



December 10, 2010

Dear Build A Tent Participant, Industry and Organizational Collaborators,

Introduction

On November 19, 2010 – a “fiber” meeting was held at the AOBA offices in Nashville, TN. The purpose was to consider where we are as a fiber industry and discuss some ideas as to how a collaborative process could be built in support of domestic production- be it at the commercial or cottage level!

The response to what has quickly become an industry initiative is overwhelming. The initiative, now being called the Alpaca Alliance, has resulted in post- meeting discussions, e-mail traffic, phone calls and chat sites filled with enthusiasm and “laced” with the undertone that working together we can really accomplish something here! Most if not all of the input has been reflective, thoughtful, and, at least for me, provided meaningful insight as to possible next steps.

Meeting Conclusions

At the meeting two informal votes were taken. The first vote held mid-day addressed the threshold question, should we proceed even though “we” don’t quite yet know exactly how the Alliance will evolve? Without hesitation the overwhelming majority said – yes with the strong message that we should just get started! The second question was more in the nature of a process question. We wanted and feedback on governance structure and funding options.

In particular, it was important to understand the answer to the question - should this initiative start from a clean slate organizationally? Again, the second vote was definitive. Reliance on the resources and expertise built to date is fine; in most instances desirable; and current organizational participation is critical – but the vote was to start with a fresh perspective and a collaboration that at least initially is focused exclusively on the importance of fiber, production development and the textile market.

A key aspect of discussion around the second vote was how to provide the necessary leadership. It was clear that in most ways we as participants and alpaca owners we understand our own needs very well and can at least discuss in theory where we should go and the potential for our fiber. Having said this, the expectation of the majority was that an outside resource such as one of the presenters, Nick Hahn former CEO of Cotton, Inc. would be absolutely necessary to actually move us to next the stage. So now it is time to get to work, decide next steps and move ahead.

However, before we turn to the details of what is a **draft** Plan of Work for the Alliance, let’s address some of the more common questions that have arisen following the BAT meeting. They include:

- AOBA’s role going forward
- Thoughts about the Alliance Governance and Funding
- Initiative Objectives

AOBA’s Role

Understanding the ultimate importance of “fiber” and the need for a strong textile industry to help sustain our alpaca farms is something we all can relate to and recognize. From inception of the BAT Initiative, the AOBA Board has also understood very clearly that building a viable fiber industry should be a collaborative effort and is no small task – be it at whatever level. As the old adage goes, “If it was easy – someone would have already done it by now.”

Since the next required steps for a successful initiative are practical ones and need to keep the Alliance on track while (a) a legal entity and collaborative leadership team is established, (b) funding obtained for what is essentially a start up business is obtained; and (c) a plan of work finalized – AOBA sees its role as one of stewardship and providing some on-going leadership and infrastructure support on a temporary basis. For example, to date the AOBA “seed capital” allocated for BAT has covered the costs of the first meeting; paid the outside consultant, Mr. Hahn for his contributions; and other miscellaneous expenditures. The initial amount allocated by the Board in August was \$10,000 with approximately \$5000 remaining available to help defray on-going costs. Similarly, administrative support through the AOBA office will continue to be available until such time as



communication tools are in place and the Alliance has developed its own resources. From a leadership perspective, the objective is to move as quickly as possible to hire and take advantage of the experience and insight Nick Hahn brings so that a year from now we have made substantial progress.

Depending on the decisions made subsequently by a Steering Committee for the Alliance (**read on**), AOBA's original capital commitment can either be treated as a donation, a loan or an equity investment in a new organization similar to any other investor. If the dollars end up representing a financial investment as opposed to a donation, a key principal of the new organization discussed at the BAT meeting is that "voting and governance control" will **not** be tied to the amount of dollars invested. This means that AOBA will be in the same position as any other private investor, i.e. its "return on investment" from what will be a for-profit endeavor will be tied to the number of shares (units) owned not to voting.

Again, it should be emphasized that the Board recognizes the success of this Alliance cannot be "controlled or owned" by any single organization and the inherent value for all of us lies in the long-term benefit of developing our industry with all the potential it can offer. To the extent it can – just like any of the other collaborators – AOBA will lend its expertise, support and leadership that is key.

Governance and the Naming of a Steering Committee

There are several choices that have to be made at this point. The initial business model recommended at the BAT meeting was to consider something a little different than what we have historically seen in our industry. The "intent" of the business model and the recommendation was to establish an organization that would encompass both (a) the possibility of a financial return to investors; and yet (b) create a "corporate culture" supporting our combined interests for industry development. The operational approach would be on a Plan of Work and projects designed to support a range of industry participants be it cooperatives, private business or individual breeders, but also specific projects that are economically viable for the Alliance and its investors.

One option (but certainly not the only model) is to create a legal entity called an L3C, a low profit limited liability company.¹ An L3C is a relatively new legal concept that although for-profit, is considered and required to be operated as a "for profit with a soul". Under state laws permitting formation of L3Cs, it is required by statute that the organization must have as a core mission activity providing a social benefit – think economic and industry development, education, jobs, etc. Like all limited liability companies, L3Cs offer flexible governance options, potential diversity in ownership interests and protection from third party liability if operated correctly. The real "uniqueness", however, is the potential for increased funding through private foundations and businesses looking for opportunities to make "socially responsible" investments.

One approach discussed at the BAT meeting (and perhaps the most expedient) is to simply form the L3C and move forward. This would be a fairly inexpensive step and could be done very quickly. Alternatively, there has been a considerable amount of comment both at the meeting and subsequently that the legal structure and governance decisions were ones that in fairness should be made after the initial investors have committed. As a consequence, the current recommendation is to form a representative Steering Committee from within the leadership of these investors. The first objective of the Steering Committee would be to review proposed legal structures and governance models and make a recommendation to the original investors. A vote of these investors would follow.

How then to establish the Steering Committee is the next consideration. The current thought is to:

- a. Set the size of the Steering Committee at 9-13 representatives;
- b. Establish a criteria for selection – expressed interest; regional representation; organizational and/or sector representation; and
- c. Determine the skill sets necessary to accomplish the first set of objectives – i.e. organizational set up and structure.

Who names the members of the Steering Committee is the next decision. This is an open question for the moment. A current thought is that Committee selection is best be done by an individual who has the expertise to understand what has to be accomplished in the short-term, an independent and big picture perspective, and the historical experience of what the actual demands on such a Committee would be– perhaps our industry consultant.

¹ The discussion involving L3Cs is not intended to serve as legal advice to the Alliance or represent a definitive conclusion as to how the Alliance should proceed. Outside counsel should be consulted as the Steering Committee for the Alliance makes the decisions necessary for a recommendation to the founding members.



It is very important to consider two points here:

- a. The Steering Committee is temporary and will only be in place until such time as the Alliance is legally established and a permanent governing structure is created; and
- b. Regardless of the criteria, members of the Steering Committee should be comprised of people who have an interest in moving a collaborative effort forward.

Next Step

In order to start the process we are asking those individuals who have an interest in serving on the Steering Committee to call or e-mail Kate Eggleston and give her your name. Depending on the response to this Letter and the feedback from you, the final process decisions will be made as to the naming of the Committee.

Target Date for Establishment of the Steering Committee: w/i 30 days of obtaining targeted seed capital – February 14, 2011

Target Date for investor vote and Alliance formation: March 31, 2011

Capitalization

There are three principal areas of potential funding for the Alliance if the decision is made to move forward as an L3C. First, is private capital - necessary start up capital that in turn will offer an investor a financial return on investment. Second, is private foundation funding where the goals of the L3C are consistent with a foundation's tax-exempt purposes. This "public funding" may also include industry grants – especially in the areas of small business, rural lifestyle, end product production, manufacturing and economic development – i.e. jobs. Finally, the principal source of income in the long term needs to be from sources and business activities that are self-sustaining and offer a limited financial return. To get started, however, the Alliance needs seed money from individuals and organizations who essentially will be the initial investors. How much do we need?

The estimated budget for one year of operation and to accomplish the objectives described in the **draft** Plan of Work is \$156,000. This draft was developed in consultation with Nick Hahn after the BAT meeting, who as most of you now understand, is the former CEO of Cotton, Inc. In addition to the Plan of Work, Mr. Hahn has written a personal letter for you to consider with the hope that you will recognize both the value his historical expertise brings and, equally important, his vision and understanding of our potential.

To fund the start up activities, the request is for

- An initial investment of \$250 to be exchanged for a shareholder interest (shares or units) when the legal entity is formed.² Differing levels of investment are contemplated and possible. For example, the organizational documents can be drafted to make it clear that a larger financial investment results in a greater **financial** return from the business activities. As previously noted, however, a larger capital investment will not be tied to increased governance rights. By using a for profit model, we have the flexibility to do just what is being suggested – create differing levels of governance participation and separate financial commitments from voting.
- All seed capital will be deposited in a segregated account identified as "in trust for the Alpaca Alliance. The "bookkeeping for the account has been set up through the AOBA office, and will be managed initially under the direction of the Alliance Steering Committee and, ultimately, through the Alliance administration pursuant to a budget annually set and approved by the governing body of the Alliance.
- As soon as the governance structure is established, a mission statement development and a Plan of Work finalized, outside investment/grant resources will be pursued.

Like any new business, we want to avoid starting and being undercapitalized. Although we fully understand there is a lot of detail to be developed and investing at this stage may seem "high risk" – we cannot take the next steps without an industry commitment. Given the projected expenses, we need an initial commitment of seed capital estimated at \$50,000. Once we have reached this amount, the Alliance will be in a position to retain Mr. Hahn to begin.

² In a corporation, stocks represent a shareholder's equity investment. In an LLC, the equivalent to a share of stock and an equity investment is a "member's units".



Target Date for Initial Capital Investment Target: January 14, 2011.

Plan of Work

Attached to this letter is a very brief outline of the next steps. In addition to organizational structure, proposed at the BAT meeting was an approach comprised of three membership “committees” that in Year one would each take on an Alliance project. Ideally, these committees would be representatives of our industry sectors.

How to best prioritize the needs of the Alliance and allocate the resources are ultimately decisions to be made by the outside consultant under the direction of the Alliance’s governing structure. So, by necessity, this is an evolving thought process. Nevertheless, some initial ideas have been proposed and the costs associated listed. The costs are preliminary and subject to further review, but the work of the Alliance needs to be defined quickly and enough autonomy provided to the leadership once in place to get us moving. To ensure accountability under any Plan of Work measurable progress points whether from a consultant or outside vendor will be established and tied to Phases and dates.

Target Dates by Phase for Completion of Project Objectives

Phase I – April 30, 2011

Phase II – July 31, 2011

Phase III - September 30, 2011

Some Concluding Thoughts

At the BAT meeting and in making a commitment of time, energy and money to this effort, I asked each of you to answer for yourself the question – What’s In It For Me? Given the state of our industry, the demands on our personal and organizational resources and the economy, my personal opinion is that the answer to this question for each of us is key. The answers will vary and range from “my love of fiber” to “I see this as important to my private business objectives”. Regardless, if your commitment is primarily one of time as a volunteer – this effort is a little like running a marathon – we need to pace ourselves and understand that the Alliance is not a short term fix, but rather a very important and critical step that will “take us” to the next level as a participant in the textile industry. To accomplish this – volunteers with the passion and commitment that our industry has seen to date will be critical.

Having said this, I also stated and continue to feel strongly that we are at a stage of development where an initiative like the Alliance cannot be “built on the backs” of our industry volunteers. We need consistent, long-term leadership that understands basic fundamental business development – everything from start-ups, and supply chain development to branding in a competitive marketplace. This is not to say we don’t have this expertise within our volunteers – we do! For most of us, however, our alpacas and the goals associated with our alpaca farming remain our “second jobs”. Moreover, to be successful we need a business model that both funds and will offer the potential for financial success both at the organizational and individual farm level.

So before you write your check and decide to participate answer the question – “What’s In It For Me?” The success of this effort depends not only on the \$\$\$ - the money can be found – but, more importantly our willingness to work in collaboration, share our experiences and expertise, chose our leadership and consultants carefully and understand that at the end of the day we have some common goals to achieve.

Call or e-mail with questions. On January 17, 2011 – the Alliance will take its next steps.

Sincerely,

The BAT Initiative,
Claudia Raessler, AOBA Board of Directors