**American Hazelnut Company – Board of Directors Policy**

**Policy #02-2014—Revised January 6, 2021**

**SUBJECT:** **Priority For Purchase of Hazelnuts From Grower-Members of the American Hazelnut Company**

**PURPOSE:** The purpose of the policy shall be to define the obligation of Grower-Members to supply hazelnuts to the Company and establish the priority and process for purchase of hazelnuts from Grower-Members.

**STATEMENT OF POLICY:**

1. One of the marketing strategies of the American Hazelnut Company is to differentiate its hazelnuts and hazelnut products from those available from Oregon, Turkey, and other regions. This differentiation will be done by sourcing hazelnuts grown in the Upper Midwest and by manufacturing products that feature the size and flavor characteristics unique to American and hybrid hazelnuts.
2. In addition, the operational viability of the Company depends on a reliable pool of hazelnuts sourced from the many small growers in the Upper Midwest.
3. Annual Purchase Price: The price paid by the Company to Grower-Members for nuts shall be determined by the Board of Directors by May 1 of each new fiscal year. The Company may assess deductions or premium payments for hazelnuts that fail to meet or exceed minimum nut quality specifications as established by the Board and published in Policy #03-2014.
4. Commitment to Sell Hazelnuts: The Grower-Members shall have the right to supply hazelnuts through the following procedure:
   1. No later than May 1 of each year, the Board of Directors and General Manager shall determine the total volume of Midwest-grown hazelnuts to be purchased from Grower-Members for the coming harvest of that year. Within 30 days of the Board informing the Membership of the planned purchase amount, each Grower-Member shall submit in writing the total volume of in-shell hazelnuts they would commit to supplying to the Company over the next year starting September 1. There is no maximum or minimum amount that a Grower-Member can commit to supplying for a given year. Actual commitment will be determined as follows:
      1. Upon receipt of written commitments, the Company shall first allocate supply to Grower-Members based on proportional ownership of total issued Grower-Units. For example, if the Board authorizes purchase of 5,000 lbs of in-shell hazelnuts and at that point there are 10,000 Grower-Units issued, a Grower-Member with 1000 Grower-Units has the right to supply up to 10% or 500 lbs of in-shell nuts regardless of past record of supplying hazelnuts to the Company or priority status as outlined in Section 5 of this policy. The committed volume by any one Grower may be more or less than the total allowed amount for that Grower and may change from year to year. This written commitment shall serve as an obligation to provide in-shell nuts and failure to supply will affect priority status as outlined in Paragraph 5 below.
      2. Once right-to-supply has been allocated based on proportional Member *ownership*, additional hazelnut supply shall be allocated based on Member *priority*. Growers with the highest priority shall be granted the right-to-supply up to the total amount committed in their annual written commitment and so on down the priority list until the full allocated amount by the Board has been allocated to Grower-Members. If the sum of written commitments of Growers with equal priority status exceeds the remaining volume to be allocated, the volume shall be divided equally among the Growers with the equal priority status.
5. Priority Status to Supply Hazelnuts: Priority status of Grower-Members shall be determined via a point system. Each year a Grower-Member successfully supplies the total amount committed for that year the Grower-Member shall earn one (1) point. Each year a Grower-Member successfully supplies the maximum amount allowable based on their proportional ownership of Grower-Units the Grower-Member shall earn one (1) additional point. Each year a Grower-Member fails to supply the committed amount the Grower-Member shall lose one (1) point.
6. Sourcing Additional Nuts: If the Grower-Members do not commit to supplying the full amount authorized by the Board or are unable to supply the full amount, the General Manager shall be authorized to purchase hazelnuts from any Grower-Member(s) per the terms and conditions most beneficial to the Company. If a Grower-Member supplies hazelnuts of any amount per such an open-market purchase, the Grower-Member shall earn one half (1/2) a priority point.
7. Sale of New Grower-Units: In the event the Company wishes to secure additional hazelnut supply and raise capital, the Company may sell additional Grower-Units as specified in Policy #1-2014. If sold to existing Grower-Members, the Grower-Member shall retain the same priority status. If sold to new Grower-Members, the new Grower-Member shall start with zero priority points, but shall have the right to supply per Paragraph 4.
8. Investor-Unit to Grower-Unit Conversions: Policy #1-2014 allows original Investor-Members to purchase Investor-Units with the intention to supply hazelnutsUnit. When ready to supply hazelnuts for the upcoming growing season, the Investor-Units may then be converted to Grower-Units. Upon conversion, the Grower-Member shall start with zero priority points, but shall have the right to supply per Paragraph 4.
9. Record Keeping: A basic methodology and process for record keeping will be instituted and an Board approved individual(s) named to track:

a. Units owned per class of member

b. Written annual commitments per grower member

c. Actual delivered nuts and quality thereof per grower member