North Carolina Tobacco Farm Calculations (as defined by the Court)
December 10, 2004

The following calculations are presented in response to the instructions received from Mr. Benjamin R. Norman, clerk of the North Carolina Business Court, on November 30, 2004. These calculations are not reflective of the realities of the Phase II program in North Carolina. While the examples below show that a ten-acre farm would receive an $8,000.00 Year 6 Phase II payment (where the farm receives both the quota owner and grower payments), the median size of the Phase II check sent to North Carolina farmers during Year 5 of the Phase II program was $369.77. Furthermore, it is the limitations on the number of pounds that can be marketed, and not the acreage, that determines the size of farm payments. Quota has been cut in half since 1997 and over 10% for 2004 alone. Consequently, the amount of income that quota owners and growers can generate from lease payments and leaf sales has declined also. This is the very reason that Phase II was implemented.

Please note that several critical assumptions had to be made in order to complete the requested calculations. First, each Certification Entity devises its own plan on how to distribute Phase II funds (e.g. what percentage will go to quota owners versus growers); the following example is for North Carolina flue-cured only, where the division between quota owner and grower is 50/50. Second, the per-acre yield of flue-cured tobacco varies dramatically from farm to farm. For purposes of these calculations, a mid-range yield of 2,000 pounds per acre was assumed. Third, as there are no programs in place at this time with financial institutions for receipt of lump-sum payments in return for assignment of the ten-year buyout contract payment stream, there is no real data on which to base the discount factor. While inquiries were made to individuals knowledgeable about what that factor might be, the responses were wildly variable, ranging from as low as 20% of the total to as high as 50% of the total.

NC Owner of flue-cured tobacco…10 acre farm with 20,000 lbs. Quota
If a full distribution under Phase II Trust, would be mailed on Dec. 30, 2004, $0.20 per lb. x 20,000 lbs. = $4,000.00.

If owner and grower and full distribution under Phase II Trust, would be mailed on Dec. 30, 2004, $0.40 per lb. x 20,000 lbs. = $8,000.00.

Owner under buyout legislation (no financing), would receive around Sep. 30, 2005 $0.70 per lb. x 20,000 lbs. = $14,000.00.

Owner under buyout legislation (elects to finance), would receive around Sep. 30, 2005 $7.00 per lb. x 20,000 lbs. = $140,000.00 discounted a total of 50% to 20% = between $70,000.00 and $112,000.00.

If owner/grower under buyout legislation (no financing), would receive around Sep. 30, 2005 $1.00 per lb. x 20,000 lbs. = $20,000.00.

If owner/grower under buyout legislation (elects to finance), would receive around Sep. 30, 2005 $10.00 per lb. x 20,000 lbs. = $200,000.00 discounted a total of 50% to 20% = between $100,000.00 and $160,000.00.

NC Owner of flue-cured tobacco 100 acre farm with 200,000 lb. Quota

If full distribution under Phase II Trust, would be mailed on Dec. 30, 2004, $0.20 per lb. x 200,000 lbs. = $40,000.00.

If owner and grower and full distribution under Phase II Trust, would be mailed on Dec. 30, 2004, $0.40 per lb. x 200,000 lbs. = $80,000.00.

Owner under buyout legislation (no financing), would receive around Sep. 30, 2005 $0.70 per lb. x 200,000 lbs. = $140,000.00.

Owner under buyout legislation (elects to finance), would receive around Sep. 30, 2005 $7.00 per lb. x 200,000 lbs. = $1,400,000.00 discounted a total of 50% to 20% = between $700,000.00 and $1,120,000.00.

If owner/grower under buyout legislation (no financing), would receive around Sep. 30, 2005 $1.00 per lb. x 200,000 lbs. = $200,000.00.

If owner/grower under buyout legislation (elects to finance), would receive around Sep. 30, 2005 $10.00 per lb. x 200,000 lbs. = $2,000,000.00 discounted 50% to 20% = between $1,000,000.00 and $1,600,000.00.

Kentucky Tobacco Farm Calculations (as defined by the Court)

The following calculations are presented pursuant to the instructions of the e-mail received from Mr. Ben Norman, clerk of the North Carolina Business Court, on November 30, 2004.

Please keep in mind that several critical assumptions had to be made in order to complete these calculations. First, the per-acre yield of burley tobacco varies dramatically from farm to farm. According to Will Snell, tobacco economist for the University of Kentucky, an average of 2,100 pounds per acre for burley tobacco can be assumed for farms in Kentucky.

Second, each Phase II Certification Entity uses its own formula for paying out Phase II funds. In Kentucky, the money paid out to a farm is split among three interests: 1/3 to the basic quota owner, 1/3 to the tenant (also known as the "grower") and 1/3 to the growing farm. The growing farm is the individual or entity that owns or controls the land upon where the tobacco is grown **and** shares in the risk of production. Currently, two-thirds of burley tobacco quota owners lease out their base, meaning that they would receive only one-third of the phase II payment.[1] Individuals receiving two-thirds of all year 6 Phase II payments for the tenant and growing farm portions in Kentucky (based on 1998,1999,and 2000 crop years) are NOT necessarily the same individuals that would receive payments from buyout transition payments. In our example, we are assuming that those same growers that date back to 1998 are still involved in growing tobacco on the same farm at the same quota level today. Therefore, although this scenario would not be typical of a burley tobacco farm in Kentucky, it was necessary for us to assume that the owner of the burley tobacco farm owns the quota, the land (growing farm) and provides the labor (tenant).

Third, an owner of a Kentucky burley tobacco farm in 2004 who has a quota of 10 and 100 acres respectively, would be not be compensated for those quantities in the buyout payments. Buyout payments will be based upon the 2002 basic quota level of that farm. Therefore, one must calculate the 2002 quota levels for our current 10 and 100 acre quota farms. The benefit calculations related to buyout payments reflect the application of a multiplier of 1.0713. This multiplier is derived from an 11.1% decrease in basic quota levels from 2002 to 2003 and an increase in basic quota levels of 5% from 2003 to 2004.

Fourth, a large percentage of the Kentucky farms are well under ten acres in size. At least 92% of all tobacco quota farms in Kentucky are less than 10 acres while 81% of farms have 2,500 pounds or less (about 1 acre).[2] Additionally, there are no tobacco quota farms in Kentucky that have 100 acres of quota. While the examples below show that a ten-acre farm would receive a $10,323 Year 6 Phase II payment (where the farm receives the quota owner growing farm and tenant payments), the median size of the Phase II check sent to Kentucky farmers during Year 5 of the Phase II program was $232.05.[3]

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[1] *Buyout Overview,* Will Snell, Tobacco Economist, University of Kentucky, November 2004
[2] USDA Farm Service Agency 2002 PSL-23R report
[3] Source: Kentucky Phase II database

Finally, as there are no programs in place at this time with financial institutions for receipt of lump-sum payments in return for assignment of the ten-year buyout contract payment stream, there is no real data on which to base the discount factor. While inquiries were made to individuals knowledgeable about what that factor might be, the responses were wildly variable, ranging from as low as 20% of the total to as high as 50% of the total.

(1) When and what the farmers would receive if a full distribution were made under the trust for 2004.

Original distribution date was scheduled for December 30, 2004. When a determination is made that payments may proceed, it would take approximately three to four business weeks from that date to distribute the funds.[4]

10 acres of burley = approximately 21,000 pounds in Kentucky
100 acres of burley = approximately 210,000 pounds in Kentucky

Calculation:

10 Acres (21,000 lbs.)

	Payment Rate	Tobacco Pounds	Compensation
2003 Quota Pounds	$0.214871	21,000	$4,512.29
2000 Growing Farm	$0.071830	21,000	$1,508.43
1999 Growing Farm	$0.036627	21,000	$769.17
1998 Growing Farm	$0.029855	21,000	$626.96
2000 Tenant	$0.071853	21,000	$1,508.92
1999 Tenant	$0.036643	21,000	$769.50
1998 Tenant	$0.029931	21,000	$628.56
Total 2004 10 Acre Compensation			**$10,323.83**

100 Acres (210,000 lbs.)

	Payment Rate	Tobacco Pounds	Compensation
2003 Quota Pounds	$0.214871	210,000	$45,122.92
2000 Growing Farm	$0.071830	210,000	$15,084.35
1999 Growing Farm	$0.036627	210,000	$7,691.73
1998 Growing Farm	$0.029855	210,000	$6,269.60
2000 Tenant	$0.071853	210,000	$15,089.18
1999 Tenant	$0.036643	210,000	$7,694.96
1998 Tenant	$0.029931	210,000	$6,285.58
Total 2004 100 Acre Compensation			**$103,238.32**

[4] According to Charles Rutledge, Vice President of Settlement Services, JP Morgan Chase

(2) When and what the farmers will receive in 2005 under the buyout legislation assuming no financing.

Farmers will receive 2005 buyout payments "as soon as practicable". Payments are not likely to be made before March 31, 2005 and not later than September 30, 2005.

Calculation:

<u>22,497 pounds</u>

Quota Owner	22,497 x \$7/ lb = \$157,479
Grower	22,497 x \$3/ lb = \$67,491

Total Compensation: \$224,970

\$224,970 / 10 years = **\$22,497 for 2005 compensation**

<u>224,973 pounds</u>

Quota Owner	224,973 x \$7/ lb = \$1,574,811
Grower	210,000 x \$3/ lb = \$674,919

Total Compensation: \$2,249,730

\$2,249,730 / 10 years = **\$224,973 for 2005 compensation**

(3) When and what the farmers will receive in 2005 under the buyout legislation if the farmer elects to finance payment of the full amount due in the first year.

The timetable for assignment of payment to financial institutions will vary, thus lump-sum payments to owners would vary. Payments could not be made prior to the creation of federal regulations that detail financing procedures. This calculation provides a high/low scenario.

Calculation:

10 acres (22,497 lbs) total compensation = \$224,973

Discount Rate	Term (in years)	Net Present Value	% of Original value
4.25%	10	\$180,220.92	80%
15.00%	10	\$112,907.24	50%

100 acres (210,000 lbs) total compensation = \$2,249,730

Discount Rate	Term (in years)	Net Present Value	% of Original value
4.25%	10	\$1,802,209.25	80%
15.00%	10	\$1,129,072.38	50%

(4) When and what quota payments, if any, the farmers will receive in calendar year 2005.
No price support payments will be made to owners in calendar year 2005.