

**MARKET HOG PURCHASE AGREEMENT  
ABP CARCASS SPECIAL**

(Option II)

This Agreement is entered into as of this 31 day of AUG, 1998 by and between Farmland Industries Inc. ("Farmland") and \_\_\_\_\_ a producer of market hogs ("Producer").

**PREMISES**

Farmland desires to purchase high quality slaughter hogs suitable for processing from competent independent swine producers, and Producer has access to the necessary land, facilities, equipment, labor, feed, and Breeding Stock (as defined below) for the purpose of fulfilling Producer's obligations under this Agreement;

**AGREEMENTS**

NOW, THEREFORE, the parties hereto agree as follows:

Year	Building No.	Building No.	Building No.	Building No.

If the term of this Agreement is based on a specified number of building turns, then

(a) Hogs from a particular building shall be delivered to Farmland hereunder not more than \_\_\_\_\_ days, and not less than \_\_\_\_\_ days, after the date on which hogs from such building were then most recently delivered to Farmland hereunder, and

(b) Producer shall contact Farmland not more than 2 days, and not less than 2 days, prior to the Monday of the week of delivery to schedule mutually agreeable dates on which deliveries are to be made.

4. **TRANSPORTATION OF MARKET HOGS.** Producer shall provide transportation at Farmland's expense to the slaughter facility ("Slaughter Facility") of Farmland Foods, Inc. located at \_\_\_\_\_ (town), \_\_\_\_\_ (state).

5. **DEFINITIONS.** The following words and terms used in this Agreement shall have the following meanings, unless otherwise stated in this Agreement:

(a) "Base Price" shall have the meaning set forth in Section 12 of this Agreement.

(b) "Breeding Stock" shall mean the gilts, sows, and boars or replacements thereof composed of the genetic strains set forth herein owned and used by Producer for the purpose of producing offspring suitable for use as Qualifying Market Hogs. The Breeding Stock shall be composed of \_\_\_\_\_ (number) \_\_\_\_\_ (type) gilts/sows and the appropriate number of \_\_\_\_\_ (type) boars and will produce approximately \_\_\_\_\_ Market Hogs per year / building turn (circle one).

(c) "Facilities" shall mean the land, buildings, and equipment owned and used by Producer in connection with the housing, care and feeding of the Herd.

(d) "Herd" shall mean the Breeding Stock and the offspring thereof.

(e) "Market Hogs" shall mean the offspring of the Breeding Stock having a minimum scalded carcass weight of 170 pounds per pig or a minimum skinned carcass weight of 151 pounds per pig, as the case may be based on the configuration of the Slaughter Facility.

(f) "Qualifying Market Hogs" shall mean Market Hogs that conform to the following:

(i) delivered to Farmland having a scalded carcass weight of 170 pounds per pig to 207 pounds per pig or a skinned carcass weight of 151

1. **SALE OF QUALIFYING MARKET HOGS.** Farmland shall purchase from Producer, and Producer shall sell to Farmland, all Qualifying Market Hogs produced by Producer during the term of and in accordance with the terms and conditions of this Agreement. Producer agrees to deliver 4600 (number) Qualifying Market Hogs to Farmland per year / building turn (circle one) under this Agreement according to the appropriate schedule set forth below. The Purchase Price shall be determined in accordance with the terms and conditions of this Agreement.

2. **TERM OF AGREEMENT.** This Agreement shall commence on the date first above written and shall continue for 34 months / building turns (circle one) from such date.

3. **DELIVERY SCHEDULE.** All deliveries shall be made to the Slaughter Facility by 4:00 p.m. on the day prior to the day of slaughter or by 9:00 a.m. on the day of slaughter. Producer shall cease feeding hogs at least twelve (12) hours prior to scheduled delivery to the Slaughter Facility.

Producer shall make regular deliveries to Farmland. Time is of the essence. If the term of this Agreement is based on a specified number of months, the number of Qualifying Market Hogs to be delivered for each calendar quarter is set forth below:

**QUARTERLY DELIVERY**

Year	1st Quarter (Jan-Mar)	2nd Quarter (Apr-Jun)	3rd Quarter (July-Sept)	4th Quarter (Oct-Dec)
1998			3000	70,000
1999	11,700	11,700	11,700	11,700
2000	11,700	11,700	11,700	11,700
2001	11,700	11,700		

If the term of this Agreement is based on a specified number of months, then

(a) Only Qualifying Market Hogs that are delivered to Farmland hereunder within a calendar quarter shall be applied against the number of Qualifying Market Hogs that are contracted for delivery to Farmland hereunder within such calendar quarter.

(b) Hogs shall be delivered to Farmland hereunder on an even weekly volume basis beginning the first week of each scheduled calendar quarter and continuing throughout the calendar quarter; and

(c) Producer shall contact Farmland on Friday of each week and Farmland shall designate the dates within the following week on which deliveries are to be made.

If term of this Agreement is based upon a specified number of building turns, the number of Qualifying Market Hogs to be delivered for each building turn is set forth below:

**BUILDING TURNS**

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pounds per pig to 183 pounds per pig, as the case may be, based on the configuration of the Slaughter Facility;

free of defects listed in Section 8 to this Agreement;

produced only from the Breeding Stock; and

(iv) minimum of 51% lean as determined by the Fat-O-Meter system.

(g) "Nonqualifying Market Hogs" shall mean all Market Hogs that do not conform to the requirements set forth in Section 1(f) of this Agreement.

(h) "Purchase Base Price" shall have the meaning set forth in Section 12 to this Agreement.

6. CARE OF THE HERD. Producer shall supply all necessary management, labor and utilities to properly operate the Facilities and shall supply all necessary medications, vaccines, and feed to competently feed, water, and otherwise care for the Herd in accordance with the highest industry standards of good animal husbandry and in accordance with the terms of this Agreement so as to insure timely delivery of Market Hogs under this Agreement. Producer shall not house, feed, water or otherwise care for any swine on or in the Facilities other than the Herd, and shall not breed the Herd with any swine other than swine that are part of the Herd. Producer shall feed and manage the Herd in accordance with Farmland's recommended feeding programs as may be modified by Farmland from time to time. Producer shall notify Farmland of any problems or conditions that may affect Producer's ability to deliver Qualifying Market Hogs according to the terms of this Agreement.

7. VETERINARY SERVICES. Farmland and Producer acknowledge that proper management of the Herd by Producer shall include normal veterinary care, provided on terms and conditions which are acceptable to Producer, but which care will insure normal and regular veterinary review of the management and care of the Herd. In connection therewith, Producer will instruct and direct Producer's veterinarians and other employees to administer medication, vaccines and other animal health care products only in accordance with label directions and instructions. In addition, with respect to any such medications, vaccines or other animal health care products that are subject to USDA approval, only products with such approval will be utilized. In addition, Producer shall ensure that any and all medication, vaccines and other animal health care products used with respect to the Herd are reduced to the lowest level possible consistent with good animal husbandry and effective management of Herd health.

8. DEFECTS. All Qualifying Market Hogs shall be free of the following defects: (a) uncastrated males, (b) ruptures, (c) abscesses, (d) freshly castrated males, (e) freshly cut or unhealed wounds, or (f) any defect that would result in a down grade of the animal's carcass.

All Market Hogs (including Qualifying and Nonqualifying Market Hogs) delivered under this Agreement are purchased subject to passing inspection by the USDA with deductions to the Purchase Price for all carcasses or carcass parts that are condemned by USDA inspectors.

9. NONQUALIFYING MARKET HOGS. Producer shall deliver to Farmland all Nonqualifying Market Hogs produced by Producer during the term of this Agreement, which Nonqualifying Market Hogs may or may not be purchased by Farmland as determined by Farmland's then current purchasing practices. If purchased by Farmland, such Nonqualifying Market Hogs will be purchased at Farmland's then current price for hogs of like kind and grade. If not purchased by Farmland, such Nonqualifying Market Hogs will be sold by Farmland on behalf of Producer in accordance with Farmland's then current policies and procedures, and Farmland promptly shall remit the net proceeds therefrom to Producer.

10. WEIGHT DISCOUNT. Farmland's weight discount (sort) schedule at the time of receipt of the Qualifying Market Hogs shall apply to all deliveries.

11. PRODUCER COMPENSATION. The purchase price for the Qualifying Market Hogs purchased by Farmland hereunder (the "Purchase Price") shall be equal to (a) for scalded carcass hogs, the Scalded Combett Price (as hereinafter defined), or (b) for skinned carcass hogs, the Skinned Combett Price (as hereinafter defined); provided, however, that in no event shall the Purchase Price be (i) less than the Base Price (as hereinafter defined), or (ii) greater than the sum of the Base Price plus (A) for scalded carcass hogs, \$10.00/cwt (hot carcass weight), or (B) for skinned carcass hogs, \$11.30/cwt (hot carcass weight). The "Scalded Combett Price" shall

mean the average of the opening USDA Western Combett mid-point hog hot carcass prices/cwt carcass weight for the 49-50% lean carcass for each reported trading day occurring in the second week immediately prior to the week of delivery to the Slaughter Facility. The "Skinned Combett Price" shall mean the Scalded Combett Price multiplied by 1.13.

12. BASE PRICE. The "Base Price" shall be determined per hundred weight (cwt) of hot carcass weight and shall mean the sum of (a) the Nonfeed Cost Allowance (as hereinafter defined), plus (b) the Feed Cost Allowance (as hereinafter defined). The Feed Cost Allowance portion of the Base Price for Qualifying Market Hogs delivered during a Monday through Sunday period shall be computed on the Monday of the immediately preceding period.

13. NONFEED COST ALLOWANCE. The "Nonfeed Cost Allowance" shall mean (a) for scalded carcass hogs, \$28.25/cwt of hot carcass weight, or (b) for skinned carcass hogs, \$32.00/cwt of hot carcass weight.

14. FEED COST ALLOWANCE. The "Feed Cost Allowance" shall mean the amount calculated by the following methods:

(a) Feed Costs:

(i) Corn prices will be based on a 20-week rolling average according to the Omaha #2 yellow corn Processor bid price per bushel, as reported by the USDA Market News Service. Average weekly prices per bushel will be determined by aggregating the sum of the midpoint of the range of closing prices per bushel quoted by the USDA Market News Service for all trading days reported within a week and dividing the sum by the number of trading days within that week. The 20-week rolling average price per bushel shall be determined by adding the weekly average prices per bushel for each of the 20-weeks preceding (A) the week of delivery to the Slaughter Facility, and (B) the week immediately prior to the week of delivery, and dividing the sum by 20.

(ii) Soybean meal prices will be based on a 20-week rolling average price per ton for Decatur soybean meal (44% protein, rail price) as reported by the USDA Market News Service plus \$10 per ton. The average price per ton for each week will be calculated by aggregating the sum of the midpoint of the range of closing prices per ton for each trading day reported in a week, divided by the number of trading days in the week. The 20-week rolling average price per ton shall be determined by adding the weekly average prices per ton of the 20 weeks preceding (A) the week of delivery to the Slaughter Facility, and (B) the week immediately prior to the week of delivery, and dividing the sum by 20.

(b) Feed Usage Rates. The following average feed usage rates will be used to calculate the Feed Cost Allowance, based on the average price for each component as defined in Section 14(a)(i) and (ii):

Ration Component	Allowance (obs.) per cwt. of Carcass weight of Qualifying Market Hog Produced	
	Scalded	Skinned
Soybean meal (44% protein)	103 lbs.	116 lbs.
Corn	357 lbs.	403 lbs.

For example, in the event 3,000 lbs. of skinned, hot carcass weight of Qualifying Market Hogs are transferred to the Slaughter Facility hereunder, the average corn price per ton determined pursuant to Section 14(a)(i) above is \$3.36/bushel, and the average soybean meal price per ton determined pursuant to Section 14(a)(ii) above is \$250/ton, then the Feed Cost Allowance shall be equal to determined as follows:

Soybean meal allowance:

cwt. Of carcass weight (3,000 lbs./100lbs) 30.00  
multiplied by Average price per pound

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(\$260/ton / 2,000 lbs)	0.13
multiplied by Soybean usage rate	<u>116.00</u>
SOYBEAN USAGE ALLOWANCE	\$452.40
<u>Corn Allowance:</u>	
Cwt of carcass weight (3,000 lb / 100 lbs)	30.00
multiplied by Average price per pound	
(\$3.36/busnel / 56 lbs)	\$ 0.05
multiplied by Corn usage rate	<u>403.00</u>
CORN USAGE ALLOWANCE	<u>\$725.40</u>
<b>TOTAL FEED COST ALLOWANCE</b>	<b>\$1,177.80</b>

(c) Commercial Application of Beta Agonist and P.S.T. In the event that Beta Agonist or P.S.T. becomes commercially available for use in swine production during the term of this Agreement, or any other production practice that significantly lowers feed usage, Farmland reserves the right to adjust the feed usage rates to accurately reflect the change in feed usage rates of any of the ration components based on data from independent scientifically conducted studies or to adjust the ration to more accurately reflect Farmland's recommended feeding programs.

15. **QUALITY GRADE PREMIUM.** The purchase price to be paid hereunder for Qualifying Market Hogs shall be subject to increase for quality grade premium and subject to decrease for quality grade discount, which will be determined according to Farmland's current standard carcass merit program. effect at the time of delivery.

16. **RIGHT OF INSPECTION.** Farmland shall have the right to inspect the Facilities and to inspect Producer's records to assure the management of genetic, breeding, health, and feeding programs prescribed by this Agreement are being carried out according to the terms of this Agreement. Producer agrees to provide all supporting records upon request.

**WEIGHING CONDITIONS.** All shipments will be weighed at state-inspected scales maintained by Farmland at the Slaughter Facility. A copy of all scale tickets will be provided to Producer.

18. **METHOD OF PAYMENT.** Farmland shall make prompt payment to Producer within 48 hours after carcass value has been determined.

19. **BREACH AND REMEDIES.** If Producer or Farmland shall fail to observe or perform any covenant or agreement contained herein or if any representation or warranty given by either of them in connection herewith proves to be false or misleading, the nonbreaching party shall give the breaching party written notice thereof and if the breaching party has not cured such breach within sixty (60) days of the date of such notice, then the nonbreaching party shall have the right to pursue any and all remedies it may have at law or in equity, including, but not limited to, termination of this Agreement. The election of one remedy shall not foreclose the use of another remedy by the nonbreaching party and the remedies shall be considered cumulative and not exclusive.

20. **FAILURE OF DELIVERY.** In the event that Producer fails to deliver (i) if this Agreement is based on a specified number of months, the minimum number of Qualifying Market Hogs to Farmland that are contracted for delivery to Farmland under this Agreement during any calendar quarter of this Agreement, or (ii) if this Agreement is based on a specified number of building turns, the number of Qualifying Market Hogs to Farmland that are contracted for delivery to Farmland under this Agreement with respect to the building turns occurring during any calendar quarter, then Producer shall pay to Farmland \$2.00 per undelivered Qualifying Market Hog that Producer is required to deliver pursuant to this Agreement.

In addition, in the event that the average Base Price (as determined based on a hot carcass weight of 190 pounds) paid by Farmland hereunder for Qualifying Market Hogs delivered to Farmland hereunder during such calendar quarter is less than the average of the opening USDA Western Cornbelt mid-point hog/hot carcass price for the 49-50% lean carcass (as determined based on a hot carcass weight of 190 pounds) for all trading days within such calendar quarter, then Producer shall pay to Farmland the product of (i) the difference of (A) such average mid-point price, minus (B)

such average Base Price, multiplied by (ii) (A) if this Agreement is based on a specified number of months, the number of undelivered Qualifying Market Hogs that were contracted for delivery to Farmland hereunder for such calendar quarter, or (B) if this Agreement is based on a specified number of building turns, the number of undelivered Qualifying Market Hogs that were contracted for delivery to Farmland hereunder with respect to the building turns occurring (or that should have occurred) during such calendar quarter.

21. **FARMLAND DISCLAIMER.** FARMLAND EXPRESSLY DISCLAIMS THE MAKING OF, AND PRODUCER ACKNOWLEDGES THAT IT HAS NOT RECEIVED OR RELIED UPON, ANY WARRANTY OR GUARANTY, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AS TO THE BREEDING STOCK, FEED, MEDICATION, OR FEEDING PROGRAM DESCRIBED IN THIS AGREEMENT, OR AS TO THE POTENTIAL VOLUME, PROFITS OR SUCCESS OF THE PRODUCER'S BUSINESS VENTURE OR WITH RESPECT TO ANY MATTER WHATSOEVER. PRODUCER SHOULD DISREGARD ANY UNAUTHORIZED INFORMATION, WHETHER ORAL OR WRITTEN, CONCERNING THE VOLUME, PROFITABILITY OR CHANGE OF SUCCESS OF THE PRODUCER'S OPERATION. ACTUAL RESULTS VARY FROM SWINE OPERATION TO SWINE OPERATION AND THERE CAN BE NO ASSURANCE THAT PRODUCER WILL PERFORM AS WELL AS OTHER PERSONS OR COMPANIES IN THE OPERATION OF SWINE FACILITIES. PRODUCER RECOGNIZES AND ACCEPTS THE RISKS AND HAZARDS INHERENT IN OR ASSOCIATED WITH ANY LIVESTOCK PRODUCING VENTURE.

22. **PRODUCER DISCLAIMER.** PRODUCER MAKES NO WARRANTIES EITHER EXPRESSED OR IMPLIED TO FARMLAND OTHER THAN AS MAY BE SPECIFICALLY SET FORTH HEREIN.

23. **FORCE MAJEURE.** Either party to this Agreement shall be relieved of his or its responsibilities and obligations hereunder when performance becomes commercially impossible because of reasons beyond their reasonable control such as, but not limited to, fire, explosion, strike, accident, governmental regulations, or intervention and acts of God. Herd health or management problems that may impact the productivity of the Herd, however, shall not relieve Producer of his or its responsibilities and obligations to deliver Qualifying Market Hogs under this Agreement.

24. **ASSIGNMENT.** The parties understand and acknowledge that the rights have been granted based on the business skill, financial capacity and personal character of Producer. Accordingly, neither Producer nor any successor assignee to any part of Producer's interest in this agreement, nor any individual partnership, limited liability company, corporation or other entity which directly or indirectly has or owns any interest in Producer or this Agreement shall sell, assign, transfer or otherwise convey any direct or indirect interest in this Agreement without Farmland's prior written consent. Any purported sale, assignment, transfer or conveyance, by operation of law or otherwise, not having the prior written approval of Farmland shall be null and void and shall constitute a material event of default for which Farmland may terminate this Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

25. **SURVIVAL.** All obligations and disclaimers which expressly or by their nature survive the expiration or termination of this Agreement shall continue in full force and effect subsequent to and notwithstanding expiration or termination of this Agreement and until they are satisfied in full or by their nature expire.

26. **INDEPENDENT CONTRACTOR.** It is understood and agreed by the parties that this Agreement does not create a fiduciary relationship between them, that the producer is an independent contractor, and that nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee, employer, joint employer, enterprise or servant of the other for any purpose whatsoever. Producer understands and agrees that nothing in this Agreement authorizes producer to make any contract, agreement, warranty, or representation on Farmland's behalf, or to incur any debt or other obligation in Farmland's name; and Farmland shall in no event assume liability for or be deemed liable hereunder for any such action; nor shall Farmland be deemed liable by reason of any act or omission of producer in the conduct of its business pursuant to this Agreement, or for any claim or judgment arising therefrom.

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27. **NO WAIVER.** No failure of Farmland to exercise any power reserved to it by this Agreement, or to insist upon strict compliance by Farmland with any obligation or condition hereunder, and no custom or practice by the parties at variance with the terms hereof, shall constitute a waiver or preclude Farmland's right to demand exact compliance with any of the terms herein and Producer warrants and understands that that it shall not rely on such failure, custom or practice. Waiver by Farmland of any particular default by Producer shall not affect or impair Farmland's rights with respect to any subsequent default of the same, similar or different nature, nor shall delay, forbearance or omission of Farmland to exercise any power or right arising out of any breach or default by any other constitute a waiver by Farmland of any right hereunder, or the right to declare any subsequent breach or default or to terminate this Agreement prior to the expiration of its term.

28. **APPLICABLE LAW.** This Agreement shall be construed in accordance with the laws of the State of Missouri, without reference to conflict of laws principles of such state.

29. **ENTIRE AGREEMENT/MODIFICATION.** This Agreement constitutes the entire agreement between the parties and can be modified only in writing signed by all parties hereto.

30. **NOTICES.** All notices, requests, demands and other communications hereunder shall be deemed to be duly given if delivered by hand or if mailed by certified or registered mail, postage prepaid, at the notice addresses set forth in the definitions:

31. **COUNTERPARTS.** This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

32. **HEADINGS.** The headings used in this Agreement are for convenience only and shall not constitute a part of this Agreement.

33. **EXHIBITS.** All of the exhibits and appendices attached hereto are incorporated herein and made a part of this Agreement by reference thereto.

34. **ARBITRATION.** Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.

**THIS CONTRACT CONTAINS A BINDING ARBITRATION PROVISION THAT MAY BE ENFORCED BY THE PARTIES.**

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year first above written.

PRODUCER: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

FARMLAND INDUSTRIES, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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