whipping cream...$1.29/pint average (non-pasteurized)
Yogurt...........59-75¢/6-8 ounce cup average
Frozen yogurt....?
Cottage cheese...$1.19/pint average
Hard cheese......?
Ice cream........?

* Market Share Last Four Years

Whole milk.......45%
2% milk..........30-40%
1% milk..........none
Skim milk........35-50%
Other drinks.....none
Whipping cream...30-35%
Yogurt...........20%
Frozen yogurt....none
Cottage cheese...25-30%
Hard cheese......none
Ice cream........none

* Manufactured Costs

Whole milk.......$3.05/gallon
2% milk..........$2.90/gallon
1% milk..........n/a
Skim milk........$1.34/half gallon only
Other drinks.....n/a
Whipping cream...-0- (?)
Yogurt...........28¢/8 ounce cup
Frozen yogurt....n/a
Cottage cheese...$1.17/pint
Hard cheese......n/a
Ice cream........n/a

* Distribution/Delivery Costs

Approximately 2¢ per pound of product...not identified by item

* Product Uniqueness

Matanuska Maid products are processed locally. All competitive items in our distribution area are processed in Seattle, thus 4-5 days of transportation time are required prior to placement on the retail shelf. These milk products reach a "lack freshness" stage about the time consumers bring them home. We manufacture five days per week, resulting in a product that tastes better and lasts longer. Additionally, local consumers have a strong desire to support local businesses.

* Average Unsold Returns

Whole milk.......0.37%
2% milk..........0.28%
1% milk..........n/a
Skim milk........0.36%
Other drinks.....n/a
Whipping cream...0.82%
Yogurt...........0.35%
Frozen yogurt....n/a
Cottage cheese...1.3%
Hard cheese......n/a
Ice cream........n/a

* Percent Of Sales @ Retail

None sold direct to consumers
Sales to retailers = 50-55%
Sales to distributors and contracts = 45-50%

* Average Accounts Receivable - Last 4 Years

$2,080,000

* Average Account Charge-offs Annually - Last 4 Years

1986....-0-
1987....-0-
1988....$411,931.64 (comprised of a milk retailer bankruptcy and foreclosures of dairy farm feed accounts at Palmer)
1989....-0-

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* Employee Turnover

  Management...none
  Sales...none
  Manufacturing...10% annually
  Delivery...below 10% annually

* Market Area

  The greater Anchorage area including Eagle River, Palmer, Wasilla, and the Matanuska Valley...Kenai Peninsula including Homer, Seward, and Kenai/Soldotna...greater Fairbanks area...plus bush communities.

* Primary Competitors

  Carr's Quality Centers...Vitamelk Dairy Products from Seattle
  Safeway Food Stores...Lucerne Dairy Products from Seattle
  Peterkin Distributors...Foremost from Seattle
  Big Country Foods Distributor...Smith Brothers from Seattle
  Northland Dairy Distributors...Darigold from Seattle

* Physical Condition Of Plant

  Buildings...good
  Machinery...good+
  Refrigeration...good
  Vehicles...good to excellent

* Economic Competitive Condition

  Buildings..good
  Machinery...good
  Refrigeration...good
  Vehicles...good+

* Zoning Problems

  Present...none
  Potential...none known

* Water Supply

  Present...good
  Potential...good

* Sewage Service Problems

Present.....Continually increasing costs based on solid content of discharge. Flow is based on water purchased rather than actual discharge.

Potential...Additional water meters are being installed where water is used but does not go to a drain (condensing towers, etc.). Continuing program in effect to conserve water and reduce total solid discharge.

* Other Utilities Problems

Present.....Not certain that rates are optimally competitive due to lack of other industry. Boosters have been converted to refined waste oil instead of natural gas to save money.

Potential...None known

* Procedures For Stocking Retail Dairy Displays And Arranging Facings

Our personnel check for "out of stock on shelf" only and fill if needed. Shelves are not rearranged as a daily routine.

* Display Facings Percentage Of Shelf Capacity

Carrs Quality Centers......25-30%
Safeway Food Stores........20-25%
Commissaries - Anchorage...40-50%
Fairbanks...15-20%

* Monthly Percentages Of Total Annual Sales - 1989

January...8.1%	July.......7.9%
February..8.0%	August.....8.5%
March.....8.6%	September..8.3%
April.....7.7%	October....8.6%
May.......8.4%	November...8.8%
June......8.0%	December...9.1%

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INTERNAL CRITIQUE
PRODUCTION

		STRENGTH	WEAKNESS	NEITHER
1.	Production strategy...processing program	3	0	2
2.	Knowledge of production costs	1	4	0
3.	Have formal production goals...plant	1	4	0
4.	Production efficiency...plant	1	4	0
5.	Meeting existing production goals...plant	5	0	0
6.	Production facilities/equipment	0	5	0
7.	Modern technology utilization...plant	0	5	0
8.	Equip. owned ratio to production...plant Action: Old & underequipped. Too much labor.	0	5	0
9.	Production cost trend...plant	5	0	0
10.	Utilize professional assistance	5	0	0
11.	Normal weather conditions...plant	3	0	2
12.	Normal pest control...plant	5	0	0
13.	Input prices stabilized	3	0	2
14.	Feed supply for livestock	0	5	0
15.	Expansion rate...previous five years	5	0	0
16.	Expansion rate...next five years	5	0	0
17.	Breeding stock quality/genetic program	1	2	2
18.	Livestock nutrition program	3	0	2
19.	Additional equipment needed	0	5	0
20.	Extent of automation	0	5	0
21.	Size of production units...major livestock	2	0	3

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MARKETING

		STRENGTH	WEAKNESS	NEITHER
1.	Marketing plan/pricing strategy...dairy	0	4	1
2.	Strategy considers quality standards...dairy	4	0	1
3.	Market trends tracked/filed...all livestock	5	0	0
4.	Sales forward contracted...dairy	0	0	5
5.	Utilize professional assistance...dairy	4	0	1
6.	Geographic location...marketing dairy products	5	0	0
7.	Average price per cwt of milk	0	5	0
8.	Direct income per cow milked	0	5	0

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FINANCE

		STRENGTH	WEAKNESS	NEITHER
1.	Comprehensive business/financial strategy	0	5	0
2.	Computerized Management Information System/ Controls	0	5	0
3.	Budget development/forecasting accuracy	5	0	0
4.	Budget monitoring monthly (MBO)	4	0	1
5.	Formal quarterly budget analysis	0	1	4
6.	Financial ratio analysis	0	2	3
7.	Profit/cost center records/analysis	4	0	1
8.	Long term credit availability	1	2	2
9.	Short term credit availability	1	2	2
10.	Present mix of long/short term credit	0	4	1
11.	Capitalization of business	0	4	1
12.	Equity position	0	5	0
13.	Current ratio	0	5	0
14.	Total debt outstanding	1	3	1
15.	Long term lender relationships	0	5	0
16.	Short term lender relationships	0	5	0
17.	Risk judgment/implementation	4	0	1
18.	Accounts receivable collection	0	1	4
19.	Depreciation strategy	0	1	4
20.	Basic accounting system	4	1	0
21.	Fixed asset identification/valuation	0	2	3
22.	Current asset identification/valuation	5	0	0

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FINANCE (continued)

		STRENGTH	WEAKNESS	NEITHER
23.	Basic profitability	0	5	0
24.	Cash flow	0	5	0
25.	Return on total assets	0	5	0
26.	Sales relative to fixed assets investment	5	0	0
27.	Sales relative to current assets investment	5	0	0
28.	Utilize effective business/financial counsel	0	4	1
29.	Formal debt strategy	0	3	2

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PERSONNEL

		STRENGTH	WEAKNESS	NEITHER
1.	Division of planning	5	0	0
2.	Division of management	5	0	0
3.	Staffing strength...plant	5	0	0
4.	Regular monthly management meetings	5	0	0
5.	Regular quarterly review...budget performance	1	1	3
6.	Regular quarterly review...production performance	5	0	0
7.	Written personnel policies	5	0	0
8.	Written job descriptions/compensation schedules	5	0	0
9.	Incentive compensation utilized	0	5	0
10.	Employee suggestions encouraged	3	1	1
11.	Personnel availability for growth	1	4	0
12.	Utilize effective legal counsel	5	0	0
13.	Utilize effective accounting counsel	0	3	2
14.	Utilize effective business counsel	0	5	0
15.	Hired labor efficiency Action: Teamsters Union sometimes difficult	2	1	2
16.	Hired labor personal evaluation system Action: Teamsters Union objects	0	5	0
17.	Employee morale	5	0	0

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IV. MANAGEMENT'S BASIC GOALS

The following goals were expressed during the Fact Finding Conference in personal interview sessions with five members of the Corporation's senior management team. No priority is intended, nor should be inferred, by the order of presentation. Each goal is stated without editing as much as is practical. Time references may unknowingly be Business Counsel's interpretations in some instances.

A. SHORT TERM...1-2 Years

1. Increased focus on profitability should be permitted.
2. An impartial evaluation of Matanuska Maid and local area dairy farms is needed...both problems and opportunities should be identified so proper action can be taken.
3. The plant must stop "running from hand to mouth" unnecessarily.
4. A reasonable line of operating capital is essential.
5. Approximately 1% of total sales should be spent for advertising ...representing about $15,000 per month at present volume.
6. Our first five year strategic plan is to be discussed with ARLF for objectives on 12/10/89.
7. Stable policies for agriculture are needed at the state level.
8. Should the feed mill at Palmer continue to operate on a "break-even" basis since the dairy producers reportedly can't pay more?
9. Viewing Matanuska Maid with a "cooperative mentality" should be ended.
10. Our retailer customers need persuading to discontinue taking a wider profit margin on Matanuska Maid items than on competitive products.

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11. Improvements totaling $225-250,000 should be scheduled for the next 24 months...including a new control panel, a cultured products packaging machine, computer, and truck.

B. LONG TERM...3-5 Years

1. Milk production and processing in Alaska should not be abandoned just because milk can presently be imported cheaper from Seattle.
2. Expand the plant's volume to $25 million Gross Revenue annually ...add product lines including hard cheese, frozen yogurt, ice cream, juices, tea, and perhaps distilled water.
3. We should work toward supplying 70% of the Alaskan market instead of 30%.
4. Approximately 90% of our milk supply should be produced locally, with 10% imported for flexibility.
5. More raw product storage should be developed to accommodate local production.
6. Continue modernizing facilities and equipment as required for increased efficiency and lower costs.
7. The plant should never again be required to purchase either poor quality or surplus milk that must be dumped...actions that cost approximately $700,000 from 1/1/87 through 1/1/88.
8. Establish a new plant eventually at a cost of approximately $2.5-3.0 million

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9. A dairy product dating law is needed in Alaska.

10. A unified, orchestrated marketing approach costing approximately $500,000 annually should be implemented to stimulate consumer awareness for Alaskan agricultural products since the average Alaska citizen has been a resident approximately seven years.

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V. TREND OBSERVATIONS

A. PROFITABILITY

1. Cash Surplus (Deficit) From Operations varied dramatically during 1985-89 by skyrocketing 686.6% from 1985's ($34,409) Deficit to a $201,827 Surplus in 1986...relapsed immediately to a ($619,793) Deficit during 1987...then rebounded through the next three years by climbing to a still negative ($246,627) for 1988 preceding 1989's $363,035 Surplus, through a still higher Cash Surplus of $481,290 as budgeted for 1990. The cumulative gain during 1987 through 1990's forecast, therefore, equals 177.6% totaling an impressive $1,101,083.

2. Pre-tax Profit (Loss) recorded a closely parallel path to Cash Surplus during 1985 through budgeted 1990. Improvement from 1985's ($34,409) Loss to a small Profit of $744 occurred in 1986, followed immediately by a major collapse to a five year low of ($844,135) Loss for 1987. Partial recovery by 40.5% to a ($502,381) Loss during 1988 led to 1989's total emergence to a $64,420 Profit. Continued strengthening to a $173,145 Pre-tax Profit is scheduled for 1990.

3. Steadily increasing Total Sales prompted Inventory @ Book Value to be expanded by 132.0% from $343,180 on 12/31/85 to $795,878 as of 12/31/89. A minor reduction of ($178) to $795,700 is anticipated for 12/31/90 by management despite a 3.9% Sales increase.

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4. Unusually strong budget forecasting and control accuracy levels of 86.9% to 96.8% for Total Revenue and 90.6% to 94.7% for Total Expense throughout 1986-89 suggest strong prospects for reasonable attainment of Management's expectations for 1990.

B. INCOME

1. Total Revenue increased spectacularly in just one year by 37.7% and $3,396,316 from $9,003,262 in 1985 to $12,397,291 for 1986 ...softened marginally by (2.3%) to $12,115,283 during 1987... then climbed another 18.8% through a two year period, reaching $14,388,842 in 1989. Another 4.6% increase to $15,051,866 is projected for 1990, providing an impressive five year cumulative growth of 63.2% totaling $5,635,008. Whereas achievement of the 1990 budget's growth is predicated significantly upon securing two, large, new contracts, management confirmed on 6/12/90 that both had been obtained.

2. KEY INCOME ITEMS - CONSOLIDATED

YEAR	MILK	PALMER	COTTAGE CHEESE	SOUR CREAM	YOGURT
1985	$ 7,107,351/78.9%	$1,428,698/15.9%	$ -0- 0.0%	-0-/0.0%	-0-/0.0%
1986	9,596,015/77.4	1,910,939/15.4	223,703/1.8	206,219/1.7	-0-/0.0
1987	9,231,898/76.2	2,022,127/16.7	368,793/3.0	301,497/2.5	120,346/1.0
1988	10,143,509/79.8	1,284,446/10.1	515,855/4.1	350,385/2.8	232,339/1.0
1989	11,347,825/78.9	1,236,327/ 8.6	649,676/4.5	394,823/2.7	311,330/2.2
1990	12,463,372/82.8	656,678/ 4.4	744,865/4.9	452,424/3.0	364,203/2.4

3. Milk Sales constituted the premier source of income throughout 1985-89 by providing 78.2% of cumulative Total Revenue. Receipts

were expanded from 1985's $7,107,351 representing 78.9% of Total Revenue to $9,596,015 and 77.4% in 1986...declined by (3.8%) to $9,231,898 equaling 76.2% of Total Revenue for 1987, only to resume strengthening by 11.9% during the next two years to 1989's $11,347,825 providing 78.9% of the Corporation's Total Revenue. Milk Sales are budgeted to continue upward by 9.8% during 1990 to $12,463,372 and 82.8% of Total Revenue...thus a cumulative increase in just five years of 75.4% amounting to $5,356,021.

4. Palmer Feedmill Sales were the second most significant source of income throughout 1985-89 by providing $7,882,537 cumulatively, representing 16.7% of the period's Total Revenue. Feed Sales mounted by 41.5% from the study's initial $1,428,698 equaling 15.9% of Total Revenue to $2,022,127 and 16.7% in 1987. A sharp drop of (38.9%) occurred during the next two years to 1989's $1,236,327, constituting a much lower 8.6% of Total Revenue as the financial turmoil with area dairy farms intensified risks involving feed credit.

5. Cottage Cheese represented the third ranking income item during 1986-89 and into 1990's budget. Although zero receipts appear in financial data for 1985, consistent development occurred from 1986's $223,703 providing just 1.8% of Total Revenue to 4.5% and $649,676 in 1989. Continued growth of 4.9% to $744,865 is expected for 1990...thus a cumulative gain of 233.0% totaling $521,162 during the five year period.

6. Sour Cream also was responsible for significant receipts during 1986-89 despite nothing being sold in 1985. Receipts moved upward annually from 1986's $206,219 providing 1.7% of Total Revenue to 2.7% and $394,823 by 1989. Sales are anticipated in 1990's budget to continue upward by 14.6% to $452,424...for a five year, cumulative increase of 119.4% equaling $246,205.
7. Yogurt's initial volume of $120,346 amounting to 1.0% of 1987's Total Revenue was expanded rapidly by 159.0% to $311,330 and 2.2% of Total Revenue during 1989. Another increase of 17.0% to $364,203 is scheduled for 1990, which will establish 202.6% cumulative growth in just five years.
8. Miscellaneous Creamery Sales totaling $786,066 cumulatively for 1985-89 provided 1.3% of Total Revenue. Receipts ranged from a zero level in 1985 to 1989's $423,566 reaching 2.9% of Total Revenue. A (19.3%) reduction to $341,687 is shown for 1990.
9. Resale Items are recorded only for 1985 at $426,728 and 4.7% of Total Revenue followed by a much lower $207,641 equaling 1.7% of Total Revenue during 1986.
10. No other source of Income accounted for more than 0.4% of Total Revenue throughout 1985-89.

C. EXPENSE

1. Total Cash Expense followed a consistently upward path throughout 1985-89 except for a (1.3%) reduction in 1988. Expenditures mounted by 42.6% and $3,795,711 cumulatively from 1985's

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$8,917,568 to $12,713,279 in 1987...declined by (1.3%) to $12,551,337 during 1988...then rebounded by 11.6% to $14,008,366 for 1989. A cumulative increase of 57.1% equaling $5,090,798 occurred during the five year term. Budget data for 1990 entail an additional increase of 3.9% to $14,552,576 as Total Cash Revenue expands by 4.6% to $15,051,866.

2. KEY EXPENSE POSITION CHANGE

	1990	1989	1988	1987	1986	1985
Milk	1	1	1	1	1	5
Milk Transport	2	12	10	6	6	18
Containers/Ingredients	3	3	3	4	4	1
Creamery Labor	4	2	2	3	3	3
Palmer COS (a)	5	-	-	-	-	-
Sour Cream	6	11	11	13	13	-
Cottage Cheese	7	5	5	5	10	-
Delivery Charge	8	9	7	9	5	11
Misc. Creamery COS	9	7	17	27	-	-
Creamery Utilities	10	8	8	11	9	-
General Admin. Labor	11	10	9	10	8	8
Creamery Repairs	12	16	15	14	11	-
Matanuska Delivery	13	-	-	-	-	14
Advertising	14	14	13	12	14	-
Palmer Material	-	4	4	2	2	2
3rd Party Delivery	-	6	6	8	-	-
Yogurt	15	13	14	15	-	-
Palmer Labor	-	15	12	7	7	9
Resale Items	-	-	-	-	12	6
Creamery Oper. Exp.(b)	-	-	-	-	-	4
Fairbanks Delivery	18	-	-	-	-	7
Delivery Oper. Exp.	19	20	19	21	-	10
G&A Oper. Expense	16	17	16	17	16	12
Palmer Oper. Expense	-	28	26	24	20	13

NOTES: (a) Palmer cost of sales are segregated into individual categories during 1986-89.

(b) Creamery operating expenses are segregated into individual categories during 1986-90.

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3. Milk Purchases represented the largest cash expenditure during every year of the OPERATIONS REVIEW AND ANALYSIS period except for 1985 when accounting procedures apparently combined most of the milk that was acquired with "containers/ingredients". Based upon Corporate records, however, Milk Purchases shot upwards by an unrealistic 1,242.9% from 1985's $435,744 representing just 4.9% of Total Expense to $5,851,552 and a more plausible 48.0% of Total Cash Expense during 1986. A subsequent 2.7% increase to $6,007,482 equaling 47.3% of Total Expense in 1987 preceded 1988's slight reduction of (1.8%) to $5,900,148 and an almost identical 47.0% index. A significant, 8.9% increase in Milk Purchases to $6,423,541 and 45.9% of Total Expense during 1989 was remarkably low considering the year's substantially higher raw milk prices nationally combined with Matanuska Maid's 13.2% greater Sales volume.

4. Creamery Labor ranked second in 1989 at $1,299,592 equaling 9.3% of Total Expense...placing not lower than third in any other year. Expenditures climbed annually from 1985's $572,649 and a 6.4% index to $1,136,202 representing 9.1% during 1988. Budget data for 1990 include another 3.2% increase to $1,341,368 amounting to 9.2% of Total Cash Expense.

5. Containers/Ingredients were the third leading expenditure during 1989 at $1,268,138 and 9.1% of Total Expense, besides varying from first to fourth throughout the ORA period. Line item misclassification is suspected by Business Counsel relative to 1985's data since purchases are listed at $4,496,158 equaling

50.4% of Total Expense while milk purchases are reported at only $435,744. Costs for Containers And Ingredients during 1986 are shown as totaling a more realistic $876,531 representing 7.2% of Total Expense, increasing subsequently during the next three years to 1989's $1,268,138 and a 9.1% index. Budget data for 1990 include 8.0% greater purchases of Containers/Ingredients costing $1,369,920, but a closely similar 9.4% of Total Expense.

6. Palmer Material was the fourth key expense for 1989 at $981,468 and 7.0% of Total Cash Expense, besides ranking either second or fourth during previous years. Expenditures climbed by 54.2% cumulatively from 1985's $1,043,758 equaling 11.7% of Total Expense to $1,610,489 and 12.7% in 1987...declined sharply by (36.2%) to $1,027,668 representing a significantly lower 8.2% index in 1988...then continued downward to $981,468 and 7.0% of Total Expense for 1989. Despite 1990's budgeted expenditures for Palmer Material not being itemized separately, Total Palmer Expense is listed as being reduced by (37.3%) for the year to $785,730.

7. Cottage Cheese expenditures were in fifth position in 1989 at $478,882 representing 3.4% of Matanuska Maid's Total Expense for the year. Costs appeared initially in 1986 with $164,585 equaling 1.4% of Total Expense, then climbed annually by a cumulative 191.0% to 1989's $478,882 and a 3.4% index...to be

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followed in 1990's budget by a downturn of (27.6%) to $346,500 amounting to 2.4% of Total Expense. Expenditures tracked well in relation to Cottage Cheese receipts throughout all four years as the product's Gross Margin On Sales was an excellent 26.3% in 1986 and an almost identical 26.4% for 1989.

8. Third Party Delivery occupied sixth place in 1989 at $380,619 representing 2.7% of Total Expense. The line item was included in P&L data for just two other years, being listed in 1987 at $246,438 and a 1.9% index followed by $294,446 equaling 2.3% of Total Expense for 1988...plus nothing appears in 1990's budget. A possibility exists, however, that delivery charges attributed to Fairbanks, Kenai, and Matanuska Valley for 1985 as well as in the 1990 forecast may be Third Party Delivery in other years.

9. Miscellaneous Product Cost Of Sales constituted 1989's seventh largest expenditure at $375,263 and 2.7% of Total Cash Expense. Costs were reported for the first time in 1987 data at $21,679 amounting to just a 0.2% index...climbed to $97,502 equaling 0.8% of Total Expense during 1988...then jumped dramatically by 285.0% to 1989's level. Despite Miscellaneous Creamery Income of $209,249 being included in 1986's data, no corresponding entry appears for Miscellaneous Product Cost Of Sales for the creamery. Gross Margin during 1987-89 varied from 11.4% to 23.4%. A (21.6%) reduction in outlays for the category is forecast for 1990.

10. Creamery Utilities were the eighth most significant expenditure during 1989 by reaching $317,248 equaling 2.3% of Total Expense. Utility costs increased by 47.3% cumulatively in response to expanded production from 1986's $215,270 and 1.8% of Total Expense to $317,248 with a 2.3% index during 1989. A relatively unusual decrease of (11.3%) to $281,453 is projected for 1990 despite Total Revenue's anticipated increase of 4.6%.

11. Delivery Labor represented the ninth leading category for 1989 at $285,583 and 2.0% of Total Expense. Charges of $168,718 equaling a 1.9% index in 1985 began the ORA period...jumped sharply by 246.0% to 1986's $583,082 amounting to 4.8% of Total Expense...relapsed immediately by (58.6%) to $241,296 equaling 1.9% of Total Expense...then rebounded partially during the next two years to the $285,583 level for 1989. Another 7.2% increase in Delivery Labor to $306,117 representing 2.1% of Total Expense is scheduled for 1990.

12. General And Administrative Labor costs of $238,925 amounting to 1.7% of Total Expense were incurred in 1989 for the tenth ranked expenditure. The category's entries increased by 23.7% during a three year period from 1985's $198,417 equaling 2.2% of Total Expense to $245,534 providing a slightly lower index of 2.0% for 1988. A (2.7%) reduction of G & A costs to 1989's level is

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budgeted to be followed during 1990 by an 8.7% increase to $259,722 and 1.8% of Total Expense.

Many industries report General Management And Administrative costs in a range of 4-6% of Total Cash Expense. The University Of Alaska's Bulletin 65 entitled "An Economic Analysis of Fluid Milk Processing in Alaska" reports G & A costs on page 27 at 8.97% of Total Expense (including depreciation) for its Plant category I...7.22% for category II...and 4.49% for category III.

13. Sour Cream costs were the eleventh most important expenditure in 1989 at $219,101 and 1.6% of Total Expense. Costs climbed by 64.3% cumulatively from 1986's initial $133,359 and a 1.1% index to 1989's $219,101. An additional increase of 3.5% to $506,526 as budgeted for 1990 exceeds the expected Income from Sour Cream totaling $452,424 by an undesirable 10.7% margin.

14. Milk Transport was the twelfth largest expenditure during 1989 at $216,234 reflecting 1.5% of Total Expense. Costs followed an extremely volatile path from 1985's $19,780 representing just 0.2% of Total Expense to $351,656 and 1.4% in 1986. A (38.5%) decline occurred through the next three years to 1989's level. A massive increase of 618.0% to $1,552,650 equaling 10.7% of Total Cash Expense is projected for 1990.

15. Yogurt occupied thirteenth position for 1989 at $191,286 and 1.4% of Total Expense. Yogurt's initial appearance in 1987 was responsible for costs of $88,643 amounting to a relatively minor

0.7% of Total Expense...vaulted by 92.4% to $170,512 and a 1.4% index during 1988...then climbed another 12.2% to 1989's three year peak of $191,286. Assuming accurate cost accounting data, Gross Margins for Yogurt weakened briefly from 1987's extremely strong 35.8% index to a still attractive 26.6% in 1988... rebounded sharply to 38.6% Gross Margin for 1989...with amazing further improvement to 55.0% being calculated for 1990.

16. Despite sizeable appearing expenditures ranging from an initial $129,479 in 1986 to 1987's peak of $217,588, Advertising Costs actually remained extremely low at 1.1% to 1.7% of Total Expense throughout 1986-89. Moreover, a (5.6%) cutback to $178,468 providing a 1.2% index is budgeted for 1990. Expenditures at levels of 2.5-3.0% of Total Revenue are usually considered to be more appropriate in reasonably comparable situations.

17. Additional categories having brief significance during the ORA period include Resale Items at $365,704 representing 3.9% of Total Expense in 1985 followed by a much lower $159,391 and 1.3% for 1986...plus Fairbanks Delivery Expense of $249,031 during 1985.

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D. KEY EXPENSE ITEMS

1990

Milk	41.3%
Milk Transport	10.7%
Contain./Ingrdnt.	9.4%
Creamery Labor	9.2%
Palmer COS	5.4%
Sour Cream	3.5%
Cottage Cheese	2.4%
Delivery Labor	2.1%
Misc. Creamery COS	2.0%
Creamery Utilities	1.9%
G&A Labor	1.8%
Creamery Repairs	1.5%
Matanuska Delivery	1.3%
Advertising	1.2%
Total	93.7%

1989

Milk	45.9%
Creamery Labor	9.3%
Contain./Ingrdnt.	9.1%
Palmer Material	7.0%
Cottage Cheese	3.4%
3rd Pty. Delivery	2.7%
Misc. Creamery COS	2.7%
Creamery Utilities	2.3%
Delivery Labor	2.0%
G&A Labor	1.7%
Sour Cream	1.6%
Milk Transport	1.5%
Yogurt	1.4%
Advertising	1.4%
Total	92.0%

1988

Milk	47.0%
Creamery Labor	9.1%
Contain./Ingrdnt.	8.3%
Palmer Material	8.2%
Cottage Cheese	3.3%
3rd Pty. Delivery	2.3%
Delivery Labor	2.2%
Creamery Utilities	2.2%
G&A Labor	2.0%
Milk Transport	1.9%
Sour Cream	1.6%
Palmer Labor	1.5%
Advertising	1.5%
Yogurt	1.4%
Total	92.5%

1987

Milk	47.3%
Palmer Material	12.7%
Creamery Labor	8.0%
Contain./Ingrdnt.	7.0%
Cottage Cheese	3.0%
Milk Transport	2.1%
Palmer Labor	2.0%
3rd Pty. Delivery	1.9%
Delivery Labor	1.9%
G&A Labor	1.9%
Creamery Utilities	1.8%
Advertising	1.7%
Sour Cream	1.5%
Creamery Repairs	1.3%
Total	94.1%

1986

Milk	48.0%
Palmer Material	12.1%
Creamery Labor	7.2%
Contain./Ingrdnt.	7.2%
Delivery Labor	4.8%
Milk Transport	2.9%
Palmer Labor	1.9%
G&A Labor	1.9%
Creamery Utilities	1.8%
Cottage Cheese	1.4%
Creamery Repairs	1.3%
Resale Items	1.3%
Sour Cream	1.1%
Advertising	1.1%
Total	94.0%

1985

Contain./Ingrdnt.	50.4%
Palmer Material	11.7%
Creamery Labor	6.4%
Creamery Op. Exp.	5.1%
Milk	4.9%
Resale Items	3.9%
Fairbanks Delivery	2.8%
G&A Labor	2.2%
Palmer Labor	2.1%
Delivery Op. Exp.	2.0%
Delivery Labor	1.9%
G&A Oper. Expense	1.5%
Palmer Op. Exp.	1.5%
Matanuska Delivery	1.3%
Total	97.7%

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E. OTHER KEY FACTORS

1. Net Worth @ Book Value increased 11.2% in two years from 12/31/85's $4,456,642 to $4,957,241 by 12/31/87, relapsed partially to $4,616,385 on 12/31/88, but rebounded to $4,873,914 by 12/31/89. Continued strengthening to $5,024,041 is projected for 12/31/90...providing a five year, cumulative improvement of 12.7% totaling $567,399.

2. Net Worth @ Fair Market Value data were not provided for this study...a not uncommon occurrence for highly specialized, industrial type firms. Reasonably accurate determination requires development of a detailed and relatively expensive appraisal by an appropriately experienced source. Usually, however, FMVs within a "going and profitable" firm are no lower than BVs and may be higher.

3. Total Liabilities mounted by 87.6% during a four year period from $875,749 on 12/31/85 to 12/31/89's 1,642,661. Substantial reduction to $1,113,123 is forecast for 12/31/90, leaving a cumulative increase of $757,560 accompanied by $4,667,140 more Total Assets and $6,047,999 greater Total Revenue annually.

- AS -

Percentage Equity @ BV declined from an excellent 83.6% on 12/31/85 to 12/31/89's still strong 74.8% level. Virtually complete recovery to 81.9% Equity @ BV is projected for 12/31/90 as Net Worth reaches a six year high of $5,024,041.

- PLUS -

Current Liabilities mushroomed from 12/31/85's $626,196 to $1,642,661 on 12/31/89, with a ($529,538) reduction to a total of $1,113,123 being scheduled by management for 12/31/90. The $486,927 cumulative increase of Current Liabilities through 12/31/90 is also anticipated to be paralleled by continuation of $-0- Long Term Liabilities...$1,411,602 greater Current Assets in the form of Cash, Accounts Receivable, Inventory, and "Other Current Assets"...in addition to a $6,048,604 expansion of Total Sales annually.

4. Total Assets @ Fair Market Value data were not provided for this ORA for the same reasons indicated in item "2" of this section.

5. Total Assets @ Book Value were increased steadily during the last five years from $5,332,391 on 12/31/85 to $6,516,575 for 12/31/89. The ($379,411) reduction to $6,137,164 anticipated for 12/31/90 will leave a cumulative gain of 15.1% amounting to $804,773 despite Depreciation charges totaling ($1,353,825).

6. Current Assets @ BV climbed annually and by a cumulative 70.4% representing $1,484,457 from an initial $2,107,901 on 12/31/85 to 12/31/89's $3,592,358. A minor decline of (2.0%) is budgeted for 12/31/90.

7. Current Liabilities also mounted annually by a cumulative 162.3% from $626,196 on 12/31/85 to $1,642,661 by 12/31/89, although a

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substantial drop of (32.2%) to $1,113,123 is scheduled to occur by 12/31/90.

- BUT -

The combination of Current Assets expansion and dramatic Sales growth more than offset the negative aspects of higher Current Liabilities.

- MOREOVER -

Current Liabilities Percentage Of Total Revenue varied from a moderate 5.9% index for 1986 to 11.4% during 1989. Business Counsel normally recommends that CL%TR index not exceed the percentage index for the same year's Gross Profit On Cash Revenue...for example 2.5% for 1989. Matanuska Maid's strong Current Ratio of 2.19:1 on 12/31/89, however, which is expected to improve to 3.16:1 by 12/31/90, provides an acceptable safety margin if other, key, interrelationships do not deteriorate.

8. Current Ratio remained reasonably steady at 3.23:1 to 3.52:1 during 12/31/85 through 12/31/87, then weakened to a still workable 2.19:1 by 12/31/89. Extremely desirable strengthening to a 3.16:1 Current Ratio is slated for 12/31/90. Many lenders are returning to the traditional minimum standard of 2:1 as a basic financial requirements. Matanuska Maid's normal balance of Accounts Receivable exceeding $2,000,000 also mandates that conservative Current Ratio levels be maintained.

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9. Sales Per Dollar Of Fixed Assets @ Book Value improved steadily from 1985's distinctly inadequate $2.79 index to $4.92 during 1989. Net Fixed Assets @ BV declined by ($300,273) during the four year period primarily as a function of Depreciation charges while Total Revenue was expanded by $5,388,630. Continuing improvement of capital utilization efficiency is reflected in 1990's budget forecast via further strengthening to a $5.75 Sales To Fixed Assets @ BV index. Business Counsel suggests a strong probability that achieving a more desirable 10% Gross Profit On Revenue in the future, as should be rationally possible, will likely require a $6.50 to $6.90 S/FA @ BV index reflecting 13-20% higher Total Sales annually.

10. Sales Growth To Fixed Assets Growth @ BV maintained a favorable 17.95:(1) ratio during 1985-89 as Total Sales were expanded by $17.95 for each ($1) decline of Fixed Assets. The ratio of 9.97:(1) that is projected for 1985-90 appears deceptively to be impacted negatively since Fixed Assets' further reduction of ($306,556) via Depreciation charges results in a larger divisor of Fixed Assets reduction into the continued Sales Growth of $662,465.

11. Sales Per Dollar Of Inventory @ Book Value improved from 1985's already excellent $26.23 index to $30.63 in 1986, then trended downward to an $18.08 index as Corporate product line expansion and Sales growth required that larger Inventories be maintained.

Trend reversal via a 4.6% strengthening to $18.92 is included in 1990's budget.

- THUS -

Inventory dollars will average turning over completely every 19.3 days during 1990. Attention should be directed to further improvement because of dairy products' inherent perishability, plus potential future additions of hard cheese and ice cream may tend to erode the Sales Per Dollar Of Inventory index.

12. Sales Growth To Inventory Growth @ BV maintained a desirable ratio of 11.90:1 for 1985-89 cumulatively as Total Sales were expanded by $11.90 for each $1.00 increase in Inventory during the four year period. An even stronger 13.37:1 ratio is planned for 1985-90 as Total Sales continue upward another 4.6% equaling $662,419 during 1990 while Total Inventory decreases slightly by ($178) for the year.

13. Sales Growth To Total Assets Growth @ BV registered a moderate 4.55:1 ratio throughout 1985-89, with Total Sales increasing by $4.55 for every $1.00 of Total Assets that were added. A much more satisfactory 7.52:1 ratio is forecast for 1985-90, since Total Sales are scheduled to increase by 4.6% accompanied by ($379,411) reduction of Total Assets @ BV, primarily from Depreciation charges.

14. Pre-tax Profit (Loss) results were dismal for the ORA's first four years, partially as a result of direct Operating Losses but more directly as a result of external policy decisions. An initial Pre-tax Loss of ($34,409) reported for 1985 improved to a slightly positive $744 Profit in 1986, but collapsed sharply to a devastating ($844,135) Loss during 1987...reflecting that Matanuska Maid was required to purchase local raw milk costing in excess of $700,000 that (a) was beyond the Plant's existing sales level and (b) included portions that contained serious bacterial contamination.

15. Debt To Equity @ BV ratio regressed steadily from 12/31/85's excellent 1:5.09 reflecting 83.6% Equity to a still acceptable 1:2.97 ratio on 12/31/89 representing 74.8% Equity @ BV. Budget data for 12/31/90 include significant strengthening to a much stronger 1:4.51 Debt To Equity ratio and 81.9% Equity as Total Liabilities are reduced by (32.2%) representing ($529,538).

16. Debt Added Per Dollar Of New Sales maintained an outstanding 14.2¢ index cumulatively throughout 1985-89, indicating that Total Sales were expanded approximately 7 times faster than additional Debt was incurred during the four years. Continued, major improvement to a miniscule 3.9¢ index for 1985-90 cumulatively reveals management's intentions to increase Total Sales to provide a rate of Sales growth 25 times greater than Total Liabilities' cumulative increase for five consecutive years.

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17. Interest Expense Percentage Of Total Revenue remained at rather negligible indices of 0.2% to 0.4% throughout 1985-89, with continuation of a 0.2% index being planned for 1990. Financial guidelines for manufacturing firms suggest that appropriately balanced internal financial structures involving total assets, liabilities, sales, and expense should ordinarily be able to support IE%TR indices of 4.0-6.0%. Conversely, higher index levels subtract from bottom-line profitability in direct proportion to dollars expended. Matanuska Maid's situation has also been unusually favorable in that Interest Income has provided offsets of 61.0% to 85.6% of the funds required for Interest Expense throughout 1986-89.

18. Debt Coverage Index nosedived from an extremely weak 1.7% level for 1986 to 1988's financially suicidal (1,846.1%) index. Almost miraculous recovery to an outstanding 227.5% index in 1989 is slated to be followed by a significantly stronger 718.0% for 1990.

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VI. PERFORMANCE RATIOS/INDICES

This chapter's analytical measurements track the basic financial structure and business performance of The Creamery Corporation dba Matanuska Maid as the firm conducted its dairy product manufacturing operations during 1985 through budgeted 1990. Sustained progress or regression during a five year period should seldom be attributed primarily to external factors such as high/low market prices, favorable or unfavorable interest rates, or luck. Direct linkage clearly exists between a business' fundamental, financial structure and its profitability on a sustained basis. Positive or negative results within one measurement group usually portend similar results in other areas. Conversely, no single indicator constitutes an infallible test of future success or failure.

The following data provide a financially oriented performance history of the total business' internal strengths and weaknesses...why "bottom-line" results have been either satisfactory or disappointing... and reveal what must be emphasized structurally in order to maximize future progress.

Careful evaluation of additional data is absolutely essential, however, to avoid erroneous conclusions.

A. Gross Profit (Loss) On Cash Revenue

"Total cash revenue minus total cash expense, not including depreciation/depletion and income taxes, divided by total cash revenue." Measures the fundamental profitability of a business. A long term inability to exceed 20% indicates serious questions regarding the business' existing structure...except that enterprises exhibiting extremely stable price/cost/income histories can usually survive with 10% margins. Dairy processing plants should normally fit within the latter category.

(0.4%)	in	1985
1.6%	in	1986
(5.1%)	in	1987
(1.9%)	in	1988
2.5%	in	1989
3.2%	budgeted	1990

B. Return On Investment @ Book Value

"After-tax profit (loss) divided by total assets at book value." Measures the return on actual cash invested less depreciation but without any consideration of inflation or "going business" value. Sustained percentages below a total of the prevailing 12 month C.D. interest rate + current inflation rate indicate percentages are not attractive on a long term basis.

(0.6%)	in	1985
0.0%	in	1986
(14.1%)	in	1987
(8.4%)	in	1988
1.0%	in	1989
2.8%	budgeted	1990

C. Unleveraged Return On Investment

"Pre-tax profit (loss) plus interest paid divided by total assets at book value." UROI being a true test of a business' earning power since taxes and interest paid reflect management decisions.

(0.3%)	in	1985
0.8%	in	1986
(13.4%)	in	1987
(7.8%)	in	1988
1.4%	in	1989
3.2%	budgeted	1990

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D. Return On Equity @ Book Value

"Pre-tax profit (loss) divided by owners' equity/net worth at book value." Measures the earning power of book value ownership above debt in a business.

(0.8%)	in	1985
0.0%	in	1986
(17.0%)	in	1987
(10.9%)	in	1988
1.3%	in	1989
3.4%	budgeted	1990

E. Sales To Fixed Assets Index @ Book Value

"Total cash sales divided by the total of fixed assets at cost/basis less cumulative depreciation." Well run cow/calf operations should exceed 75 cents of sales for each book value dollar of fixed assets...sound crop operations typically produce at least 50 cents of sales...cattle feedlots generally require $7 sales for marginal profitability...confinement swine need above $1.00...and dairies normally require a minimum index of $1.20. **Matanuska Maid's data to date suggest a need for approximately a $6.25 to $6.50 index to achieve 10% GPOCR and $7.50 to $7.75 for 20%.**

$2.79	in	1985
$3.91	in	1986
$3.88	in	1987
$4.18	in	1988
$4.92	in	1989
$5.75	budgeted	1990

F. Sales Growth To Fixed Assets Growth @ Book Value

"Ratio of the increase in total dollar cash sales for a specific time period to the increase in book value of fixed assets for the same time period." Sales growth should exceed fixed assets growth by at least the same margin as recommended for the Sales To Fixed Assets Index.

17.95:(1)	during	1986-89
9.97:(1)	budgeted	1986-90

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G. Sales To Inventory @ Book Value

"Total dollars of products or services sold divided by the total dollar value of closing inventory at book value." Sound cash grain/hay farms should produce at least $1.10 of sales per dollar of inventory at fair market value. Cow/calf enterprises should generate a minimum of 90¢ sales. Profitable swine operations typically provide a $2.80-3.45 index. Small farm located, cattle feedlots should maintain a $3-3.50 index. Matanuska Maid's performance during 1985-89 indicates that a minimum index of $19-21 @ BV should be maintained within the present product line mix.

$26.23	in	1985
$30.63	in	1986
$20.46	in	1987
$19.57	in	1988
$18.08	in	1989
$18.92	budgeted	1990

H. Sales Growth To Inventory Growth @ Book Value

"Ratio of the increase in total dollar cash sales for a specific time period to the increase in book value of inventory for the same time period." Sales growth should exceed inventory growth by at least the same margin as recommended for the Sales To Inventory Index.

11.90:1	during	1986-89
13.37:1	budgeted	1986-90

I. Sales Growth To Total Assets Growth @ Book Value

"The dollar growth in total cash sales divided by the dollar growth in total assets at book value for a specific time period."

4.55:1	during	1986-89
7.52:1	budgeted	1986-90

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J. Sales To Labor Index

"Total dollars of products or services sold divided by total dollars of labor and benefits expense for the same period of time." Labor utilization on diversified farms is generally considered to be within optimal levels at indices of \$11 to \$20...or 5-9% of Total Revenue. Matanuska Maid's results to date suggest a necessity for maintaining at least a \$7.50 to \$8.00 index, or 12-15% of Total Revenue, assuming that classification categories are correct. Many manufacturing firms must achieve essentially the same guidelines as with diversified farms.

\$ 8.89	in	1985
\$ 6.79	in	1986
\$ 7.31	in	1987
\$ 7.23	in	1988
\$ 7.29 est.	in	1989
\$ 7.77 est.	budgeted	1990

K. Sales Growth To Expense Growth

"Ratio of the increase in total dollar cash sales for a specific time period to the increase in total cash expense for the same time period." Sales growth should exceed expense growth by at least 20%.

1.06:1	during	1986-89
1.07:1	budgeted	1986-90

L. Sales/Expense Added Per \$ Of New Debt

"The dollar amount of new sales or new expense generated during a specific time period divided by the dollar amount of new debt incurred during the same time period." Sales indices should be at least 11% greater than expense indices in order to maintain 10% GPOCR during an expansion period, or 25% greater for 20% GPOCR.

7.03:1	Sales	1986-89
6.64:1	Expense	1986-89
25.49:1	Sales	1986-90
23.74:1	Expense	1986-90

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M. Asset Turnover Index @ Book Value

"Total revenue not including sales of capital items + personal withdrawals or minus (additions) divided by total assets at book value being used in the business." Indicates the amount of gross income generated per dollar of capital invested.

1.69	in	1985
2.17	in	1985
2.03	in	1987
2.12	in	1988
2.21	in	1989
2.45	budgeted	1990

N. Percentage Equity @ Book Value

"Owners' equity/net worth at book value divided by the net depreciated value of all assets." Not commonly used but can be a covenant in long term agreements. Some lenders require a minimum of 25-40%.

83.6%	on	12/31/85
83.1%	on	12/31/86
83.1%	on	12/31/87
77.0%	on	12/31/89
74.8%	on	12/31/80
81.9%	budgeted	12/31/90

O. Assets To Liabilities @ Book Value

"Acquisition cost/basis of all assets minus cumulative depreciation divided by total liabilities." Not commonly used but some lenders require a minimum of 1.33:1 to 1.66:1.

6.09:1	on	12/31/85
5.91:1	on	12/31/86
5.90:1	on	12/31/87
4.34:1	on	12/31/88
3.97:1	on	12/31/89
5.51:1	budgeted	12/31/90

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P. Current Ratio

"Ratio of current assets at fair market value to current liabilities." Most long term lenders require a minimum ratio between 1.24:1 and 1.75:1 while local banks may require a minimum ratio of 2:1, or two dollars of current assets for each dollar of current liabilities. Calculations in this ORA relative to Matanuska Maid are on a more conservative book value basis since fair market valuations are not determined by management.

3.37:1	on	12/31/85
3.52:1	on	12/31/86
3.23:1	on	12/31/87
2.22:1	on	12/31/88
2.19:1	on	12/31/89
3.16:1	budgeted	12/31/90

Q. Liquidity

"Current assets at fair market value divided by current liabilities." A percentage below 100 indicates technical insolvency.

336.6%	on	12/31/85
351.6%	on	12/31/86
322.7%	on	12/31/87
221.6%	on	12/31/88
218.7%	on	12/31/89
316.2%	budgeted	12/31/90

R. Current Liabilities Percentage Of Total Revenue

"Current liabilities divided by total revenue." Most agricultural operations should not exceed the same percentage as for Gross Profit On Revenue minus the dollar amount required for long term debt payments.

7.0%	on	12/31/85
5.9%	on	12/31/86
7.3%	on	12/31/87
10.5%	on	12/31/88
11.4%	on	12/31/89
7.4%	budgeted	12/31/90

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S. Debt To Equity @ Book Value

"The ratio of total debt to owners' equity at book value."

1:5.09	on	12/31/85
1:4.91	on	12/31/86
1:4.90	on	12/31/87
1:3.34	on	12/31/88
1:2.97	on	12/31/89
1:4.51	budgeted	12/31/90

T. Ratio Of Short Term Debt To Long Term Debt

"The higher total of short term debt or long term debt divided by the lower total of the two categories." Analysts in many industries recommend that short term debt not exceed a 1:1 ratio when substantial amounts of debt are outstanding. Agriculture's normally significant volatility indicates that short term debt should not exceed 1:2 in large debt situations that lack strong liquidity.

2.51:1	on	12/31/85
2.99:1	on	12/31/86
6.81:1	on	12/31/87
27.26:1	on	12/31/88
No Long Term Debt	on	12/31/89
No Long Term Debt	budgeted	12/31/90

U. Debt Added Per $ Of New Sales

"The amount of new debt incurred to produce one dollar of additional sales."

$0.14	during	1985-89
$0.04	budgeted	1985-90

V. Interest Expense Percentage Of Pre-Tax Profit (Loss)

"Total interest expense actually paid for the year divided by taxable profit (loss) for the year." The 1980 national average for all corporations was approximately 45%...up from 14% during the 1960's.

46.0%	in	1985 Loss
6,041.5%	in	1986
5.4%	in	1987 Loss
6.5%	in	1988 Loss
44.0%	in	1989
13.9%	budgeted	1990

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W. Interest Expense Percentage Of Total Revenue

"Total interest expense actually paid for the year divided by total revenue for the year." Traditional views have considered 2-3% indices as acceptable in manufacturing...4-5% as marginal...and above 5% to be dangerous.

0.2%	in	1985
0.4%	in	1986
0.4%	in	1987
0.3%	in	1988
0.2%	in	1989
0.2%	budgeted	1990

X. Internal Financing Strength

"Cumulative cash flow during a specific, five year term divided by the cumulative cost/basis of total assets added during the same time period." The all-industry average during 1981 was 71.5%.

(28.4%)	during	1985-89

Y. Budget Forecasting/Control Accuracy

"Income or expense actual dollars subtracted from the budgeted dollars for the same item divided by the budgeted dollars then subtracted from 1." Measures percentage accuracy of the budget forecast.

	INCOME	EXPENSE
1985	No Budget Information	
1986	92.7%	90.6%
1987	86.9%	94.7%
1988	96.8%	94.6%
1989	96.6%	93.9%

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VII. <u>PROBLEM AREAS</u>

A. Structural

1. Despite the fact that external, State political considerations saved Matanuska Maid from extinction following its bankruptcy in 1985, subsequent developments almost wrecked the Corporation during 1987. Certain, strategically critical policies continue to constitute serious handicaps to its sustained progress.

   * Operating management should report to an <u>independent</u> Board Of Directors whose <u>primary</u> function is to establish and monitor both policy guidelines and operating procedures that emphasize the Company's financial welfare and competitive viability while maintaining reasonable social and environmental responsibility. The ARLF Board's unavoidably conflicting agendae, in addition to an apparent absence of understanding regarding food processing plant business strategy, prevent it from performing satisfactorily in an oversight capacity.

   * Strategically incorrect local perceptions concerning Matanuska Maid's basic mission were stressed as far back as 7/10/84 in a report prepared by a consulting team from Washington State University. The firm should be viewed by all parties as a profit making entity in its own right. Among those interviewed by Business Counsel in the Anchorage area during 11/19-21/89, the plant's management team represented the only individuals

who understood its appropriate role while being committed to increasing market penetration, decreasing costs yet providing fair prices to local producers, and maintaining excellent product quality.

* Matanuska Maid should not be utilized in a doomed effort to compensate for grossly incorrect financial assumptions that encouraged establishment of the Point MacKenzie dairy project. Dairy farms can be profitable in Alaska if they (a) are large enough, (b) maintain sound financial structures, (c) operate efficiently while being quality oriented, and (d) sell to a soundly managed dairy manufacturing plant having a broad line of consumer products. Misapplication of capital seldom leads to ultimate success since it inevitably encourages failure.

* Point MacKenzie Project planning problems:

  (a) Establishing a "community" of closely adjacent dairy farms theoretically provides certain economies of scale via being served by the same infrastructure...but too many potentially serious environmental and animal health problems are also created.

  (b) The proposed dairy unit sizes of 50, 75, and 100 cows do not offer sufficient Cash Flow potential to support a farm family after annual debt amortization payments as the plan would require. Steady off-farm employment is rarely compatible with intensive dairy operations, especially in light of today's trend to milking three times daily.

  (c) Severe acreage ownership restrictions prevent producing sufficient hay or silage for internal consumption, much less having surplus volume for sale to augment annual revenue as well as provide optimally efficient usage of essential farm machinery.

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Dairies in the lower 48 states milking 50-100 cows are typically integral parts of long established, diversified operations located in mature milk shed areas. A 150 cow dairy may be the minimal size that should be expected to be acceptably profitable in the Anchorage area.

(d) Infrastructure transportation related costs involving feed delivery, milk pick-up, veterinary requirements, and dairy unit servicing were apparently not included in production costs.

(e) New dairies were not provided adequate health inspections, thus permitting severe health problems to arise involving water quality, high somatic cell counts, plus dangerous psychotrophic cell counts.

(f) The economic feasibility of 150 cow dairies was based essentially upon four, key criteria.

- Average milk production per cow of 15,124 pounds annually was utilized in one study and 16,000 pounds in another.

- Dairy farms were to receive $16.84/cwt. FOB the farm for Class I raw milk.

- Investment in capital assets (not including cows) was illustrated @ $1,241,711...representing $8,278 per cow.

- Net profitability would be excellent...amounting in one study to $132,340 Cash Surplus From Operations and 27.3% Gross Profit On Cash Revenue by the fourth year, while another projected $22,080 and 5.9% GPOCR.

- THUS -

Despite mediocre production performance and monumentally excessive investment in land/buildings/machinery/equipment accompanied by suffocating debt, the resulting Sales To Fixed Assets @ BV indices of approximately 39¢ would still manage somehow to overcome the fundamental necessity for realizing at least a $1.20 index, with $1.50 being more appropriate.

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- AND -

Feed costs would equal 39-41% of Total Revenue despite acreage ownership restrictions that severely limit hay and silage production capability.

(g) State control over the management of milk processing firms was advocated "to make certain that Alaskan milk could capture and hold the necessary 62% of the market"... without identifying how State ownership could be superior in a retail market driven, food manufacturing business other than having access to "unlimited" public funding not bound by conventional financial standards.

2. Ownership of Carr's Quality Centers acknowledged in a personal interview on 11/20/89 that Matanuska Maid's dairy products are handled only because a segment of the consuming public insists that the line be carried. Open disregard was expressed for the principle of supporting Matanuska Maid and/or local dairy farms. Products from Seattle had been evaluated by Carr management as having both superior quality and lower price. Prospects for additional economic gain from milk products imported via Carr related ocean transport and wholesale distribution interests were also rejected as influencing brand support in any manner.

3. Key areas of physical plant modernization need to be made. Items that have been identified as requiring early attention include a control panel costing $50-75,000...a culture products packaging machine costing $50-100,000 (probably closer to $100K)...a new truck @ $50,000...and a $24,000 computer. The plant's advanced age will also likely continue to require Repairs/Maintenance at

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least in the range of 1987's $226,756 representing 1.8% of Total Cash Expense declining to $183,736 and a 1.3% index during 1989.

4. Significant attrition of both the plant's management and labor force should be expected if strategically crucial factors as identified in this ORA are not corrected adequately. No one's salary level is sufficient to compensate for unrelenting, distorted pounding by the Anchorage media and other interests.

5. Sales volume at 1990's projected level near $15 million will still be too low to realize all of the operating economies of scale that the present facilities are capable of achieving. Continuing 1988-90's rate of Sales expansion through 1995 would reach Total Sales of approximately $18.6 million annually. Operating Profitability at that point should equal at least 5-7% Gross Profit On Cash Revenue. Sales expansion to $25 million within five years as envisioned by plant management should enable a level of 8-10% GPOCR to be realized.

6. Additional product diversification is essential for both boosting Total Sales and improving profit margins. Consumer preference in most dairy products is moving towards lower fat content items. Demand for "light" ice cream and hard cheese having just 1-3 fat grams per serving has even been increasing rapidly. Whole milk's natural composition having 3-4% fat content, therefore, makes product diversification virtually mandatory in order to be able

to utilize all of the incoming raw milk's physical components. One of the initial functions in a diversified dairy processing plant involves "separating" 100% of the fat from all milk that will not be sold as "whole milk".

Subsequent manufacturing processes recombine the separated fat and milk solids non-fat (MSNF) in proportion to precise formulas for each product. Skim milk, for example, contains zero fat while "French" ice cream must have at least 12% in order to meet federal standards. Matanuska Maid's purchases of fluid milk from Seattle have involved 2% fat content product, thus relieving 25-33% of the plant's potential problem with surplus MSNF.

Local dairy farm owners and other interested parties have reportedly proposed replacing the existing processing plant with a smaller facility located outside Anchorage that would be limited to sales of fluid milk products. Establishing a new plant out of its present downtown location might be desirable at some point ...but moving toward a single product line of fluid milk should be expected to be counterproductive. Moreover, prospects for expanding local milk production significantly would be effectively eradicated.

7. Milk sourcing is strategically crucial to any dairy plant. Recent media and producer rhetoric criticizing Matanuska Maid's purchases of fluid milk from the Seattle area reflect (a) glaring absence of knowledge regarding milk processing and marketing

economics, (b) predetermined bias not based on facts regarding the plant's mission, responsibilities, personnel, or economic factors, as well as (c) hidden agendae stemming from personal objectives involving future plant ownership and presumed financial gain. Moreover, eliminating milk imports would involve immediate loss of local jobs by many of the individuals engaged in processing, sales, and transportation activities.

Purchasing approximately 5-10% of Matanuska Maid's total fluid milk requirements from outside the local milk shed area represents an economically vital strategy even if Alaskan production volume were to become adequate. The best managed dairy farms normally experience considerable seasonal variations that often vary from an individual plant's sales demand patterns. Total milk volume from a group of participating dairy farms can usually be forecast with 90-95% accuracy as soon as each installation has developed reasonably consistent performance histories. Outside purchases enable the processor to (a) coordinate production of each product line item with sales demand and (b) avoid either shorting customer orders or being unable to accept milk beyond each farm's quota.

8. Advertising expenditures averaging 1.1-1.7% of Total Cash Expense have not been adequate irrespective of Matanuska Maid's impressive expansion of Total Sales by 59.7% cumulatively during 1986-89. Expenditures equaling 2.5-3.0% of Total Sales should prove to be

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an essential policy if continued expansion of market share is to be achieved. Each new product addition may even require 4-5% of its Total Sales being expended for a period of time to achieve optimal response to its introduction.

B. Financial

1. No visible evidence exists of managing Matanuska Maid according to a formal, multi-year plan which includes written business objectives, detailed monthly monitoring, plus systematic review and analysis on a quarterly basis. The present management team's excellent budget forecasting and control results since 1985 have represented a vital part of what should be implemented. Additional elements of an "operating plan" were reportedly to be submitted to the ARLF Board during January, 1990. Conversely, unanimous agreement appears in the Finance Section of Chapter III's MANAGEMENT'S INTERNAL CRITIQUE that a comprehensive business and financial strategy is needed in addition to quarterly analysis of operating and financial performance.

2. Style is almost as important as substance in most closely held businesses that are subject to media scrutiny....particularly in circumstances involving public funding. Creating the most favorable image possible without altering facts or being deceptive is normally essential. Sharing information with local producers that clearly identifies why raw milk prices are at existing levels

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is advisable to assure positive rapport and an expanding milk shed supply as is desirable.

3. Continuation of the present, accrual based accounting system will be imperative whether State control continues or transfer to private ownership occurs.

4. Current Liabilities % Of Total Revenue exhibited a disturbing track during 1987-89 by climbing from 12/31/86's 5.9% index to 11.4% for 12/31/89. Since Gross Profit On Cash Revenue ranged from 1987's (5.1%) Loss to just 2.5% Profit during the same years, complete payment of the total principal amounts due annually from cash flow was impossible.

   - ALTHOUGH -

   Expansion of Total Inventory by $391,092 and Accounts Receivable by $488,813, representing a total of $879,905, was accompanied by just a marginally greater Current Liabilities increase of $880,642.

   - BUT -

   Reduction of CL%TR to a much more desirable 7.4% index with GPOCR improving simultaneously to 3.2% as budgeted for 12/31/90 is a desirable objective. Ideally, Current Liabilities % Of Total Revenue index should be below the Gross Profit On Cash Revenue index.

5. Current Ratio and its percentage expression, Liquidity, were consistently excellent throughout 1986-89, although the downward trend from 12/31/86's 3.52:1 ratio (351.6% Liquidity) to a 2.19:1

Current Ratio (218.7% Liquidity) on 12/31/89 was showing signs of sinking below the traditionally minimal acceptable ratio of 2.0:1 (200% Liquidity). Budget data for 12/31/90 include major improvement to a 3.16:1 Current Ratio (316.2% Liquidity). Maintaining levels above 3.0:1 (300% Liquidity) has become extremely important for Matanuska Maid because greater Sales Volume has stimulated accompanying increases in Inventory, Accounts Receivable, and Accounts Payable.

6. Cash Flow must be improved to at least 8-10% on Revenue in order to fund a reasonable, uninterrupted, modernization schedule involving new machinery, equipment, and vehicles.

7. Critical Financial Path

YEAR	NET WORTH	DEBT	OPERATING SURPLUS	PRE-TAX PROFIT
1985	$4,456,642	$ 875,749	$ (34,409)	$ (34,409)
1986	4,757,386	968,650	201,827	744
1987	4,957,241	1,011,534	(619,793)	(844,135)
1988	4,616,385	1,382,193	(246,627)	(502,381)
1989	4,873,914	1,642,661	363,035	64,420
1990 budget	5,024,041	1,113,123	481,290	173,145

* Net Worth @ BV (1985-89)..... up 9.4% or $ 417,272
* Net Worth @ BV (1985-90)..... up 12.7% or $ 567,399
* Debt (1985-89)............... up 87.6% or $ 762,912
* Debt (1985-90)............... up 27.1% or $ 237,374
* Operating Surplus (1985-89).. up 1,155.1% or $ 397,444
* Operating Surplus (1985-90).. up 1,498.7% or $ 515,699
* Pre-tax Profit (1985-89)..... up 287.2% or $ 98,829
* Pre-tax Profit (1985-90)..... up 603.2% or $ 207,554

- THUS -

Extremely variable results in fundamental profitability were registered during 1985-89 as well as into 1990's budget forecast, along with both increased Total Debt and improved Net Worth @ Book Value. Despite the fact that actual results for 1990 may not be achieved completely as projected, budget forecasting/control performance by the present management team throughout 1985-89 was outstanding.

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- AS -

Cash Surplus (Deficit) From Operations during 1985-89 cumulatively totaled a ($335,967) Deficit representing (0.6%) Gross Loss on Total Revenue of $60,624,166 cumulatively. Pre-tax Profit (Loss) for the same period totaled ($1,315,761) equaling (2.2%) Gross Loss cumulatively.

- ALTHOUGH -

Loose credit procedures by previous management had eventually required approximately ($100,000) of Accounts Receivable to be charged-off in 1985 followed by another ($325,000) in 1986. Subsequent external pressures reportedly influenced the ARLF Board to require a series of almost incredible "policy" actions to be implemented. Matanuska Maid was forced to purchase unneeded, and in certain instances unacceptable quality, milk from local dairies totaling approximately $700,000 during 1987. Desperate efforts to sell product the same year to an inadequately financed chain store resulted in a ($130,000) write-off accompanied by ($70,000) of credit charge-offs involving feed bills owed by local dairies. Business Counsel was advised of an additional $400,000 of past due Accounts Receivable on 11/20/89.

- SO -

An excellent case can be made that resistance to extraneous demands by an independent Board Of Directors could have resulted in a Cash Surplus From Operations of approximately $564,000 for 1987-89 equaling near 1.0% Gross Margin...as well as a much lower Pre-tax Loss of about ($416,000) since cumulative Depreciation Charges totaling ($797,359) would still have provided tax oriented Losses for the period.

- AND -

Tremendous improvement was registered in the Corporation's actual profitability trend since 1987 regardless of other events. Cash Surplus (Deficit) From Operations climbed steadily by a cumulative 158.6% from 1986's ($619,793) Deficit to $363,035 Surplus during 1989...plus another 32.6% boost to $481,290 Surplus is expected for 1990.

- ALSO -

Net Worth @ Book Value is scheduled to have climbed by 12.7% and $567,399 from 12/31/85's $4,456,642 to $5,024,041 on 12/31/90 despite ($1,353,825) Depreciation Charges. Total Liabilities moved upward as well from 12/31/85's $875,749 to $1,642,661 on 12/31/89...with the ($529,538) reduction scheduled for 1990 to provide a significantly lower, cumulative increase of $237,374 to $1,113,123.

- CONSEQUENTLY -

Cumulative Sales Growth of 59.9% representing $5,388,630 during 1986-89 provided a moderate Sales Added Per $ Of New Debt index of $7.03...to be replaced by an exceptionally strong $25.49 index

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for 1986-90, since Total Sales continue upward to $15,051,261 as Debt is reduced by ($529,538).

8. Sales Growth To Expense Growth's ratio of 1.06:1 for 1986-89 cumulatively along with the expected 1.07:1 ratio for 1986-90 substantiates that Gross Profit On Cash Revenue (also termed Gross Margin) should soon reach 6-7% index levels without any substantive change in operating efficiencies from 1989-90 being required. The net impact upon profitability would be to boost Cash Surplus From Operations to a range of $900,000 to $1,050,000 annually from 1989's $363,035 or $481,290 as budgeted for 1990.

9. Sales To Fixed Assets @ Book Value indices were inadequate for most of the ORA study period. Data suggest that an index of at least $5.00 should be expected to be necessary for reasonable assurance of achieving a submarginal 2-3% Gross Profit On Cash Revenue. A $6.50 index should enable Gross Margin to be near 8-10%, and $7.50 to $7.75 Sales To Fixed Assets indices should establish a foundation for achieving 20% GPOCR...assuming that all other key guidelines maintain equal efficiency.

10. Operating Statements

    a. Senior management and sales salaries should be identified by separate line items without comingling in any type of "labor".

    b. Seven column layouts of consolidated operations similar to those in Chapter XII augmented by two additional columns for "Cumulative Sales/Expense" and "Cumulative % Budget Accuracy" can improve the total management team's understanding of financial and sales progress...as well as Board Members having oversight responsibilities. Access to much more detailed, departmental data can be provided as may be required for in-depth analysis of specific situations.

c. Is the ($18,000) "Bad Debt Provision" for 1990 adequate?

d. Line item data for "Cost Of Sales - Palmer" were omitted from the 1990 budget forecast.

11. Balance Sheets

a. Past due "Accounts Receivable" should be listed on a discounted basis in the "Other Assets" category reflecting anticipated percentage collection. Any highly questionable amount should be continued on the respective account's ledger sheets but omitted from Balance Sheet presentations.

b. Balance Sheet data should be forecast along with Operating Statement data, then monitored monthly via a "% BUDGET ACCURACY" column.

C. MANAGEMENT FACTORS

1. Either no formal management and sales incentive compensation plan exists, or if one does, it is ineffective.

2. Opinions are divided among the management team whether adequate efforts are directed to encouraging suggestions from employees.

3. Since four of five respondents in Chapter III's Internal Critique indicated that a shortage of qualified personnel exists locally, systematic cultivation of the present labor and management staff should occur.
4. Professional assistance should be obtained to develop a thorough marketing plan. Four of five management individuals believe the present approach to be a business weakness, plus the other person simply regards it neutrally.
5. Considerable priority should be given to early development of a multi-year strategic plan as unanimous agreement exists that business and financial planning represent an internal weakness.
6. Assuming reasonable attainment of 1990's budget forecast is followed by expectations for continued progress through 1991, careful preparation should begin to develop a conservative line of bank financing.
7. Four of five senior management individuals rated prior use of effective business and financial counsel as an internal weakness, while the other took a neutral stance.

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VIII. FINANCIAL PREVIEW

A. SYNOPSIS

Tracking the potential financial path of Matanuska Maid clarifies the genuine value of multi-year business planning. Upside opportunities that are identified can be enlarged to maximize success. Attention is also focused in advance upon downside risks to minimize their economic drain.

This chapter's financial assumptions do not constitute a four year budget forecast. They simply preview select financial results within theoretical, predominantly "status quo", economic and management scenarios...which obviously are not likely to occur uninterrupted throughout four consecutive years.

Substantial change in various Income and Expense factors is actually certain during 1991 through 1994. Prices for fluid milk, yogurt, sour cream, cottage cheese and related items will vary at some point. Expense growth might not be limited to 8.0% annually during 1991-94 as forecast by management. This chapter illustrates graphically that "tightening our belts" and waiting for a national agricultural turn-around is not necessarily the best available strategy for Matanuska Maid's situation.

A "base year" having Total Revenue of $15,051,866 and Total Expense at $14,570,576 as budgeted for 1990 by management is used as the starting point for all calculations. Previous operating history suggests that 1990's projected 4.6% expansion of Total Revenue can be accompanied by a lower 3.9% increase in Total Expense.

Certainly the operation's large size makes the task of sustaining and improving upon recent years' success infinitely more complicated than simply "working harder"...improving production efficiency by 5-7%...negotiating loan capital 2-3 points lower...or any other conventional solutions.

The situation's total complexity becomes even more pronounced if budget forecasting accuracy below 95% persists. Each 1% negative deviation by both Income and Expense will reduce profitability by approximately ($296,000) annually throughout 1991-94 at the pro forma volumes that are indicated. Achieving consistently attractive growth and profitability in the future will require, therefore, an effective combination of multi-year planning and management execution.

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B. ASSUMED PROFITABILITY 1990 THROUGH 1994

INCOME...1990

Milk	$12,463,372
Cottage Cheese	744,865
Palmer	656,678
Sour Cream	452,424
Yogurt	364,203
Miscellaneous Creamery	341,687
Miscellaneous	28,637
Total	$15,051,866

EXPENSE...1990

Milk	$ 6,007,758
Milk Transport	1,552,650
Containers/Ingredients	1,369,920
Creamery Labor	1,341,368
Palmer	785,730
Sour Cream	506,526
Cottage Cheese	346,500
Delivery Labor	306,117
Miscellaneous Creamery C.O.S.	294,076
Creamery Utilities	281,453
G&A Labor	259,722
Creamery Repairs	224,540
Matanuska Delivery	183,886
Miscellaneous	1,110,330
Total	$14,570,576

CASH SURPLUS (DEFICIT)-OPERATIONS	$ 481,290
INCOME...1991	$15,051,866
EXPENSE...(+8.0%)	15,736,222
CASH SURPLUS (DEFICIT)-OPERATIONS	$ (684,356)
INCOME...1992	$15,051,866
EXPENSE...(+8.0%)	16,995,120
CASH SURPLUS (DEFICIT)-OPERATIONS	($ 1,943,254)
INCOME...1993	$15,051,866
EXPENSE...(+8.0%)	18,354,729
CASH SURPLUS (DEFICIT)-OPERATIONS	($ 3,302,863)
INCOME...1994	$15,051,866
EXPENSE...(+8.0%)	19,823,108
CASH SURPLUS (DEFICIT)-OPERATIONS	($ 4,771,242)

C. PREVIEW BASED UPON 1991-94 ASSUMPTIONS

* No change in prices of Milk, Cultured, or Palmer products from 1990's budget.
* No change in Milk, Cultured, or Palmer production policies.
* Annual increases of 6-10% in basic input costs during 1991-94, for an average of 8%...forecast by management.
* Interest Expense will continue at 1990's level of $24,116...estimated by Business Counsel.
* No change in management practices/policies.
* No change in impact of government agricultural programs.
* No change in federal/state tax regulations.

	1991	1992	1993	1994
Total Income	$15,051,866	$15,051,866	$15,051,866	$15,051,866
Total Expense	15,736,222	16,995,120	18,354,729	19,823,108
Cash Surplus(Deficit)-Operations	(684,356)	(1,943,254)	(3,302,863)	(4,771,242)
Income Taxes	-0-	-0-	-0-	-0-
Debt Principal Reduction (1)	-0-	-0-	-0-	-0-
Interest Expense @ 10%	24,116	24,116	24,116	24,116
Withdrawals (Additions)	(684,356)	(1,943,254)	(3,302,863)	(4,771,242)
Current Assets @ BV	3,519,503	3,519,503	3,519,503	3,519,503
Fixed Assets @ BV	2,292,409	1,967,157	1,641,905	1,216,653
Other Assets @ BV	-0-	-0-	-0-	-0-
Total Assets @ BV	5,811,912	5,486,660	5,161,408	4,836,156
Depreciation-Fixed Assets	(325,252)	(325,252)	(325,252)	(325,252)
Total Liabilities-Ending	1,113,123	1,113,123	1,113,123	1,113,123
Net Worth @ BV	4,698,789	4,373,537	4,048,285	3,723,033
Gross Profit (Loss) On Revenue	(4.5%)	(12.9%)	(21.9%)	(31.7%)
Unleveraged Return On Investment	(17.0%)	(40.9%)	(69.8%)	(104.9%)
Sales To Fixed Assets @ BV	$6.57	$7.65	$9.17	$11.43
Sales To Inventory @ BV	$18.92	$18.92	$18.92	$18.92
Asset Turnover Index	2.59	2.74	2.92	3.11
Assets To Liabilities @ BV	5.22:1	4.93:1	4.64:1	4.34:1
Percent Equity @ BV	80.8%	79.7%	78.4%	77.0%

(1) Majority of debt is Accounts Payable.

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D. PREVIEW ANALYSIS

1. Four, basic factors are keys to the FINANCIAL PREVIEW'S trend as indicated for 1991-94.

   * Management's extremely unlikely scenario projects 8.0% annual increases of Total Operating Expense caused by Inflation that are combined with constant Total Revenue each year to create escalating Operating Deficits throughout 1991-94...thus reducing Total Equity by ($10,701,715) cumulatively.

   * Any ± change in input costs from management's projected 8.0% annual increases will affect Cash Surplus (Deficit) From Operations and all other related indices accordingly.

   * Cumulative Interest Expense for 1991-94 is estimated by Business Counsel at $96,464 based upon 1990's projected rate.

   * Accurate budgeting reinforced by effective control is critically important! The combined effect from overestimating Revenue by just 7% while underestimating Expenses by 7% would increase 1991's Operating Cash Deficit to ($2,853,505), for a net change of (217%) equaling ($2,169,149)...accelerate 1992's Operating Cash Deficit to ($4,207,159), for a (117%) deterioration of ($2,263,905)...extend 1993's Operating Cash Deficit to ($5,669,104), for a (71.6%) worse Loss of ($2,366,241)...as well as depress 1994's results by another (51.9%) equaling ($2,476,764) to an Operating Cash Deficit of ($7,248,006). The cumulative error for 1991-94, therefore, would be a fatal ($9,276,059), thus substituting a cumulative Cash Deficit of ($19,977,774) for the PREVIEW'S already unacceptable Cash Deficit totaling ($10,701,715).

2. Additional capital increasing from 1991's $684,356 to $4,771,242 in 1994, and totaling $10,701,715 cumulatively, will be required to offset the four years of Operating Losses since loan funds from conventional sources are not likely to be available despite the firm's excellent Net Worth.

3. Total Assets @ Book Value decline by (21.2%) and ($1,301,008) cumulatively from 12/31/90 through 12/31/94...based upon annual

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IX. ACTION OPTIONS

Several reinforcing "Management System Services" are provided by Business Counsel in order to maximize the effectiveness of support to valued clients such as The Attorney General's Office for the State Of Alaska. Consulting categories involve analytical review, operations, marketing, finance, and strategic business planning.

The financial performance projected by management for Matanuska Maid during 1990 suggests continuing improvement of profitability to $481,290 Cash Surplus From Operations representing 3.2% Gross Profit On Cash Revenue...up from 1989's $363,035 Cash Surplus equaling 2.5% GPOCR. Achieving optimal financial performance consistently during future years will apparently mandate that Total Revenue continue registering at least moderate annual increases during the next 5-7 years while Total Expense is constrained reasonably to provide broader profit margins. Maintaining attractive profitability will likely require, therefore, minimal change in the Corporation's basic financial position, but strategic differences in organizational structure and operating policies as discussed throughout this report.

Capital utilization indices will need further strengthening in order to continue improving Gross Margin as well as Return On Investment and Return On Equity. Current Liabilities % Of Total Revenue's 7.4% index as budgeted for 12/31/90 should be reduced via Debt restructuring so that it is lower than Gross Profit On Cash Revenue (Gross Margin) index.

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The extreme, financial collision course portrayed in Chapter VIII is actually not probable...simply because management's projection during the Fact Finding Conference of 6-10% inflationary increases in Operating Expense annually for the next five years without any compensating boosts of manufactured product Sales Prices is much too pessimistic. Even so, Sales/Expense spreads should receive careful attention so that the 1.07:1 Sales Growth To Expense Growth ratio for 1986-90 is improved to at least a 1.10:1 ratio at an early date, to be followed by 1.15:1 as soon as possible.

Successful accomplishment of these important improvements entails priority attention to implementing formal planning combined with thorough financial forecasting, strong controls, and systematic monitoring. Management's 1986-89 record of 86.9% to 96.8% budget forecasting/control accuracy provides a foundation for continuation above 95% consistently. Strong accuracy reduces business risk proportionately.

Some of the following services should be extremely beneficial in assisting Matanuska Maid's management team attain optimal profitability. Conversely, others may not be either practical or timely. Recommendations are made by Business Counsel in each instance relative to the firm's probable needs during the future.

Cash flow constraints are not likely to be a significant factor during subsequent deliberations regarding additional professional support. Prospects for achieving sustained growth in profitability and achievement of management's key strategic objectives are certain to be much brighter, however, if business/financial counsel is used appropriately.

A. BUDGET FORECASTING SYSTEM

* Function

Establishes with Clients' participation an effective, line item, profit/loss budget format based upon both existing and future income/expense classifications. Custom designed for each Clients' own planning, monitoring, and control requirements. Correct implementation should achieve 95-98% accuracy consistently within three years.

* Recommendation

A priority item for most businesses. May need consideration for Matanuska Maid if stated desires to continue expanding are implemented. A formal written system should assist future high performance if management continuity is interrupted by key personnel change(s).

* Time Normally Required...Two to three months...depending upon how promptly Clients provide base data.

* Fee...Varies from $4,500 to $5,500 plus travel, telephone, and related expenses.

B. PRICE RISK REDUCTION SYSTEM

* Function

Custom designed procedures utilizing hedging and other forward contracting functions to minimize selling and business price risk. Simple to operate. Avoids speculation by establishing offsetting actions that optimize profitability levels.

* Recommendation

Probably not relevant to Matanuska Maid's situation.

* Time Normally Required...Two to three months...depending upon timely input by Clients.

* Fee...$4,500 to $5,500 plus travel, telephone, and related expenses.

C. QUARTERLY BUSINESS PROGRESS REVIEW

* Function

  Analyzes quarterly financial statements, production performance, and management effectiveness in relation to forecast. Monitors key, financial indices. Reviews corporate minutes and policy development where applicable. Provides a written summary of observations.

* Recommendation

  Should receive priority attention...at least until business management procedures have been systematized effectively and a consistent profitability trend close to more desirable levels has been achieved.

* Time Normally Required...Approximately 14-21 days after receipt of Clients' data.

* Fee...$750 per report.

D. ANNUAL OPERATIONS REVIEW AND ANALYSIS UPDATE

* Function

  Updates the OPERATIONS REVIEW AND ANALYSIS (this report) after the expiration of twelve months. Analyzes changes in production efficiency and financial performance. Includes pertinent observations.

* Recommendation

  Should not receive consideration unless (a) "Quarterly Reviews" are not being received regularly, (b) financial performance begins to recede, or (c) Total Revenue exceeds $20,000,000 annually.

* Time Normally Required...Approximately 75-90 days after receipt of all basic information from Clients.

* Fee...$3,750 plus travel, telephone, and related expenses.

E. DATA PROCESSING SERVICE ANALYSIS

* Function

  Reviews the suitability of a computer service or software firm's accounting classifications, report forms, data presentation, and fee structure in relation to the specific requirements of the Clients' existing or proposed Management Information System.

* Recommendation

  Extremely beneficial if Clients are not currently utilizing a computer service firm...or are dissatisfied with existing data processing services or software. A maximally effective Management Information System is virtually impossible to achieve without proper, computerized data support. Matanuska Maid's present staff appears to be developing financial data having sufficient clarity for optimal management utilization, so the service is probably not needed.

* Time Normally Required

  Approximately 10-14 days after receipt of chart of accounts, sample input/output forms, itemized fee schedule, and Clients' basic MIS objectives.

* Fee...$675 plus any related expenses.

F. LOAN REQUEST PREPARATION

* Function

  Assembles key data, reviews Clients' operations, and structures the loan request narrative in a positive format which evidences strategic planning and management preparation.

* Recommendation

  Should normally receive serious consideration in circumstances involving (a) large amounts of money, (b) conversion of short term financing to long term, or (c) potential lender resistance. Assistance may be required by Matanuska Maid's management team if development of a commercial lender and/or conversion of a portion of long term debt to short term becomes an active objective.

* Time Normally Required...Depends upon data and the situation's complexity.

* Fee...$126 per hour plus travel, telephone, and related expenses.

G. COMPREHENSIVE BUSINESS PLAN

* Function

An extremely detailed Plan concerning how/where/why the Company will be throughout a five year period...with appropriate financial data. Examines 48 strategic sectors which determine total success. Includes pro forma budgets plus a minimum of 22, key financial indices for every year. Provides a basic "road map" to assure optimal progress.

* Recommendation

An urgent need only if (a) equity is to be sought from outside investors, (b) expansion beyond $20,000,000 sales annually is desired within three years, or (c) relocation into a new facility is desired...but unnecessary if moderate expansion at an annual rate of 10-15% is desired and "Quarterly Business Progress Reviews" are being obtained regularly.

* Time Normally Required...Approximately 6 to 9 months, depending upon Clients' support plus legal, accounting, and industry research requirements.

* Fee...$35,000-50,000 plus travel, telephone, and related expenses.

H. PLANNING PROCESS

* Function

A custom designed, extremely comprehensive Planning System for large agribusiness related operations. Establishes where the firm is...where it wants to go...how to get there...when arrival will occur...and who will be responsible. Involves the entire management team in analyzing the business' key components and developing a strategy to achieve definitive goals.

* Recommendation

Relevant primarily to large corporate agribusiness, or more complex management environments...and too expensive for the current situation.

* Time Normally Required...Approximately 5-6 months, depending upon Client Support.

* Fee...$15,000-20,000 per business enterprise plus travel, telephone, and related expenses.

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I. MISCELLANEOUS BUSINESS AND FINANCIAL COUNSEL

* Function

  Continuing assistance as desired by Clients...including telephone conferences, written reports, business/financial/marketing evaluations, planning and strategy support, etc.

* Recommendation

  Normally cost effective for most Clients by addressing problems or opportunities at their beginning when professional counsel input expedites prompt action. Contributes to avoiding "crisis management".

* Time Normally Required...Completely flexible and often only minutes.

* Fee...$126 per hour plus travel, telephone, and related expenses.

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X. COUNSELS' CONCLUSIONS/RECOMMENDATIONS

A. GENERAL

1. Matanuska Maid's management team's success in revitalizing a major food processing and marketing enterprise to its present scope of activity is genuinely impressive! Imagination, technological expertise, and hard work have been combined to establish today's operations having Total Assets @ Book Value of $6,516,575 on 1/31/89. Diversified activities presently include dairy product processing at the Anchorage plant, marketing within a contiguous multi-county area, as well as manufacturing livestock feed at a second location in Palmer.

   Both upside opportunity and downside risk are substantial for Matanuska Maid's consolidated operations because of:

   * technological complexity and large investment.
   * inherent production cyclicality accompanied by significant price volatility of most agricultural commodities.
   * weather interaction influencing local production of raw milk, grain, and hay.
   * federal supply management programs that continue to affect milk, grain, and meat production prices plus feed costs.
   * at least intermediate range dependence upon significant, out-of-state sourcing of bulk fluid milk.
   * Alaska's political environment which will ultimately decide whether Matanuska Maid continues moving forward as an economically viable business entity along with consistent expansion of local milk production...retrogress into pre 1986's pattern of internal destruction...or be "handed" to a group of individuals evidencing both inadequate concern and comprehension of the strategic requirements for operating a successful, commercial, dairy processing plant.

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Management emphasis, therefore, must definitely become much more comprehensive! Detailed, multi-year, strategic planning reinforced by systematic monitoring and controls needs to be stressed equally with improved manufacturing efficiency and market penetration.

2. Matanuska Maid's management team's basic, internal harmony and spirit of cooperation are significant assets. Still, the climate of strong uncertainty that has persisted during the past 18-24 months should be expected to take its toll if continued much longer. State officials should determine decisively whether (a) efforts to develop a viable, vertically integrated, dairy production, processing, and marketing presence in Alaska will simply be abandoned, (b) the concept will be reinvigorated by responsible conversion of Matanuska Maid's ownership to the private sector, or (c) a combination of prolonged frustration and political expediency will dictate the total project's eventual (if not early) demise by transferring either control or ownership to parties lacking appropriate backgrounds and motivation.

Optimal financial performance within a $6,516,575 Assets business having Sales of $14,388,401 annually is unlikely to occur constantly without the presence of long range planning accompanied by positively minded oversight from a business oriented Board Of Directors. The fact that Matanuska Maid has actually progressed significantly during the past 3-4 years instead of disintegrating along with several of the local dairy farms is itself almost remarkable. Conversely, Business Counsel suggests that expecting progress to continue based primarily upon the management team's sustained "hard work and long hours" is hardly realistic.

Achieving improved production efficiency accompanied by more effective market penetration is obviously critical to continuing overall success. Still, the real issue which currently needs major emphasis is assurance of sustained continuity. However vital that the existing management team may recognize strategic planning linked with systematic monitoring to be, future efforts will likely be sporadic at best until the issue of plant ownership is resolved.

3. Business Counsel's cautiously optimistic view pertaining to both short and long term prospects is based upon five assumptions. First, that 1990's Operating P&L will, in fact, equal near the $481,290 Cash Surplus From Operations that has been budgeted. Secondly, that a sound resolution of Corporate ownership and control will occur within a reasonably short period. Thirdly, that a properly designed market penetration plan will be implemented to enable Sales expansion of at least $1 million annually for the next five years. Fourthly, that State officials will continue to provide responsible financial support to a soundly based plan for expanding milk production to supply the Matanuska Maid plant. Finally, that sufficient Debt reduction and restructuring will occur reasonably soon in order that the remaining "credit mix" will be supportable instead of the last three years' situations involving Current Liabilities being 5-12 percentage points above Gross Profit On Cash Revenue (% Gross Margin).

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4. Formally structured business meetings involving ownership, management, and 2-3 local dairy producers should be scheduled for specific dates on a regular, quarterly basis. Meeting agenda should include systematic reports with brief written summaries from each management individual relative to areas of individual responsibility. Any significant deviations from forecast should be discussed, with group analysis of outside QUARTERLY BUSINESS PROGRESS REVIEWS occurring on schedule. The net result would be:

   a. Clear establishment of "ARA"...authority, responsibility, and accountability.

   b. Continued maintenance of internal communication channels to assure productive decision making and uninterrupted support from the Plant's owners as well as from dairy farm owners.

      as well as dairy farm owners.

   c. Compulsory discussion of all pertinent subjects while minimizing personalities.

   d. Systematic decision making based upon logical evaluation.

B. FINANCIAL

1. Alaskan Government Officials <u>must</u> realize that Matanuska Maid's pre 1986 financial tailspin was due primarily to a combination of poorly structured, quadrangular relationships involving assets, liabilities, sales, and expense. Reportedly atrocious business policies and management procedures within a cooperative environment added fuel to an already raging fire. The ensuing financial mess, however, was clearly predictable.

   Equally disastrous fates were also inevitable for the area dairy farms that collapsed for reasons that were discussed in Chapters II and VII. The State Of Alaska's original motivations for establishing

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the Point Mackenzie Project were sound. Key financial and structural aspects in the actual plan, however, definitely were not.

Carte blanche assumptions were made, for example, that moderate-to-low milk production levels of 15-16,000 pounds of milk per cow, accompanied by a lower raw milk price of $16.84/cwt. than was actually paid, would automatically provide adequate Cash Flows to the local dairies. Profitability was to occur irrespective of astronomical Investments of $8,278 to $9,851 per cow with matching Debt levels at approximately 75% of Total Assets...or a slim 25% Equity.

Sales To Fixed Assets @ Book Value were programmed at 39.0¢ to 62.8¢ indices despite the need for at least $1.20 to have reasonable prospects for realizing 10% Gross Profit On Cash Revenue. Achieving profitability was rendered even more impossible by a prohibitive 20.7% Interest Expense % Of Total Revenue index. Moreover, even if 10% GPOCR were attainable, the resulting Cash Flow would be seriously inadequate to support a family while making Debt Principal payments as required. Financial disaster is virtually inevitable in any business situation having such a severe capital imbalance.

Establishing 50-100 cow herds provided additional assurance of inadequate Cash Flow. Unrealistically severe land ownership limits extended financial handicaps even further. Expecting Matanuska Maid to serve as "the rescue vehicle" for the unavoidable financial problems that followed simply compounded the fantasy. Dairy failures

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still would have occurred even if milk prices had been an irrational $50 per hundredweight.

Recent "finger pointing" and related discussions in an Anchorage newspaper simply reinforce the preceding and other discussions in this OPERATIONS REVIEW AND ANALYSIS...assuming that reasonable accuracy exists regarding quotations attributed to individuals whose names appeared. Based upon Business Counsel's personal experience, however, severe distortions may have been prevalent.

In any event, the conclusion is inescapable that an unhealthy blend of production oriented, macro economic assumptions and social parameters lacking reasonable linkage with financial reality established a basic plan that could not succeed. Even its architects expected generous cash subsidies to be required for an extended period of time. Unfortunately, declining oil revenue apparently influenced a strategy to require Matanuska Maid to provide the funding during 1987-88...thus apparently damaging its own Profitability and Cash Flow by ($800,000) to ($1,000,000) as well as its local credibility.

2. Financial ratio/index analysis suggests that Matanuska Maid is currently in its third year of consistent financial recovery from the unsatisfactory cycle that appears to have bottomed in 1987. Minimal negative departure from 1990's budgeted performance is strategically crucial, however, since Gross Profit On Cash Revenue, or Gross Margin, will still be a relatively narrow 3.2% even though

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$481,290 Cash Surplus From Operations is scheduled to be generated.

	1990	1989	1988	1987	1986	1985
GPOCR	3.2%	2.5%	(1.9%)	(5.1%)	1.6%	(0.4%)
ROI @ BV	2.8%	1.0%	(8.4%)	(14.1%)	0.0%	(0.6%)
UROI	3.2%	1.4%	(7.8%)	(13.4%)	0.8%	(0.3%)
ROE @ BV	3.4%	1.3%	(10.9%)	(17.0%)	0.0%	(0.8%)
CASH SURPLUS (DEFICIT)	$481,290	$363,035	($246,627)	($619,793)	$201,827	$34,409
PRE-TAX PROFIT (LOSS)	$173,145	$ 64,420	($502,381)	($844,135)	$ 744	($34,409)
SALES/FA @ BV	$ 5.75	$ 4.92	$ 4.18	$ 3.88	$ 3.91	$ 2.79
SALES/INV @ BV	$ 18.92	$ 18.08	$ 19.57	$ 20.46	$ 30.63	$ 26.23

Gross Profit (Loss) On Cash Revenue's consistent, annual growth from 1987's (5.1%) Loss to 3.2% Profit as budgeted for 1990 reflects the impressive climb in Cash Surplus (Deficit) From Operations from a ($619,793) Deficit to a $481,290 Surplus in just three years. Parallel strenghthening of Pre-tax Profit (Loss) during the same time period from 1987's disastrous ($844,135) Loss to $173,145 Profit as projected for 1990 is mirrored by Return On Investment @ Book Value's turnaround from a negative (14.1%) to 2.8%. Both Unleveraged Return On Investment and Return On Equity @ Book Value followed equally favorable paths.

External policy decisions requiring unneeded local milk to be purchased at Class I prices reportedly were responsible for most, if not all, of 1987-88's Operating Losses other than Depreciation's

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impacts upon Pre-tax Profit (Loss)...ROI @ BV...and ROE @ BV. In any event, Capital movement efficiency's improvement is typified by the 48.2% cumulative increase of Sales To Fixed Assets @ Book Value index from $3.88 to $5.75 during the three year period from 1987 through 1990's budget forecast. Management's previous excellent record of budget forecasting and control provides substantial credence to prospects for 1990.

3. Not having a formal long range business and financial strategic plan already functioning handicaps management's prospects for continuation of the most recent three years' rate of progress. The complexities of today's situation are exacerbated by the presence of a politically oriented Board Of Directors that apparently has been constrained from making prudent business decisions...as well as defending the plant and management from extremely biased media attacks. These factors emphasize the need for early resolution of (a) Matanuska Maid's future ownership and (b) the State's official position concerning continued financial support of dairy development in Alaska on a fiscally rational basis.

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C. MANAGEMENT'S BASIC GOALS

1. "Increased focus on profitability should be permitted."

- CONCLUSION -

Absolutely...a matter of top priority! A history of sustained losses or poor profitability plagued Matanuska Maid prior to 1989. Previous consulting reports condemned the Cooperative's history of unrealistic business policies and poor financial management for the crisis that occurred before 1986. The State's eventual take-over of the plant, capital infusion, and recruiting an experienced General Manager did solve many of the ingrained problems. Conversely, minimal focus on profit generation in the traditional sense has characterized most aspects of the State's efforts to develop a local dairy "industry".

Converting the plant to private ownership appears to be the only one of five potential alternatives that is likely to assure optimal emphasis on maintaining consistently profitable operations. An option involving continued State ownership is probably unacceptable politically and would be prone to maintaining today's inherently awkward relationships. Transferring the plant to a local cooperative might contain reasonable promise in another setting, but seems extremely illogical considering the negative human factors that are plainly evident in the Anchorage area. Simply closing the plant may seem attractive to those who are weary of pressures stemming from biased producer complaints and negative sensationalism in the press ...except that nothing permanent will have been gained from millions of dollars spent to develop a pilot segment of Alaskan agriculture.

Assuming that a soundly based resolution of Matanuska Maid's future is made, preparation should begin immediately to develop a properly documented, five year RESOURCE STRATEGY AND ECONOMICS PLAN which encompasses all major factors involving the firm's physical, financial, market, and human resources including the topics discussed in Goals #2, #4, #5, #8, #10, #11, #13, #14, #15, #16, #17, and #19 of this chapter. Refer to I, page 2, paragraphs 1-4...II, A, page 5, paragraph 2 and page 6, paragraph 3 plus page 7, paragraphs 1 & 2, in addition to B, 1, a-d and g-l, pages 7 & 8, as well as n-v, page 9, also B, 3, c, (1) & (2) page 12 followed by D, paragraph 1, page 16 plus paragraphs 2 & 3, page 17...V, A, 1-4, pages 36 & 37, and B, 1, page 37 in addition to E, 1-18, pages 48-54...VI, A-Y, pages 56-63... VII, A, 1, pages 64-67 and 4-7, pages 68-70 plus B, 1-9, pages 71-77 ...and X, A, 1-4, pages 94-97 as well as B, 1-3, pages 97-101.

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2. "An impartial evaluation of Matanuska Maid and local area dairy farms is needed...both problems and opportunities should be identified so proper action can be taken."

- CONCLUSION -

This OPERATIONS REVIEW AND ANALYSIS represents official efforts by State Of Alaska officials to achieve the Goal's first part. Prior analysis of two area dairy farms also occurred to complete the second part. Business Counsel's instructions from the State Attorney General's Office were to proceed in a positive, impartial manner to determine the most sensible resolution to what had become a complex matter. Nothing was represented as being "off base" for examination nor was any desire for a predetermined conclusion even hinted. Both problems and opportunities are identified clearly in all three studies. Commercially viable dairy production, processing, and marketing can definitely be maintained in the Anchorage area providing a sensible plan is implemented as outlined throughout the ORA. Development of the plan should also include Goals #1, #4, #5, #8, #10, #11, #13, #14, #15, #16, #17, and #19 of this chapter.

3. "The plant must stop 'running from hand to mouth' unnecessarily."

- CONCLUSION -

This objective relates closely to Goals #1, #4, and #6 since all three require a multi-year outlook. Final resolution of Matanuska Maid's permanent ownership and Corporate mission must occur before strategic planning can be implemented on a meaningful basis. State authorities should also realize that the present cloud of uncertainty is not conducive to maintaining a stable management team. Rumors have been heard that at least one level of State Government desires change(s) in the plant's senior management...perhaps in response to unrelenting "dissatisfaction" vocalized by a small group of Anchorage area dairy farm interests having their own private agendae. Business Counsel is admittedly unfamiliar with most of the local personality conflicts that have developed as events involving Matanuska Maid and the Point MacKenzie Project have transpired. From a pure business/financial perspective as evidenced by Corporate records, however, results since 1987's fiasco have been impressive. Many management teams performing similarly within equally difficult circumstances in private industry would have been rewarded with bonuses rather than uncertainty and intense criticism. Refer to I, page 1, paragraph 2 and page 2, paragraphs 1, 3, & 4 plus B, pages 3 & 4...V, A, 1-4, pages 36 & 37 and B, 1 & 2, page 37...VI, A-Y, pages 56-63...VII, A, 1, pages 64-67 and 4-7, pages 68-70 plus B, 7, pages 74-76 as well as C, 1, page 78...and finally X, A, 1-3, pages 94-96 plus B, 1-3, pages 97-101.

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4. "A reasonable line of operating capital is essential".

- OBSERVATION -

The statement is valid in most business situations, although much less so in those having rather constant cash flows. In fact, easy access to virtually unlimited credit can soon become very detrimental...as the Point MacKenzie Project has demonstrated convincingly. Two very dangerous tendencies often arise. One simply involves imprudent use of Operating Capital to fund long term acquisitions of machinery, vehicles, etc. or long term improvements disguised as repairs. The other concerns risky employment of Operating Capital as a "sales tool" providing unwise credit for Accounts Receivable to thinly financed customers. Both factors reportedly contributed to the eventual bankruptcy of the original Matanuska Maid dairy cooperative. Present ownership and management also had to establish "Bad Debt Provisions" totaling ($433,729) cumulatively during 1987-88 to compensate for customer credit problems involving both dairy products and livestock feed.

Obtaining professional assistance may be advisable for developing an effective presentation to prospective lender(s) of Operating Funds. In any event, action should be preceded by management's internal preparation of a five year RESOURCE STRATEGY AND ECONOMICS PLAN as indicated regarding Goals #1, #2, #5, #8, #10, #11, #13, #14, #15, #16, #17, and #19 in this chapter. Moderate assistance from Business Counsel in establishing the Plan's outline can be obtained if desired.

5. "Approximately 1% of total sales should be spent for advertising... representing about $15,000 per month at present volume."

- OBSERVATION -

The idea is correct but the mathematics are not. Operating Statement data report expenditures of 1.1% to 1.7% of Total Expense every year since 1986...although a consistent decline was registered from 1987's 1.7% representing $217,588 to 1.2% and $178,468 as budgeted for 1990. Many manufacturing businesses have found that properly structured advertising should approach 2.5-3.0% of Total Revenue in order to gain the greatest "bang from the advertising buck". Despite having achieved herculean expansion of Total Revenue by 59.7% cumulatively during 1986-89, Matanuska Maid still supplies just 20-25% of Alaska's domestic market. Considerable further market penetration of at least 40% to $21 million Total Revenue should enable definitive economies of scale to boost Cash Surplus From Operations to $1.5-2.0 million equaling 7-10% Gross Profit On Cash Revenue or Gross Margin. This subject is typical of those that should be included in the firm's RESOURCE STRATEGY AND ECONOMICS PLAN as discussed in Goals #1, #2, #4, #8, #10, #11, #13, #14, #15, #16, #17, and #19. Refer to VII, A, 6 & 8, pages 68 & 71.

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6. "Our first five year strategic plan is to be discussed with ARLF for objectives on 12/10/89."

- CONCLUSION -

Assuming the meeting transpired as scheduled, and in a positively oriented atmosphere, a significant milestone was reached. The dire need for adopting a five year strategic plan is stressed repeatedly throughout this chapter as well as in other locations. Very frankly, Business Counsel is amazed that the level of financial and marketing progress that has occurred since 1987 could have been achieved without the benefit of any long term strategic direction. A strong possibility exists that access to both the Plan that was submitted by management and the ARLF Board's reactions to its components could have contributed to the development of this ORA.

7. "Stable policies for agriculture are needed at the state level."

- CONCLUSION -

True...but the financial shellackings that have accompanied both the Point MacKenzie Project and the Delta Project have created terribly difficult political fallout. Incessant distortion of facts by the Anchorage news media undermines dispassionate resolution of the problems that have occurred as well as constructive decisions for the future. Conversely, President Harry Truman was absolutely right in exclaiming that "individuals in positions of authority who cannot stand the heat should get out of the kitchen".

A first step in Alaska's case is simply to redetermine, then enunciate clearly, whether "niche development" of Alaskan agriculture is to be encouraged actively. Determination of specific areas containing the greatest potential for commercial success should occur next. Subsequent planning should focus heavily on key production, marketing, and financial elements rather than being based almost exclusively upon theoretical, macro economic extrapolations from other environments. Finally, the State's role in providing financial support should be restructured carefully rather than simply abdicated.

8. "Should the feed mill at Palmer continue to operate on a 'breakeven' basis since the dairy producers reportedly can't pay more?"

- RECOMMENDATION -

The answer to this question should be a resounding "no!". If the local dairy producers really cannot pay more, one of two conclusions remains unavoidable. Either (a) no economic justification exists for encouraging commercial milk production in the Anchorage area or

(b) Matanuska Maid should actually be paying higher prices to local producers for their milk. While excessive feed prices may, in fact, have been a continuing problem, the situation has been exacerbated tremendously by unrealistic limitations on land ownership per dairy in the Point MacKenzie area.

Ownership of a feed mill by a dairy cooperative contains certain perceived advantages to its membership irrespective of whether they actually exist. The present situation, however, clearly provides another source of irritation for producer claims that Matanuska Maid fundamentally maintains an anti-producer bias and is guilty of severe profiteering. Certainly an extremely vocal element within Anchorage area dairy interests continues to insist that "the only justification for the processing plant's existence is to put money in the dairy producers' pockets". In any event, thorough evaluation of all pros and cons relative to this issue should occur within a detailed, five year RESOURCE STRATEGY AND ECONOMICS PLAN along with the topics in Goals #1, #2, #4, #5, #10, #11, #13, #14, #15, #16, #17, and #19.

9. "Viewing Matanuska Maid with a 'cooperative mentality' should be ended."

- RECOMMENDATION -

The plant's total potential will not likely ever be achieved until essential changes in attitude occur...at least sufficiently to permit sound resolution of Corporate ownership. A fundamental strength of well managed agricultural cooperatives is that they are function oriented, thus providing excellent services to their membership at supposedly lower cost. The latter point is often exaggerated, but is widely perceived to be true. Distorted emphasis upon a non-profit profile also tends to be many cooperatives' primary weakness. The Matanuska Maid cooperative's history prior to 1985 provides eloquent testimony regarding the inherent problem. Local dairy producer members literally bankrupted the plant via tunnelvision on processing milk as cheaply as possible while paying non-competitive high prices for local milk. Cash Flow shortages that were inevitable prevented essential upgrading of plant and equipment. The plant's sales development efforts were also weak, as is often the case with coops that operate processing plants.

No change in fundamental attitude was observed by Business Counsel during conversations in the Anchorage area with local dairy interests last November. Adamant opposition was voiced to the concept that Matanuska Maid should be profitable. A printed document from one

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group that seeks control of the plant states that the plant's sole purpose is "to maximize farmers' returns from the sale of their milk". A personal conversation with one of the group's leaders revealed a strong conviction that "the dairy plant should have just a small profit through depreciation, with all cash profit being passed to the dairy farms". The individual also maintained that "the farmers should gain ownership equity in the plant via its Depreciation Reserve account"...plus "quality and service should be its primary features". Subsequent inquiries concerning how retaining only "book entries" for Depreciation would provide actual cash to replace worn out equipment brought the ambiguous reply that "it could be managed". Moreover, strong insistence was also voiced that all debt should be waived for those dairy farms that received any State funding.

Rumored prospects, if true, that Matanuska Maid's ownership will soon be transferred to a new cooperative comprised of local dairy interests should be expected to seal the plant's doom. None of those who reportedly are involved has evidenced any concept of the business and financial requirements for operating a dairy processing plant... yet the same individuals would be establishing fundamental operating policies. One extremely illogical proposal that has been advanced involves selling the existing facility and relocating in another town with a much smaller capacity plant that would be limited to marketing fluid milk products exclusively. How the $2-3 million residue would be distributed has been left unexplained.

10. "Our retailer customers need persuading to discontinue taking a wider profit margin on Matanuska Maid items than on competitive products."

- RECOMMENDATION -

Successful achievement of this goal will be central to significant expansion of Matanuska Maid's sales position from today's 20-25% share of the Alaskan market as also identified in Goal #14. Still, it won't be even remotely easy. A general concensus exists that Alaskan consumers will pay higher prices for food that is "home grown" ...particularly if quality is also considered to be outstanding. Retailers will be prone to charge more for Matanuska Maid items as a direct result until they can be shown that the practice is not in their best interest. Developing a carefully orchestrated method for accomplishing this objective should be another key component within management's long range RESOURCE STRATEGY AND ECONOMICS PLAN which is referred to in Goals #1, #2, #4, #5, #8, #11, #13, #14, #15, #16, #17, and #19.

11. "Improvements totaling $225-250,000 should be scheduled for the next 24 months...including a new control panel, a cultured products packaging machine, computer, and truck."

- RECOMMENDATION -

Little doubt exists that this objective will become increasingly essential if production and sales volume continue to be expanded as should occur. Even so, all of the situation's pros and cons should be explored in detail within Matanuska Maid's, five year, RESOURCE STRATEGY AND ECONOMICS PLAN along with the topics discussed in Goals #1, #2, #4, #5, #8, #10, #13, #14, #15, #16, #17, and #19 of this chapter. Careful attention should also be directed to assuring that Sales To Fixed Assets @ Book Value index does not drop below $6.50 in the process...Sales Growth To Fixed Assets Growth ratio maintains at least a 7.0:1 ratio for the most recent five years...Debt Added Per $ Of New Sales does not mushroom significantly above the 14.2¢ index recorded for 1985-89...and Current Liabilities % Of Total Revenue index not exceed the index value for Gross Profit On Cash Revenue. Refer to V, E, 7, pages 49 & 50 and 10, page 51 plus 16 on page 53...VI, A, page 56 plus E & F, page 57 as well as U, page 62...and finally VII, A, 1, page 64 followed by B, 8 & 9, page 77.

12. "Milk production and processing in Alaska should not be abandoned just because milk can presently be imported cheaper from Seattle."

- CONCLUSION -

The statement is appropriate to an extent. Conversely, no defendable justification would exist if fundamental economics required permanent financial assistance from the State via operating subsidies...which is not the case for either milk producers or the processing plant if their internal financial structures are positioned soundly and strong management is in place. An excellent case can be made that the State's original motivation for encouraging expansion of local milk production by providing long term capital funding was appropriate. Alaska's technological requirements for producing milk in commercial dairies are just minimally different from proven methods in northern Wisconsin, Minnesota, Nova Scotia, and Ontario. Operating results being obtained in a Point MacKenzie area dairy last November confirm the fact. The same parallel is true concerning operation of a dairy processing plant. Diversified product line and economies of scale have much greater impact than northern latitudes.

13. "Expand the plant's volume to $25 million Gross Revenue annually...add product lines including hard cheese, frozen yogurt, ice cream, juices, tea, and perhaps distilled water."

- RECOMMENDATION -

Additional product lines will almost certainly be necessary in order to expand Sales volume from 1990's budgeted $15,051,866 to near $25 million within five years. Matanuska Maid would have approximately 33-42% of Alaska's total market for milk products based upon the present level of per capita consumption. The consulting report from Washington State University dated 7/10/84 states that " the equipment though somewhat dated is for the most part adequate for a 400-500% through-put increase". Based upon 1985's Sales of $9,003,262 plus subsequent replacement of equipment and inflationary increases of wholesale prices, Matanuska Maid should have the physical capacity to manufacture $35-45 million of dairy products annually. Bottom line Cash Flow should double to triple in the process. Prospective minimal to zero support from one of the State's largest grocery chains may increase the Goal's difficulty, but implementation of an expanded advertising program as discussed in Goal #5 should provide a countering boost. The extreme urgency of this objective adds to the necessity for early completion of a multi-year RESOURCE STRATEGY AND ECONOMICS PLAN as discussed also in responses to Goals #1, #2, #4, #8, #5, #10, #11, #14, #15, #16, #17, and #19 in this chapter. Refer to II, A, page 6, paragraph 2 and B, 1, b, e, m-o, pages 7-9 ...III, Operating And Competitive Factors, pages 23-27...V, A, 1-4, pages 36 & 37 plus B, 1-10, pages 37-39...VI, A-I and K, pages 56-59 ...VII, A, 2, 5 & 6-7, pages 67-70...and X, A, 2, page 95, paragraph 2.

14. "We should work toward supplying 70% of the Alaskan market instead of 30%."

- CONCLUSION -

Work towards 70%, yes...but achieve it, no! Maintaining a 70% share of the State's market for dairy products would probably spawn more problems than can even be imagined. Charges relative to detrimental monopolistic activities would almost certainly arise at some point. In fact, substantial question exists whether securing more than 50% of the market constitutes a logical strategy. Being in too dominant a business position also tends to encourage the creeping paralysis of complacency. Management sloppiness and higher costs soon follow. No substitute exists for remaining a "lean, mean, business machine".

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15. "Approximately 90% of our milk supply should be produced locally, with 10% imported for flexibility."

- CONCLUSION -

A 90-10 mix is logical for the local situation and should remain as the desired target. In fact, Matanuska Maid's best interests would be served if most of its milk is produced locally. The base milk price that is paid to local producers, however, must be competitive on a realistic formula basis with consumer dairy products imported from out-of-state sources. Previous consulting reports have stressed that the fundamental problem which prompted Matanuska-Maid Cooperative's demise in 1983 was its refusal to accept that local raw milk prices must be priced very carefully...neither too high nor too low. The stated position of Anchorage area dairy farm interests combined with the focus of continuing rhetoric in the local press indicates that precious little of a substantive nature seems to have been learned from the total episode.

A very basic issue concerns the relative practicality of actually insisting that 90% of the Plant's milk be sourced locally. Some individuals even maintain that all of it should come from local dairy farms. Virtually all food processing plants are designed to operate at certain production levels. Federal inspection standards mandate minimum labor force requirements to operate each plant's machinery. Experienced labor cannot be retained on an inconsistent, part time basis. Since Matanuska Maid products must compete in supermarkets with out-of-state brands produced by efficient integrated operations, economies of scale remain critically important.

Matanuska Maid was processing 3,000,000 pounds of milk monthly last November. Local producers were receiving $19.75 per hundred pounds of raw milk FOB the farm plus a 75¢/cwt quality bonus based upon achievable standards...for a practical price of $20.50/cwt. Hauling costs to the plant's dock were reported by management as averaging $1.15/cwt. The net cost for raw milk, consequently, was $21.65/cwt. Pasteurized bulk milk having 2% fat imported from the State Of Washington was costing $21.63/cwt. Assuming the preceding information to be correct, persistent charges that the price being paid to local dairy farms is discriminatory are obviously not true.

Today's volume of approximately 3,000,000 pounds monthly totals 36,000,000 pounds annually. A combined dairy herd population of 2,400 cows are required if producing an average of 15,000 pounds of milk annually...2,250 cows @ 16,000 lbs...2,118 cows @ 17,000 lbs... or 1,895 cows @ 19,000 lbs. USDA reports the national average for

1989 @ 14,244 pounds of milk per cow. Studies leading to the Point MacKenzie Project's development considered totals of 15,000 to 17,000 pounds per cow receiving \$16.84/cwt. Two local dairies that were reviewed by Business Counsel for the Alaska State Attorney General's Office actually reported peak levels of 19,200 lbs. and 19,300 lbs. of milk respectively per cow. Assuming realization of Matanuska Maid's desire to increase Total Sales by another 65% to \$25,000,000 within five years, a local dairy population of approximately 3,150 to 3,350 cows would be required to supply 90% of the milk...or 21-22 farms averaging 150 cows each.

No long term reason is visible that should prevent the development of local dairy herds capable of producing 90% of Matanuska Maid's raw milk requirements within 7-10 years...perhaps even sooner. Clearly identifiable market demand sufficient to support a processing plant having adequate size for competitive economics is the most elemental ingredient. Matanuska Maid's trade area provides an established market that is considerably larger than the plant's capacity. The second requisite, which also exists, involves ready access to bulk milk beyond the local area's production volume to permit sales being developed to optimal levels as rapidly as possible. A third factor is that prices throughout the complete food chain from farms to consumers must also be adequate to permit rational profitability for every sector. Finally, reasonable access to both long term and operating financing must be available so that growth can occur.

Studies have shown that the economic multiplier effect from large scale, vertically integrated agriculture to be approximately 4.2 times annual sales...compared to 2.5-2.8 for extractive industries such as petroleum and mining or 3.2-3.5 for durable goods manufacturing. A properly structured and functioning dairy production, processing, and marketing program could, therefore, create a total economic impact on the Anchorage area approximating \$100-125 million annually. How to accomplish this vital objective should be a featured topic in the Plant's five year RESOURCE STRATEGY AND ECONOMICS PLAN as suggested also for Goals #1, #2, #4, #5, #8, #10, #11, #13, #14, #16, #17, and #19 of this chapter. Refer to I, B, page 3, paragraphs 2 & 3...II, A, page 5, paragraphs 2 & 3 plus page 6, paragraphs 2 & 3 also B, 1, a-c together with j-s, pages 7-9 and 3, a-c, pages 11-13 as well as 4, a-d, pages 13-15...V, B, 1-8, pages 37-39...VI, Y, page 63...VII, A, 1, pages 64 & 67 also 5-7, pages 68-70...finally X, B, 1, pages 97-99.

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16. "More raw product storage should be developed to accommodate local production."

- RECOMMENDATION -

This objective may well be correct. Conversely, local production has been declining recently instead of increasing. If this ORA leads to a sound resolution of Matanuska Maid's and the local area's dairy farms' futures, more storage for raw milk will become necessary. Close monitoring of the index for Sales To Fixed Assets @ Book Value as well as Sales Growth To Fixed Assets Growth ratio should occur to remain certain that capital use efficiency continues strong. Sales To Inventory @ BV index must also be observed carefully to avoid any deterioration, although just increasing raw milk storage should not create a negative impact unless Debt is incurred unwisely. Still, all major Fixed Asset acquisitions should be preceded by detailed study within a multi-year RESOURCE STRATEGY AND ECONOMICS PLAN along with the topics identified in Goals #1, #2, #4, #5, #8, #10, #11, #13, #14, #15, #17, and #19 in this chapter. Refer to V, E, 9-13 plus 16-18, pages 51-54...and VI, E-I as well as K, L, R, & U, pages 57-62.

17. "Continue modernizing facilities and equipment as required for increased efficiency and lower cost."

- CONCLUSION -

A logical strategy which needs to occur...providing "desired" is not confused with "required" at some point. Previous consulting reports have indicated that certain items of equipment needed upgrading or replacement. Some of the most urgent changes have, in fact, been made by management. Any substantial investment in capital assets should be analyzed thoroughly in advance for its total impact within a RESOURCE STRATEGY AND ECONOMICS PLAN as stressed in responses to the preceding Goals #1, #2, #4, #5, #8, #10, #11, #13, #14, #15, #16, and #19. Refer to the same chapter notations as listed in Goal #16.

18. "The plant should never again be required to purchase either poor quality or surplus milk that must be dumped...actions that cost approximately $700,000 from 1/1/87 through 1/1/88."

- CONCLUSION -

Amen! The total financial consequence may even have been greater. Perhaps the cruelest irony is that absolutely zero positive response accrued from the entire episode. Matanuska Maid has been subjected to being the "whipping post" for any individual having a dairy related grievance or personal axe to grind. Distortion and false innuendos in "trial by the press" persisted as late as June, 1990. Time will soon reveal whether the negative fallout prevents State Officials from developing the most constructive solution possible for assuring an effective dairy presence in southcentral Alaska.

19. "Establish a new plant eventually at a cost of approximately $2.5-3.0 million."

- RECOMMENDATION -

A new plant will become essential at some point if a decision is reached to move forward with a logical plan to encourage expansion of local dairy production on a sound financial basis...either as proposed in Chapter XI or via some superior methodology. Conversely, any plan that enables individuals to substitute a significantly smaller capacity, narrow product line facility for the existing installation while pocketing a substantial cash difference would represent a severe injustice. Any evaluation regarding building a new plant should definitely be an integral part of a multi-year RESOURCE STRATEGY AND ECONOMICS PLAN as mentioned in Goals #1, #2, #4, #5, #8, #10, #11, #13, #14, #15, #16, and #17. Assuming that analysis reveals adequate justification for developing a new plant, positive consideration should be given to subsequent preparation of an extremely detailed COMPREHENSIVE BUSINESS PLAN by professional counsel as outlined briefly in IX, G, page 92.

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20. "A dairy product dating law is needed in Alaska."

- CONCLUSION -

Matanuska Maid management should be unusually well informed regarding the subject because they are confronted daily with whatever problem exists. Physical development of the legislation's actual wording should not be extremely difficult since comparable laws are already present in several other states. Still, substantial opposition could arise from sources that presently import dairy products from out-of-state. Caution should also be maintained that "product dating" is not intended to serve as a poorly disguised barrier to aggressive, but ethical, competition. Potential retaliatory laws enacted by other states could prove to be extremely counterproductive. In any event, Alaska's Division Of Agriculture must be persuaded to provide essential leadership on the basis of "consumer protection".

21. "A unified, orchestrated marketing approach costing approximately $500,000 annually should be implemented to stimulate consumer awareness for Alaskan agricultural products since the average Alaska citizen has been a resident approximately seven years."

- CONCLUSION -

The general concept is being applied by several states relative to promoting tourism, other generic industries having unusual appeal, and occasionally certain agricultural specialty crops. Assistance from an appropriately experienced marketing expert should be able to identify what a sound intrastate program should cost as well as the results that can be expected. Prospects for gaining the necessary legislative support are likely to be enhanced substantially if the State's agricultural producers will agree to provide a reasonable portion of the funding via internal check-off programs. Business Counsel's personal experience with promoting check-offs to producers during a period of twenty years confirms, however, that tremendous resistance should be expected. Support from allied industry is also difficult to obtain since their interest is focused primarily upon promoting proprietary brands. Effective leadership from Alaska's Division Of Agriculture is virtually certain to be essential for the successful development of any plan.

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XI. STRATEGIC PRIORITIES

A. BUDGET FORECASTING/CONTROL SYSTEM

Maximal effort must be directed to further refinement of the existing System to assure Matanuska Maid's continued progress toward generating attractive profitability on a consistent basis. Despite the impressive record of financial recovery from 1987's Cash Deficit From Operations totaling ($619,793) representing (5.1%) Gross Loss On Revenue of $12,115,283 to $363,035 Cash Surplus equaling 2.5% Gross Profit on $14,389,401 Total Revenue during 1989, continued improvement must be achieved.

Management's budget forecast for 1990 does, in fact, anticipate further growth to $481,290 Cash Surplus providing 3.2% Gross Profit on $15,051,866 Total Revenue. Still, the $1,101,083 net turnaround in annual profitability during a span of three years must strengthen further via additional Sales Expansion linked with Expense Controls. Cash Surplus From Operations should reach at least $1,500,000 annually providing 7-10% Gross Profit On Cash Revenue within 5-7 years.

Budget forecasting and control efficiency must actually improve as total volume increases. Management's admirable record during 1986-89 of attaining 86.9% to 96.8% accuracy with Total Cash Revenue and 90.6% to 94.7% accuracy regarding Total Cash Expense needs boosting to 95-98% levels. The reason is basically simple.

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A 3% error at 1985's Sales level of $9,003,262 equals ($270,098)... ($450,000) at $15,000,000 Total Sales as forecast for 1990...as well as ($750,000) at $25,000,000 Total Sales annually as is targeted in Chapter X's Goal #13. The problem intensifies when forecasting and control error occur in countervailing directions of overstated Sales accompanied by understated Expense, as is typical in most management environments.

Fortunately, even though Matanuska Maid's budgets contained both overstated Total Sales and understated Total Expense during two of five years, the errors were parallel instead of countervailing. The primary reason reflects the fact that milk purchases' composition of 41.3% to 48.0% of Total Cash Expense exerts major influence on the dairy processing plant's overall operations.

Future budget forecasting/control activities will unavoidably become increasingly complex as new products are added in management's overall strategy to expand Total Revenue significantly. Plans to purchase additional machinery and equipment have also been stated. Major modification of refrigeration facilities may be required if ice cream is added to the line of manufactured items. The net conclusion is that active consideration of a custom designed, integrated system may be advisable to improve prospects for maintaining extremely high levels of budget forecasting/control efficiency. Refer to IX, A, page 89.

FG

1. System Features

* Enables management to forecast the business' path during the next twelve months...then exercise "control" to achieve stated objectives instead of being plagued constantly by "crisis management" reacting to events that have already occurred.

* Designed and implemented within the Ferguson Group's RAM (Resource Analysis Management) procedures which encompass all aspects of the total business' four, basic resource areas...physical facilities, finance, markets, and personnel.

* Accuracy levels of 95-98% are essential...as 7% negative deviations by both Income and Expense in 1990's consolidated budget, for example, would decrease Operating Surplus by (426.8%) and ($2,054,311) by substituting a ($1,573,021) Cash Operating Deficit for the $481,290 Surplus as forecast.

2. Control

* The System's control mechanisms constitute the heart of Management By Objective (MBO).

* Monthly management review meetings are essential and should be scheduled for a specific date each month.

* Formal quarterly "Board Meetings" should occur on schedule without interruption. They should include written agenda plus detailed reports of key production, financial, and marketing information.

3. Monitoring

Third party critiques via low cost QUARTERLY BUSINESS PROGRESS REVIEWS prepared by Business Counsel are recommended as vital reinforcement to assure maximal progress. Refer to IX, C, page 90.

FG

* Sales Added Per Dollar Of New Debt were represented by a strong ratio of 7.03:1 during 1986-89 reflecting $7.03 of New Sales being added for every $1.00 of additional Debt that was acquired. Even though spectacular improvement to a 25.49:1 ratio for 1986-90 is forecast, extreme caution should be exercised to avoid permitting relapse below a 7.50:1 ratio during either future expansion or just simple acquisition of new machinery.

Interest Expense Percentage Of Total Revenue remained at unusually conservative indices of 0.2% to 0.4% throughout 1985-89 as well as into 1990's budget forecast. While traditional views have considered 2.0% to 3.0% indices as normally being acceptable in most manufacturing firms, similar levels would have effectively blocked all of Matanuska Maid's profitability during 1989-90. The index's direct impact upon bottom-line performance emphasizes that IE%TR must be monitored carefully at all times.

- AND -

The business' potentially aggravating Current Liabilities % Of Total Revenue index confirms that Current Liabilities should be restructured to a level that will be at least 2-3 percentage points below Gross Profit On Cash Revenue's index. Even though values are projected to drop sharply from 1989's potentially strangulating 11.4% index to 7.4% by 12/31/90, considerably greater reduction is advisable. An accompanying 3.16:1 Current Ratio as also expected for 12/31/90 does provide breathing room. Still, the probability of increased Accounts Receivable as an unavoidable adjunct to expanded Sales could quickly elevate the risk from an excessive CL%TR index.

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D. STRATEGY OPTIONS

OPTION #1

"CONTINUE STATE OWNERSHIP OF MATANUSKA MAID"

- Based Upon -

1. "State Ownership Of A Currently Profitable Food Sector Business Is Fundamentally Desirable."

   a. Represents either a previous or subsequent political policy determination.

   b. Presumes that existing management will remain in its present capacity...or can be replaced with minimal disruption of operating continuity.

- OR -

2. "Present Management, Dairy Producers, Or Other Acceptable Interests Will Not Purchase The Plant On Reasonable Terms."

   a. Potential arrangements have not been discussed on any basis by Business Counsel with Matanuska Maid's present management team, so prospects are unknown.

   b. Potential arrangements have not been discussed on any basis by Business Counsel with local dairy producers, so prospects are unknown.

   c. Potential arrangements have not been discussed on any basis by Business Counsel with any other interests, so prospects are unknown.

- OR -

3. "Political Constraints Will Not Permit Developing A Realistic Plan For Third Party Ownership Of Matanuska Maid That Would Attract Management, Producers, Or Other Qualified Sources."

   a. Transfer of ownership on a realistic basis to assure a viable business entity will invite unacceptable criticism.

   b. Risking the plant's eventual demise and subsequent total loss of any local dairy industry presence is preferable from a pragmatic perspective.

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- OPTION #2 -

"DEVELOP A LEVERAGED BUY-OUT BY MANAGEMENT AND PRODUCERS"

- Based Upon -

1. Conversion To A Profit Oriented Business Entity Owned By Proven Management And Existing Plus Future Dairy Farm Owners.

   a. Restricted to individuals having strong ties to Southcentral Alaska dairy development.

   b. Should serve the State Of Alaska's best composite interests.

      (1) Returns frozen capital funds for other development purposes.
      (2) Removes the State from competing with tax paying private enterprise.
      (3) Encourages continued expansion of local dairy production.
      (4) Maintains a local payroll of approximately $2.1 million annually that could be expanded by 20-40% during the next five years.
      (5) Currently provides a local economic impact of approximately $48.5 million annually, based upon an economic multiplier index for vertically integrated agriculture of 4.2 times replicable expenditures (not including imported milk). Extractive industries such as petroleum and mining usually are credited with factors of approximately 2.8 while most manufacturers of durable consumer goods are attributed 3.2 to 3.5 economic multiplier indices. Future expansion as projected would increase the local impact to $58-68 million annually.

2. Proposed Terms.

   a. Sell 100% of Matanuska Maid's physical assets, debt, and good will for a total price of $1,187,830.

      (1) Based upon 10 times the average After-tax Profit of $118,830 during 1989 and budgeted 1990.
      (2) Principal payments in even increments divided by 12 years, for $98,986 annually following a moratorium of 12 months.
      (3) An effective annual interest rate of 3% on the unpaid balance.
      (4) Common Stock valued initially @ $1.00 per share.

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b. Special terms to present management individuals.

(1) The total management team shares a one time, non-cash dividend of 223,254 shares of the new corporation's Common Stock divided on a pro rata basis of each individual's annual salary to total management salaries. The dividend represents bonuses amounting to 30% of salaries during 1988-90 for unrewarded, exemplary service. Management led Matanuska Maid's sharp recovery from previous years of catastrophic business and financial performance that precipitated 1983's bankruptcy followed by Pre-tax Losses totaling ($877,800) during just 1985-87. Actual realization of personal financial benefit from the shares will be dependent, however, upon the Corporation's future success.

(2) Management salaries, payroll taxes, benefits, bonuses (not including stock bonuses), etc. should not surpass 2.5% of Matanuska Maid's Total Cash Revenue each year until Cash Surplus From Operations reaches at least $750,000 annually...then up to 10% of After-tax Profit should be directed into a definitive employee incentive program.

(3) Common Stock bonuses totaling 104,185 shares annually are provided to the total management team for a term of five consecutive years following the LBO. Distribution should be based upon the pro rata share of each individual's annual salary to total management salaries for the year.

(4) Management's total maximal ownership of Common Stock equals 744,179 shares after the completion of five years.

(5) A management individual leaving the Corporation's employment for any reason prior to the expiration of five years from the date of the LBO must exchange his/her Common Stock received as a bonus described in b (1) & (3) for an amount representing 1 X the average After-tax Profit Per Share issued and outstanding which has been generated during the immediately previous three years divided by three. An amount equal to 5 X the average After-tax Profit Per Share generated during the previous three years divided by 3 will be paid in the compulsory purchase upon the person's departure from employment after five years.

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c. Special terms to existing and future dairy farm owners.

(1) Both the State Of Alaska's and Matanuska Maid's interests would be served best by having 90-95% of the plant's fluid milk requirements produced within a reasonable proximity to Anchorage. The following incentive program permits up to 489,600 shares of Common Stock representing 39.7% of the total shares authorized to be received by area dairy owners providing Class I milk meeting Grade A standards as proscribed by Federal/State regulatory authorities. Each share of Common Stock is arbitrarily assigned an initial value of $1.00.

(2) Calculations are based upon an optimal local milk shed having 2,400 cows averaging 17,000 pounds of milk per cow annually. Since all incentives should reflect at least reasonable efficiency, lower performance receives fewer shares.

(3) Each participating dairy owner receives the commercially competitive price paid for local milk. A stock bonus allowance equaling 40¢ per hundred weight of milk meeting Grade A standards is credited towards the receipt of Common Stock for a period of three consecutive years by each individual dairy until the milk shed's targeted herd level is reached. A maximum of $204.00 of Common Stock can be received per cow by any dairy owner.

(4) Termination of milk production for any reason, or transfer of a farm's ownership outside the owner's immediate family, requires that the Common Stock be offered to Matanuska Maid or its successor. The price for any Stock that has been issued less than 60 months will be 1 X the average After-tax Profit Per Share issued and outstanding which has been generated during the immediately previous three years divided by three. An amount equal to 5 X the average After-tax Profit Per Share generated during the previous three years divided by three will be paid if the Common Stock is purchased by the Corporation more than 60 months after its issuance.

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d. Estimated distributions of Common Stock:

	Shares Issued	Total Outstanding
(1) Management		
Immediate	223,254	223,254
End of 1st 12 months	104,185	327,439
End of 2nd 12 months	104,185	431,624
End of 3rd 12 months	104,185	535,809
End of 4th 12 months	104,185	639,994
End of 5th 12 months	104,185	744,179
(2) Dairy Farm Owners		
1st 12 months if 1,000 cows	68,000	68,000
2nd 12 months if 1,200 cows	81,600	149,600
3rd 12 months if 1,500 cows	102,000	251,600
4th 12 months if 1,800 cows	54,400	306,000
5th 12 months if 2,100 cows	61,200	367,200
6th 12 months if 2,400 cows	61,200	428,400
7th 12 months if 2,400 cows	40,800	469,200
8th 12 months if 2,400 cows	20,400	489,600

- BUT -

Actual distribution of shares of Common Stock to owners of dairy farms could occur at a faster or slower rate depending upon subsequent increases of cows in local herds.

e. Other special provisions:

(1) Payment of cash dividends or other distributions of cash profits to, or for the benefit of, Shareholders should be restricted to amounts used directly for principal payments to the State Of Alaska until all indebtedness is retired or waiver from the State is received.

(2) Construction of a new processing plant and/or moving to a different location prior to complete payment of all Debt owed to the State Of Alaska requires State approval plus subsequent return of all surplus funds that were received from the sale of the existing plant but not expended to establish the replacement facility.

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(3) Matanuska Maid should be encouraged to own one or more local dairy farms corporately to provide accurate knowledge regarding the costs, problems, and opportunities associated with producing milk in the Anchorage area.

* An initial herd volume of 2-300 cows should be optimal.
* Subsequent increments of 200 cows every third year could be desirable to supplement production if it is not being developed locally.
* The prices paid and related conditions involving milk produced by Matanuska Maid must not be superior to the same factors that affect other dairies providing similar quality milk.

(4) Matanuska Maid's Board Of Directors should comprise 10 members.

* Terms should be for three years, and cycled on a basis of reelecting 3 members one year...3 the next...followed by 4 the next year.
* Board Members should include 5 elected by management shareholders... 3 elected by dairy owner shareholders ...1 appointed by the Alaska Division Of Agriculture... and 1 elected by all shareholders but restricted to an in-state or out-of-state individual having special expertise in business management, finance, or marketing.
* The Chairman Of The Board Of Directors should be elected by the Board...and granted a second "casting vote" to be used exclusively for breaking tie votes to assure orderly continuation of business.
* Board Meetings should occur at three month intervals.
* Only non-employee Directors should receive attendance fees plus reimbursement for associated expenses related to attending Board Meetings as well as Annual Meetings Of Shareholders. Dairy owner Directors should not receive more than $700 each per quarterly Board Meeting. Outside Directors should be limited to $2,500 plus travel related expenses per meeting.

- UNTIL -

All indebtedness to the State Of Alaska is repaid.

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PRO FORMA
BALANCE SHEET @ BOOK VALUE

12/31/90

ASSETS	
Cash	$ 190,000
Accounts Receivable	2,303,803
Inventory @ Cost	795,700
Other Current Assets	230,000
Total Current Assets	3,519,503
Land	2,360,000
Buildings/Improvements	429,012
Vehicles/Machinery/Equipment	1,243,691
Less: Cumulative Depreciation	(1,415,042)
Total Property, Plant, & Equipment	2,617,661
Other Assets	-0-
TOTAL ASSETS @ BOOK VALUE	$6,137,164
LIABILITIES	
Accounts Payable	$1,020,500
Notes Due Within 12 Months	25,300
Other Current Liabilities	67,323
Total Current Liabilities	1,113,123
Long Term Notes & Mortgages	1,187,830
Loans Due Shareholders	-0-
Other Long Term Liabilities	-0-
Total Long Term Liabilities	1,187,830
TOTAL LIABILITIES	$2,300,953
SHAREHOLDERS' EQUITY	
Capital Stock	
Management	$ 223,254
Dairy Owners (estimated)	68,000
Capital Surplus	4,786,118
Retained Earnings	(1,241,161)
NET WORTH	$3,836,211
TOTAL LIABILITIES & NET WORTH	$6,137,164

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- OPTION #3 -

"TRANSFER OWNERSHIP TO A LOCAL DAIRY COOPERATIVE"

- Based Upon -

1. Continuing Matanuska Maid's Operations Is Fundamentally Desirable.

- AND -

Eliminating State Ownership Is Preferred.

- BUT -

A Leveraged Buy-out As Proposed In Option #2 Is Not Acceptable.

- THEREFORE -

2. Transfer Ownership To A "Cooperative" Formed By Local Dairy Owners.

a. At no cost to the recipients?

- OR -

b. Sell 100% of Matanuska Maid's physical assets, debt, and good will for a total price of $1,187,830 as in Option #2.

* Principal payments of $98,986 annually for 12 years.
* An effective annual interest rate of 3% on the unpaid balance.
* Ownership withdrawals limited to the amount required each year for Debt Principal payments to the State Of Alaska until all Debt has been retired.
* Construction of a new processing plant and/or moving to a different location prior to complete payment of all Debt owed to the State Of Alaska requires State approval plus subsequent return of all surplus funds that were received from the sale of the existing plant but not expended to establish the replacement facility.

3. Advantages

a. Could retain Matanuska Maid's present payroll of approximately $2.1 million annually providing an economic multiplier effect near $48.5 million annually...if operations are maintained at present levels.
b. Could encourage expansion of local milk production.
c. Return capital funds to the State for other development purposes.
d. Might be more acceptable politically as providing essential financial assistance to "economically distressed" farmers.

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4. Disadvantages

    a. Previous experience with Cooperative ownership of Matanuska Maid was disastrous financially.
    b. Key leadership of the present "dairy cooperative movement" profess financial and operating policies that led to the former cooperative's bankruptcy.

        * The plant's milk prices to dairies are considered inadequate.
        * The plant's sole objective is stressed as being to put money in the pockets of its producers.
        * Operating savings from Depreciation are emphasized as being adequate to provide ample plant maintenance and modernization.
        * Lower salaried management should be employed.

    c. The cooperative would be "in name only" because of extremely limited participation by existing producers.
    d. None of the present dairy producers has <u>any</u> relevant experience concerning the requirements for operating a successful dairy processing plant.

- MOREOVER -

Rumored intentions to replace the existing plant with a much smaller facility producing fluid products exclusively would be contrary to prevailing dairy industry practice.

    e. How do years of substantial operating losses on area dairy farms, defaulting on significant state loans, and advocating that other dairy producers' loans be cancelled qualify individuals to receive further largess from the State in the form of control of a major business such as Matanuska Maid?

- OPTION #4 -

"SELL MATANUSKA MAID TO ANOTHER OPERATOR"

- Based Upon -

1. Another buyer <u>might</u> be located that would purchase the plant for a reasonable price.
2. Valuable economic impacts on the Anchorage area would be retained.
3. An arrangement that is completely devoid of local personalities might be simpler politically...if one could be developed.

- UNFORTUNATELY -

4. Prospects for successful completion are probably slim.

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- OPTION #5 -

"TERMINATE OPERATIONS AND SELL THE PHYSICAL FACILITIES"

- Based Upon -

1. Advantages

   a. Whatever controversy exists regarding Matanuska Maid will be ended.

   b. Return frozen capital funds to the State for other development purposes.

2. Disadvantages

   a. Could open new controversy by the local news media that the dairy project was really salvageable but was terminated as a "cover up" of State mismanagement.

   b. A payroll of approximately $2.1 million annually plus a total economic impact of near $48.5 million annually would be lost for the Anchorage area.

   c. The processing plant building and machinery are definitely single purpose assets having substantially reduced value for non-dairy purposes...thus the present Book Value for assets may not be received.

   d. All potential for expanding local milk production would be terminated.

   e. A potentially important sector of the consumption market for Alaska produced grain and hay would be eliminated.

   f. Owners of local dairy farms presently in production would lose their primary market, which would probably cause substantial capital losses.

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E. BUSINESS COUNSEL'S CONCLUSIONS

Prospects that Alaska's Division Of Agriculture can develop a unanimously popular decision regarding Matanuska Maid's future are very likely rather slim. The vast amounts of gossip, deliberate misinformation from a variety of individuals having hidden agendae, and abysmal news reporting have capitalized upon ARLF's impractical role.

Determining what action _should_ transpire, however, to promote the best prospects for furthering the overall economic interests of the State Of Alaska is not as complicated...assuming that financial data provided for this OPERATIONS REVIEW AND ANALYSIS are accurate. Personal inquiries to the State Attorney General's Office concerning probable validity received completely positive responses. Moreover, a Legislative audit was reportedly checking the authenticity of the Corporation's financial data rather recently.

Business Counsel was instructed originally by officials from the Attorney General's Office to approach three companion studies involving Matanuska Maid and two local dairy farms in a neutral manner to determine if any positive solutions could be developed. A general preference to maintain an agricultural base in Alaska, including dairy production and processing, was expressed...providing approaches could be developed that would be sensible from a _financial_ perspective. No professional biases were expressed to resolve the three cases in any direction. Complete freedom was provided to

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essential financial records, personal interviews, previous consulting studies, as well as both prior and subsequent newspaper articles.

Business Counsel believes from a purely objective perspective that the order of preference among the preceding options begins with Option #2...then #4...#1...#3...and finally #5. Existing political realities may dictate another order of priorities, but justification should be expected to be extremely difficult if all the factors in this ORA are considered dispassionately.

The State Of Alaska has invested substantial time and money in assisting the development of an integrated dairy structure in the Anchorage area. Simply ending the sustained controversy as quickly as possible as a totally negative experience appears to be neither prudent nor necessary. Now is not the time to "snatch defeat from the jaws of victory".

Definitive reasons exist why the dairy industry related financial difficulties have transpired. Fortunately, they should be able to be solved through a combination of correct financial restructuring and perseverance. No further tolerance should be granted, however, for continued refusal to face clear financial facts in order to enable mistakes in planning as well as execution to be rectified.

Implementing Option #2 provides the soundest opportunity for expanding integrated dairy development in Southcentral Alaska and protecting its existing economic impact on the area. Success will

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require that both Matanuska Maid's management and local dairy farm owners collaborate in promoting their combined interests to the total economic benefit of Alaskan consumers. Additional, prudent financial support from the State to develop properly structured dairy farms in an orderly fashion will almost certainly be advisable irrespective of the negative experiences to date. Perhaps some minor modifications from the suggested outline could make it more attractive politically; but, major changes that dilute its intent are not likely to provide successful results on a sustained basis.

Option #4 involving selling Matanuska Maid as a going concern to another operator constitutes a weak alternative option from Business Counsel's personal viewpoint. Prospects do not appear very bright that an out-of-state dairy processing firm or major cooperative would elect to expand into the Southcentral Alaska area. Inadequate production exists locally to support the current processing plant, plus rapid expansion of volume via new farms seems unlikely because of the previous controversy. Successful accomplishment of selling the plant to a strong dairy organization, however, should stabilize its future.

Option #1's continued ownership of Matanuska Maid by the State Of Alaska is obviously "doable". Conversely, it involves continued stumbling through an uncharted mine field from a political view. No inherent assurance exists that the plant's present payroll and total economic impact on the Anchorage area will be maintained. Persistent

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turnover of management should be expected if ARLF's extremely awkward role is continued. State Officials should not be lulled into assuming that attracting equally competent replacement individuals to relocate into a boiling caldron of controversy in "distant Anchorage" would be relatively simple.

Prospects for realizing even minimal success via Option #3's transferral of Matanuska Maid to a "local dairy cooperative" do not appear acceptably realistic to Business Counsel despite the option's "romantic" aspects. Previous personal activities have included being a Director of both state and multi-plant federated cooperatives engaged in food production, processing, and marketing. Sensitivities developed in those environments combined with other strategically crucial factors have prompted the conclusion that few of the required ingredients for even marginally satisfactory results within a coop structure are present locally. Prior management responsibilities involving dairy product development and market penetration have also led to a strong conviction that key concepts being espoused by local dairy farm interests last November were seriously flawed.

Resorting to Option #5's terminating Matanuska Maid's operations and selling the physical facilities obviously represents the simplest alternative. Of course, it also constitutes accepting total defeat of all efforts to date to establish an economically viable dairy presence in Alaska as a prototype for future agricultural ventures.

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Business Counsel does not believe that pronouncing final benediction at this juncture is warranted despite certain political attractions.

F. STRATEGIC PLANNING

Assuming that a workable, long range solution to Matanuska Maid's destiny is developed during the near future, development of a multi-year RESOURCE STRATEGY AND ECONOMICS PLAN should begin as soon as possible. The firm's management team should be able to complete the plan within four to six months. While one person normally coordinates strategic planning, all individuals having management responsibilities should be actively involved.

Broad based participation is essential to planning success. First, key errors and omissions are more likely to be eliminated. Secondly, personal commitments to achieving the Plan's goals are increased. The Plan becomes "ours" instead of "his/hers" or "theirs". Refer to X, C, Goals #1, #2, #4, #5, #8, #10, #11, #13, #14, #15, #16, #17, and #19, pages 102-114.

MATANUSKA MAID

RESTATED COMPARATIVE BALANCE SHEETS

	BUDGET 12/31/90	12/31/89	12/31/88	12/31/87	12/31/86	12/31/85	12/31/84
ASSETS							
Cash	190,000	191,035	62,533	47,442	161,558	96,310	143,475
Accounts Receivable	2,303,803	2,340,325	2,065,565	2,073,533	1,851,512	1,572,707	927,942
Inventory @ BV	795,700	795,878	649,692	592,182	404,786	343,180	345,900
Other Current Assets @ Book Value	230,000	265,120	177,396	132,792	134,659	95,704	52,707
Total Current Assets @ Book Value	3,519,503	3,592,358	2,955,186	2,845,949	2,552,515	2,107,901	1,470,024
Land/Farm Residence @ Cost/Basis	2,360,000	2,360,000	2,360,000	2,360,000	2,360,000	2,360,000	-0-
Buildings/Improvements @ Cost/Basis	429,012	404,100	365,513	316,388	221,783	204,850	-0-
Vehicles/Machinery/Equipment @ Book Value	1,243,691	1,219,043	1,107,537	943,735	853,305	720,857	-0-
Less: Cumulative Depreciation	(1,415,042)	(1,058,926)	(789,658)	(497,297)	(261,567)	(61,217)	-0-
Total Fixed Assets @ Book Value	2,617,661	2,924,217	3,043,392	3,122,826	3,173,521	3,224,490	-0-
Loans To Shareholders	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Stock In Related Corporations	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Depletable Assets @ Net	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Other Assets	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL ASSETS @ BOOK VALUE	6,137,164	6,516,575	5,998,578	5,968,775	5,726,036	5,332,391	1,470,024
LIABILITIES							
Accounts Payable	1,020,500	1,279,192	771,183	579,107	460,055	485,417	421,581
Accrued Interest Payable	-0-	-0-	-0-	-0-	-0-	-0-	23
Notes/Mort. Due Within 12 Months	25,300	319,552	265,402	196,681	170,151	55,659	-0-
Other Current Liabilities	67,323	43,917	296,692	106,225	95,813	85,120	449,079
Total Current Liabilities	1,113,123	1,642,661	1,333,277	882,013	726,019	626,196	870,683
Long Term Notes/Mortgages	-0-	-0-	48,916	129,521	242,631	249,553	-0-
Loans Due Shareholders	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Other Long Term Liabilities	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Long Term Liabilities	-0-	-0-	48,916	129,521	242,631	249,553	-0-
TOTAL LIABILITIES	1,113,123	1,642,661	1,382,193	1,011,534	968,650	875,749	870,683
SHAREHOLDERS' EQUITY							
Capital Stock	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Paid-In/Capital Surplus	6,265,202	6,265,202	5,964,247	5,837,565	4,793,575	4,493,575	600,000
Retained/Undistributed Earnings	(1,241,161)	(1,391,288)	(1,347,862)	(880,324)	(36,189)	(36,933)	(659)
NET WORTH							
Book Value	5,024,041	4,873,914	4,616,385	4,957,241	4,757,386	4,456,642	599,341
TOTAL LIABILITIES & NET WORTH							
Book Value	6,137,164	6,516,575	5,998,578	5,968,775	5,726,036	5,332,391	1,470,024

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