
APPENDIX S

**DOCUMENTS RELATING TO
CONSERVATION BEEF, LLC**

Question 18: Narrative Re: Conservation Beef, LLC

Conservation Beef, LLC (CBL) Structure.

- ***Did CBL enter into a joint venture agreement, management agreement, or similar arrangement with PM Holdings LLC (PMHL) or another for-profit party with respect to the Conservation Beef project? If so, please (a) provide a copy of the executed agreement, and (b) describe the arrangement between CBL and PM Holdings, including specifically the economic sharing arrangement and roles and responsibilities of the parties.***
- ***How did TNC limit the development rights of ranchers who participated in the Conservation Beef program?***
- ***Please provide a description of the Sun Ranch easement referred to in the April 19, 2004, CBL withdrawal agreement.***
- ***Provide a description of the land stewardship plans that CBL engaged in with respect to SBL ranchers' properties.***

With respect to the above:

i. CBL had a verbal agreement with PM Holdings, LLC on terms similar to those described in the form of Joint Venture Agreement previously provided in response to your March 3, 2004 request. Due to changed circumstances and the performance of PM Holdings, LLC, the two parties never formalized a joint venture agreement. Instead, CBL elected to hire a salaried president to direct and implement much of the work which CBL had originally intended PM to perform.

ii. As detailed in the cattle option/purchase agreements previously provided to you in response to your March 3, 2004 request, sellers to CBL agree to an introductory stewardship plan in the first year of participation in the conservation beef program and, if a second year of participation is desired, sellers implement a full stewardship plan. These plans are all unique to the landscapes involved, but must be approved by CBL, pursuant to CBL's stewardship guidelines. A copy of the guidelines is attached.

Long-term conservation of unfragmented landscapes is a central goal of the CBL stewardship plans. With regard to development rights, the ranchers are able to choose among a variety of acceptable strategies to achieve the goal as detailed in the stewardship guidelines, and may retain specific, limited development rights provided they are consistent with CBL goals of conservation of landscape, watershed and habitat integrity.

iii. A complete copy of the Deed of Conservation Easement relating to the Sun Ranch is attached.

CONSERVATION BEEF® STEWARDSHIP GUIDELINES

GOAL

Conservation Beef's® mission is to save the best of the West for future generations. Our goal is to support diverse, flourishing communities of human, plant, and animal life in biologically important lands in the West by developing market forces that promote economically sustainable and ecologically sound cattle ranching. We will accomplish this by creating a niche market for beef that will return a premium price to ranchers who commit to long-term land conservation strategies that maintain healthy open spaces for generations to come.

PARTICIPATION

Conservation Beef® (CB) is a landscape conservation program. As such, its core elements require: 1) a landscape or watershed which has been designated by The Nature Conservancy as a biologically high-priority landscape; 2) a watershed and/or landscape-based, collaborative rancher group whose goals include sustaining the ranching way of life and the functional, unfragmented landscapes on which ranching depends; 3) cattle ranchers within that watershed/landscape who raise suitable cattle and desire to participate in CB and who prepare and submit for review and approval a stewardship plan that meets CB's Stewardship Standards and Long-Term Conservation Commitments. Individual rancher participation must be approved by the local rancher group and CB.

LONG-TERM CONSERVATION

Long-term conservation of unfragmented landscapes is a central CB goal. To that end, each CB rancher, before the beginning of his or her second year of supplying cattle to the program, will choose among acceptable strategies to achieve this goal. The percentage or number of acres of the home ranch required to be committed to such long-term disincentives to subdivision shall be determined by several factors, including

relation of CB cattle purchases to the size of the ranch's annual production, as well as physical factors impacting watershed and landscape integrity. Options include:

- 1) Placement of a perpetual conservation easement, either donated to, or purchased by a public and/or private entity. Such easement may retain strictly limited, carefully planned development rights where such retention does not, in the opinion of both the local ranch group and CB, conflict with CB's core goals.
- 2) Participation in a phased, limited transfer of development rights program as outlined in The Nature Conservancy's "Ranch Conservation Agreement". (Copy available from CB.) This alternative involves the annual transfer of a small percentage interest in any subdivision sale of the ranch or designated acreage, to a watershed-based, rancher-led Private Area Trust. Thus, the more years as a CB supplier, the greater the percentage of potential subdivision sale revenues that would pass to the local Trust, with a "ceiling" for the percentage transferred. Under this option, the landowner retains the right to sell for subdivision, but a portion of revenues from such sale would go to the rancher-led Trust, providing it with funds to purchase development rights/conservation easements from area ranchers. All proceeds from a non-subdivision sale would go to the landowner.
- 3) Placement of a "rolling easement", under which the acreage designated is protected from subdivision for seven years during year two of CB beef supply, eight years in year three, nine in the fourth year. From the fifth year of participation, the rolling easement remains at ten years, meaning that the acreage in question cannot be subdivided for ten years after withdrawal from the CB program. Under this alternative, The Nature Conservancy, as a means to avoid potential ranch subdivision, would have a right of first refusal to match, at an agreed upon modest discount, a bona fide offer to purchase the ranch or agreed on parts thereof.
- 4) Another mutually acceptable way to achieve significant and permanent disincentives to subdivision of the whole or agreed upon part of the participating rancher's holding.

NOTE: Under all options, the acreage placed under the agreement can retain specific, limited development rights provided they are consistent with the core CB goals of conservation of landscape, watershed and habitat integrity. Thus, a rancher may retain selected home sites that can be sold, if needed.

Long-Term Conservation Agreements under 2) and 3) are binding for the duration of time specified in the individual agreement. However, in the event Conservation Beef® ceases to do business prior to its tenth year (October, 2009), the conservation conditions shall terminate on the date Conservation Beef® ends its business operations.

STEWARDSHIP STANDARDS

Standard One – Soils, Hydrology, and Water Quality

Stewardship practices are directed toward achieving soil stability, minimal surface runoff, and adequate water infiltration to provide for desired plant species. Water quality meets applicable state and/or Federal standards.

Indicators may include, but are not limited to:

- ◆ Vegetative cover (gully bottoms and slopes);
- ◆ Bare ground and litter;
- ◆ Water infiltration rates;
- ◆ Soil compaction;
- ◆ Erosion (rills, gullies, pedestals, capping);
- ◆ Soil micro-organisms;
- ◆ Chemical characteristics (e.g., pH, conductivity, dissolved oxygen);
- ◆ Physical characteristics (e.g., sediment, temperature, color);
- ◆ Biological characteristics (e.g., macro- and micro-invertebrates, fecal coliform, and plant and animal species).

Standard Two – Riparian and Wetland Condition

Stewardship practices are directed toward achieving riparian area and wetland conditions that are in, or trending toward, properly functioning condition.

Indicators may include but are not limited to:

- ◆ Productive and diverse plant and animal communities.

- ◆ Diverse ponding and channel characteristics that provide the habitat and the water depth, duration, and temperature necessary for fish production, waterfowl breeding, and other uses;
- ◆ Plant composition and diversity (species, age class, structure, successional stages, desired plant community, etc.);
- ◆ Root masses that stabilize stream banks against cutting action;
- ◆ Dissipation of stream energy associated with high water flows;
- ◆ Sediment filtration, captured bed load, and floodplain development;
- ◆ Flood water retention and ground water recharge.

Standard Three – Upland Condition

Stewardship practices are directed toward achieving plant communities that are resilient, diverse, and able to recover from natural and human disturbance.

Indicators may include, but are not limited to:

- ◆ Plant composition and diversity (species, age class, structure, successional stages, desired plant community, etc.);
- ◆ Bare ground and litter;
- ◆ Erosion (rills, gullies, pedestals, capping);
- ◆ Water infiltration rates; and
- ◆ Vegetative cover.

Standard Four – Wildlife Habitat

Stewardship plans are directed toward maintaining or enhancing habitats that are capable of sustaining viable populations and a diversity of native plant and animal species including migratory birds, sensitive, threatened and endangered species, and those of special concern, if they occur. Where livestock/predator conflicts exist, management strategies will be implemented, where practical, to minimize these conflicts. In controlling predation of livestock, predator control will be designed to eliminate problem animals only. Any predator displacement not related to livestock predation is required to be included in the Stewardship Plan and meet criteria for

healthy functioning ecosystems. Land use will not adversely impact traditional wildlife migration and movement patterns.

Indicators may include but are not limited to:

- ◆ Species diversity;
- ◆ All indicators associated with the upland and riparian standards;
- ◆ Wildlife population trends;
- ◆ Habitat fragmentation.

Conservation Beef Animal Husbandry Standards

Animal husbandry will be uniformly consistent with USDA/FSIS standards where required to comply with the CB label claims of "natural," "free range," "no artificial hormones," and "not raised with antibiotics." CB ranchers will be required to document all antibiotic use to CB and agree to remove, if requested by CB, such treated animals from Conservation Beef supply. Ranchers are required to sign husbandry compliance affidavits annually.

In addition, CB livestock will be treated at all times with respect and care and handled to minimize stress. To protect product quality, electric cattle prods will not be used in loading, unloading, and transport.

IMPLEMENTATION

Local Rancher Group and Conservation Beef Stewardship Review Panel

The local rancher group panel and CB Stewardship Review Panel will:

- ◆ Review and approve the submitted Stewardship Plan;
- ◆ Insure the monitoring methods selected in each plan are appropriate to measure progress toward meeting the CB Standards;
- ◆ Review and approve the annual letter of re-certification;
- ◆ Evaluate monitoring reports to determine if the rancher is moving toward the goals expressed in the CB Standards. If necessary, work with the ranchers to determine

modified management strategies. Based on satisfactory monitoring results certify compliance.

Stewardship Plans

Each participating CB supplier shall have in place an approved Stewardship Plan implementing the CB Standards. During the first year a rancher supplies beef to CB, an Introductory CB Stewardship Plan will be acceptable. Each such plan must reflect substantive management practices aimed at achieving each of the Stewardship Standards, and will require approval by CB, but not by the local rancher group panel or the CB Stewardship Review Panel.

It is understood by the cooperating parties that Stewardship Plans will be directed toward achieving the CB Standards within realistic budgetary constraints and timelines and that priorities for improvements will need to be established based on the condition of the acreage involved and other considerations. Further, CB recognizes that Stewardship Plans cannot control the effects of natural events, such as flood or drought, though planning for such events may mitigate potential adversity.

If desired by the CB rancher, CB and/or The Nature Conservancy will: (1) provide technical advice in preparation of the required Introductory and full Stewardship Plans and; (2) make recommendations for monitoring methods that are appropriate to measure progress toward meeting the CB Standards. It is the rancher's right and responsibility to determine specific management proposals to meet the CB Stewardship Standards and to develop and submit the Stewardship Plan to the CB review process.

Each full Stewardship Plan will be reviewed and, if satisfactory, approved by the local, collaborative rancher group or by a panel the collaborative group appoints. A plan will then be forwarded for review and approval by the CB Stewardship Review Panel. Composition of the CB Stewardship Review Panel will include expertise in landscape ecology, rangeland stewardship, and wildlife biology. Appointments will be made by The Nature Conservancy, subject to review and approval by the collaborative ranch groups participating in CB at the time of the appointments. To assure consideration of local expertise in Plan and monitoring review, a designated representative of the involved local rancher group will have the right to participate as a full member of the CB Stewardship Review Panel during deliberations of Plans/monitoring from that particular watershed/landscape.

All CB review/approval procedures of Stewardship Plans and monitoring will be designed to be expeditious.

Annual Re-certification

An annual qualitative assessment will be conducted on representative parts of the ranch by a natural resource professional mutually designated by the rancher and CB. A letter will be submitted to document implementation of the individual Stewardship Plan. Upon review and approval of the letter by the local ranch group and the CB Stewardship Review Panel, the ranch will be re-certified as a CB supplier for the next year.

Monitoring

Monitoring to document long-term trends, ecological conditions, and progress toward meeting all applicable CB Standards will be conducted at 3-5 year intervals, as designated in the Stewardship Plan. If the rancher has no monitoring program in place prior to plan submittal, CB will recommend appropriate monitoring methods to measure progress toward meeting the CB Standards, but the final decision on what monitoring method to use is the rancher's. It is recognized that different methodologies may be utilized by different ranchers. CB will accept these methodologies provided they are scientifically credible and address one or more of the CB Standards to be evaluated on a given ranch.

Where adverse trends are documented, and determined to be results of management actions, modifications of the Stewardship Plans will be recommended and approved by all parties.

Monitoring methods should be designed to give ranchers information that is relevant to making management decisions. CB will encourage use of methodologies that can be implemented by CB ranchers themselves, to assist them in identifying and responding to early warning indicators.

Monitoring reports shall be submitted to the local rancher group and the CB Review Board for review/approval.

Use of Information

Ranch-specific baseline and monitoring information will be available to CB only for purposes of insuring compliance with CB standards. Any other use of this information will require rancher approval. Each member of the local rancher group and the CB Stewardship Review Panel must agree to hold all information in strict confidence.

However, CB retains the right to use non-ranch-specific and/or cumulative monitoring information within CB watersheds or landscapes to publicly document the effectiveness of the CB program in achieving its conservation goals.

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iii. A complete copy of the Deed of Conservation Easement relating to the Sun Ranch is attached.

iv. See attached CBL stewardship guidelines. Specific plans are subject to a confidentiality agreement between the rancher and CBL. The Conservancy does not have copies of these plans as we are no longer a member of CBL.

SECRETARY OF STATE

STATE OF MONTANA
MIKE COONEY

PRIORITY

Business Services Bureau
LesLee Shell-Beckert, Deputy



Montana State Capitol
PO Box 202801
Helena, MT 59620-2801
(406)444-3665
<http://www.state.mt.us/sos/>

ARTEMIS WILDLIFE FEDERATION
PO BOX 748
HELENA MT 59624

October 20, 1999

RE: CONSERVATION BEEF, LLC
ARTICLES OF ORGANIZATION
Date of Filing: October 20, 1999
Filing Number: 364293 - C100562

Dear Sir or Madam:

I've approved the filing of the documents for the above named entity. The document number and filing date have been recorded on the original document. This letter serves as your certificate of filing and should be maintained in your files for future reference.

Thank you for giving this office the opportunity to serve you. If you have any questions in this regard, or need additional assistance, please do not hesitate to contact the Business Services Bureau professionals at (406) 444-3665.

Sincerely,

A handwritten signature in cursive script that reads "Mike Cooney".

Mike Cooney
Secretary of State
Enclosure

You can correspond with our office via facsimile. Our fax number is (406) 444-3976. You can now fax in your search, copy, and certificate requests.

ARTICLES OF ORGANIZATION OF
CONSERVATION BEEF, LLC

#364293
STATE OF MONTANA
FILED
OCT 20 1999
SECRETARY OF STATE
RAC
Pd # 20
T # 20
please

The undersigned, acting as organizer of Conservation Beef, LLC, adopts the following Articles of Organization:

1. The name of the limited liability company is Conservation Beef, LLC.
2. The Company is not a term company and shall continue until dissolved as provided in the Montana Limited Liability Company Act.
3. No member shall be liable for the Company's debts or obligations.
4. The principal place of business and registered office in Montana is:

25 South Ewing Street, Suite 415
Helena, MT 59101

and the registered agent at such office is:

Brian Kahn

5. Management of the Company is vested in managers rather than in the members, and the name and street address of the initial managers is as follows:

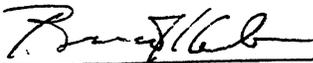
Brian Kahn
25 South Ewing Street, Suite 415
Helena, MT 59624

ORGANIZER:



Brian Kahn
25 South Ewing Street, Suite 415
Helena, MT 59624

Registered Agent:



Brian Kahn

DENVER:0950224.01

FILE

CB-TND.DOC

*Signed +
Approved*

Execution Copy

OPERATING AGREEMENT

OF

CONSERVATION BEEF, LLC

A MONTANA LIMITED LIABILITY COMPANY

EFFECTIVE AS OF OCTOBER 20, 1999

THIS AGREEMENT is made and entered into as of October 20, 1999, by and among the Company, ARTEMIS WILDLIFE FOUNDATION, a California non-profit charitable corporation ("Artemis") and, THE NATURE CONSERVANCY, tax-exempt, non-profit charitable corporation, organized under the laws of the District of Columbia, doing business as the CENTER FOR COMPATIBLE ECONOMIC DEVELOPMENT ("CCED" collectively with Artemis, the "Initial Members"). In consideration of the mutual covenants herein contained and for other good and valuable consideration, the Members and the Company (and each person who subsequently becomes an Equity Owner) hereby agree as follows:

ARTICLE 1. DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

1.1 Act. Act shall mean the Montana Limited Liability Company Act, as amended.

1.2 Affiliate. Affiliate shall mean, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by, or under common control with such Person, (ii) any Person owning or controlling ten percent (10%) or more of the outstanding voting interests of such Person, (iii) any officer, director, or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence. For purposes of this definition, the term "controls," "is controlled by," or "is under common control with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.3 Agreement. Agreement shall mean this Operating Agreement as originally executed and as amended from time to time.

1.4 Annual Operating Plan. Annual Operating Plan shall mean the plan adopted as provided in Section 5.13 as amended from time to time.

1.5 Articles of Organization. The Articles of Organization of the Company as filed with the Secretary of State as the same may be amended from time to time.

1.6 Capital Account. Capital Account as of any given date shall mean the Capital Account of each Equity Owner as described in Article 8 and maintained to such date in accordance with this Agreement.

1.7 Capital Contribution. Capital Contribution shall mean any contribution to the capital of the Company in cash or property by an Equity Owner whenever made. "Initial Capital Contribution" shall mean the initial contribution to the capital of the Company pursuant to this Agreement.

1.8 Code. Code shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.9 Company. Company shall mean Conservation Beef, LLC.

1.10 Company Purpose. The purpose for which the Company was organized as described in Article 3.

1.11 Company Property. All assets (real or personal, tangible or intangible, including cash) of the Company.

1.12 Deficit Capital Account. Deficit Capital Account shall mean with respect to any Equity Owner, the deficit balance, if any, in such Equity Owner's Capital Account as of the end of the Fiscal Year, after giving effect to the following adjustments:

(a) credit to such Capital Account the amount, if any, which such Equity Owner is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Regulations, after taking into account thereunder any changes during such year in partnership minimum gain as determined in accordance with Section 1.704-2(d) of the Regulations ("Company Minimum Gain") and in any partner nonrecourse debt minimum as determined under Section 1.704-2(i)(3) of the Regulations ("Member Minimum Gain"); and

(b) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Regulations.

This definition of Deficit Capital Account is intended to comply with the provisions of Regulations Sections 1.704-1(b)(2)(ii)(d) and 1.704-2, and shall be interpreted consistently with those provisions.

1.13 Depreciation. For each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Managers.

1.14 Distributable Cash. All cash, whether revenues or other funds received by the Company, less the sum of the following to the extent paid or set aside by the Company: (i) all amounts to be expended in fulfillment of the Company Purpose including amounts to be reserved for the Company Purpose as provided in the Annual

Operating Plan, (ii) all principal and interest payments on indebtedness of the Company and all other sums paid to lenders; (iii) all cash expenditures incurred incident to the normal operation of the Company's business; and (iv) Reserves.

1.15 Distribution. Any Transfer of Company Property from the Company to or for the benefit of an Equity Owner by reason of such Equity Owner's ownership of an Economic Interest.

1.16 Economic Interest. An Equity Owner's share of one or more of the Profits, Losses and Distributions pursuant to this Agreement and the Act, but shall not include any right to participate in the management or affairs of the Company, including, the right to vote on, consent to or otherwise participate in any decision of the Members or Managers.

1.17 Economic Interest Owner. The owner of an Economic Interest who is not a Member.

1.18 Entity. Any general partnership (including a limited liability partnership), limited partnership (including a limited liability limited partnership), limited liability company, corporation, joint venture, trust, business trust, cooperative or association or any foreign trust or foreign business organization.

1.19 Equity Owner. An Economic Interest Owner or a Member.

1.20 Fiscal Year. The taxable year of the Company as determined under the Code.

1.21 Gross Asset Value. Gross Asset Value means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by an Equity Owner to the Company shall be the gross fair market value of such asset, as determined by the contributing Member and the Managers;

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the Managers as of the following times: (i) the acquisition of an additional interest by any new or existing Equity Owner in exchange for more than a *de minimis* contribution of property (including money); (ii) the Distribution by the Company to an Equity Owner of more than a *de minimis* amount of property as consideration for an Ownership Interest; and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (i) and (ii) above shall be made only if the Managers reasonably determine that such adjustments are necessary or appropriate to reflect the relative economic interests of the Equity Owners in the Company;

(c) The Gross Asset Value of any Company asset Distributed to any Equity Owner shall be adjusted to equal the gross fair market value of such asset on the

date of Distribution as reasonably determined by the distributee and the Managers, provided that, if the distributee is a Manager, the determination of the fair market value of the Distributed asset shall require the consent of the Managers; and

(d) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-1(b)(2)(iv)(m) and **Section 8.3** and subparagraph (e) under the definition of Profits and Losses; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) of this definition to the extent that the Managers reasonably determine that an adjustment pursuant to subparagraph (b) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (d) of this definition, then such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

1.22 Managers. Managers shall mean one or more managers. The "Artemis Manager" shall be a Manager appointed by Artemis as provided in this Agreement, and the "CCED Manager", both as provided in **Article 5**. The initial Artemis Manager shall be Brian Kahn and the initial CCED Manager shall be William Weeks.

1.23 Member. Each of the parties who executes a counterpart of this Agreement as a Member (an "Initial Member") and each of the parties who may hereafter become a Member. If a Person is a Member immediately prior to the purchase or other acquisition by such Person of an Economic Interest, such Person shall have all of the rights of a Member with respect to such purchased or otherwise acquired Ownership Interest, as the case may be.

1.24 Membership Interest. A Member's entire interest in the Company, including such Member's Economic Interest and such other rights and privileges that the Member may enjoy by being a Member.

1.25 Ownership Interest. Ownership interest shall mean:

- (a) in the case of a Member, the Member's Membership Interest; and
- (b) in the case of an Economic Interest Owner, the Economic Interest Owner's Economic Interest.

1.26 Person. Any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such "Person" where the context so permits.

1.27 Profits and Losses. Profits and Losses shall mean for each Fiscal Year of the Company an amount equal to the Company's net taxable income or loss for such year as determined for federal income tax purposes (including separately stated items) in accordance with the accounting method and rules used by the Company and in accordance with Section 703 of the Code with the following adjustments:

(a) Any items of income, gain, loss and deduction allocated to Equity Owners pursuant to Sections 9.2, 9.3 or 9.13 shall not be taken into account in computing Profits or Losses;

(b) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be added to such taxable income or loss;

(c) Any expenditure of the Company described in Section 705(a)(2)(B) of the Code and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be subtracted from such taxable income or loss;

(d) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraphs (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits and Losses;

(e) Gain or loss resulting from any disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed with reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(f) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year; and

(g) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or Section 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations to be taken into account in determining Capital Accounts as a result of a Distribution other than in liquidation of an Ownership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits or Losses.

1.28 Regulations. Regulations shall include proposed, temporary and final regulations promulgated under the Code in effect as of the date of filing the Articles of Organization and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

1.29 Reorganization. Reorganization shall mean the merger or conversion of the Company, or a sale or other disposition of assets of the Company, or sale or other disposition of Ownership Interests, or other transaction pursuant to which a Person or Persons acquire all or substantially all of the assets of, or Ownership Interests in, the Company in a single or series of related transactions, including without limitation, a merger or conversion of the Company into a corporation or other entity, whether or not such corporation or other entity has the same owners as the Partnership and whether or not additional capital is contributed to such corporation or other entity; provided, however, that a Reorganization shall not include the merger or conversion of the Company into a general partnership which is not a limited liability partnership.

1.30 Reserves. Reserves shall mean, with respect to any fiscal period, funds set aside or amounts allocated during such period to reserves which shall be maintained in amounts reasonably deemed sufficient by the Managers for working capital and for payment of taxes, insurance, debt service or other costs or expenses incident to the Company Purpose, including, but not limited to, the designation of Reserves for the purchase of conservation agreements.

1.31 Sale or Sell. A sale, assignment, exchange, or other transfer for consideration equal to full fair market value.

1.32 Secretary of State. The Secretary of State of Montana.

1.33 Selling Equity Owner. Any Equity Owner which Sells all or any portion of its Ownership Interest.

1.34 Sharing Ratio. The percentages in which the Equity Owners share those items making specific references to "Sharing Ratios" in this Agreement. Sharing Ratio shall mean:

<u>Initial Member</u>	<u>Sharing Ratio</u>
Artemis	50%
CCED	50%

Upon the Transfer of all or any portion of an Ownership Interest, unless otherwise agreed by the Transferring Equity Owner and the Transferee, the Sharing Ratio of the Transferring Equity Owner shall be divided between the Transferring Equity Owner and the Transferee in proportion to the percentage of the Transferring Equity Owner's Capital Account balance being Transferred.

1.35 Transfer. Transfer shall mean any Sale or any other assignment, gift, exchange, or other transfer regardless of whether gratuitous or for consideration, pledge, hypothecation, or grant of a security interest.

1.36 Transferring Equity Owner. Transferring Equity Owner shall mean an Equity Owner who Transfers or proposes to Transfer all or any Part of the Equity Owner's Ownership Interest.

**ARTICLE 2.
FORMATION OF COMPANY**

2.1 Formation. On October 20, 1999, Brian Kahn organized a limited liability company pursuant to the Act by executing and delivering articles of organization to the Secretary of State in accordance with and pursuant to the Act. The Company and the Members hereby forever discharge the organizer, and the organizer shall be indemnified by the Company and the Member from and against, any expense or liability actually incurred by the organizer by reason of having been the organizer of the Company.

2.2 Name. The name of the Company is Conservation Beef, LLC.

2.3 Principal Place of Business. The principal place of business of the Company shall be as set forth in the Articles. The Company may locate its places of business and registered office at any other place or places as the Managers may from time to time deem advisable.

2.4 Registered Office and Registered Agent. The Company's initial registered office and the name of the registered agent at such address shall be as set forth in the Articles. The registered office and registered agent may be changed from time to time by filing the address of the new registered office and/or the name of the new registered agent with the Secretary of State pursuant to the Act.

2.5 Term. The Company shall continue in existence until terminated in accordance with the provisions of this Agreement or the Act.

**ARTICLE 3.
PURPOSE OF COMPANY**

The purpose of the Company (the "Company Purpose") shall be to operate in a manner that furthers the exempt purposes of the Members, to-wit: in the case of Artemis, to conserve biologically significant lands in the western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of CCED, to be operated, exclusively for educational, scientific and charitable purposes as may qualify it for tax exempt status under section 501(c)(3) of the Internal Revenue Code, more specifically, to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Company shall endeavor to attain the Company Purpose by creating a niche market for beef that will return a premium price to ranchers who commit to long-term land conservation strategies such as ecologically sound land stewardship practices, land-use planning, and conservation easements, but in no circumstances may the Company take any action that is not in furtherance of the exempt purposes of the Members. The Company may exercise all other powers necessary to or reasonably connected with the Company Purpose which may be legally exercised by limited liability companies under the Act and may engage in all activities necessary, customary, convenient, or incident to the Company Purpose.

The Company Business shall include the establishment and maintenance of Reserves for the purpose of purchasing development rights or fee title in appropriate lands, or implementing other effective conservation measures, and the use of the Reserves for such purchases.

**ARTICLE 4.
NAMES AND ADDRESSES OF EQUITY OWNERS**

The names and addresses of the Initial Members are as follows:

<u>NAME</u>	<u>ADDRESS</u>
ARTEMIS WILDLIFE FOUNDATION	25 South Ewing Street, Suite 415 Helena, MT 59101
THE NATURE CONSERVANCY	4245 North Fairfax Drive, Arlington, VA 22203

The names and addresses of other Equity Owners shall be maintained as provided under Section 13.1.

**ARTICLE 5.
RIGHTS AND DUTIES OF MANAGERS**

5.1 Management. The business and affairs of the Company shall be managed by its Managers as provided in this Article 5. Unless authorized to do so by this Agreement or by the Managers, no attorney-in-fact, employee or other agent of the Company shall have any power or authority to bind the Company in any way, to pledge its credit or to render it liable pecuniarily for any purpose.

5.2 Number, Tenure and Qualifications. The Company shall initially have two (2) Managers. The number of Managers shall be fixed from time to time by the unanimous consent of the Members holding at least a Two-Thirds Interest, but in no instance shall there be less than one Manager. Each Manager shall hold office until such Manager resigns pursuant to **Section 5.9** or is removed pursuant to **Section 5.10**. One Manager (the "Artemis Manager") shall be appointed by Artemis subject to the approval of CCED and the other Manager (the "CCED Manager") shall be appointed by CCED subject to the approval of Artemis. The approvals of the non-appointing Member under this **Section 5.2** shall not be unreasonably withheld. The initial Artemis Manager shall be Brian Kahn and the initial CCED Manager shall be William Weeks.

5.3 Powers of Artemis Manager. Without limiting the generality of **Section 5.1** but subject to the limitations of **Sections 5.5 and 5.6**, the Artemis Manager shall have power and authority, on behalf of the Company to take the following actions to the extent the same are consistent with the Annual Operating Plan and budget approved by the Members:

(a) To acquire property (including livestock at approved prices and in approved numbers) from any Person as the Artemis Manager may determine. The fact that a Manager or an Equity Owner is directly or indirectly affiliated or connected with any such Person shall not prohibit the Artemis Manager from dealing with that Person provided that such fact shall be disclosed to all of the Members;

(b) To purchase liability and other insurance to protect the Company's property and business;

(c) To hold and own any Company real and/or personal properties in the name of the Company;

(d) To invest any Company funds (by way of example but not limitation) in time deposits, short-term governmental obligations, or other investments consistent with the approved budget;

(e) To execute on behalf of the Company all instruments and documents, including, without limitation, checks, drafts, notes and other negotiable instruments; assignments; bills of sale; leases; and any other instruments or documents necessary, in the reasonable opinion of the Artemis Manager to the extent necessary to conduct the routine, day to day business of the Company, to the conduct of the business of the Company;

(f) To employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;

(g) To execute and file such other instruments, documents and certificates which may from time to time be required by the laws of Montana or any other jurisdiction in which the Company shall determine to do business, or any political subdivision or agency thereof, to effectuate, implement, continue and defend the valid existence of the Company;

(h) To open bank accounts the checks on which shall require the signature of both Managers, unless the Managers determine otherwise and to provide all members with regular, full, complete and current information on all such accounts;

(i) To appoint and hire agents and employees of the Company other than a Project Director to the extent provided in the Annual Operating Plan with a limit of up to \$1,000; and

(j) To do and perform all other acts as may be necessary or appropriate to the conduct of the Company's business.

5.4 Powers of CCED Manager. Without limiting the generality of **Section 5.1** but subject to the limitations of **Sections 5.5 and 5.6**, the CCED Manager shall have power and authority, on behalf of the Company to determine which landscapes and/or

watersheds meet the Company's ecological criteria for participation in the Company's programs.

5.5 Certain Powers of Managers. Notwithstanding **Section 5.3 and 5.4**, but subject to the limitations of **Section 5.6**, the Managers shall have power and authority, by unanimous consent of both Managers, on behalf of the Company to take the following actions:

(a) To take any action described in **Section 5.3** provided the amount expended or incurred does not exceed the Annual Operating Plan by more than 5 %;

(b) To determine the expenditure of Reserves for the purchase of development rights or fee title in appropriate lands, or implementing other effective conservation measures

(c) To consent to the Transfer of an Interest as provided in **Section 10.2**;

(d) To approve additional contributions as provided in **Section 8.2**; and

(e) To take any other action delegated to the Managers by this Agreement.

5.6 Limitations on Authority. Notwithstanding any other provision of this Agreement, the Managers shall not cause or commit the Company to do any of the following without the unanimous consent of the Members:

(a) Establish Conservation Standards to be used in conservation agreements;

(b) Agree on an Annual Operating Plan as provided in **Section 5.15**;

(c) Amend the Agreement as provided in **Section 13.5**;

(d) Consent to the Dissolution of the Company as provided in **Section 12.1**;

(e) Cause the Issuance of an Additional Membership Interest as provided in **Section 11.1**;

(f) Sell or otherwise dispose all or substantially all of the Company Property or any Company Property than in the ordinary course of business;

(g) Mortgage, pledge, or grant a security interest (collectively, "pledge") in any Company Property to the extent that the secured indebtedness from such pledge would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(h) Incur or refinance any indebtedness for money borrowed by the Company, whether secured or unsecured and including any indebtedness for money borrowed from a Member if, after such financing, the aggregate indebtedness of the Company would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(i) Incur any liability or make any single expenditure or series of related expenditures in an amount exceeding would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(j) Construct any capital improvements, repairs, alterations or changes involving an amount that would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(k) Compromise or settle any claim against or inuring to the benefit of the Company involving an amount in controversy in excess of \$500;

(l) Cause the Company to commence a voluntary case as debtor under the United States Bankruptcy Code; and

(m) Take any other action not otherwise delegated to the Artemis Manager or the Managers by this Agreement.

5.7 Liability for Certain Acts.

(a) The Managers do not, in any way, guarantee the return of the Equity Owners' Capital Contributions or a profit for the Equity Owners from the operations of the Company.

(b) The Managers shall not be liable to the Company or to any Member for any loss or damage sustained by the Company or any Member (or successor thereto), except to the extent, if any, that the loss or damage shall have been the result of gross negligence, fraud, deceit, willful misconduct, or breach of this Agreement.

5.8 Managers' and Equity Owners' Duties to Company.

(a) The Managers and Equity Owners shall have no exclusive duty to act on behalf of the Company. Each Manager and Equity Owner may have other business interests and may engage in other activities in addition to those relating to the Company. Neither the Company nor any Manager shall have any right, by virtue of this Agreement, to share or participate in any other investments or activities of any other Manager or Member. Neither any Manager nor any Equity Owner shall incur any liability to the Company or to any of the Equity Owners as a result of engaging in any other business or venture, except that no Equity Owner or Manager may engage in competition with the Company or disseminate any information of the Company in violation of this Agreement.

(b) Notwithstanding any other provision of this Agreement, no Equity Owner or Manager shall take any action the effect of which will cause any Member qualified for exemption from federal income tax as an organization described in section 501(c)(3) of the Code to cease to be so qualified or to be subject to any tax or penalty under the Code.

(c) The Equity Owners agree to make a good faith effort to seek contributions from donors of sufficient funds to the operation of the Company.

5.9 Bank Accounts. The Managers may from time to time open bank accounts in the name of the Company the checks on which shall require the signature of both Managers, unless the Managers determine otherwise. All members shall receive regular, full, complete and current information on all such accounts.

5.10 Indemnity of the Managers, Employees and Other Agents.

(a) The Company shall indemnify each Manager and make advances for expenses to the maximum extent permitted under the Act, except to the extent the claim for which indemnification is sought results from an act or omission for which the Manager may be held liable to the Company or a Member under **Section 5.5(b)**. The Company shall indemnify its employees and other agents who are not Managers to the fullest extent permitted by law.

(b) Expenses (including legal fees and expenses) incurred by a Manager in defending any claim, demand, action, suit or proceeding subject to subsection (a) above shall be paid by the Company in advance of the final disposition of such claim, demand, action, suit or proceeding upon receipt of an undertaking (which need not be secured) by or on behalf of the Manager to repay such amount if it shall ultimately be finally determined by a court of competent jurisdiction and not subject to appeal, that the Manager is not entitled to be indemnified by the Company as authorized hereunder.

5.11 Resignation. Any Manager may resign at any time by giving written notice to the Members. The resignation of any Manager shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. The resignation of a Manager who is also an Equity Owner shall not affect the Manager's rights as an Equity Owner.

5.12 Removal. At a meeting called expressly for that purpose, all or any lesser number of Managers may be removed at any time the Member appointing the Manager. The removal of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of a Member. In the event the number of Managers is increased and a Manager is appointed by the unanimous consent of the Members, such Manager may be removed by the unanimous consent of the Members.

5.13 Vacancies. Any vacancy occurring for any reason in the number of Managers shall be filled by Member who initially appointed the Manager subject to the approval of the other Member as provided in **Section 5.02**. Any Manager's position to

be filled by reason of an increase in the number of Managers shall be filled by the unanimous consent of the Members.

5.14 Compensation, Reimbursement, Organization Expenses.

(a) The compensation of the Managers shall be fixed from time to time by the unanimous consent of the Members, provided, however, if the amount of the compensation paid to any Manager is in excess of the value of the services provided by that Manager as determined by the Members or by a final administrative or judicial proceeding under the Code, the Manager shall, within ten days of such determination, return the amount of such excess to the Company.

(b) The Managers shall cause the Company to make an appropriate election to treat the expenses incurred by the Company in connection with the formation and organization of the Company to be amortized under the 60-month period beginning with the month in which the Company begins business to the extent that such expenses constitute "organizational expenses" of the Company within the meaning of Code Section 709(b)(2).

5.15 Annual Operating Plan. The Managers shall prepare for the approval of the Members each Fiscal Year (no later than thirty (30) days prior to the end of the then current Fiscal Year) a business plan ("Annual Operating Plan") for the next Fiscal Year, setting forth at a minimum the estimated receipts (including capital calls) and expenditures (capital, operating and other) of the Company in sufficient detail to provide an estimate of cash flow, capital proceeds, markets, marketing, business strategy, employment and employees planned, and other financial requirements of the Company for such year. The Annual Operating Plan shall also set forth amounts to be designated for Reserves for the purchase of conservation agreements. Any such Annual Operating Plan shall also include such other information or other matters necessary in order to inform the Members of the Company's business and to enable the Members to make an informed decision with respect to their approval of such Annual Operating Plan. The Members shall review the proposed Operating Plan and shall offer any revisions thereto within 30 days. After the final Operating Plan has been approved by the Members, the Managers shall implement the Annual Operating Plan and shall be authorized to make only the expenditures and incur only the obligations provided for therein (subject to **Section 5.4(b)**). Notwithstanding the foregoing, the Managers may make any expenditure or incur any obligation, whether or not such expenditure or obligation is provided for in an Annual Operating Plan, which is the legal obligation of the Company and not within the reasonable control of the Managers (*e.g.*, real or personal property taxes). If the Members are not able to agree on an Annual Operating Plan for any year, either Member may declare a "Deadlock" in which case the the business of the Company shall continue with each line item in the Annual Operating Plan for the prior year shall be increased by the percentage increase in the CPI Index from the first day for which the previous Annual Operating Plan was in effect to the first day for which the new Annual Operating Plan is to be in effect, with each Member submitting any disputes with respect to the revision of the Annual Operating Plan to mediation with a mutually agreeable third party. The Members shall seek in good faith

to designate a mutually agreeable third party. In the event the Members cannot agree upon a third party, the Members shall seek to appoint a third party under the rules of the American Arbitration Association. In the event the Members are unable to reach a resolution of the dispute within 120 days after the designation of a mediator, either Member may cause the Company to dissolve pursuant to §12.01(a)(1). As used herein, "CPI Index" shall mean the Consumer Price Index for All Items All Urban Consumers (DPI-U) (1982-84 = 100) for the United States, as published by the United States Department of Labor's Bureau of Labor Statistics (the "Bureau"). Should the Bureau discontinue the publication of the above index, or publish the index less frequently, or alter the index in some other manner, then the Managers shall, from time to time, adopt a substitute index or substitute procedure which reasonably reflects and monitors consumer prices, and the resulting plan shall be the Annual Operating Plan for the current year.

5.16 Right to Rely on the Managers.

(a) Any Person dealing with the Company may rely (without duty of further inquiry) upon a certificate signed by any Manager as to:

(i) The identity of any Manager or Equity Owner;

(ii) The existence or nonexistence of any fact or facts which constitute a condition precedent to acts on behalf of the Company by any Manager or which are in any other manner germane to the affairs of the Company;

(iii) The Persons who are authorized to execute and deliver any instrument or document of the Company; or

(b) Any act or failure to act by the Company or any other matter whatsoever involving the Company or any Equity Owner.

ARTICLE 6.

RIGHTS AND OBLIGATIONS OF EQUITY OWNERS

6.1 Limitation of Liability. Except as otherwise provided by the non-waivable provisions of the Act and by this Agreement, no Equity Owner shall be liable for an obligation of the Company solely by reason of being or acting as an Equity Owner.

6.2 List of Equity Owners. Upon written request of any Member made in good faith and for a purpose reasonably related to the Member's rights as Member under this Agreement (which reason shall be set forth in the written request), the Manager shall provide a list showing the names, addresses and Ownership Interests of all Equity Owners. Economic Interest Owners shall have no rights to information under this Section 6.2.

6.3 Equity Owners Have No Agency Authority. Except as expressly provided in this Agreement, the Equity Owners (in their capacity as Equity Owners) shall have no agency authority on behalf of the Company.

6.4 Company Books. In accordance with **Section 9.10** herein, the Managers shall maintain and preserve, during the term of the Company, and for five (5) years thereafter, all accounts, books, and other relevant Company documents. Upon reasonable request, each Member shall have the right, during ordinary business hours, to inspect and copy such Company documents at the requesting Member's expense.

6.5 Priority and Return of Capital. Except as may be expressly provided in Article 9, no Equity Owner shall have priority over any other Equity Owner, either as to the return of Capital Contributions or as to Profits, Losses or Distributions; provided, however, that this **Section 6.5** shall not apply to loans (as distinguished from Capital Contributions) which an Equity Owner has made to the Company.

**ARTICLE 7.
ACTIONS OF MANAGERS AND MEMBERS**

Unless otherwise required in this Agreement, actions and consents of the Managers and Members may be communicated or reflected orally, electronically or in writing, and no action need be taken at a formal meeting. Managers or Members may, but are not required to, meet from time to time on such notice, if any, as the Manager or Member convening the meeting chooses to give. Any consent required to be in writing may be evidenced by separate written counterparts. Any action of the Members shall be effective when a sufficient number of Members to take such action communicate their consent to the action to the Managers.

**ARTICLE 8.
CONTRIBUTIONS TO THE COMPANY AND CAPITAL ACCOUNTS**

8.1 Members' Capital Contributions. The Initial Members have made the following contributions:

<u>Initial Member</u>	<u>Initial Cash Contribution</u>
Artemis	\$252,500
CCED	\$135,000

8.2 Additional Contributions. No Equity Owner shall be required to make any Capital Contributions. To the extent unanimously approved by the Managers, from time to time, the Equity Owners may be permitted to make additional Capital Contributions if and to the extent they so desire, and if the Managers determine that such additional Capital Contributions are necessary, or appropriate in connection with the conduct of the Company's business (including without limitation, expansion or diversification). In such event, the Equity Owners shall have the opportunity (but not the obligation) to

participate in such additional Capital Contributions proportionate to their Sharing Ratios.

8.3 Capital Accounts.

(a) A separate Capital Account shall be maintained for each Equity Owner. Each Equity Owner's Capital Account shall be increased by (1) the amount of money contributed by such Equity Owner to the Company; (2) the fair market value of property contributed by such Equity Owner to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code); (3) allocations to such Equity Owner of Profits; and (4) any items in the nature of income and gain which are specially allocated to the Equity Owner pursuant to **Sections 9.2 and 9.3**. Each Equity Owner's Capital Account shall be decreased by (1) the amount of money Distributed to such Equity Owner by the Company; (2) the fair market value of property Distributed to such Equity Owner by the Company (net of liabilities secured by such Distributed property that such Equity Owner is considered to assume or take subject to under Section 752 of the Code); (3) any items in the nature of deduction and loss that are specially allocated to the Equity Owner pursuant to **Sections 9.2 and 9.3**; and (4) allocations to such Equity Owner of Losses.

(b) Without limiting the other rights and duties of a transferee of an Ownership Interest pursuant to this Operating Agreement, in the event of a permitted sale or exchange of an Ownership Interest in the Company, (1) the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Ownership Interest in accordance with Section 1.704-1(b)(2)(iv) of the Regulations; and (2) the transferee shall be treated as the transferor for purposes of allocations and distributions pursuant to Article 9 to the extent that such allocations and distributions relate to the transferred Ownership Interest.

(c) The manner in which Capital Accounts are to be maintained pursuant to this **Section 8.3** is intended to comply with the requirements of Section 704(b) of the Code and the Regulations promulgated thereunder. If in the opinion of the Company's accountants the manner in which Capital Accounts are to be maintained pursuant to the preceding provisions of this **Section 8.3** should be modified in order to comply with Section 704(b) of the Code and the Regulations thereunder, then, notwithstanding anything to the contrary contained in the preceding provisions of this **Section 8.3**, the method in which Capital Accounts are maintained shall be so modified; provided, however, that any change in the manner of maintaining Capital Accounts shall not materially alter the economic agreement between or among the Equity Owners.

(d) Upon liquidation of the Company, liquidating Distributions shall be made in accordance with the positive Capital Account balances of the Equity Owners, as determined after taking into account all Capital Account adjustments for the Company's taxable year during which the liquidation occurs. Liquidation proceeds shall be paid in accordance with **Section 12.3**. The Company may offset damages for breach of this Agreement by any Equity Owner whose interest is liquidated (either upon the

withdrawal of the Equity Owner or the liquidation of the Company) against the amount otherwise Distributable to such Equity Owner. No Equity Owner shall have any obligation to restore all or any portion of a deficit balance in such Equity Owner's Capital Account.

8.4 Withdrawal or Reduction of Equity Owners' Contributions to Capital.

(a) An Equity Owner may withdraw at any time.

(b) Upon the withdrawal of any Equity Owner, the Company shall:

(1) If agreed by the Company and the withdrawing Equity Owner, retain any amount to which the Equity Owner would have been entitled on liquidation of the Company, provided, that if the withdrawing Equity Owner is exempt from taxation under Section 501(c)(3) of the Code, the Company shall use such amounts exclusively for charitable, scientific, or educational purposes for which the Equity Owner is organized, and no part of the amount retained or the net earnings on such amount shall be allowed to inure to the benefit of any individual or entity other than another entity that is exempt from taxation under Section 501(c)(3) of the Code for use in such entity's exempt purposes.

(2) Distribute an amount equal to the amount that the Equity Owner would have received on liquidation of the Company as of the date of withdrawal (less any amount retained pursuant to **Section 8.4(b)(1)**) to the Equity Owner. Unless otherwise agreed between the Company and the withdrawing Equity Owner, any amount to be distributed pursuant to this **Section 8.4(b)(2)** shall be paid over a 30 months period to the withdrawing equity holder in five equal payments of an amount sufficient to amortize the amount plus interest on the outstanding balance on such amount as the Federal mid-term rate as established under Section 1274(d) of the Code as of the date of the withdrawal, provided, however, that no Equity Owner shall receive a Distribution to the extent such Distribution would violate **Section 9.5**.

(c) An Equity Owner, irrespective of the nature of its Capital Contribution, does not have the right to demand and receive property other than cash in return for its Capital Contribution.

ARTICLE 9.
ALLOCATIONS, INCOME TAX,
DISTRIBUTIONS, ELECTIONS AND REPORTS

9.1 Allocations of Profits and Losses from Operations. Except as provided in **Sections 9.2** and **9.3**, the Profits and Losses for each Fiscal Year shall be allocated among the Equity Owners in accordance with their relative Sharing Ratios.

9.2 Special Allocations to Capital Accounts. Notwithstanding **Section 9.1** hereof:

(a) In the event that any Equity Owner unexpectedly receives any adjustments, allocations or Distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6) of the Regulations, which create or increase a Deficit Capital Account of such Equity Owner, then items of Company income and gain (consisting of a *pro rata* portion of each item of Company income, including gross income, and gain for such year and, if necessary, for subsequent years) shall be specially allocated to such Equity Owner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Deficit Capital Account so created as quickly as possible. It is the intent that this **Section 9.2(a)** be interpreted to comply with the alternate test for economic effect set forth in Section 1.704-1(b)(2)(ii)(d) of the Regulations.

(b) The Losses allocated pursuant to Section 9.1 hereof shall not exceed the maximum amount of Losses that can be so allocated without causing any Member to have a Deficit Capital Account at the end of any Fiscal Year. In the event that some, but not all, of the Members would have Deficit Capital Accounts as a consequence of an allocation of Losses pursuant to **Section 9.1** hereof, the limitation set forth in the preceding sentence shall be applied on a Member by Member basis so as to allocate the maximum permissible Losses to each Member under Section 1.704-1(b)(2)(ii)(d) of the Regulations. All Losses in excess of the limitation set forth in this **Section 9.2(b)** shall be allocated to the Members in proportion to their respective positive Capital Account balances, if any, and thereafter to the Members in accordance with their interests in the Company as determined by the Managers in their reasonable discretion. In the event that any Equity Owner would have a Deficit Capital Account at the end of any Fiscal Year which is in excess of the sum of any amount, if any, that such Equity Owner is obligated to restore to the Company under Section 1.704-1(b)(2)(ii)(c) of the Regulations and such Equity Owner's share of Company Minimum Gain as defined in Section 1.704-2(g)(1) of the Regulations (which is also treated as an obligation to restore in accordance with Section 1.704-1(b)(2)(ii)(d) of the Regulations), the Capital Account of such Equity Owner shall be specially credited with items of Company income (including gross income) and gain in the amount of such excess as quickly as possible.

(c) Notwithstanding any other provision of this **Section 9.2**, if there is a net decrease in the Company Minimum Gain as during a Fiscal Year, then the Capital Accounts of each Equity Owner shall be allocated items of income (including gross income) and gain for such Fiscal Year (and if necessary for subsequent Fiscal Years) equal to that Equity Owner's share of the net decrease in Company Minimum Gain. This **Section 9.2(c)** is intended to comply with the minimum gain chargeback requirement of Section 1.704-2 of the Regulations and shall be interpreted consistently therewith. If in any Fiscal Year that the Company has a net decrease in the Company Minimum Gain, if the minimum gain chargeback requirement would cause a distortion in the economic arrangement among the Equity Owners and it is not expected that the Company will have sufficient other income to correct that distortion, the Managers may in their discretion (and shall, if requested to do so by a Member) seek to have the Internal Revenue Service waive the minimum gain chargeback requirement in accordance with Section 1.704-2(f)(4) of the Regulations.

(d) Notwithstanding any other provision of this **Section 9.2** except **Section 9.2(c)**, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Company Fiscal Year, each Member who has a share of the Member Minimum Gain as of the beginning of the Fiscal Year shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) equal to such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt. A Member's share of the net decrease in Member Minimum Gain shall be determined in accordance with Section 1.704-2(i)(4) of the Regulations; provided, however, that a Member shall not be subject to this provision to the extent that an exception is provided by Section 1.704-2(i)(4) of the Regulations and any Revenue Rulings issued with respect thereto. Any Member Minimum Gain allocated pursuant to this provision shall consist of first, gains recognized from the disposition of Company property subject to the Member Nonrecourse Debt, and, second, if necessary, a *pro rata* portion of the Company's other items of income or gain (including gross income) for that Fiscal Year. This **Section 9.2(d)** is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(e) Items of Company loss, deduction and expenditures described in Section 705(a)(2)(B) of the Code which are attributable to any nonrecourse debt of the Company and are characterized as partner nonrecourse deductions under Section 1.704-2(i) of the Regulations shall be allocated to the Equity Owners' Capital Accounts in accordance with said Section 1.704-2(i) of the Regulations.

(f) Beginning in the first taxable year in which there are allocations of "nonrecourse deductions" (as described in Section 1.704-2(b) of the Regulations), such deductions shall be allocated to the Equity Owners in the same manner as Loss is allocated for such period.

(g) To the extent that an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4) of the Regulations, to be taken into account in determining Capital Accounts as the result of a Distribution to an Equity Owner in complete liquidation of its Ownership Interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Equity Owners in accordance with their interests in the Company in the event Section 1.704-1(b)(2)(iv)(m)(2) of the Regulations applies, or to the Equity Owner to whom such Distribution was made in the event Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations applies.

(h) Any income, gain, loss or deduction realized by the Company as a direct or indirect result of the issuance of an interest in the Company by the Company to an Equity Owner (the "Issuance Items") shall be allocated among the Equity Owners so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Equity Owner, shall be equal to the net

amount that would have been allocated to each such Equity Owner if the Issuance Items had not been realized.

9.3 Credit or Charge to Capital Accounts. Any credit or charge to the Capital Accounts of the Equity Owners pursuant to **Sections 9.2(a), 9.2(b), 9.2(c), 9.2(d), 9.2(e), 9.2(f) and 9.2(g)** (“Regulatory Allocations”) hereof shall be taken into account in computing subsequent allocations of Profits and Losses pursuant to **Section 9.1**, so that the net amount of any items charged or credited to Capital Accounts pursuant to **Section 9.1** and the Regulatory Allocations hereof and this **Section 9.3** shall to the extent possible, be equal to the net amount that would have been allocated to the Capital Account of each Equity Owner pursuant to the provisions of this Article 9 if the special allocations required by the Regulatory Allocations hereof had not occurred.

9.4 Distributions. Except as provided in **Sections 8.3(d)** (with respect to liquidating Distributions) and **9.5** (with respect to limitations on Distributions), the Managers may from time to time Distribute so much of the Company’s Distributable Cash to the Equity Owners at any time they determine in proportion to the Members’ Sharing Ratios. No Equity Owner shall be entitled to receive a Distribution at any time that the Equity Owner is in default in making any Capital Contribution pursuant to **Section 8.1(c)**.

9.5 Limitation Upon Distributions. No Distribution shall be made if such Distribution would violate the Act or for any purpose that would violate the Company Purposes.

9.6 Accounting Principles. For financial reporting purposes, the Company shall use accounting principles applied on a consistent basis using the accrual method of accounting determined by the Managers, unless the Company is required to use a different method of accounting for federal income tax purposes, in which case that method of accounting shall be the Company’s method of accounting.

9.7 Interest on and Return of Capital Contributions. No Member shall be entitled to interest on its Capital Contribution or to return of its Capital Contribution, except as otherwise specifically provided for herein.

9.8 Loans to Company. Nothing in this Agreement shall prevent any Member from making secured or unsecured loans to the Company by agreement with the Company.

9.9 Accounting Period. The Company’s accounting period shall be the Fiscal Year.

9.10 Records and Reports. At the expense of the Company, the Managers shall maintain records and accounts of all operations and expenditures of the Company. At a minimum the Company shall keep at its principal place of business the following records:

(a) A current list of the full name and last known business, residence, or mailing address of each Equity Owner and Manager, both past and present;

(b) A copy of the Articles of Organization and all amendments thereto, together with executed copies of any powers of attorney pursuant to which any amendment has been executed;

(c) Copies of the Company's federal, state, and local income tax returns and reports, if any, for the four (4) most recent Fiscal Years;

(d) Copies of the Company's currently effective written Agreement, copies of any writings permitted or required with respect to an Equity Owner's obligation to contribute cash, property or services, and copies of any financial statements of the Company for the three (3) most recent Fiscal Years;

(e) Minutes of every annual, special meeting and court-ordered meeting;

(f) Any written consents obtained from Members for actions taken by Members without a meeting.

9.11 Returns and Other Elections. The Managers shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code and all other tax returns deemed necessary and required in each jurisdiction in which the Company does business. Copies of such returns, or pertinent information therefrom, shall be furnished to the Equity Owners within a reasonable time after the end of the Fiscal Year.

All elections permitted to be made by the Company under federal or state laws shall be made by the Managers in their sole discretion; provided, however, that the Managers shall make any tax election requested by the unanimous consent of the Members.

9.12 Tax Matters Partner. Artemis, is hereby designated the Tax Matters Partner ("TMP") as defined in Section 6231(a)(7) of the Code. The TMP and the other Members shall use their reasonable efforts to comply with the responsibilities outlined in Sections 6221 through 6233 of the Code (including any Regulations promulgated thereunder), and in doing so shall incur no liability to any other Member.

9.13 Certain Allocations for Income Tax (But Not Book Capital Account) Purposes.

(a) In accordance with Section 704(c)(1)(A) of the Code and Section 1.704-1(b)(2)(i)(iv) of the Regulations, if a Member contributes property with an initial Gross Asset Value that differs from its adjusted basis at the time of contribution, income, gain, loss and deductions with respect to the property shall solely for federal income tax purposes (and not for Capital Account purposes), be allocated among the Equity Owners so as to take account of any variation between the adjusted

basis of such property to the Company and its Gross Asset Value at the time of contribution pursuant to the traditional method under Section 1.704-3(b) of the Regulations

(b) Pursuant to Section 704(c)(1)(B) of the Code, if any contributed property is Distributed by the Company other than to the contributing Equity Owner within seven (7) years of being contributed, then, except as provided in Section 704(c)(2) of the Code, the contributing Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain or loss from the sale of such property in an amount equal to the gain or loss that would have been allocated to such Equity Owner under Section 704(c)(1)(A) of the Code if the property had been sold at its fair market value at the time of the Distribution.

(c) In the case of any Distribution by the Company to an Equity Owner, such Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain in an amount equal to the lesser of:

(1) the excess (if any) of (A) the fair market value of the property (other than money) received in the Distribution over (B) the adjusted basis of such Equity Owner's Ownership Interest immediately before the Distribution reduced (but not below zero) by the amount of money received in the Distribution; or

(2) the Net Precontribution Gain (as defined in Section 737(b) of the Code) of the Equity Owner. The Net Precontribution Gain means the net gain (if any) which would have been recognized by the distributee Equity Owner under Section 704(c)(1)(B) of the Code if all property which (A) had been contributed to the Company within seven (7) years of the Distribution, and (B) is held by the Company immediately before the Distribution, had been Distributed by the Company to another Equity Owner. If any portion of the property Distributed consists of property which had been contributed by the distributee Equity Owner to the Company, then such property shall not be taken into account under this **Section 9.13(c)** and shall not be taken into account in determining the amount of the Net Precontribution Gain. If the property Distributed consists of an interest in an Entity, the preceding sentence shall not apply to the extent that the value of such interest is attributable to the property contributed to such Entity after such interest had been contributed to the Company.

(d) All recapture of income tax deductions resulting from sale or disposition of Company property shall be allocated to the Equity Owners to whom the deduction that gave rise to such recapture was allocated hereunder to the extent that such Equity Owner is allocated any gain from the sale or other disposition of such property.

ARTICLE 10.
TRANSFERABILITY

10.1 General.

(a) Except as otherwise specifically provided in **Section 10.2** or with the unanimous consent of the Members, no Equity Owner shall have the right to Transfer the Equity Owner's Ownership Interest.

(b) Each Equity Owner hereby acknowledges the reasonableness of the restrictions on sale and gift of Ownership Interests imposed by this Agreement in view of the Company purposes and the relationship of the Equity Owners. Accordingly, the restrictions on sale and gift contained herein shall be specifically enforceable.

(c) In the event that any Equity Owner pledges or otherwise encumbers any of its Ownership Interest as security for repayment of a liability, any such pledge or hypothecation shall be made pursuant to a pledge or hypothecation agreement that requires the pledgee or secured party to be bound by all the terms and conditions of this Article 10, and the pledging Equity Owner shall provide notice of such pledge or encumbrance to the Managers.

10.2 Right of First Refusal.

(a) A Selling Equity Owner which desires to Sell all or any portion of its Ownership Interest to a third party purchaser other than a Member shall obtain from such third party purchaser ("Third Party Purchaser") a *bona fide* written offer to purchase such interest, stating the terms and conditions upon which the purchase is to be made and the consideration offered therefor ("Third Party Offer"). The Selling Equity Owner shall give written notification ("Notice of Sale") to the Company and the other Equity Owners who are Members (the "Remaining Members"), by certified mail or personal delivery, of its intention to so transfer such Ownership Interest (the "Offered Interest"). The Notice of Sale shall be accompanied by a copy of the Third Party Offer. If any portion of the purchase price offered by such third party purchaser consists of consideration other than cash or a promissory note ("Non-cash Consideration"), then: (1) the Notice of Sale also shall be accompanied by a good faith estimate by the Selling Equity Owner of the fair market value of the Non-cash Consideration, and (2) for purposes of **Section 10.2(b)** and **10.2(c)** the purchase price of the Offered Interest (the "Purchase Price") shall be adjusted as follows:

(i) The Purchase Price shall be decreased by the Non-cash Consideration; and

(ii) The Purchase Price shall be increased by an amount equal to either (aa) the Selling Equity Owner's good faith estimate of the fair market value of the Non-cash Consideration ("Seller's Estimate") or (bb) in the discretion of the Managers, the appraised fair market value of the Non-cash Consideration determined by an independent appraiser selected by the Managers in their sole discretion. The Managers shall have the sole discretion to choose

between the amount determined pursuant to clauses (aa) and (bb) of this **subsection 10.2(a)(ii)**. If the appraised fair market value of the Non-cash Consideration is not determined within twenty (20) days after the Notice of Sale, then such fair market value shall be equal to the amount of the Seller's Estimate.

(b) The Remaining Members shall have the option ("Buy Option") to purchase all, but not less than all, of the Offered Interest, on a basis *pro rata* to the Sharing Ratios of the Remaining Members exercising such option pursuant to this **Section 10.2(b)**. The Buy Option may be exercised by one or more of the Remaining Members by giving written notification ("Buy Notice") to the Selling Equity Owner within thirty (30) days after receiving the Notice of Sale (the "Option Period"). Each Remaining Member who timely gives a Buy Notice ("Buying Member") shall purchase such portion of the Offered Interest which is equal to the relative Sharing Ratios of all of the Buying Members. If there are no Buying Members, the Buy Option shall terminate and at any time within ninety (90) days following the expiration of the Option Period, the Selling Equity Owner shall be entitled to consummate the sale of the Offered Interest to the Third Party Purchaser or one or more of its Affiliates upon terms no less favorable than are set forth in the Third Party Offer.

(c) If there is at least one Buying Member (i) the Buying Members shall designate the time, date and place of closing, provided that the date of closing shall be within thirty (30) days after the receipt of the Buy Notice, and (ii) at the closing, the Buying Members shall purchase, and the Selling Equity Owner shall sell, the Offered Interest for an amount equal to the Purchase Price (as modified in accordance with **Section 10.2(a)(i)** and **(ii)**) and in accordance with such other terms and conditions set forth in the Third Party Offer.

(d) A sale of an Offered Interest pursuant to this **Section 10.2**, shall be subject to **Sections 10.3** and **10.4**.

10.3 Transferee Not Member in Absence of Consent.

(a) Except as provided in this **Section 10.3(a)**, if the Managers do not approve by unanimous written consent of the proposed sale of the Transferring Equity Owner's Ownership Interest to a transferee which is not a Member immediately prior to the sale, then the proposed transferee shall have no right to participate in the management of the business and affairs of the Company or to become a Member. Such transferee shall be merely an Economic Interest Owner. No transfer of a Member's Membership Interest (including any transfer of the Economic Interest or any other transfer which has not been approved as provided herein) shall be effective unless and until written notice (including the name and address of the proposed transferee and the date of such transfer) has been provided to the Company and the non-transferring Members.

(b) Upon and contemporaneously with any Transfer of a Member's Ownership Interest, the Transferring Member shall cease to have any residual rights associated with the Ownership Interest transferred to the transferee.

10.4 Additional Conditions to Recognition of Transferee.

(a) If a Transferring Equity Owner Transfers an Ownership Interest to a Person who is not already a Member, as a condition to recognizing one or more of the effectiveness and binding nature of such sale or gift (subject to **Section 10.3** above), the Managers may require the Transferring Equity Owner and the proposed successor-in-interest to execute, acknowledge and deliver to the Managers such instruments of transfer, assignment and assumption and such other certificates, representations and documents, and to perform all such other acts which the Managers may deem necessary or desirable to accomplish any one or more of the following:

(1) constitute such successor-in-interest as an Equity Owner;

(2) confirm that the proposed successor-in-interest as an Economic Interest Owner, or to be admitted as a Member, has accepted, assumed and agreed to be subject and bound by all of the terms, obligations and conditions of this Agreement, as the same may have been further amended (whether such Person is to be admitted as a new Member or will merely be an Economic Interest Owner);

(3) preserve the Company after the completion of such sale, transfer, assignment, or substitution under the laws of each jurisdiction in which the Company is qualified, organized or does business;

(4) maintain the status of the Company as a partnership for federal tax purposes; and

(5) assure compliance with any applicable state and federal laws, including securities laws and regulations.

(b) Any sale or gift of an Ownership Interest and admission of a Member in compliance with this Article 10 shall be deemed effective as of the last day of the calendar month in which the Managers' consent thereto was given. The Transferring Equity Owner hereby indemnifies the Company and the remaining Members against any and all loss, damage, or expense (including, without limitation, tax liabilities or loss of tax benefits) arising directly or indirectly as a result of any transfer or purported transfer in violation of this Article 10.

ARTICLE 11.

ISSUANCE OF MEMBERSHIP INTERESTS

11.1 Issuance of Additional Membership Interests to New Members. From the date of the formation of the Company, any Person acceptable to the Members may become a Member in the Company by the issuance by the Company of Membership Interests on such terms and conditions and for such consideration as the Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement.

11.2 Issuance of Additional Membership Interests to Existing Members. From the date of the formation of the Company, the Company may issue additional Membership Interests to one or more existing Members for such consideration as the Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement.

11.3 Part Year Allocations With Respect to New Members. No new Members shall be entitled to any retroactive allocation of losses, income or expense deductions incurred by the Company. In accordance with the provisions of Section 706(d) of the Code and the Regulations promulgated thereunder, the Managers may, at his or their option, at the time a Member is admitted, close the Company books (as though the Company's Fiscal Year had ended) or make *pro rata* allocations of loss, income and expense deductions to a new Equity Owner for that portion of the Company's Fiscal Year in which an Equity Owner became an Equity Owner.

ARTICLE 12. DISSOLUTION AND TERMINATION

12.1 Dissolution.

(a) The Company shall be dissolved only upon the occurrence of any of the following events:

(1) by the declaration of either Member as provided in **Section 15.5;**

(2) by the unanimous written agreement of the Members;

(3) by an order of a court of competent jurisdiction in an action commenced by any Member in which the Member can show that:

(i) In an action by or on behalf of any Member qualified for exemption from federal income tax as an organization described in section 501(c)(3) of the Code, the Company is being operated in such a manner as to cause the Member to cease to be so qualified or to be subject to any tax or penalty under the Code.

(ii) The Managers or other Members in control of the Company have acted, are acting, or will act in a manner that is illegal, oppressive, or fraudulent;

(iii) There have been repeated, material breaches of the Agreement by the Company or by other Members or Managers; or

(iv) The assets of the Company are not being used for Company purposes or are being misapplied or wasted.

(4) upon the expiration of the term, if any, specified in Section 2.5 of this Agreement.

Notwithstanding anything to the contrary in the Act, the Company shall not be dissolved upon the death, retirement, resignation, expulsion, bankruptcy or dissolution of an Equity Owner.

(b) As soon as possible following the occurrence of any of the events specified in Section 12.1(a) effecting the dissolution of the Company, the appropriate representative of the Company shall execute all documents required by the Act at the time of dissolution and file or record such statements with the appropriate officials.

12.2 Effect of Dissolution. Upon dissolution, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until winding up and Distribution is completed.

12.3 Winding Up, Liquidation and Distribution of Assets.

(a) Upon dissolution, an accounting shall be made by the Company's Managers of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of dissolution. The Managers shall immediately proceed to wind up the affairs of the Company.

(b) If the Company is dissolved and its affairs are to be wound up, the Managers shall:

(1) Sell all of the Company's assets as promptly as practicable (except to the extent that the Managers may determine to Distribute in kind any assets to the Equity Owners);

(2) Allocate any Profit or Loss resulting from such Sale to the Equity Owners' Capital Accounts in accordance with Article 9 hereof;

(3) Discharge all liabilities of the Company, including liabilities to Equity Owners who are also creditors, to the extent otherwise permitted by law, other than liabilities to Equity Owners for Distributions and the return of capital, and establish such Reserves as may be reasonably necessary to provide for contingent liabilities of the Company (for purposes of determining the Capital Accounts of the Equity Owners, the amounts of such Reserves shall be deemed to be an expense of the Company);

(4) Apply some or all of the remaining assets in accordance with the Company Purposes as determined unanimously by the Members, and Distribute the balance of the remaining assets, if any, to the Equity Owners in accordance with their positive Capital Account balances;

(5) If any assets of the Company are to be distributed in kind, the net fair market value of such assets as of the date of dissolution shall be

determined by independent appraisal or by agreement of the Members. Such assets shall be deemed to have been sold as of the date of dissolution for their fair market value, and the Capital Accounts of the Equity Owners shall be adjusted pursuant to the provisions of Article 9 and Section 8.3 of this Agreement to reflect such deemed sale; and

(6) The positive balance (if any) of each Equity Owner's Capital Account (as determined after taking into account all Capital Account adjustments for the Company's Fiscal Year during which the liquidation occurs) shall be Distributed to the Equity Owners, either in cash or in kind, as determined by the Managers, with any assets Distributed in kind being valued for this purpose at their fair market value. Any such Distributions to the Equity Owners in respect of their Capital Accounts shall be made in accordance with the time requirements set forth in Section 1.704-1(b)(2)(ii)(b)(2) of the Regulations.

(c) Notwithstanding anything to the contrary in this Agreement, upon a liquidation within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations, if any Equity Owner has a Deficit Capital Account (after giving effect to all contributions, Distributions, allocations and other Capital Account adjustments for all Fiscal Years, including the year during which such liquidation occurs), such Equity Owner shall have no obligation to make any Capital Contribution, and the negative balance of such Member's Capital Account shall not be considered a debt owed by such Equity Owner to the Company or to any other Person for any purpose whatsoever.

(d) Upon completion of the winding up, liquidation and Distribution of the assets, the Company shall be deemed terminated.

(e) The Managers shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final Distribution of its assets.

12.4 Filing or Recording Statements. Upon the conclusion of winding up, the appropriate representative of the Company shall execute all documents required by the Act at the time of completion of winding up and file or record such statements with the appropriate officials.

12.5 Return of Contribution Nonrecourse to Other Equity Owners. Except as provided by law or as expressly provided in this Agreement, upon dissolution, each Equity Owner shall look solely to the assets of the Company for the return of its Capital Contribution. If the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash contribution of one or more Equity Owners, such Equity Owners shall have no recourse against any other Equity Owner.

ARTICLE 13.
MISCELLANEOUS PROVISIONS

13.1 Notices. Any notice, demand, or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served if sent by telecopy or facsimile transmission, delivered by messenger or overnight courier, or mailed, certified first class mail, postage prepaid, return receipt requested, and addressed or sent to the Equity Owner's and/or Company's address, as reflected in this Agreement or the Records of the Company. Such notice shall be effective, (a) if delivered by messenger or by overnight courier, upon actual receipt (or if the date of actual receipt is not a business day, upon the next business day); (b) if sent by telecopy or facsimile transmission, upon confirmation of receipt (or if the date of such confirmation of receipt is not a business day, upon the next business day); or (c) if mailed, upon the earlier of three (3) business days after deposit in the mail and the delivery as shown by return receipt therefor. Any Equity Owner or the Company may change its address by giving notice in writing to the Company and the other Equity Owners of its new address.

13.2 Books of Account and Records. Proper and complete records and books of account shall be kept or shall be caused to be kept by the Managers, in which shall be entered fully and accurately all transactions and other matters relating to the Company's business in such detail and completeness as is customary and usual for businesses of the type engaged in by the Company. Such books and records shall be maintained as provided in **Section 9.10**. The books and records shall at all times be maintained at the principal executive office of the Company and shall be open to the reasonable inspection and examination of the Equity Owners or their duly authorized representatives during reasonable business hours.

13.3 Application of State Law. This Agreement, and the application and interpretation hereof, shall be governed exclusively by its terms and by the laws of Montana, and specifically the Act.

13.4 Waiver of Action for Partition. Each Equity Owner irrevocably waives during the term of the Company any right that it may have to maintain any action for partition with respect to the Company Property.

13.5 Amendments. This Agreement may not be amended except by the unanimous written agreement of all of the Members.

13.6 Execution of Additional Instruments. Each Equity Owner hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

13.7 Construction. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

13.8 Effect of Inconsistencies with the Act. It is the express intention of the Equity Owners and the Company that this Agreement shall be the sole source of agreement among them, and, except to the extent that a provision of this Agreement expressly incorporates federal income tax rules by reference to sections of the Code or Regulations or is expressly prohibited or ineffective under the Act, this Agreement shall govern, even when inconsistent with, or different than, the provisions of the Act or any other law or rule. In the event that the Act is subsequently amended or interpreted in such a way to make valid any provision of this Agreement that was formerly invalid, such provision shall be considered to be valid from the effective date of such interpretation or amendment. The Members and the Company hereby agree that the duties and obligations imposed on the Members as such shall be those set forth in this Agreement, which is intended to govern the relationship among the Company and the Equity Owners, notwithstanding any provision of the Act or common law to the contrary.

13.9 Waivers. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

13.10 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

13.11 Attorneys' Fees. Should the Company or any party to this Agreement reasonably retain counsel for the purpose of enforcing or preventing breach of any provision of this Agreement, including but not limited to instituting any action or proceeding to enforce any provision of this Agreement, for damages by reason of any alleged breach of any provision of this Agreement, for a declaration of such party's rights or obligations under this Agreement or for any other judicial remedy, then, if the matter settled by judicial determination or arbitration, the prevailing party (whether at trial, on appeal, or arbitration) shall be entitled, in addition to such other relief as may be granted, to be reimbursed by the losing party for all costs and expenses incurred, including, but not limited to, reasonable attorneys' fees and costs for services rendered to the prevailing party.

13.12 Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law. Without limiting the generality of the foregoing sentence, to the extent that any provision of this Agreement is prohibited or ineffective under the Act or common law, this Agreement shall be considered amended to the smallest degree possible in order to make the Agreement effective under the Act or common law.

13.13 Heirs, Successors and Assigns. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

13.14 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company.

13.15 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

Rule Against Perpetuities. The parties hereto intend that the Rule Against Perpetuities (and any similar rule of law) not be applicable to any provisions of this Agreement. However, notwithstanding anything to the contrary in this Agreement, if any provision in this Agreement would be invalid or unenforceable because of the Rule Against Perpetuities or any similar rule of law but for this Section 13.16, the parties hereto hereby agree that any future interest which is created pursuant to said provision shall cease if it is not vested within twenty-one (21) years after the death of the survivor of the group composed of the Initial Managers and their issue who are living on the effective date of this Agreement.

13.16 Arbitration. Any dispute, deadlock, or controversy arising under this Agreement, if not resolved by mutual agreement of the parties hereto, shall be submitted to arbitration before a panel of three arbitrators in the city of Helena, Montana for settlement under the commercial arbitration rules of the American Arbitration Association as then in effect, and judgment upon the award may be entered in any court of competent jurisdiction, provided, however, that the panel of arbitrators shall be chosen as follows: each party shall select one arbitrator and the two arbitrators thus selected shall select a third arbitrator. If the two arbitrators selected by the parties to the controversy are unable to agree upon the third arbitrator within thirty (30) days after their selection, the third arbitrator shall be selected by the American Arbitration Association.

13.17 Representations and Warranties

(a) In General. As of the date hereof, each of the Equity Owners hereby makes each of the representations and warranties applicable to such Equity Owner as set forth in Section 13.18 hereof, and such warranties and representations shall survive the execution of this Agreement.

(b) Representations and Warranties. Each Member hereby represents and warrants that:

(1) Due Incorporation or Formation; Authorization of Agreement. Such Equity Owner is a corporation duly organized or a partnership or limited liability company duly formed, validly existing, and in good standing under the laws of the jurisdiction of its incorporation or formation and has the

corporate, partnership or limited liability company power and authority to own its property and carry on its business as owned and carried on at the date hereof and as contemplated hereby. Such Equity Owner is duly licensed or qualified to do business and in good standing in each of the jurisdictions in which the failure to be so licensed or qualified would have a material adverse effect on its financial condition or its ability to perform its obligations hereunder. Such Equity Owner has the corporate, partnership or limited liability company power and authority to execute and deliver this Agreement and to perform its obligations hereunder and the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate, partnership or limited liability company action. This Agreement constitutes the legal, valid, and binding obligation of such Equity Owner.

(2) No Conflict with Restrictions: No Default. Neither the execution, delivery, and performance of this Agreement nor the consummation by such Equity Owner of the transactions contemplated hereby (1) will conflict with, violate, or result in a breach of any of the terms, conditions, or provisions of any law, regulation, order, writ, injunction, decree, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator, applicable to such Equity Owner or any of its Affiliates, (2) will conflict with, violate, result in a breach of, or constitute a default under any of the terms, conditions, or provisions of the articles of incorporation, bylaws, partnership agreement, limited liability company agreement or operating agreement of such Equity Owner or any of its Affiliates or of any material agreement or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner, or any of its Affiliates is or may be bound or to which any of its material properties or assets is subject, (3) will conflict with, violate, result in a breach of, constitute a default under (whether with notice or lapse of time or both), accelerate or permit the acceleration of the performance required by, give to others any material interests or rights, or require any consent, authorization, or approval under any indenture, mortgage, lease agreement, or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner or any of its Affiliates is or may be bound, or (4) will result in the creation or imposition of any lien upon any of the material properties or assets of such Equity Owner or any of its Affiliates.

(3) Government Authorizations. Any registration, declaration, or filing with, or consent, approval, license, permit, or other authorization or order by, any government or regulatory authority, domestic or foreign, that is required in connection with the valid execution, delivery, acceptance, and performance by such Equity Owner under this Agreement or the consummation by such Equity Owner of any transaction contemplated hereby has been completed, made, or obtained on or before the effective date of this Agreement.

(4) Litigation. There are no actions, suits, proceedings, or investigations pending or, to the knowledge of such Equity Owner or any of its Affiliates, threatened against or affecting such Equity Owner or any of its Affiliates or any of their properties, assets, or businesses in any court or before or by any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could, if adversely determined (or, in the case of an investigation could lead to any action, suit, or proceeding, which if adversely determined could) reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to have a material adverse effect on the consolidated financial condition of such member; and such Equity Owner or any of its Affiliates has not received any currently effective notice of any default, and such Equity Owner or any of its Affiliates is not in default, under any applicable order, writ, injunction, decree, permit, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to have a material adverse effect on the consolidated financial condition of such Equity Owner.

13.18 Confidentiality. Except as contemplated hereby or required by a court of competent authority, each Equity Owner shall keep confidential and shall not disclose to others and shall use its reasonable efforts to prevent its Affiliates and any of its, or its Affiliates' present or former employees, agents, and representatives from disclosing to others without the prior written consent of the Managers any information which (1) pertains to this Agreement, any negotiations pertaining thereto, any of the transactions between the parties hereto contemplated hereby, or the business of the Company, (2) pertains to confidential or proprietary information of any Member or the Company or which any Equity Owner has labeled in writing as confidential or proprietary; provided that any Equity Owner may disclose to its Affiliates' employees, agents, and representatives any information made available to such Equity Owner; or (3) customer lists, supplier lists, contracts, agreements, marketing strategies, and other documents and information of any description developed in the course of the Company's business. No Equity Owner shall use, and each Equity Owner shall use its best efforts to prevent any Affiliate of such Equity Owner from using, any information which (1) pertains to this Agreement, any negotiations pertaining hereto, any of the transactions contemplated hereby, or the business of the Company, (2) pertains to the confidential or proprietary information of any Equity Owner or the Company or which any Equity Owner has labeled in writing as confidential or proprietary, or (3) other information described herein, except in connection with the transactions contemplated hereby. The parties hereto acknowledge CCED's important obligations to share appropriate information that can leverage conservation on other lands and the Company's right to preserve the viability of the Company by preventing the use of information developed by the Company by other entities in competition with the Company without the consent of the Members.

13.19 Advertisement and Communications Each Manager shall have the right to review and approve any communication, promotional materials, or advertisements or

similar materials prior to publication or use where such communication or materials are to include the name or description of a Member, any of its marks, any depiction of its lands or activities, or any of its employees, volunteers, or others acting on its behalf. Such approval shall not be unreasonably withheld and shall be based on the Manager's assessment of whether the proposed communication would, if published, diminish, tarnish, injure or damage a Member's reputation or good will. Nothing in this agreement shall be construed as an endorsement of the products of the Company by either Member without that Member's express consent.

CERTIFICATE

The undersigned hereby agree, acknowledge and certify that the foregoing Agreement, consisting of ____ pages, excluding the Table of Contents constitutes the Agreement of Conservation Beef, LLC adopted by the Equity Owners as of October 20, 1999.

Conservation Beef, LLC

By: _____
Brian Kahn, its: Manager

MEMBERS:

Artemis Wildlife Foundation,
a California corporation

By _____
its _____

The Nature Conservancy,
a District of Columbia corporation

By *[Handwritten Signature]*
its *Executive Director*

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FIRST AMENDED AND RESTATED

OPERATING AGREEMENT

OF

CONSERVATION BEEF, LLC

A MONTANA LIMITED LIABILITY COMPANY

EFFECTIVE AS OF JANUARY 1, 2003

THIS FIRST AMENDED AND RESTATE OPERTATING AGREEMENT is made effective as of January 1, 2003 and amends and restates the Operating Agreement of Conservation Beef, LLC (the "Initial Operating Agreement") made and entered into as of October 20, 1999, by and among the Company, ARTEMIS WILDLIFE FOUNDATION, a California non-profit charitable corporation ("Artemis"); THE NATURE CONSERVANCY, tax-exempt, non-profit charitable corporation, organized under the laws of the District of Columbia, formerly referred to in this Agreement as the CENTER FOR COMPATIBLE ECONOMIC DEVELOPMENT ("TNC" collectively with Artemis, the "Initial Members"). In consideration of the mutual covenants herein contained and for other good and valuable consideration, the Initial Members and each Person who subsequently becomes a Member (collectively, the "Members"); each Person who becomes an Equity Owner and the Company hereby agree as follows:

**ARTICLE 1.
DEFINITIONS**

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

1.1 Act. Act shall mean the Montana Limited Liability Company Act, as amended.

1.2 Adjusted Capital Contributions. Adjusted Capital Contributions shall mean an amount equal to such Equity Owner's Capital Contributions, if any, pursuant to **Section 8.1 and Section 8.2**, less any Distributions made to such Equity Owner pursuant to **9.4(c)**

1.3 Affiliate. Affiliate shall mean, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by, or under common control with such Person, (ii) any Person owning or controlling ten percent (10%) or more of the

outstanding voting interests of such Person, (iii) any officer, director, or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence. For purposes of this definition, the term “controls,” “is controlled by,” or “is under common control with” shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.4 Agreement. This Operating Agreement as originally executed (the “Initial Operating Agreement”) and as amended from time to time.

1.5 Annual Operating Plan. The plan adopted as provided in Section 5.13 as amended from time to time.

1.6 Articles of Organization. The Articles of Organization of the Company as filed with the Secretary of State as the same may be amended from time to time.

1.7 Board of Directors. The Board of Directors described in Section 5.3.

1.8 Capital Account. As of any given date the Capital Account of each Equity Owner as described in Article 8 and maintained to such date in accordance with this Agreement.

1.9 Capital Contribution. Any contribution to the capital of the Company in cash or property by an Equity Owner whenever made. “Initial Capital Contribution” shall mean the initial contribution to the capital of the Company pursuant to this Agreement.

1.10 Class A Member. The Initial Members and any Person admitted as a Class A Member.

1.11 Class B Member. Any Person admitted as a Class B Member.

1.12 Class A Equity Owner. Any Equity Owner the Economic Interest of whom is or was owned by a Class A Member.

1.13 Class B Equity Owner. Any Equity Owner the Economic Interest of whom is or was owned by a Class B Member.

1.14 Code. The Internal Revenue Code of 1986, as amended from time to time.

1.15 Company. Conservation Beef, LLC.

1.16 Company Purpose. The purpose for which the Company was organized as described in Article 3.

1.17 Company Property. All assets (real or personal, tangible or intangible, including cash) of the Company.

1.18 Deficit Capital Account. Deficit Capital Account shall mean with respect to any Equity Owner, the deficit balance, if any, in such Equity Owner's Capital Account as of the end of the Fiscal Year, after giving effect to the following adjustments:

(a) credit to such Capital Account the amount, if any, which such Equity Owner is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Regulations, after taking into account thereunder any changes during such year in partnership minimum gain as determined in accordance with Section 1.704-2(d) of the Regulations ("Company Minimum Gain") and in any partner nonrecourse debt minimum as determined under Section 1.704-2(i)(3) of the Regulations ("Member Minimum Gain"); and

(b) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Regulations.

This definition of Deficit Capital Account is intended to comply with the provisions of Regulations Sections 1.704-1(b)(2)(ii)(d) and 1.704-2, and shall be interpreted consistently with those provisions.

1.19 Depreciation. For each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Board of Directors.

1.20 Director. An individual designated by this Agreement or in accordance with Section 5.3. The terms "Artemis Director" and "TNC Director" shall have the meaning set forth in **Section 5.3** except that the initial Artemis Director shall be Brian Kahn and the initial TNC Directors shall be: W. William Weeks, Bruce Runnels, Jamie Williams, and Stephen C. Howell.

1.21 Distributable Cash. All cash, whether revenues or other funds received by the Company, less the sum of the following to the extent paid or set aside by the Company: (i) all amounts to be expended in fulfillment of the Company Purpose including amounts to be reserved for the Company Purpose as provided in the Annual Operating Plan, (ii) all principal and interest payments on indebtedness of the Company

and all other sums paid to lenders; (iii) all cash expenditures incurred incident to the normal operation of the Company's business; and (iv) Reserves.

1.22 Distribution. Any Transfer of Company Property from the Company to or for the benefit of an Equity Owner by reason of such Equity Owner's ownership of an Economic Interest.

1.23 Economic Interest. An Equity Owner's share of one or more of the Profits, Losses and Distributions pursuant to this Agreement and the Act, but shall not include any right to participate in the management or affairs of the Company, including, the right to vote on, consent to or otherwise participate in any decision of the Members, Managers or Board of Directors.

1.24 Economic Interest Owner. The owner of an Economic Interest who is not a Member.

1.25 Entity. Any general partnership (including a limited liability partnership), limited partnership (including a limited liability limited partnership), limited liability company, corporation, joint venture, trust, business trust, cooperative or association or any foreign trust or foreign business organization.

1.26 Equity Owner. An Economic Interest Owner or a Member. Equity Owner shall include Class A Equity Owners and Class B Equity Owners.

1.27 Fiscal Year. The taxable year of the Company as determined under the Code.

1.28 Grant of Interest. Those agreements by which a Class B Member is admitted to the Company.

1.29 Gross Asset Value. Gross Asset Value means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by an Equity Owner to the Company shall be the gross fair market value of such asset, as determined by the contributing Member and the Board of Directors;

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the Board of Directors as of the following times: (i) the acquisition of an additional interest by any new or existing Equity Owner in exchange for more than a *de minimis* contribution of property (including money); (ii) the Distribution by the Company to an Equity Owner of more than a *de minimis* amount of property as consideration for an Ownership Interest; and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (i) and (ii) above shall be made only if the Board of Directors reasonably determine that such adjustments are necessary or appropriate to reflect the relative economic interests of the Equity Owners in the Company;

(c) The Gross Asset Value of any Company asset Distributed to any Equity Owner shall be adjusted to equal the gross fair market value of such asset on the date of Distribution as reasonably determined by the distributee and the Board of Directors; and

(d) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-1(b)(2)(iv)(m) and **Section 8.3** and subparagraph (e) under the definition of Profits and Losses; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) of this definition to the extent that the Board of Directors reasonably determine that an adjustment pursuant to subparagraph (b) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (d) of this definition, then such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

1.30 Managers. Managers shall mean one or more managers. The "Artemis Manager" shall be a Manager appointed by Artemis as provided in this Agreement, and the "TNC Manager", both as provided in **Article 5**. The initial Artemis Manager shall be Brian Kahn and the initial TNC Manager shall be William Weeks.

1.31 Member. Each of the parties who executes a counterpart of this Agreement as a Member (an "Initial Member") and each Person who may hereafter become a Member. If a Person is a Member immediately prior to the purchase or other acquisition by such Person of an Economic Interest, such Person shall have all of the rights of a Member with respect to such purchased or otherwise acquired Ownership Interest, as the case may be.

1.32 Membership Interest. A Member's entire interest in the Company, including such Member's Economic Interest and such other rights and privileges that the Member may enjoy by being a Member.

1.33 Officer. Officer shall include the President and any other officer of the Company.

1.34 Ownership Interest. Ownership interest shall mean:

- (a) in the case of a Member, the Member's Membership Interest; and
- (b) in the case of an Economic Interest Owner, the Economic Interest Owner's Economic Interest.

1.35 Person. Any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such "Person" where the context so permits.

1.36 President. The Person appointed as president under Section 5.4.

1.37 Profits and Losses. Profits and Losses shall mean for each Fiscal Year of the Company an amount equal to the Company's net taxable income or loss for such year as determined for federal income tax purposes (including separately stated items) in accordance with the accounting method and rules used by the Company and in accordance with Section 703 of the Code with the following adjustments:

(a) Any items of income, gain, loss and deduction allocated to Equity Owners pursuant to **Sections 9.2, 9.3 or 9.13** shall not be taken into account in computing Profits or Losses;

(b) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be added to such taxable income or loss;

(c) Any expenditure of the Company described in Section 705(a)(2)(B) of the Code and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be subtracted from such taxable income or loss;

(d) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraphs (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits and Losses;

(e) Gain or loss resulting from any disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed with reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(f) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year; and

(g) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or Section 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations to be taken into account in determining Capital Accounts as a result of a Distribution other than in liquidation of an Ownership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits or Losses.

1.38 Regulations. Regulations shall include proposed, temporary and final regulations promulgated under the Code in effect as of the date of filing the Articles of Organization and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

1.39 Reorganization. The merger or conversion of the Company, or a sale or other disposition of assets of the Company, or sale or other disposition of Ownership Interests, or other transaction pursuant to which a Person or Persons acquire all or substantially all of the assets of, or Ownership Interests in, the Company in a single or series of related transactions, including without limitation, a merger or conversion of the Company into a corporation or other entity, whether or not such corporation or other entity has the same owners as the Partnership and whether or not additional capital is contributed to such corporation or other entity; provided, however, that a Reorganization shall not include the merger or conversion of the Company into a general partnership which is not a limited liability partnership.

1.40 Reserves. With respect to any fiscal period, funds set aside or amounts allocated during such period to reserves which shall be maintained in amounts reasonably deemed sufficient by the Board of Directors for working capital and for payment of taxes, insurance, debt service or other costs or expenses incident to the Company Purpose, including, but not limited to, the designation of Reserves for the purchase of conservation agreements.

1.41 Sale or Sell. A sale, assignment, exchange, or other transfer for consideration equal to full fair market value.

1.42 Secretary of State. The Secretary of State of Montana.

1.43 Selling Equity Owner. Any Equity Owner which Sells all or any portion of its Ownership Interest.

1.44 Sharing Ratio. The percentages in which the Class A Equity Owners share those items making specific references to "Sharing Ratios" in this Agreement. Sharing Ratio shall mean:

	<u>Class A Member</u>	<u>Sharing Ratio</u>
Artemis		50%
TNC		50%

Upon the Transfer of all or any portion of an Ownership Interest, unless otherwise agreed by the Transferring Equity Owner and the Transferee, the Sharing Ratio of the Transferring Equity Owner shall be divided between the Transferring Equity Owner and the Transferee in proportion to the percentage of the Transferring Equity Owner's Capital Account balance being Transferred.

1.45 Transfer. Any Sale or any other assignment, gift, exchange, or other transfer regardless of whether gratuitous or for consideration, pledge, hypothecation, or grant of a security interest.

1.46 Transferring Equity Owner. An Equity Owner who Transfers or proposes to Transfer all or any Part of the Equity Owner's Ownership Interest.

ARTICLE 2. FORMATION OF COMPANY

2.1 Formation. On October 20, 1999, Brian Kahn organized a limited liability company pursuant to the Act by executing and delivering articles of organization to the Secretary of State in accordance with and pursuant to the Act. The Company and the Members hereby forever discharge the organizer, and the organizer shall be indemnified by the Company and the Member from and against, any expense or liability actually incurred by the organizer by reason of having been the organizer of the Company.

2.2 Name. The name of the Company is Conservation Beef, LLC.

2.3 Principal Place of Business. The principal place of business of the Company shall be as set forth in the Articles. The Company may locate its places of business and registered office at any other place or places as the Board of Directors may from time to time deem advisable.

2.4 Registered Office and Registered Agent. The Company's initial registered office and the name of the registered agent at such address shall be as set forth in the Articles. The registered office and registered agent may be changed from time to time by filing the address of the new registered office and/or the name of the new registered agent with the Secretary of State pursuant to the Act.

2.5 Term. The Company shall continue in existence until terminated in accordance with the provisions of this Agreement or the Act.

ARTICLE 3. PURPOSE OF COMPANY

The purpose of the Company (the "Company Purpose") shall be to operate in a manner that furthers the exempt purposes of the Class A Members, to-wit: in the case of Artemis, to conserve biologically significant lands in the western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of TNC, to be operated, exclusively for educational, scientific and charitable purposes as may qualify it for tax exempt status under Section 501(c)(3) of the Code, more specifically, to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Company shall endeavor to attain the Company Purpose by creating a niche market for beef that will return a premium price to ranchers who commit to long-term land conservation strategies such as ecologically sound land stewardship practices, land-use planning, and conservation easements, but in no

circumstances may the Company take any action that is not in furtherance of the exempt purposes of the Class A Members. The Company may exercise all other powers necessary to or reasonably connected with the Company Purpose that may be legally exercised by limited liability companies under the Act and may engage in all activities necessary, customary, convenient, or incident to the Company Purpose. The Company Business shall include the establishment and maintenance of Reserves for the purpose of purchasing development rights or fee title in appropriate lands, or implementing other effective conservation measures, and the use of the Reserves for such purchases.

**ARTICLE 4.
NAMES AND ADDRESSES OF EQUITY OWNERS**

The names and addresses of the Initial Members are as follows:

<u>NAME</u>	<u>ADDRESS</u>
ARTEMIS WILDLIFE FOUNDATION	25 South Ewing Street, Suite 415 Helena, MT 59101
THE NATURE CONSERVANCY	4245 North Fairfax Drive, Arlington, VA 22203

The names and addresses of other Equity Owners shall be maintained as provided under **Section 13.1**.

**ARTICLE 5.
RIGHTS AND DUTIES OF MANAGERS, OFFICERS AND THE BOARD OF
DIRECTORS**

5.1 Management. The business and affairs of the Company shall be managed by the Board of Directors as provided in this Article 5. Unless authorized to do so by this Agreement or by the Board of Directors, no attorney-in-fact, employee or other agent of the Company shall have any power or authority to bind the Company in any way, to pledge its credit or to render it liable pecuniarily for any purpose.

5.2 Number, Tenure and Qualifications. The Company shall initially have two (2) Managers. The number of Managers shall be fixed from time to time by the unanimous consent of the Class A Members, but in no instance shall there be less than one Manager. Each Manager shall hold office until such Manager resigns pursuant to **Section 5.9** or is removed pursuant to **Section 5.10**. One Manager (the "Artemis Manager") shall be appointed by Artemis subject to the approval of TNC and the other Manager (the "TNC Manager") shall be appointed by TNC subject to the approval of Artemis. The approvals of the non-appointing Class A Member under this **Section 5.2** shall not be unreasonably withheld. The initial Artemis Manager shall be Brian Kahn and the initial TNC Manager shall be William Weeks.

5.3 Board of Directors. The Board of Directors shall consist of from two to eight individuals who shall be appointed and replaced as follows: Each of the Artemis

Manager and the TNC Manager shall be entitled to appoint, replace and remove from one to four directors. The directors appointed by the Artemis Manager shall be referred to in this Agreement as the "Artemis Directors" and the Directors appointed by the TNC Director shall be referred to in this Agreement as the "TNC Directors." Approval of any action to be approved by the Directors shall require the approval of a majority of the Artemis Directors and a majority of the TNC Directors. The Board of Directors may, but need not, act at a meeting of the Board of Directors. The Board of Directors shall have two Co-Chairpersons: the TNC Manager and the Artemis Manager. Either Co-Chairperson may call a meeting of the Board of Directors. The agenda for Board meetings shall be developed by the Co-Chairpersons. A quorum shall be required to conduct Board business and will consist of a majority of the TNC Directors and a majority of the Artemis Directors. Any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if Directors sufficient to adopt such action at a meeting give written consent to such action in writing. Notwithstanding any other provision of this **Section 5.3**, in the event that an action of the Board of Directors is required with respect to matter on an urgent or emergency basis, but a quorum cannot be obtained despite every reasonable effort being made to obtain one, the action otherwise requiring the approval of the Board of Directors may be approved by the unanimous consent of the Managers. The Board of Directors may establish an Advisory Committee to the Company. The Advisory Committee shall have no legal authority, responsibility or liability with respect to the Company. The Advisory Committee shall meet at such times and consider such matters as the Board specifies.

5.4 President and other Officers. The Board of Directors may appoint a President and provide for the compensation of a President and other officers (which other officers shall have the powers, duties and authority assigned them by the Board of Directors from time to time). The President shall have power and authority, on behalf of the Company to take the following actions to the extent the same are consistent with the Annual Operating Plan and budget approved by the Board of Directors:

(a) To acquire property (including livestock at approved prices and in approved numbers) from any Person as the President may determine. The fact that the President or an Equity Owner is directly or indirectly affiliated or connected with any such Person shall not prohibit the President from dealing with that Person provided that such fact shall be disclosed to all of the Board of Directors;

(b) To purchase liability and other insurance to protect the Company's property and business;

(c) To hold and own any Company real and/or personal properties in the name of the Company;

(d) To invest any Company funds (by way of example but not limitation) in time deposits, short-term governmental obligations, or other investments consistent with the approved budget;

(e) To execute on behalf of the Company all instruments and documents, including, without limitation, checks, drafts, notes and other negotiable instruments; assignments; bills of sale; leases; and any other instruments or documents necessary, in the reasonable opinion of the Artemis Manager to the extent necessary to conduct the routine, day to day business of the Company, to the conduct of the business of the Company;

(f) To employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;

(g) To execute and file such other instruments, documents and certificates which may from time to time be required by the laws of Montana or any other jurisdiction in which the Company shall determine to do business, or any political subdivision or agency thereof, to effectuate, implement, continue and defend the valid existence of the Company;

(h) To open bank accounts the checks on which shall require the signature of both Managers, unless the Managers determine otherwise and to provide all Class A Members with regular, full, complete and current information on all such accounts;

(i) To appoint and hire agents and employees of the Company to the extent provided in the Annual Operating Plan;

(j) To do and perform all other acts as may be necessary or appropriate to the conduct of the Company's business;

(k) To determine which landscapes and/or watersheds meet the Company's ecological criteria for participation in the Company's programs;

(l) To take any action described in **Section 5.4** provided the amount expended or incurred does not exceed the Annual Operating Plan by more than 5 %.

5.5 Certain Powers of the Board of Directors. Notwithstanding **Section 5.4**, but subject to the limitations of **Section 5.6**, the Board of Directors shall have power and authority, on behalf of the Company to take the following actions:

(a) To determine the expenditure of Reserves for the purchase of development rights or fee title in appropriate lands, or implementing other effective conservation measures;

(b) To consent to the Transfer of an Interest as provided in **Section 10.2**;

(c) To approve additional contributions as provided in **Section 8.2**; and

(d) To take any other action delegated to the Board of Directors by this Agreement.

5.6 Limitations on Authority. Notwithstanding any other provision of this Agreement, the Board of Directors shall not cause or commit the Company to do any of the following without the unanimous consent of the Class A Members:

(a) Establish Conservation Standards to be used in conservation agreements;

(b) Agree on an Annual Operating Plan as provided in **Section 5.15**;

(c) Amend the Agreement as provided in **Section 13.5**;

(d) Consent to the Dissolution of the Company as provided in **Section 12.1**;

(e) Cause the Issuance of an Additional Membership Interest as provided in **Section 11.1**;

(f) Sell or otherwise dispose all or substantially all of the Company Property or any Company Property than in the ordinary course of business;

(g) Mortgage, pledge, or grant a security interest (collectively, "pledge") in any Company Property to the extent that the secured indebtedness from such pledge would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(h) Incur or refinance any indebtedness for money borrowed by the Company, whether secured or unsecured and including any indebtedness for money borrowed from a Member if, after such financing, the aggregate indebtedness of the Company would exceed would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(i) Incur any liability or make any single expenditure or series of related expenditures in an amount exceeding would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(j) Construct any capital improvements, repairs, alterations or changes involving an amount that would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(k) Compromise or settle any claim against or inuring to the benefit of the Company involving an amount in controversy in excess of \$500;

(l) Cause the Company to commence a voluntary case as debtor under the United States Bankruptcy Code; and

(m) Take any other action not otherwise delegated to the President or Board of Directors by this Agreement.

5.7 Liability for Certain Acts.

(a) Neither the Managers nor the Board of Directors, in any way, guarantee the return of the Equity Owners' Capital Contributions or a profit for the Equity Owners from the operations of the Company.

(b) Neither the Managers nor the Board of Directors shall be liable to the Company or to any Member for any loss or damage sustained by the Company or any Member (or successor thereto), except to the extent, if any, that the loss or damage shall have been the result of gross negligence, fraud, deceit, willful misconduct, or breach of this Agreement.

5.8 Directors', Officers', Managers' and Equity Owners' Duties to Company.

(a) The Directors, Officers, Managers and Equity Owners shall have no exclusive duty to act on behalf of the Company. Each Director, Officer, Manager and Equity Owner may have other business interests and may engage in other activities in addition to those relating to the Company. Neither the Company nor any Director, Officer, or Manager shall have any right, by virtue of this Agreement, to share or participate in any other investments or activities of any other Director, Officer, Manager or Member. Neither any Director, Officer, Manager nor any Equity Owner shall incur any liability to the Company or to any of the Equity Owners as a result of engaging in any other business or venture, except that no Equity Owner, Director, Officer, or Manager may engage in competition with the Company or disseminate any information of the Company in violation of this Agreement or any other agreement with the Company to which such person is subject.

(b) Notwithstanding any other provision of this Agreement, no Equity Owner, Director, Officer or Manager shall take any action the effect of which will cause any Member qualified for exemption from federal income tax as an organization described in Section 501(c)(3) of the Code to cease to be so qualified or to be subject to any tax or penalty under the Code.

(c) The Equity Owners agree to make a good faith effort to seek contributions from donors of sufficient funds to the operation of the Company.

5.9 Bank Accounts. The Managers may from time to time open bank accounts in the name of the Company the checks on which shall require the signature of both Managers, unless the Managers determine otherwise. All Class A Members shall receive regular, full, complete and current information on all such accounts.

5.10 Indemnity of the Managers, Employees and Other Agents.

(a) The Company shall indemnify each Manager and make advances for expenses to the maximum extent permitted under the Act, except to the extent the

claim for which indemnification is sought results from an act or omission for which the Manager may be held liable to the Company or a Member under **Section 5.5(b)**. The Company shall indemnify its employees and other agents who are not Managers to the fullest extent permitted by law.

(b) Expenses (including legal fees and expenses) incurred by a Manager in defending any claim, demand, action, suit or proceeding subject to subsection (a) above shall be paid by the Company in advance of the final disposition of such claim, demand, action, suit or proceeding upon receipt of an undertaking (which need not be secured) by or on behalf of the Manager to repay such amount if it shall ultimately be finally determined by a court of competent jurisdiction and not subject to appeal, that the Manager is not entitled to be indemnified by the Company as authorized hereunder.

5.11 Resignation. Any Director, Officer, or Manager may resign at any time by giving written notice to the Class A Members. The resignation of any Director, Officer or Manager shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. The resignation of a Manager who is also an Equity Owner shall not affect the Manager's rights as an Equity Owner.

5.12 Removal. At a meeting called expressly for that purpose, all or any lesser number of Managers may be removed at any time the Class A Member appointing the Manager. The removal of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of a Member. In the event the number of Managers is increased and a Manager is appointed by the unanimous consent of the Class A Members, such Manager may be removed by the unanimous consent of the Class A Members.

5.13 Vacancies. Any vacancy occurring for any reason in the number of Managers shall be filled by Class A Member who initially appointed the Manager subject to the approval of the other Class A Member as provided in **Section 5.02**. Any Manager's position to be filled by reason of an increase in the number of Managers shall be filled by the unanimous consent of the Class A Members.

5.14 Compensation, Reimbursement, Organization Expenses.

(a) Persons serving on the Board of Directors shall not be entitled to compensation from the Company for serving as such. Persons who are Managers or Directors may be compensated for providing consulting services to the Company at a reasonable fee. An hourly fee not to exceed one hundred dollars per hour (or such higher hourly fee as may be approved by the President) shall be deemed reasonable. Any fees paid to a Person under this **Section 5.14(a)** shall be promptly disclosed by the President to the Board of Directors.

(b) The Board of Directors shall cause the Company to make an appropriate election to treat the expenses incurred by the Company in connection with the formation and organization of the Company to be amortized under the 60-month period beginning with the month in which the Company begins business to the extent that such expenses constitute "organizational expenses" of the Company within the meaning of Code Section 709(b)(2).

5.15 Annual Operating Plan. The President shall prepare for the approval of the Board of Directors each Fiscal Year (no later than thirty (30) days prior to the end of the then current Fiscal Year) a business plan ("Annual Operating Plan") for the next Fiscal Year, setting forth at a minimum the estimated receipts (including capital calls) and expenditures (capital, operating and other) of the Company in sufficient detail to provide an estimate of cash flow, capital proceeds, markets, marketing, business strategy, employment and employees planned, and other financial requirements of the Company for such year. The Annual Operating Plan shall also set forth amounts to be designated for Reserves for the purchase of conservation agreements. Any such Annual Operating Plan shall also include such other information or other matters necessary in order to inform the Board of Directors of the Company's business and to enable the Board of Directors to make an informed decision with respect to their approval of such Annual Operating Plan. The Board of Directors shall review the proposed Operating Plan and shall offer any revisions thereto within 30 days. After the final Operating Plan has been approved by the Board of Directors, the President shall implement the Annual Operating Plan and shall be authorized to make only the expenditures and incur only the obligations provided for therein (subject to **Section 5.6**). Notwithstanding the foregoing, the President may make any expenditure or incur any obligation, whether or not such expenditure or obligation is provided for in an Annual Operating Plan, which is the legal obligation of the Company and not within the reasonable control of the President (e.g., real or personal property taxes). If the Board of Directors are not able to agree on an Annual Operating Plan for any year, either a majority of the Artemis Directors or a majority of the TNC Directors may declare a "Deadlock" in which case the business of the Company shall continue with each line item in the Annual Operating Plan for the prior year shall be increased by the percentage increase in the CPI Index from the first day for which the previous Annual Operating Plan was in effect to the first day for which the new Annual Operating Plan is to be in effect, with each Board of Directors submitting any disputes with respect to the revision of the Annual Operating Plan to mediation with a mutually agreeable third party. The Board of Directors shall seek in good faith to designate a mutually agreeable third party. In the event the Board of Directors cannot agree upon a third party, the Board of Directors shall seek to appoint a third party under the rules of the American Arbitration Association. In the event the Board of Directors are unable to reach a resolution of the dispute within 120 days after the designation of a mediator, either Class A Member may cause the Company to dissolve pursuant to **§12.01(a)(1)**. As used herein, "CPI Index" shall mean the Consumer Price Index for All Items All Urban Consumers (DPI-U) (1982-84 = 100) for the United States, as published by the United States Department of Labor's Bureau of Labor Statistics (the "Bureau"). Should the Bureau discontinue the publication of the above index, or publish the index less frequently, or alter the index in some other manner, then the Board of Directors shall, from time to time, adopt a substitute index or

substitute procedure which reasonably reflects and monitors consumer prices, and the resulting plan shall be the Annual Operating Plan for the current year.

5.16 Right to Rely on the Managers and President.

(a) Any Person dealing with the Company may rely (without duty of further inquiry) upon a certificate signed by any Manager or the President as to:

(i) The identity of any Manager or Equity Owner;

(ii) The existence or nonexistence of any fact or facts which constitute a condition precedent to acts on behalf of the Company by any Manager or which are in any other manner germane to the affairs of the Company;

(iii) The Persons who are authorized to execute and deliver any instrument or document of the Company; or

(b) Any act or failure to act by the Company or any other matter whatsoever involving the Company or any Equity Owner.

**ARTICLE 6.
RIGHTS AND OBLIGATIONS OF EQUITY OWNERS**

6.1 Limitation of Liability. Except as otherwise provided by the non-waivable provisions of the Act and by this Agreement, no Equity Owner shall be liable for an obligation of the Company solely by reason of being or acting as an Equity Owner.

6.2 List of Equity Owners. Upon written request of any Class A Member made in good faith and for a purpose reasonably related to the Class A Member's rights as Member under this Agreement (which reason shall be set forth in the written request), the Manager shall provide a list showing the names, addresses and Ownership Interests of all Equity Owners. Economic Interest Owners shall have no rights to information under this **Section 6.2.**

6.3 Equity Owners Have No Agency Authority. Except as expressly provided in this Agreement, the Equity Owners (in their capacity as Equity Owners) shall have no agency authority on behalf of the Company.

6.4 Company Books. In accordance with **Section 9.10** herein, the Managers shall maintain and preserve, during the term of the Company, and for five (5) years thereafter, all accounts, books, and other relevant Company documents. Upon reasonable request, each Class A Member shall have the right, during ordinary business hours, to inspect and copy such Company documents at the requesting Class A Member's expense. Class B Members agree that their right to inspect the books and records of the Company shall be limited to the maximum extent permitted under the Act and that they shall hold any information obtained through review of the books in

confidence and trust and shall not use the same except with respect to the exercise of their rights as Class B Members.

6.5 Priority and Return of Capital. Except as may be expressly provided in Article 9, no Equity Owner shall have priority over any other Equity Owner, either as to the return of Capital Contributions or as to Profits, Losses or Distributions; provided, however, that this **Section 6.5** shall not apply to loans (as distinguished from Capital Contributions) which an Equity Owner has made to the Company.

**ARTICLE 7.
ACTIONS OF MANAGERS AND MEMBERS**

Unless otherwise required in this Agreement, actions and consents of the Managers and Members may be communicated or reflected orally, electronically or in writing, and no action need be taken at a formal meeting. Managers or Members may, but are not required to, meet from time to time on such notice, if any, as the Manager or Member convening the meeting chooses to give. Any consent required to be in writing may be evidenced by separate written counterparts. Any action of the Members shall be effective when a sufficient number of Members to take such action communicate their consent to the action to the Managers.

**ARTICLE 8.
CONTRIBUTIONS TO THE COMPANY AND CAPITAL ACCOUNTS**

8.1 Members' Capital Contributions. On or before January 1, 2003, the Class A Members have made the following contributions:

<u>Member</u>	<u>Cash Contribution</u>
Artemis	\$499,021
TNC	\$1,150,864

8.2 Additional Contributions. No Equity Owner shall be required to make any Capital Contributions. To the extent unanimously approved by the Managers, from time to time, the Equity Owners may be permitted to make additional Capital Contributions if and to the extent they so desire, and if the Managers determine that such additional Capital Contributions are necessary or appropriate in connection with the conduct of the Company's business (including without limitation, expansion or diversification). In such event, the Equity Owners shall have the opportunity (but not the obligation) to participate in such additional Capital Contributions proportionate to their Sharing Ratios.

8.3 Capital Accounts.

(a) A separate Capital Account shall be maintained for each Equity Owner. Each Equity Owner's Capital Account shall be increased by (1) the amount of money contributed by such Equity Owner to the Company; (2) the fair market value of

property contributed by such Equity Owner to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code); (3) allocations to such Equity Owner of Profits; and (4) any items in the nature of income and gain which are specially allocated to the Equity Owner pursuant to **Sections 9.2 and 9.3**. Each Equity Owner's Capital Account shall be decreased by (1) the amount of money Distributed to such Equity Owner by the Company; (2) the fair market value of property Distributed to such Equity Owner by the Company (net of liabilities secured by such Distributed property that such Equity Owner is considered to assume or take subject to under Section 752 of the Code); (3) any items in the nature of deduction and loss that are specially allocated to the Equity Owner pursuant to **Sections 9.2 and 9.3**; and (4) allocations to such Equity Owner of Losses.

(b) Without limiting the other rights and duties of a transferee of an Ownership Interest pursuant to this Operating Agreement, in the event of a permitted sale or exchange of an Ownership Interest in the Company, (1) the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Ownership Interest in accordance with Section 1.704-1(b)(2)(iv) of the Regulations; and (2) the transferee shall be treated as the transferor for purposes of allocations and distributions pursuant to Article 9 to the extent that such allocations and distributions relate to the transferred Ownership Interest.

(c) The manner in which Capital Accounts are to be maintained pursuant to this **Section 8.3** is intended to comply with the requirements of Section 704(b) of the Code and the Regulations promulgated thereunder. If in the opinion of the Company's accountants the manner in which Capital Accounts are to be maintained pursuant to the preceding provisions of this **Section 8.3** should be modified in order to comply with Section 704(b) of the Code and the Regulations thereunder, then, notwithstanding anything to the contrary contained in the preceding provisions of this **Section 8.3**, the method in which Capital Accounts are maintained shall be so modified; provided, however, that any change in the manner of maintaining Capital Accounts shall not materially alter the economic agreement between or among the Equity Owners.

(d) Upon liquidation of the Company, liquidating Distributions shall be made in accordance with the positive Capital Account balances of the Equity Owners, as determined after taking into account all Capital Account adjustments for the Company's taxable year during which the liquidation occurs. Liquidation proceeds shall be paid in accordance with **Section 12.3**. The Company may offset damages for breach of this Agreement by any Equity Owner whose interest is liquidated (either upon the withdrawal of the Equity Owner or the liquidation of the Company) against the amount otherwise Distributable to such Equity Owner. No Equity Owner shall have any obligation to restore all or any portion of a deficit balance in such Equity Owner's Capital Account.

8.4 Withdrawal or Reduction of Equity Owners' Contributions to Capital.

- (a) An Equity Owner may withdraw at any time.
- (b) Upon the withdrawal of any Equity Owner, the Company shall:

(1) If agreed by the Company and the withdrawing Equity Owner, retain any amount to which the Equity Owner would have been entitled on liquidation of the Company, provided, that if the withdrawing Equity Owner is exempt from taxation under Section 501(c)(3) of the Code, the Company shall use such amounts exclusively for charitable, scientific, or educational purposes for which the Equity Owner is organized, and no part of the amount retained or the net earnings on such amount shall be allowed to inure to the benefit of any individual or entity other than another entity that is exempt from taxation under Section 501(c)(3) of the Code for use in such entity's exempt purposes.

(2) Distribute an amount equal to the amount that the Equity Owner would have received on liquidation of the Company as of the date of withdrawal (less any amount retained pursuant to **Section 8.4(b)(1)**) to the Equity Owner. Unless otherwise agreed between the Company and the withdrawing Equity Owner, any amount to be distributed pursuant to this **Section 8.4(b)(2)** shall be paid over a 30 months period to the withdrawing equity holder in five equal payments of an amount sufficient to amortize the amount plus interest on the outstanding balance on such amount as the Federal mid-term rate as established under Section 1274(d) of the Code as of the date of the withdrawal, provided, however, that no Equity Owner shall receive a Distribution to the extent such Distribution would violate **Section 9.5**.

(c) An Equity Owner, irrespective of the nature of its Capital Contribution, does not have the right to demand and receive property other than cash in return for its Capital Contribution.

**ARTICLE 9.
ALLOCATIONS, INCOME TAX,
DISTRIBUTIONS, ELECTIONS AND REPORTS**

9.1 Allocations of Profits and Losses. Except as provided in **Sections 9.2** and **9.3**, the Profits and Losses for each Fiscal Year shall be allocated among the Equity Owners as follows:

- (a) Profits shall be allocated among the Equity Owners as follows:

(1) First, to the Class A Equity Owners in proportion to, and to the extent of any Losses allocated to the Equity Owners pursuant to **Section 9.1(b)** or the corresponding provision in the Initial Operating Agreement;

(2) Second, to the Class B Equity Owners to the extent provided in their respective Grants of Interest in the Company;

(3) Third, to the Class A Equity Owners in accordance with their respective Sharing Ratios.

(b) Losses shall be allocated among the Equity Owners as follows:

(1) First, to Equity Owners in proportion to, and to the extent of, any Profits allocated to the Equity Owners pursuant to **Section 9.1(a)**;

(2) Second, to Equity Owners in to the extent of, and in proportion to, their respective positive capital accounts;

(3) Third, to Class A Equity Owners in accordance with their respective Sharing Ratios.

9.2 Special Allocations to Capital Accounts. Notwithstanding **Section 9.1** hereof:

(a) In the event that any Equity Owner unexpectedly receives any adjustments, allocations or Distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6) of the Regulations, which create or increase a Deficit Capital Account of such Equity Owner, then items of Company income and gain (consisting of a *pro rata* portion of each item of Company income, including gross income, and gain for such year and, if necessary, for subsequent years) shall be specially allocated to such Equity Owner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Deficit Capital Account so created as quickly as possible. It is the intent that this **Section 9.2(a)** be interpreted to comply with the alternate test for economic effect set forth in Section 1.704-1(b)(2)(ii)(d) of the Regulations.

(b) The Losses allocated pursuant to **Section 9.1** hereof shall not exceed the maximum amount of Losses that can be so allocated without causing any Equity Owner to have a Deficit Capital Account at the end of any Fiscal Year. In the event that some, but not all, of the Equity Owners would have Deficit Capital Accounts as a consequence of an allocation of Losses pursuant to **Section 9.1** hereof, the limitation set forth in the preceding sentence shall be applied on Equity Owner by Equity Owner basis so as to allocate the maximum permissible Losses to each Equity Owner under Section 1.704-1(b)(2)(ii)(d) of the Regulations. All Losses in excess of the limitation set forth in this **Section 9.2(b)** shall be allocated to the Equity Owners in proportion to their respective positive Capital Account balances, if any, and thereafter to the Equity Owners in accordance with their interests in the Company as determined by the Board of Directors in their reasonable discretion. In the event that any Equity Owner would have a Deficit Capital Account at the end of any Fiscal Year which is in excess of the sum of any amount, if any, that such Equity Owner is obligated to restore to the Company under Section 1.704-1(b)(2)(ii)(c) of the Regulations and such Equity Owner's share of Company Minimum Gain as defined in Section 1.704-2(g)(1) of the Regulations (which is also treated as an obligation to restore in accordance with Section 1.704-1(b)(2)(ii)(d) of the Regulations), the Capital Account of such Equity

Owner shall be specially credited with items of Company income (including gross income) and gain in the amount of such excess as quickly as possible.

(c) Notwithstanding any other provision of this **Section 9.2**, if there is a net decrease in the Company Minimum Gain as during a Fiscal Year, then the Capital Accounts of each Equity Owner shall be allocated items of income (including gross income) and gain for such Fiscal Year (and if necessary for subsequent Fiscal Years) equal to that Equity Owner's share of the net decrease in Company Minimum Gain. This **Section 9.2(c)** is intended to comply with the minimum gain chargeback requirement of Section 1.704-2 of the Regulations and shall be interpreted consistently therewith. If in any Fiscal Year that the Company has a net decrease in the Company Minimum Gain, if the minimum gain chargeback requirement would cause a distortion in the economic arrangement among the Equity Owners and it is not expected that the Company will have sufficient other income to correct that distortion, the Board of Directors may in their discretion (and shall, if requested to do so by an Equity Owner) seek to have the Internal Revenue Service waive the minimum gain chargeback requirement in accordance with Section 1.704-2(f)(4) of the Regulations.

(d) Notwithstanding any other provision of this **Section 9.2** except **Section 9.2(c)**, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Company Fiscal Year, each Member who has a share of the Member Minimum Gain as of the beginning of the Fiscal Year shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) equal to such Equity Owner's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt. An Equity Owner's share of the net decrease in Member Minimum Gain shall be determined in accordance with Section 1.704-2(i)(4) of the Regulations; provided, however, that an Equity Owner shall not be subject to this provision to the extent that an exception is provided by Section 1.704-2(i)(4) of the Regulations and any Revenue Rulings issued with respect thereto. Any Member Minimum Gain allocated pursuant to this provision shall consist of first, gains recognized from the disposition of Company property subject to the Member Nonrecourse Debt, and, second, if necessary, a *pro rata* portion of the Company's other items of income or gain (including gross income) for that Fiscal Year. This **Section 9.2(d)** is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(e) Items of Company loss, deduction and expenditures described in Section 705(a)(2)(B) of the Code which are attributable to any nonrecourse debt of the Company and are characterized as partner nonrecourse deductions under Section 1.704-2(i) of the Regulations shall be allocated to the Equity Owners' Capital Accounts in accordance with said Section 1.704-2(i) of the Regulations.

(f) Beginning in the first taxable year in which there are allocations of "nonrecourse deductions" (as described in Section 1.704-2(b) of the Regulations), such deductions shall be allocated to the Equity Owners in the same manner as Loss is allocated for such period.

(g) To the extent that an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4) of the Regulations, to be taken into account in determining Capital Accounts as the result of a Distribution to an Equity Owner in complete liquidation of its Ownership Interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Equity Owners in accordance with their interests in the Company in the event Section 1.704-1(b)(2)(iv)(m)(2) of the Regulations applies, or to the Equity Owner to whom such Distribution was made in the event Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations applies.

(h) Any income, gain, loss or deduction realized by the Company as a direct or indirect result of the issuance of an interest in the Company by the Company to an Equity Owner (the "Issuance Items") shall be allocated among the Equity Owners so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Equity Owner, shall be equal to the net amount that would have been allocated to each such Equity Owner if the Issuance Items had not been realized.

9.3 Credit or Charge to Capital Accounts. Any credit or charge to the Capital Accounts of the Equity Owners pursuant to **Sections 9.2(a), 9.2(b), 9.2(c), 9.2(d), 9.2(e), 9.2(f) and 9.2(g)** ("Regulatory Allocations") hereof shall be taken into account in computing subsequent allocations of Profits and Losses pursuant to **Section 9.1**, so that the net amount of any items charged or credited to Capital Accounts pursuant to **Section 9.1** and the Regulatory Allocations hereof and this **Section 9.3** shall to the extent possible, be equal to the net amount that would have been allocated to the Capital Account of each Equity Owner pursuant to the provisions of this Article 9 if the special allocations required by the Regulatory Allocations hereof had not occurred.

9.4 Distributions. Except as provided in **Sections 8.3(d)** (with respect to liquidating Distributions) and **9.5** (with respect to limitations on Distributions), the Board of Directors may from time to time Distribute so much of the Company's Distributable Cash to the Equity Owners at any time they determine as follows:

(a) First, to the Class A Equity Owners proportionate with their Adjusted Capital Contributions until the amount of their respective Adjusted Capital Contributions equals zero.

(b) Second, to the Equity Owners in proportion to their respective positive Capital Accounts.

(c) Third, to the Class A Equity Owners in accordance with their respective Sharing Ratios.

9.5 Limitation Upon Distributions. No Distribution shall be made if such Distribution would violate the Act or for any purpose that would violate the Company Purposes.

9.6 Accounting Principles. For financial reporting purposes, the Company shall use accounting principles applied on a consistent basis using the accrual method of accounting determined by the Board of Directors, unless the Company is required to use a different method of accounting for federal income tax purposes, in which case that method of accounting shall be the Company's method of accounting.

9.7 Interest on and Return of Capital Contributions. No Equity Owner shall be entitled to interest on its Capital Contribution or to return of its Capital Contribution, except as otherwise specifically provided for herein.

9.8 Loans to Company. Nothing in this Agreement shall prevent any Equity Owner from making secured or unsecured loans to the Company by agreement with the Company.

9.9 Accounting Period. The Company's accounting period shall be the Fiscal Year.

9.10 Records and Reports. At the expense of the Company, the President shall maintain records and accounts of all operations and expenditures of the Company. At a minimum the Company shall keep at its principal place of business the following records:

(a) A current list of the full name and last known business, residence, or mailing address of each Equity Owner and Board of Director, both past and present;

(b) A copy of the Articles of Organization and all amendments thereto, together with executed copies of any powers of attorney pursuant to which any amendment has been executed;

(c) Copies of the Company's federal, state, and local income tax returns and reports, if any, for the four (4) most recent Fiscal Years;

(d) Copies of the Company's currently effective written Agreement, copies of any writings permitted or required with respect to an Equity Owner's obligation to contribute cash, property or services, and copies of any financial statements of the Company for the three (3) most recent Fiscal Years;

(e) Minutes of every annual, special meeting and court-ordered meeting;

(f) Any written consents obtained from Members for actions taken by Members without a meeting.

9.11 Returns and Other Elections. The President shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code and all other tax returns deemed necessary and required in each jurisdiction in which the Company does business. Copies of such returns, or pertinent information therefrom, shall be furnished to the Equity Owners within a reasonable time after the end of the Fiscal Year.

All elections permitted to be made by the Company under federal or state laws shall be made by the Board of Directors in their sole discretion; provided, however, that the Tax Matters Partner shall make any tax election requested by the unanimous consent of the Class A Members.

9.12 Tax Matters Partner. Artemis, is hereby designated the Tax Matters Partner ("TMP") as defined in Section 6231(a)(7) of the Code. The TMP and the other Members shall use their reasonable efforts to comply with the responsibilities outlined in Sections 6221 through 6233 of the Code (including any Regulations promulgated thereunder), and in doing so shall incur no liability to any other Member.

9.13 Certain Allocations for Income Tax (But Not Book Capital Account) Purposes.

(a) In accordance with Section 704(c)(1)(A) of the Code and Section 1.704-1(b)(2)(i)(iv) of the Regulations, if a Member contributes property with an initial Gross Asset Value that differs from its adjusted basis at the time of contribution, income, gain, loss and deductions with respect to the property shall, solely for federal income tax purposes (and not for Capital Account purposes), be allocated among the Equity Owners so as to take account of any variation between the adjusted basis of such property to the Company and its Gross Asset Value at the time of contribution pursuant to the traditional method under Section 1.704-3(b) of the Regulations

(b) Pursuant to Section 704(c)(1)(B) of the Code, if any contributed property is Distributed by the Company other than to the contributing Equity Owner within seven (7) years of being contributed, then, except as provided in Section 704(c)(2) of the Code, the contributing Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain or loss from the sale of such property in an amount equal to the gain or loss that would have been allocated to such Equity Owner under Section 704(c)(1)(A) of the Code if the property had been sold at its fair market value at the time of the Distribution.

(c) In the case of any Distribution by the Company to an Equity Owner, such Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain in an amount equal to the lesser of:

(1) the excess (if any) of (A) the fair market value of the property (other than money) received in the Distribution over (B) the adjusted basis of such Equity Owner's Ownership Interest immediately before the Distribution reduced (but not below zero) by the amount of money received in the Distribution; or

(2) the Net Precontribution Gain (as defined in Section 737(b) of the Code) of the Equity Owner. The Net Precontribution Gain means the net gain (if any) which would have been recognized by the distributee Equity Owner under Section 704(c)(1)(B) of the Code if all property which (A) had been contributed to the Company within seven (7) years of the Distribution, and (B) is held by the Company immediately before the Distribution, had been Distributed by the Company to another Equity Owner. If any portion of the property Distributed consists of property which had been contributed by the distributee Equity Owner to the Company, then such property shall not be taken into account under this **Section 9.13(c)** and shall not be taken into account in determining the amount of the Net Precontribution Gain. If the property Distributed consists of an interest in an Entity, the preceding sentence shall not apply to the extent that the value of such interest is attributable to the property contributed to such Entity after such interest had been contributed to the Company.

(d) All recapture of income tax deductions resulting from sale or disposition of Company property shall be allocated to the Equity Owners to whom the deduction that gave rise to such recapture was allocated hereunder to the extent that such Equity Owner is allocated any gain from the sale or other disposition of such property.

ARTICLE 10. TRANSFERABILITY

10.1 General.

(a) Except as otherwise specifically provided in **Section 10.2** or with the unanimous consent of the Members, no Equity Owner shall have the right to Transfer the Equity Owner's Ownership Interest.

(b) Each Equity Owner hereby acknowledges the reasonableness of the restrictions on sale and gift of Ownership Interests imposed by this Agreement in view of the Company purposes and the relationship of the Equity Owners. Accordingly, the restrictions on sale and gift contained herein shall be specifically enforceable.

(c) In the event that any Equity Owner pledges or otherwise encumbers any of its Ownership Interest as security for repayment of a liability, any such pledge or hypothecation shall be made pursuant to a pledge or hypothecation agreement that requires the pledgee or secured party to be bound by all the terms and conditions of this Article 10, and the pledging Equity Owner shall provide notice of such pledge or encumbrance to the Board of Directors.

10.2 Right of First Refusal.

(a) A Selling Equity Owner which desires to Sell all or any portion of its Ownership Interest to a third party purchaser other than a Member shall obtain from such third party purchaser ("Third Party Purchaser") a *bona fide* written offer to purchase such interest, stating the terms and conditions upon which the purchase is to be made and the consideration offered therefor ("Third Party Offer"). The Selling Equity Owner shall give written notification ("Notice of Sale") to the Company and the other Equity Owners who are Class A Members (the "Remaining Members"), by certified mail or personal delivery, of its intention to so transfer such Ownership Interest (the "Offered Interest"). The Notice of Sale shall be accompanied by a copy of the Third Party Offer. If any portion of the purchase price offered by such third party purchaser consists of consideration other than cash or a promissory note ("Non-cash Consideration"), then: (1) the Notice of Sale also shall be accompanied by a good faith estimate by the Selling Equity Owner of the fair market value of the Non-cash Consideration, and (2) for purposes of **Section 10.2(b)** and **10.2(c)** the purchase price of the Offered Interest (the "Purchase Price") shall be adjusted as follows:

(i) The Purchase Price shall be decreased by the Non-cash Consideration; and

(ii) The Purchase Price shall be increased by an amount equal to either (aa) the Selling Equity Owner's good faith estimate of the fair market value of the Non-cash Consideration ("Seller's Estimate") or (bb) in the discretion of the Board of Directors, the appraised fair market value of the Non-cash Consideration determined by an independent appraiser selected by the Board of Directors in their sole discretion. The Board of Directors shall have the sole discretion to choose between the amount determined pursuant to clauses (aa) and (bb) of this **subsection 10.2(a)(ii)**. If the appraised fair market value of the Non-cash Consideration is not determined within twenty (20) days after the Notice of Sale, then such fair market value shall be equal to the amount of the Seller's Estimate.

(b) The Remaining Members shall have the option ("Buy Option") to purchase all, but not less than all, of the Offered Interest, on a basis *pro rata* to the Sharing Ratios of the Remaining Members exercising such option pursuant to this **Section 10.2(b)**. The Buy Option may be exercised by one or more of the Remaining Members by giving written notification ("Buy Notice") to the Selling Equity Owner within thirty (30) days after receiving the Notice of Sale (the "Option Period"). Each Remaining Member who timely gives a Buy Notice ("Buying Member") shall purchase such portion of the Offered Interest which is equal to the relative Sharing Ratios of all of the Buying Members. If there are no Buying Members, the Buy Option shall terminate and at any time within ninety (90) days following the expiration of the Option Period, the Selling Equity Owner shall be entitled to consummate the sale of the Offered Interest to the Third Party Purchaser or one or more of its Affiliates upon terms no less favorable than are set forth in the Third Party Offer.

(c) If there is at least one Buying Member (i) the Buying Members shall designate the time, date and place of closing, provided that the date of closing shall be within thirty (30) days after the receipt of the Buy Notice, and (ii) at the closing, the Buying Members shall purchase, and the Selling Equity Owner shall sell, the Offered Interest for an amount equal to the Purchase Price (as modified in accordance with **Section 10.2(a)(i)** and **(ii)**) and in accordance with such other terms and conditions set forth in the Third Party Offer.

(d) A sale of an Offered Interest pursuant to this **Section 10.2**, shall be subject to **Sections 10.3** and **10.4**.

10.3 Transferee Not Member in Absence of Consent.

(a) Except as provided in this **Section 10.3(a)**, if the Board of Directors do not approve by unanimous written consent of the proposed sale of the Transferring Equity Owner's Ownership Interest to a transferee which is not a Member immediately prior to the sale, then the proposed transferee shall have no right to participate in the management of the business and affairs of the Company or to become a Member. Such transferee shall be merely an Economic Interest Owner. No transfer of a Member's Membership Interest (including any transfer of the Economic Interest or any other transfer which has not been approved as provided herein) shall be effective unless and until written notice (including the name and address of the proposed transferee and the date of such transfer) has been provided to the Company and the non-transferring Class A Members.

(b) Upon and contemporaneously with any Transfer of a Member's Ownership Interest, the Transferring Member shall cease to have any residual rights associated with the Ownership Interest transferred to the transferee.

10.4 Additional Conditions to Recognition of Transferee.

(a) If a Transferring Equity Owner Transfers an Ownership Interest to a Person who is not already a Member, as a condition to recognizing one or more of the effectiveness and binding nature of such sale or gift (subject to **Section 10.3** above), the Board of Directors may require the Transferring Equity Owner and the proposed successor-in-interest to execute, acknowledge and deliver to the Board of Directors such instruments of transfer, assignment and assumption and such other certificates, representations and documents, and to perform all such other acts which the Board of Directors may deem necessary or desirable to accomplish any one or more of the following:

- (1) constitute such successor-in-interest as an Equity Owner;
- (2) confirm that the proposed successor-in-interest as an Economic Interest Owner, or to be admitted as a Member, has accepted, assumed and agreed to be subject and bound by all of the terms, obligations and conditions of this Agreement, as the same may have been further amended

(whether such Person is to be admitted as a new Member or will merely be an Economic Interest Owner);

(3) preserve the Company after the completion of such sale, transfer, assignment, or substitution under the laws of each jurisdiction in which the Company is qualified, organized or does business;

(4) maintain the status of the Company as a partnership for federal tax purposes; and

(5) assure compliance with any applicable state and federal laws, including securities laws and regulations.

(b) Any sale or gift of an Ownership Interest and admission of a Member in compliance with this Article 10 shall be deemed effective as of the last day of the calendar month in which the Board of Directors' consent thereto was given. The Transferring Equity Owner hereby indemnifies the Company and the remaining Members against any and all loss, damage, or expense (including, without limitation, tax liabilities or loss of tax benefits) arising directly or indirectly as a result of any transfer or purported transfer in violation of this Article 10.

ARTICLE 11. ISSUANCE OF MEMBERSHIP INTERESTS

11.1 Issuance of Additional Membership Interests to New Members. From the date of the formation of the Company, any Person acceptable to the Class A Members may become a Member in the Company by the issuance by the Company of Class A Membership Interests, Class B Membership Interests or other Membership Interests on such terms and conditions and for such consideration as the Class A Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement. To the extent of the issuance of Class B Membership Interests, the Grants of Interest shall be incorporated into and become a part of this Agreement by reference.

11.2 Issuance of Additional Membership Interests to Existing Members. From the date of the formation of the Company, the Company may issue additional Membership Interests to one or more existing Members for such consideration as the Class A Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement.

11.3 Part Year Allocations With Respect to New Members. No new Members shall be entitled to any retroactive allocation of losses, income or expense deductions incurred by the Company. In accordance with the provisions of Section 706(d) of the Code and the Regulations promulgated thereunder, the Board of Directors may, at his or their option, at the time a Member is admitted, close the Company books (as though the Company's Fiscal Year had ended) or make *pro rata* allocations of loss, income and expense deductions to a new Equity Owner for that portion of the Company's Fiscal Year in which an Equity Owner became an Equity Owner.

ARTICLE 12.
DISSOLUTION AND TERMINATION

12.1 Dissolution.

(a) The Company shall be dissolved only upon the occurrence of any of the following events:

(1) by the declaration of either Class A Member as provided in **Section 15.5**;

(2) by the unanimous written agreement of the Class A Members;

(3) by an order of a court of competent jurisdiction in an action commenced by any Class A Member in which the Class A Member can show that:

(i) In an action by or on behalf of any Class A Member qualified for exemption from federal income tax as an organization described in Section 501(c)(3) of the Code, the Company is being operated in such a manner as to cause the Class A Member to cease to be so qualified or to be subject to any tax or penalty under the Code.

(ii) The Board of Directors or other Members in control of the Company have acted, are acting, or will act in a manner that is illegal, oppressive, or fraudulent;

(iii) There have been repeated, material breaches of the Agreement by the Company or by other Members or Board of Directors; or

(iv) The assets of the Company are not being used for Company Purposes or are being misapplied or wasted.

(4) upon the expiration of the term, if any, specified in **Section 2.5**.

Notwithstanding anything to the contrary in the Act, the Company shall not be dissolved upon the death, retirement, resignation, expulsion, bankruptcy or dissolution of an Equity Owner.

(b) As soon as possible following the occurrence of any of the events specified in **Section 12.1(a)** effecting the dissolution of the Company, the appropriate representative of the Company shall execute all documents required by the Act at the time of dissolution and file or record such statements with the appropriate officials.

12.2 Effect of Dissolution. Upon dissolution, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until winding up and Distribution is completed.

12.3 Winding Up, Liquidation and Distribution of Assets.

(a) Upon dissolution, an accounting shall be made by the Company's Board of Directors of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of dissolution. The Board of Directors shall immediately proceed to wind up the affairs of the Company.

(b) If the Company is dissolved and its affairs are to be wound up, the Board of Directors shall:

(1) Sell all of the Company's assets as promptly as practicable (except to the extent that the Board of Directors may determine to Distribute in kind any assets to the Equity Owners);

(2) Allocate any Profit or Loss resulting from such Sale to the Equity Owners' Capital Accounts in accordance with Article 9 hereof;

(3) Discharge all liabilities of the Company, including liabilities to Equity Owners who are also creditors, to the extent otherwise permitted by law, other than liabilities to Equity Owners for Distributions and the return of capital, and establish such Reserves as may be reasonably necessary to provide for contingent liabilities of the Company (for purposes of determining the Capital Accounts of the Equity Owners, the amounts of such Reserves shall be deemed to be an expense of the Company);

(4) Apply some or all of the remaining assets in accordance with the Company Purposes as determined unanimously by the Class A Members, and Distribute the balance of the remaining assets, if any, to the Equity Owners in accordance with their positive Capital Account balances;

(5) If any assets of the Company are to be distributed in kind, the net fair market value of such assets as of the date of dissolution shall be determined by independent appraisal or by agreement of the Class A Members. Such assets shall be deemed to have been sold as of the date of dissolution for their fair market value, and the Capital Accounts of the Equity Owners shall be adjusted pursuant to the provisions of Article 9 and **Section 8.3** of this Agreement to reflect such deemed sale; and

(6) The positive balance (if any) of each Equity Owner's Capital Account (as determined after taking into account all Capital Account adjustments for the Company's Fiscal Year during which the liquidation occurs) shall be Distributed to the Equity Owners, either in cash or in kind, as determined by the Board of Directors, with any assets Distributed in kind being valued for this

purpose at their fair market value. Any such Distributions to the Equity Owners in respect of their Capital Accounts shall be made in accordance with the time requirements set forth in Section 1.704-1(b)(2)(ii)(b)(2) of the Regulations.

(c) Notwithstanding anything to the contrary in this Agreement, upon a liquidation within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations, if any Equity Owner has a Deficit Capital Account (after giving effect to all contributions, Distributions, allocations and other Capital Account adjustments for all Fiscal Years, including the year during which such liquidation occurs), such Equity Owner shall have no obligation to make any Capital Contribution, and the negative balance of such Member's Capital Account shall not be considered a debt owed by such Equity Owner to the Company or to any other Person for any purpose whatsoever.

(d) Upon completion of the winding up, liquidation and Distribution of the assets, the Company shall be deemed terminated.

(e) The Board of Directors shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final Distribution of its assets.

12.4 Filing or Recording Statements. Upon the conclusion of winding up, the appropriate representative of the Company shall execute all documents required by the Act at the time of completion of winding up and file or record such statements with the appropriate officials.

12.5 Return of Contribution Nonrecourse to Other Equity Owners. Except as provided by law or as expressly provided in this Agreement, upon dissolution, each Equity Owner shall look solely to the assets of the Company for the return of its Capital Contribution. If the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash contribution of one or more Equity Owners, such Equity Owners shall have no recourse against any other Equity Owner.

ARTICLE 13. MISCELLANEOUS PROVISIONS

13.1 Notices. Any notice, demand, or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served if sent by telecopy or facsimile transmission, delivered by messenger or overnight courier, or mailed, certified first class mail, postage prepaid, return receipt requested, and addressed or sent to the Equity Owner's and/or Company's address, as reflected in this Agreement or the Records of the Company. Such notice shall be effective, (a) if delivered by messenger or by overnight courier, upon actual receipt (or if the date of actual receipt is not a business day, upon the next business day); (b) if sent by telecopy or facsimile transmission, upon confirmation of receipt (or if the date of such confirmation of receipt is not a business day, upon the next business day); or (c) if mailed, upon the earlier of three (3) business days after deposit in the mail and the

delivery as shown by return receipt therefor. Any Equity Owner or the Company may change its address by giving notice in writing to the Company and the other Equity Owners of its new address.

13.2 Books of Account and Records. Proper and complete records and books of account shall be kept or shall be caused to be kept by the President, in which shall be entered fully and accurately all transactions and other matters relating to the Company's business in such detail and completeness as is customary and usual for businesses of the type engaged in by the Company. Such books and records shall be maintained as provided in **Section 9.10**. The books and records shall at all times be maintained at the principal executive office of the Company and shall be open to the reasonable inspection and examination of the Equity Owners or their duly authorized representatives during reasonable business hours.

13.3 Application of State Law. This Agreement, and the application and interpretation hereof, shall be governed exclusively by its terms and by the laws of Montana, and specifically the Act.

13.4 Waiver of Action for Partition. Each Equity Owner irrevocably waives during the term of the Company any right that it may have to maintain any action for partition with respect to the Company Property.

13.5 Amendments. This Agreement may not be amended except by the unanimous written agreement of all of the Class A Members, it being expressly agreed that the Class A Members may make any modifications to the Operating Agreement they deem appropriate without the consent of the Class B Members, even if such amendment has an effect upon the Class B Members.

13.6 Execution of Additional Instruments. Each Equity Owner hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

13.7 Construction. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

13.8 Effect of Inconsistencies with the Act. It is the express intention of the Equity Owners and the Company that this Agreement shall be the sole source of agreement among them, and, except to the extent that a provision of this Agreement expressly incorporates federal income tax rules by reference to Sections of the Code or Regulations or is expressly prohibited or ineffective under the Act, this Agreement shall govern, even when inconsistent with, or different than, the provisions of the Act or any other law or rule. In the event that the Act is subsequently amended or interpreted in such a way to make valid any provision of this Agreement that was formerly invalid, such provision shall be considered to be valid from the effective date of such interpretation or amendment. The Members and the Company hereby agree that the

duties and obligations imposed on the Members as such shall be those set forth in this Agreement, which is intended to govern the relationship among the Company and the Equity Owners, notwithstanding any provision of the Act or common law to the contrary.

13.9 Waivers. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

13.10 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

13.11 Attorneys' Fees. Should the Company or any party to this Agreement reasonably retain counsel for the purpose of enforcing or preventing breach of any provision of this Agreement, including but not limited to instituting any action or proceeding to enforce any provision of this Agreement, for damages by reason of any alleged breach of any provision of this Agreement, for a declaration of such party's rights or obligations under this Agreement or for any other judicial remedy, then, if the matter settled by judicial determination or arbitration, the prevailing party (whether at trial, on appeal, or arbitration) shall be entitled, in addition to such other relief as may be granted, to be reimbursed by the losing party for all costs and expenses incurred, including, but not limited to, reasonable attorneys' fees and costs for services rendered to the prevailing party.

13.12 Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law. Without limiting the generality of the foregoing sentence, to the extent that any provision of this Agreement is prohibited or ineffective under the Act or common law, this Agreement shall be considered amended to the smallest degree possible in order to make the Agreement effective under the Act or common law.

13.13 Heirs, Successors and Assigns. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

13.14 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company.

13.15 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

Rule Against Perpetuities. The parties hereto intend that the Rule Against Perpetuities (and any similar rule of law) not be applicable to any provisions of this Agreement. However, notwithstanding anything to the contrary in this Agreement, if any provision in this Agreement would be invalid or unenforceable because of the Rule Against Perpetuities or any similar rule of law but for this **Section 13.16**, the parties hereto hereby agree that any future interest which is created pursuant to said provision shall cease if it is not vested within twenty-one (21) years after the death of the survivor of the group composed of the Initial Managers and their issue who are living on the effective date of this Agreement.

13.16 Arbitration. Any dispute, deadlock, or controversy arising under this Agreement, if not resolved by mutual agreement of the parties hereto, shall be submitted to arbitration before a panel of three arbitrators in the city of Helena, Montana for settlement under the commercial arbitration rules of the American Arbitration Association as then in effect, and judgment upon the award may be entered in any court of competent jurisdiction, provided, however, that the panel of arbitrators shall be chosen as follows: each party shall select one arbitrator and the two arbitrators thus selected shall select a third arbitrator. If the two arbitrators selected by the parties to the controversy are unable to agree upon the third arbitrator within thirty (30) days after their selection, the third arbitrator, shall be selected by the American Arbitration Association.

13.17 Representations and Warranties.

(a) In General. As of the date hereof, each of the Equity Owners hereby makes each of the representations and warranties applicable to such Equity Owner as set forth in Section 13.18 hereof, and such warranties and representations shall survive the execution of this Agreement.

(b) Representations and Warranties. Each Member hereby represents and warrants that:

(1) Due Incorporation or Formation; Authorization of Agreement. Such Equity Owner is a corporation duly organized or a partnership or limited liability company duly formed, validly existing, and in good standing under the laws of the jurisdiction of its incorporation or formation and has the corporate, partnership or limited liability company power and authority to own its property and carry on its business as owned and carried on at the date hereof and as contemplated hereby. Such Equity Owner is duly licensed or qualified to do business and in good standing in each of the jurisdictions in which the failure to be so licensed or qualified would have a material adverse effect on its financial condition or its ability to perform its obligations hereunder. Such Equity Owner has the corporate, partnership or limited liability company power

and authority to execute and deliver this Agreement and to perform its obligations hereunder and the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate, partnership or limited liability company action. This Agreement constitutes the legal, valid, and binding obligation of such Equity Owner.

(2) No Conflict with Restrictions; No Default. Neither the execution, delivery, and performance of this Agreement nor the consummation by such Equity Owner of the transactions contemplated hereby (1) will conflict with, violate, or result in a breach of any of the terms, conditions, or provisions of any law, regulation, order, writ, injunction, decree, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator, applicable to such Equity Owner or any of its Affiliates, (2) will conflict with, violate, result in a breach of, or constitute a default under any of the terms, conditions, or provisions of the articles of incorporation, bylaws, partnership agreement, limited liability company agreement or operating agreement of such Equity Owner or any of its Affiliates or of any material agreement or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner, or any of its Affiliates is or may be bound or to which any of its material properties or assets is subject, (3) will conflict with, violate, result in a breach of, constitute a default under (whether with notice or lapse of time or both), accelerate or permit the acceleration of the performance required by, give to others any material interests or rights, or require any consent, authorization, or approval under any indenture, mortgage, lease agreement, or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner or any of its Affiliates is or may be bound, or (4) will result in the creation or imposition of any lien upon any of the material properties or assets of such Equity Owner or any of its Affiliates.

(3) Government Authorizations. Any registration, declaration, or filing with, or consent, approval, license, permit, or other authorization or order by, any government or regulatory authority, domestic or foreign, that is required in connection with the valid execution, delivery, acceptance, and performance by such Equity Owner under this Agreement or the consummation by such Equity Owner of any transaction contemplated hereby has been completed, made, or obtained on or before the effective date of this Agreement.

(4) Litigation. There are no actions, suits, proceedings, or investigations pending or, to the knowledge of such Equity Owner or any of its Affiliates, threatened against or affecting such Equity Owner or any of its Affiliates or any of their properties, assets, or businesses in any court or before or by any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could, if adversely determined (or, in the case of an investigation could lead to any action, suit, or proceeding, which if adversely determined could) reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to

have a material adverse effect on the consolidated financial condition of such member; and such Equity Owner or any of its Affiliates has not received any currently effective notice of any default, and such Equity Owner or any of its Affiliates is not in default, under any applicable order, writ, injunction, decree, permit, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to have a material adverse effect on the consolidated financial condition of such Equity Owner.

13.18 Confidentiality. Except as contemplated hereby or required by a court of competent authority, each Equity Owner shall keep confidential and shall not disclose to others and shall use its reasonable efforts to prevent its Affiliates and any of its, or its Affiliates' present or former employees, agents, and representatives from disclosing to others without the prior written consent of the Board of Directors any information which (1) pertains to this Agreement, any negotiations pertaining thereto, any of the transactions between the parties hereto contemplated hereby, or the business of the Company, (2) pertains to confidential or proprietary information of any Member or the Company or which any Equity Owner has labeled in writing as confidential or proprietary; provided that any Equity Owner may disclose to its Affiliates' employees, agents, and representatives any information made available to such Equity Owner; or (3) customer lists, supplier lists, contracts, agreements, marketing strategies, and other documents and information of any description developed in the course of the Company's business. No Equity Owner shall use, and each Equity Owner shall use its best efforts to prevent any Affiliate of such Equity Owner from using, any information which (1) pertains to this Agreement, any negotiations pertaining hereto, any of the transactions contemplated hereby, or the business of the Company, (2) pertains to the confidential or proprietary information of any Equity Owner or the Company or which any Equity Owner has labeled in writing as confidential or proprietary, or (3) other information described herein, except in connection with the transactions contemplated hereby. The parties hereto acknowledge TNC's important obligations to share appropriate information that can leverage conservation on other lands and the Company's right to preserve the viability of the Company by preventing the use of information developed by the Company by other entities in competition with the Company without the consent of the Class A Members.

13.19 Advertisement and Communications. Each Manager shall have the right to review and approve any communication, promotional materials, or advertisements or similar materials prior to publication or use where such communication or materials are to include the name or description of a Member, any of its marks, any depiction of its lands or activities, or any of its employees, volunteers, or others acting on its behalf. Such approval shall not be unreasonably withheld and shall be based on the Manager's assessment of whether the proposed communication would, if published, diminish, tarnish, injure or damage a Member's reputation or good will. Nothing in this agreement shall be construed as an endorsement of the products of the Company by either Class A Member without that Class A Member's express consent.

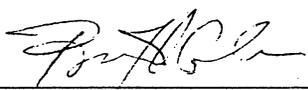
CERTIFICATE

The undersigned hereby agree, acknowledge and certify that the foregoing Agreement, consisting of ____ pages, excluding the Table of Contents constitutes the Agreement of Conservation Beef, LLC adopted by the Equity Owners effective as of January 1, 2003.

Conservation Beef, LLC

MEMBERS:

Artemis Wildlife Foundation,
a California corporation

By 
its President

The Nature Conservancy,
a District of Columbia corporation

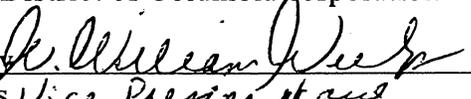
By 
its Vice President and
Senior Advisor

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AGREEMENT TO WITHDRAW

By and between The Nature Conservancy
and Conservation Beef[®], LLC, dated February 19, 2004

WHEREAS, as of October 20, 1999, Artemis Wildlife Foundation, a California non-profit charitable corporation (hereinafter "Artemis"), and The Nature Conservancy, a District of Columbia nonprofit corporation, also doing business as the Center for Compatible Economic Development (hereinafter "Conservancy"), entered into an agreement (hereinafter the "Prior Agreement") to form Conservation Beef[®], LLC, a Montana limited liability company (hereinafter "CBLLC"), whose purpose is to conserve biologically significant lands in the western U.S. by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and

WHEREAS, pursuant to the Prior Agreement Artemis and Conservancy are currently the Members and Equity Owners of CBLLC; and

WHEREAS, the Prior Agreement provides that a Member or Equity Owner may withdraw at any time, and further provides that CBLLC and the withdrawing Member or Equity Owner may agree upon the terms and conditions of such withdrawal;

NOW, THEREFORE, CBLLC and Conservancy agree as follows:

1. **Withdrawal**. For value received, and in consideration of the mutual promises contained herein, Conservancy hereby withdraws as a Member, Manager, and Equity Owner from CBLLC, thereby relinquishing all rights arising from Prior Agreement, effective upon full execution of this Agreement to Withdraw.
2. **Consideration Paid by CBLLC**. CBLLC agrees to pay Conservancy the sum of Two Hundred Twenty-Five Thousand Dollars (\$225,000), payable as follows, the receipt and sufficiency of which is acknowledged by Conservancy:
 - a) \$100,000.00 in cash upon execution of this Agreement to Withdraw;
 - b) \$125,000.00 in the form of a Promissory Note attached as Exhibit I, which by this reference is incorporated and made part of this agreement.
 - c) With the Agreement to Withdraw, Conservancy expressly waives any rights, remedies, compensation, and or interest, including any such in Prior Agreement, that are not specifically provided for herein.
3. **For the avoidance of doubt**, the parties agree as follows:

a) **Interests Retained by Conservancy.** Conservancy retains all rights, titles and interests in and to certain conservation easements granted to and acquired by Conservancy through the joint efforts of Conservancy and CBLLC, including, but not limited to, the Sun Ranch easement in Madison County, MT, which is valued on Conservancy's books at approximately \$5.84 million.

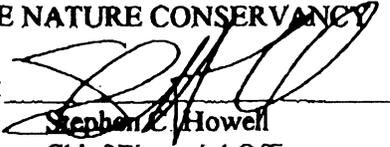
b) **CBLLC Trademarks and Interest Retained by CBLLC.** CBLLC retains all right, title and interest in and to the trademark CONSERVATION BEEF (CB Mark). Conservancy may continue to use CB Mark in an appropriate manner, provided that prior express written approval of CBLLC is obtained for any such use, which approval may be granted or withheld in CBLLC's sole discretion.

c) **Conservancy Trademarks.** The license agreement made as of August 16, 2001, by and between Conservancy and CBLLC, concerning use by CBLLC of the Conservancy mark THE NATURE CONSERVANCY and the mark THE NATURE CONSERVANCY AND DESIGN OF OAK LEAF (the "Marks"), is hereby terminated. It is the intent of the parties that CBLLC may continue to use the Marks in an appropriate manner, provided that the prior express written approval of Conservancy is obtained for any such use, which approval may be granted or withheld in Conservancy's sole discretion.

4. **Future Cooperation.**

The easement donation program developed by CBLLC has resulted in significant conservation success, including the donation of the scientifically significant Sun Ranch easement. Conservancy looks forward to future opportunities to collaborate that further its mission and align with its priorities.

IN WITNESS WHEREOF, the parties have duly executed this Agreement to Withdraw as of the day and year first written above.

THE NATURE CONSERVANCY
BY: 
Stephen C. Howell
Chief Financial Officer

CONSERVATION BEEF, LLC
BY: 
Brian Kahn
President, CBLLC

PROMISSORY NOTE

Date: February 19, 2004

Amount: \$ 125,000.00

Lender: The Nature Conservancy 4245 North Fairfax Drive Arlington, VA 22203	Borrower: Conservation Beef [®] , LLC 25 South Ewing Street Helena, MT 59624
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FOR VALUE RECEIVED the undersigned Borrower promises to pay during the term and according to the provisions of this note to the order of Lender, its successors and assigns, without setoff, at Lender's offices identified above or at any other place Lender designates, the principal amount of One Hundred Twenty Five Thousand and no/100 Dollars (\$125,000.00), together with interest computed on the outstanding principal balance at a fixed annual interest rate, and in accordance with the payment schedule, indicated below.

1. Term and Cancellation.

Term: the term of this note begins upon execution and ends upon full payment of all principal and accrued fees and interest, or upon cancellation.

Cancellation: this note shall be cancelled on March 2, 2009 provided no principal or interest payment is due or past due according to the provisions of this note. When cancelled, any outstanding principal and accrued fees or interest on this note will be forgiven by Lender or successors and assigns.

2. Rate of Interest, Payment Delivery, and Interest Calculation.

Interest Rate: the Rate shall be fixed at 3.02 percent during the term of this note, which is the United States Treasury Five Year Bond rate as of the date of execution of this Promissory Note, as published in the applicable edition of the Wall Street Journal.

Payment Delivery: all amounts borrowed or repaid will be paid by check, checks will be hand delivered, delivered by courier, or delivered via overnight express service.

Interest Calculation: interest will be calculated by the 365/360 day method (a daily amount of interest is computed for a hypothetical year of 360 days; that amount is multiplied by the actual number of days for which any principal is outstanding hereunder).

3. Principal and Interest Payment Schedule. If Principal and interest is due and payable according to the terms herein it shall be paid annually, beginning on March 1, 2005, and continuing on the first day of March each year, until all principal and accrued interest has been repaid or this note is otherwise cancelled.

original in
file
2/2/04

9. Remedies upon Default; Non-Waiver. Whenever there is a default under this Note, Lender shall have all rights and remedies available at law or in equity, including, without limitation, the option to declare the entire balance outstanding hereunder to be immediately due and payable. Lender's failure to exercise any option or any other right under this Note is not a waiver of that right or option, and will not bar Lender's exercise of any options or rights at a later date. All rights and remedies of Lender are cumulative and may be pursued singly, successively or together, at Lender's option. Lender's acceptance of any partial payment is not a waiver of any default or of any of Lender's rights under this Note. Any waiver of Lender's rights and any modification of this Note must be in writing and duly signed on behalf of Lender; any such waiver shall apply only to the specific instance involved, and will not impair the rights of Lender or the obligations of Borrower to Lender in any other respect or at any other time.

10. Voluntary Liquidation or Termination of Business Operations. Lender acknowledges that this note is given and offered at a time of financial stress and uncertainty for Borrower. The contingent nature of principal payment, and the limited percentage of net income demanded by Lender reflect Lender's desire to facilitate the survival and success of Borrower. Lender also acknowledges having received other payment in connection with its withdrawal from Conservation Beef, LLC. Borrower represents that its member[s] continue to seek capital and to devote time and other resources toward the goal of maintaining the business and achieving its conservation purposes. Borrower and Lender acknowledge that Conservation Beef, LLC may continue its operations using a different business model which shall not be considered a voluntary liquidation or termination of business operations. In consideration thereof, Lender agrees that in the event management of Conservation Beef, LLC determines at any time after the date hereof to dissolve, liquidate or terminate all business operations of Conservation Beef, LLC, this note is cancelled provided that if determination is made prior to January 1, 2005 Borrower pays Lender an amount equal to 60% of the then current fair market value of Borrower's assets upon liquidation and, excepting this payment, Lender shall have no additional or alternative claims upon Borrower or any member, employee, officer, or investor therein.

11. Applicable Law, Venue and Jurisdiction. This Note and the rights and obligations of Borrower and Lender shall be governed by and interpreted under the law of Virginia. In any litigation involving this Note, Borrower irrevocably consents to and confers personal jurisdiction on the courts of Virginia and expressly waives any objections as to venue in any such courts. Lender shall have the option, however, to bring any action or exercise any right within any other state of jurisdiction or to obtain personal jurisdiction by any other means available under applicable law.

12. Partial Invalidity. The unenforceability or enforceability or validity of any other provision of this Note and the invalidity or unenforceability circumstance shall not affect the enforceability or validity of such persons or circumstances.

13. Binding Effect. This Note shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors, assigns, heirs and personal representatives, but no obligations of Borrower can be assigned without prior written consent of Lender.

14. Absence of Additional Claims. Lender recognizes that Borrower shall have no personal liability on this note beyond the obligation to pay from profit on its operations as described in Paragraph 3, above. Further, this Note creates no claim for payment upon any member, investor, employee, or officer of Conservation Beef, LLC.

Borrower represents to Lender that the assets of Conservation Beef, LLC are to be used primarily for conservation, business, commercial or agricultural purposes. Borrower acknowledges having read and understood, and agrees to be bound by, all terms and

conditions of this Note and hereby executes this Note under seal as of the date here above written.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN PROMISSORY NOTE REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

CONSERVATION BEEF, LLC

By:  (Seal)

Name: Brian Kahn

Title: President, Conservation Beef, LLC;

CONSERVATION BEEF, LLC
25 S. EWING, # 415
HELENA, MT 59601
(406) 495-8653

March 22, 2004

The Nature Conservancy
Center for Compatible Econ Devt
4245 North Fairfax Drive
Arlington, VA 22203

RE:
Conservation Beef, LLC
81-0530132
Schedule K-1 from Partnership's 2003 Return of Income

Dear The Nature Conservancy:

Enclosed is your 2003 Schedule K-1 (Form 1065) Partner's Share of Income, Credits, Deductions, Etc. from Conservation Beef, LLC. This information reflects the amounts you need to complete your income tax return. The amounts shown are your distributive share of partnership tax items to be reported on your tax return, and may not correspond to actual distributions you have received during the year. This information is included in the Partnership's 2003 Federal Return of Partnership Income that was filed with the Internal Revenue Service.

If you have any questions concerning this information, please contact us immediately.

Sincerely,

Conservation Beef, LLC

Enclosure(s)

Form **1065**

U.S. Return of Partnership Income
For calendar year 2003, or tax year beginning _____, 2003, and
ending _____, 20 _____.
▶ See separate instructions.

OMB No. 1545-0099

2003

Department of the Treasury
Internal Revenue Service

A Principal business activity

Sales

B Principal product or service

Organic Beef

C Business code number

115210

Use the
IRS
label.
Other-
wise,
print
or type.

Conservation Beef, LLC
25 S. Ewing, # 415
Helena, MT 59601

D Employer identification number

81-0530132

E Date business started

10/01/1999

F Total assets (see instrs)

\$ 354,931.

G Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return

H Check accounting method: (1) Cash (2) Accrual (3) Other (specify) _____ ▶

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year. _____ ▶ **2**

Caution: Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

INCOME	1a Gross receipts or sales	1a	304,836.	1c	304,836.
	b Less returns and allowances	1b			
	2 Cost of goods sold (Schedule A, line 8)	2		435,888.	
	3 Gross profit. Subtract line 2 from line 1c	3		-131,052.	
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach schedule)	4			
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5			
	6 Net gain (loss) from Form 4797, Part II, line 18	6			
	7 Other income (loss) (attach schedule)	7			
8 Total income (loss). Combine lines 3 through 7	8			-131,052.	
DEDUCTIONS FOR LIMITATIONS	9 Salaries and wages (other than to partners) (less employment credits)	9		176,814.	
	10 Guaranteed payments to partners	10			
	11 Repairs and maintenance	11			
	12 Bad debts	12		1,168.	
	13 Rent	13		4,573.	
	14 Taxes and licenses	14		14,208.	
	15 Interest	15		159.	
	16a Depreciation (if required, attach Form 4562)	16a	1,432.		
	b Less depreciation reported on Schedule A and elsewhere on return	16b			1,432.
	17 Depletion (Do not deduct oil and gas depletion.)	17			
	18 Retirement plans, etc.	18		26,086.	
	19 Employee benefit programs	19		13,405.	
	20 Other deductions (attach schedule)	20	See Statement 1		-368,897.
	21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20	21			-131,052.
22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8	22				

22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8.

Sign Here
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member) which preparer has signed and dated.
Copy For Your Files and Information
Signature of general partner or limited liability company member: **Dan Gruber & Co.**
Date: _____

May the IRS discuss this return with the preparer shown below (see instrs)? Yes No
Preparer's SSN or PTIN: **P00024405**

Paid Preparer's Use Only
Preparer's signature: _____
Date: **3/22/04**
Check if self-employed:

Firm's name (or yours if self-employed), address, and ZIP code: **Dan Gruber & Co., PO Box 1342, East Helena, MT 59635-1342**
EIN: **81-0545110**
Phone no.: **(406) 442-9112**

BAA For Paperwork Reduction Act Notice, see separate instructions. PTPA0105L 08/25/03 Form **1065** (2003)

Schedule A Cost of Goods Sold (see instructions)

1	Inventory at beginning of year.....	1	214,957.
2	Purchases less cost of items withdrawn for personal use.....	2	177,004.
3	Cost of labor.....	3	
4	Additional section 263A costs (attach schedule).....	4	
5	Other costs (attach schedule)..... See Statement 2	5	297,321.
6	Total. Add lines 1 through 5.....	6	689,282.
7	Inventory at end of year.....	7	253,394.
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2.....	8	435,888.

9a Check all methods used for valuing closing inventory:

- (i) Cost as described in Regulations section 1.471-3
- (ii) Lower of cost or market as described in Regulations section 1.471-4
- (iii) Other (specify method used and attach explanation).....

b Check this box if there was a writedown of 'subnormal' goods as described in Regulations section 1.471-2(c).....

c Check this box if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970).....

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership?..... Yes No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory?..... Yes No

If 'Yes', attach explanation.

Schedule B Other Information

	Yes	No
1 What type of entity is filing this return? Check the applicable box: a <input type="checkbox"/> Domestic general partnership b <input type="checkbox"/> Domestic limited partnership c <input checked="" type="checkbox"/> Domestic limited liability company d <input type="checkbox"/> Domestic limited liability partnership e <input type="checkbox"/> Foreign partnership f <input type="checkbox"/> Other.....		
2 Are any partners in this partnership also partnerships?.....		X
3 During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment.....		X
4 Is this partnership subject to the consolidated audit procedures of sections 6221 through 6233? If 'Yes,' see Designation of Tax Matters Partner below.....		X
5 Does this partnership meet all three of the following requirements? a The partnership's total receipts for the tax year were less than \$250,000; b The partnership's total assets at the end of the tax year were less than \$600,000; and c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return. If 'Yes,' the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item J on Schedule K-1.....		X
6 Does this partnership have any foreign partners? If 'Yes,' the partnership may have to file Forms 8804, 8805 and 8813. See instructions.....		X
7 Is this partnership a publicly traded partnership as defined in section 469(k)(2)?.....		X
8 Has this partnership filed, or is it required to file, Form 8264 , Application for Registration of a Tax Shelter?.....		X
9 At any time during calendar year 2003, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If 'Yes,' enter the name of the foreign country.....		X
10 During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If 'Yes,' the partnership may have to file Form 3520. See instructions.....		X
11 Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the tax year? If 'Yes,' you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described in the instructions under Elections Made By the Partnership		X
12 Enter the number of Forms 8865 , Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return.....	0	

Designation of Tax Matters Partner (see instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Artemis Wildlife Foundation Identifying number of TMP ▶ 94-2906085

Address of designated TMP ▶ PO Box 748
Helena, MT 59624

Schedule K Partners' Shares of Income, Credits, Deductions, etc

(a) Distributive share items		(b) Total amount	
Income (Loss)	1 Ordinary income (loss) from trade or business activities (page 1, line 22)	1	
	2 Net income (loss) from rental real estate activities (attach Form 8825)	2	
	3a Gross income from other rental activities	3a	
	b Expenses from other rental activities (attach sch)	3b	
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c	
	4 Portfolio income (loss) (attach Schedule D (Form 1065) for lines 4d and 4e):		
	a Interest income	4a	
	b Dividends: (1) Qualified dividends (2) Total ordinary dividends	4b (2)	33.
	c Royalty income	4c	
	d Net short-term capital gain (loss): (1) post-May 5, 2003 (2) Entire year	4d (2)	
	e Net long-term capital gain (loss): (1) post-May 5, 2003 (2) Entire year	4e (2)	
	f Other portfolio income (loss) (attach schedule)	4f	
	5 Guaranteed payments to partners	5	
	6a Net section 1231 gain (loss) (post-May 5, 2003) (attach Form 4797)	6a	
b Net section 1231 gain (loss) (entire year) (attach Form 4797)	6b		
7 Other income (loss) See Statement 3	7	-441,216.	
Deductions	8 Charitable contributions (attach schedule)	8	
	9 Section 179 expense deduction (attach Form 4562)	9	
	10 Deductions related to portfolio income (itemize)	10	
	11 Other deductions	11	
Credits	12a Low-income housing credit: (1) From partnerships to which section 42(j)(5) applies (2) Other than on line 12a(1)	12a (1) 12a (2)	
	b Qualified rehabilitation expenditures related to rental real estate activities (attach Form 3468)	12b	
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c	
	d Credits related to other rental activities	12d	
	13 Other credits	13	
Investment Interest	14a Interest expense on investment debts	14a	
	b (1) Investment income included on lines 4a, 4b(2), 4c, and 4f above (2) Investment expenses included on line 10 above	14b (1) 14b (2)	33.
	15a Net earnings (loss) from self-employment	15a	
Self-Employment	b Gross farming or fishing income	15b	
	c Gross nonfarm income	15c	
	16a Depreciation adjustment on property placed in service after 1986	16a	133.
Adjustments and Tax Preference Items	b Adjusted gain or loss	16b	
	c Depletion (other than oil and gas)	16c	
	d (1) Gross income from oil, gas, and geothermal properties (2) Deductions allocable to oil, gas, and geothermal properties	16d (1) 16d (2)	
	e Other adjmnts & tax pref items	16e	
	Foreign Taxes	17a Name of foreign country or U.S. possession	17b
b Gross income from all sources		17c	
c Gross income sourced at partner level			
d Foreign gross income sourced at partnership level: (1) Passive (2) Listed categories (attach sch) (3) General limitation		17d (3)	
e Deductions allocated and apportioned at partner level: (1) Interest expense (2) Other		17e (2)	
f Deductions allocated and apportioned at partnership level to foreign source income: (1) Passive (2) Listed categories (attach sch) (3) General limitation		17f (3)	
g Total foreign taxes (check one): <input type="checkbox"/> Paid <input type="checkbox"/> Accrued		17g	
h Reduction in taxes available for credit (attach schedule)		17h	
Other	18 Section 59(e)(2) expenditures: a Type b Amount	18b	
	19 Tax-exempt interest income	19	
	20 Other tax-exempt income	20	
	21 Nondeductible expenses	21	
	22 Distributions of money (cash and marketable securities)	22	
	23 Distributions of property other than money	23	
	24 Other items and amounts required to be reported separately to partners (attach schedule)		

Analysis of Net Income (Loss)

1 Net income (loss). Combine Schedule K, lines 1 through 7 in column (b). From the result, subtract the sum of Schedule K, lines 8 through 11, 14a, 17g, and 18b.						1	-441,183.
2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other	
a General partners					-441,183.		
b Limited partners							

Note: Schedules L, M-1 and M-2 are not required if Question 5 of Schedule B is answered 'Yes.'

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		17,807.		77,042.
2a	Trade notes and accounts receivable	36,068.		21,135.	
b	Less allowance for bad debts		36,068.		21,135.
3	Inventories		214,957.		253,394.
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach schedule)				
7	Mortgage and real estate loans				
8	Other investments (attach schedule)				
9a	Buildings and other depreciable assets	4,794.		7,181.	
b	Less accumulated depreciation	2,589.	2,205.	4,021.	3,160.
10a	Depletable assets				
b	Less accumulated depletion				
11	Land (net of any amortization)				
12a	Intangible assets (amortizable only)	1,335.		1,335.	
b	Less accumulated amortization	868.	467.	1,135.	200.
13	Other assets (attach schedule)				
14	Total assets		271,504.		354,931.
Liabilities and Capital					
15	Accounts payable		34,840.		43,552.
16	Mortgages, notes, bonds payable in less than 1 year		40,000.		
17	Other current liabilities (attach sch.)				
18	All nonrecourse loans				
19	Mortgages, notes, bonds payable in 1 year or more				
20	Other liabilities (attach schedule)				
21	Partners' capital accounts		196,664.		311,379.
22	Total liabilities and capital		271,504.		354,931.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

1	Net income (loss) per books	-441,183.	6	Income recorded on books this year not included on Schedule K, lines 1 through 7 (itemize):	
2	Income included on Schedule K, lines 1 through 4, 6b, and 7, not recorded on books this year (itemize):		a	Tax-exempt interest . . . \$	
3	Guaranteed pmts (other than health insurance)		7	Deductions included on Schedule K, lines 1 through 11, 14a, 17g, and 18b, not charged against book income this year (itemize):	
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 11, 14a, 17g, and 18b (itemize):		a	Depreciation \$	
a	Depreciation \$		8	Add lines 6 and 7	
b	Travel and entertainment \$		9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	-441,183.
5	Add lines 1 through 4	-441,183.			

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	196,664.	6	Distributions: a Cash	
2	Capital contributed: a Cash	555,898.	b	Property	
	b Property		7	Other decreases (itemize):	
3	Net income (loss) per books	-441,183.	8	Add lines 6 and 7	
4	Other increases (itemize):		9	Balance at end of year. Subtract line 8 from line 5	311,379.
5	Add lines 1 through 4	311,379.			

Schedule K-1
(Form 1065)

Partner's Share of Income, Credits, Deductions, etc

OMB No. 1545-0099

2003

Department of the Treasury
Internal Revenue Service

For calendar year 2003 or tax year

beginning , 2003, and ending , 20

Partner's identifying number ▶ 94-2906085 Partnership's identifying number ▶ 81-0530132

Partner's name, address, and ZIP code
Artemis Wildlife Foundation
PO Box 748
Helena, MT 59624

Partnership's name, address, and ZIP code
Conservation Beef, LLC
25 S. Ewing, # 415
Helena, MT 59601

A This partner is a general partner limited partner
 limited liability company member

B What type of entity is this partner? .. ▶ Exempt Org.

C Is this partner a domestic or a foreign partner?

D Enter partner's % of: (i) Before change or termination (ii) End of year

Profit sharing % 50 %
Loss sharing % 50 %
Ownership of capital % %

E IRS Center where partnership filed return: Ogden, UT

F Partner's share of liabilities (see instructions):
Nonrecourse..... \$
Qualified nonrecourse financing..... \$
Other..... \$

G Tax shelter registration number ▶

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2).....

I Check applicable boxes: (1) Final K-1 (2) Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
-201,720.		-220,592.		-422,312.

(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1 Ordinary income (loss) from trade or business activities.....	1	See Partner's Instructions for Schedule K-1 (Form 1065).
	2 Net income (loss) from rental real estate activities.....	2	
	3 Net income (loss) from other rental activities.....	3	
	4 Portfolio income (loss):		Form 1040, line 8a Form 1040, line 9b Form 1040, line 9a Schedule E, Part I, line 4 Schedule D, line 5, column (g) Schedule D, line 5, column (f) Schedule D, line 12, column (g) Schedule D, line 12, column (f)
	a Interest income.....	4a	
	b (1) Qualified dividends.....	4b(1)	
	(2) Total ordinary dividends.....	4b(2) 16.	
	c Royalty income.....	4c	
	d (1) Net short-term capital gain (loss) (post-May 5, 2003).....	4d(1)	
	(2) Net short-term capital gain (loss) (entire year).....	4d(2)	
	e (1) Net long-term capital gain (loss) (post-May 5, 2003).....	4e(1)	
	(2) Net long-term capital gain (loss) (entire year).....	4e(2)	
	f Other portfolio income (loss) (attach schedule).....	4f	
5 Guaranteed payments to partner.....	5	See Partner's Instructions for Schedule K-1 (Form 1065).	
6a Net section 1231 gain (loss) (post-May 5, 2003).....	6a		
b Net section 1231 gain (loss) (entire year).....	6b		
7 Other income (loss) (attach schedule)..... See Line 25	7 -220,608.		
Deductions	8 Charitable contributions (see instructions) (attach schedule).....	8	Schedule A, line 15 or 16
	9 Section 179 expense deduction.....	9	See Partner's Instructions for Schedule K-1 (Form 1065).
	10 Deductions related to portfolio income (attach schedule).....	10	
	11 Other deductions (attach schedule).....	11	
Credits	12a Low-income housing credit:		Form 8586, line 5
	(1) From section 42(j)(5) partnerships.....	12a(1)	
	(2) Other than on line 12a(1).....	12a(2)	
	b Qualified rehabilitation expenditures related to rental real estate activities.....	12b	See Partner's Instructions for Schedule K-1 (Form 1065).
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities.....	12c	
	d Credits related to other rental activities.....	12d	
13 Other credits.....	13		

(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a Interest expense on investment debts	14a	Form 4952, line 1
	b (1) Investment income included on lines 4a, 4b(2), 4c, and 4f	14b(1) 16.	See Partner's Instructions for Schedule K-1 (Form 1065).
	(2) Investment expenses included on line 10	14b(2)	
Self-employment	15a Net earnings (loss) from self-employment	15a	Schedule SE, Section A or B
	b Gross farming or fishing income	15b	See Partner's Instructions for Schedule K-1 (Form 1065).
	c Gross nonfarm income	15c	
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1986	16a 66.	See Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b Adjusted gain or loss	16b	
	c Depletion (other than oil and gas)	16c	
	d (1) Gross income from oil, gas, and geothermal properties	16d(1)	
	(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)	
	e Other adjustments and tax preference items (attach sch.)	16e	
Foreign Taxes	17a Name of foreign country or U.S. possession		Form 1116, Part I
	b Gross income from all sources	17b	
	c Gross income sourced at partner level	17c	
	d Foreign gross income sourced at partnership level:		
	(1) Passive	17d(1)	
	(2) Listed categories (attach schedule)	17d(2)	
	(3) General limitation	17d(3)	
	e Deductions allocated and apportioned at partner level:		
	(1) Interest expense	17e(1)	
	(2) Other	17e(2)	
	f Deductions allocated and apportioned at partnership level to foreign source income:		
(1) Passive	17f(1)		
(2) Listed categories (attach schedule)	17f(2)		
(3) General limitation	17f(3)		
g Total foreign taxes (check one): <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	17g	Form 1116, Part II	
h Reduction in taxes available for credit (attach schedule)	17h	Form 1116, line 12.	
Other	18a Section 59(e)(2) expenditures: a Type		See Partner's Instructions for Schedule K-1 (Form 1065).
	b Amount	18b	
	19 Tax-exempt interest income	19	Form 1040, line 8b
	20 Other tax-exempt income	20	See Partner's Instructions for Schedule K-1 (Form 1065).
	21 Nondeductible expenses	21	
	22 Distributions of money (cash and marketable securities)	22	
	23 Distributions of property other than money	23	Form 8611, line 8
24 Recapture of low-income housing credit:			
a From section 42(j)(5) partnerships	24a		
b Other than on line 24a	24b		
Supplemental Information	25 Supplemental information required to be reported separately to each partner (attach additional schedules if more space is needed):		
	Line 7 Other Income (Loss) Net loss, see attached explanation..... \$ -220,608. Total \$ <u>-220,608.</u>		
Line 25 Supplemental Information			

**Line 25 (continued)
Supplemental Information**

The net income or loss furthers the exempt purpose of the Member, to wit: in the case of Artemis Wildlife Foundation, to conserve biologically significant lands in the Western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of The Nature Conservancy, to be operated, exclusively for educational, scientific and charitable purposes.

Supplemental Information

Schedule K-1
(Form 1065)

Partner's Share of Income, Credits, Deductions, etc

OMB No. 1545-0099

2003

Department of the Treasury
Internal Revenue Service

For calendar year 2003 or tax year
beginning , 2003, and ending , 20

Partner's identifying number ▶ 53-0242652	Partnership's identifying number ▶ 81-0530132
Partner's name, address, and ZIP code The Nature Conservancy Center for Compatible Econ Devt 4245 North Fairfax Drive Arlington, VA 22203	Partnership's name, address, and ZIP code Conservation Beef, LLC 25 S. Ewing, # 415 Helena, MT 59601

A This partner is a general partner limited partner
 limited liability company member

B What type of entity is this partner? .. ▶ Exempt Org.

C Is this partner a domestic or a foreign partner?

D Enter partner's % of: (i) Before change or termination (ii) End of year

Profit sharing	%	-----	50 %
Loss sharing	%	-----	50 %
Ownership of capital	%	-----	100 %

E IRS Center where partnership filed return: Ogden, UT

F Partner's share of liabilities (see instructions):

Nonrecourse	\$	-----
Qualified nonrecourse financing	\$	-----
Other	\$	-----

G Tax shelter registration number ▶ -----

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2).

I Check applicable boxes: (1) Final K-1 (2) Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
398,384.	555,898.	-220,591.		733,691.

(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1 Ordinary income (loss) from trade or business activities	1	See Partner's Instructions for Schedule K-1 (Form 1065).
	2 Net income (loss) from rental real estate activities	2	
	3 Net income (loss) from other rental activities	3	
	4 Portfolio income (loss):		Form 1040, line 8a Form 1040, line 9b Form 1040, line 9a Schedule E, Part I, line 4 Schedule D, line 5, column (g) Schedule D, line 5, column (f) Schedule D, line 12, column (g) Schedule D, line 12, column (f)
	a Interest income	4a	
	b (1) Qualified dividends	4b(1)	
	(2) Total ordinary dividends	4b(2) 17.	
	c Royalty income	4c	
	d (1) Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)	
	(2) Net short-term capital gain (loss) (entire year)	4d(2)	
	e (1) Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)	
	(2) Net long-term capital gain (loss) (entire year)	4e(2)	
	f Other portfolio income (loss) (attach schedule)	4f	
5 Guaranteed payments to partner	5	See Partner's Instructions for Schedule K-1 (Form 1065).	
6a Net section 1231 gain (loss) (post-May 5, 2003)	6a		
b Net section 1231 gain (loss) (entire year)	6b		
7 Other income (loss) (attach schedule)	7 -220,608.		
Deductions	8 Charitable contributions (see instructions) (attach schedule)	8	Schedule A, line 15 or 16
	9 Section 179 expense deduction	9	See Partner's Instructions for Schedule K-1 (Form 1065).
	10 Deductions related to portfolio income (attach schedule)	10	
	11 Other deductions (attach schedule)	11	
Credits	12a Low-income housing credit:		Form 8586, line 5
	(1) From section 42(j)(5) partnerships	12a(1)	
	(2) Other than on line 12a(1)	12a(2)	
	b Qualified rehabilitation expenditures related to rental real estate activities	12b	See Partner's Instructions for Schedule K-1 (Form 1065).
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c	
	d Credits related to other rental activities	12d	
13 Other credits	13		

Depreciation and Amortization
(Including Information on Listed Property)
▶ See separate instructions.
▶ Attach to your tax return.

Name(s) shown on return

Conservation Beef, LLC

Identifying number

81-0530132

Business or activity to which this form relates

Form 1065

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount. See instructions for a higher limit for certain businesses	1	\$100,000.
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation	3	\$400,000.
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2002 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instrs)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2004. Add lines 9 and 10, less line 12	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election (see instructions)	15	
16	Other depreciation (including ACRS) (see instructions)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2003	17	955.
18	If you are electing under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check here		<input type="checkbox"/>

Section B – Assets Placed in Service During 2003 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only – see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		2,387.	5	HY	200DB	477.
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs		S/L	
h Residential rental property			27.5 yrs	MM	S/L	
i Nonresidential real property			27.5 yrs	MM	S/L	
			39 yrs	MM	S/L	

Section C – Assets Placed in Service During 2003 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs		S/L	
c 40-year			40 yrs	MM	S/L	

Part IV Summary (see instructions)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations – see instructions	22	1,432.
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

Part V Listed Property (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A - Depreciation and Other Information (Caution: See instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? Yes No 24b If 'Yes,' is the evidence written? Yes No
(a) Type of property (list vehicles first) (b) Date placed in service (c) Business/investment use percentage (d) Cost or other basis (e) Basis for depreciation (business/investment use only) (f) Recovery period (g) Method/Convention (h) Depreciation deduction (i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) 25
26 Property used more than 50% in a qualified business use (see instructions):
27 Property used 50% or less in a qualified business use (see instructions):
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1 28
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1 29

Section B - Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other 'more than 5% owner,' or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

30 Total business/investment miles driven during the year (do not include commuting miles - see instructions) (a) Vehicle 1 (b) Vehicle 2 (c) Vehicle 3 (d) Vehicle 4 (e) Vehicle 5 (f) Vehicle 6
31 Total commuting miles driven during the year
32 Total other personal (noncommuting) miles driven
33 Total miles driven during the year. Add lines 30 through 32
34 Was the vehicle available for personal use during off-duty hours? Yes No
35 Was the vehicle used primarily by a more than 5% owner or related person? Yes No
36 Is another vehicle available for personal use? Yes No

Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees? Yes No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See instructions for vehicles used by corporate officers, directors, or 1% or more owners. Yes No
39 Do you treat all use of vehicles by employees as personal use? Yes No
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received? Yes No
41 Do you meet the requirements concerning qualified automobile demonstration use? (see instructions) Yes No
Note: If your answer to 37, 38, 39, 40, or 41 is 'Yes,' do not complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs (b) Date amortization begins (c) Amortizable amount (d) Code section (e) Amortization period or percentage (f) Amortization for this year
42 Amortization of costs that begins during your 2003 tax year (see instructions):
43 Amortization of costs that began before your 2003 tax year 43 267.
44 Total. Add amounts in column (f). See instructions for where to report 44 267.

3/22/04

02:39PM

Attachment to Statement 3

The net income or loss furthers the exempt purpose of the Member, to wit: in the case of Artemis Wildlife Foundation, to conserve biologically significant lands in the Western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of The Nature Conservancy, to be operated, exclusively for educational, scientific and charitable purposes.

Conservation Beef, LLC
Profit & Loss
 January through December 2003

Jan - Dec 03

Ordinary Income/Expense	
Income	
Retail Sales	44,324.18
Wholesale Sales	164,421.71
Cattle Sale Income	94,090.06
Other Income	2,000.00
Total Income	304,835.95
Cost of Goods Sold	
Cattle Purchases	185,082.01
Feed - Grazing	68,596.12
Feed - Supplemental	20,140.50
Transportation	29,718.94
Processing	105,690.79
Storage	7,614.00
Supplies	7,404.51
Replacement Orders	1,050.00
Inventory Change	-47,565.14
Total COGS	377,731.73
Gross Profit	-72,895.78
Expense	
Marketing Expense	
Advertising	815.00
Consulting	19,949.11
Printing / Mailing	4,443.08
Promotional Items	4,931.39
Samples	3,715.00
Total Marketing Expense	33,853.58
Fullfillment	
Credit Card Fees	1,205.53
Product Handling Fees	8,021.56
Product Delivery	41,487.95
Total Fullfillment	50,715.04
Administrative	
Bank Fees	127.22
Computer Expenses	2,836.91
Insurance	2,372.00
Office Expense	2,889.23
Postage	1,094.36
Printing	517.01
Professional Fees	6,798.74
Rent	4,573.38
Telephone	7,235.09
Travel	21,439.79
Total Administrative	49,883.73
Bad Debt Expense	1,168.07
Personnel	
Salaries Expense	
Salaries Reimbursed	-1,560.45
Salaries Expense - Other	-176,814.37
Total Salaries Expense	175,253.92
Payroll Taxes	13,404.58
Benefits	39,594.54
Unemployment Insurance	803.57
Workers Comp	1,784.97
Total Personnel	230,841.58

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03/29/04
Accrual Basis

Conservation Beef, LLC
Profit & Loss
January through December 2003

	Jan - Dec 03
Amortization Expense	267.00
Depreciation Expense	1,432.00
Total Expense	368,161.00
Net Ordinary Income	-441,056.78
Other Income/Expense	
Other Income	
Interest Income	33.02
Total Other Income	33.02
Other Expense	
Interest Expense	158.76
Total Other Expense	158.76
Net Other Income	-125.74
Net Income	-441,182.52

Conservation Beef, LLC
Balance Sheet
As of December 31, 2003

	<u>Dec 31, 03</u>
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	77,042.46
Total Checking/Savings	<u>77,042.46</u>
Accounts Receivable	
Accounts Receivable	21,135.21
Total Accounts Receivable	<u>21,135.21</u>
Total Current Assets	98,177.67
Fixed Assets	
Furniture & Equipment	7,181.00
Accumulated Depreciation	-4,021.00
Total Fixed Assets	<u>3,160.00</u>
Other Assets	
Finished Goods Inventory	134,129.91
Live Cattle Inventory	119,264.31
Organizational Expenditures	1,334.50
Accumulated amortization	-1,135.00
Total Other Assets	<u>253,593.72</u>
TOTAL ASSETS	<u>354,931.39</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	43,552.43
Total Accounts Payable	<u>43,552.43</u>
Other Current Liabilities	
Direct Deposit Liabilities	-0.76
Payroll Liabilities	0.76
Total Other Current Liabilities	<u>0.00</u>
Total Current Liabilities	<u>43,552.43</u>
Total Liabilities	43,552.43
Equity	
Capital - TNC	1,563,710.62
Net Losses - TNC	-609,428.11
Capital - Artemis	439,021.08
Net Losses - Artemis	-640,742.11
Net Income	-441,182.52
Total Equity	<u>311,378.96</u>
TOTAL LIABILITIES & EQUITY	<u>354,931.39</u>

Conservation Beef, LLC 2002
Balance Sheet
 As of December 31, 2002

	Dec 31, 02
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	13,007.57
CB/Crumley Premium Account	4,798.98
Merrill Lynch Money Market	0.27
Total Checking/Savings	17,806.82
Accounts Receivable	
Accounts Receivable	36,067.79
Total Accounts Receivable	36,067.79
Total Current Assets	53,874.61
Fixed Assets	
Furniture & Equipment	4,794.00
Accumulated Depreciation	-2,589.00
Total Fixed Assets	2,205.00
Other Assets	
Finished Goods Inventory	14,120.00
Live Cattle Inventory	200,836.58
Organizational Expenditures	1,334.50
Accumulated amortization	-868.00
Total Other Assets	215,423.08
TOTAL ASSETS	271,502.69
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	33,629.09
Total Accounts Payable	33,629.09
Other Current Liabilities	
Accrued Expenses Payable	1,166.06
Loan Payable - Artemis	40,000.00
Payroll Liabilities	44.06
Total Other Current Liabilities	41,210.12
Total Current Liabilities	74,839.21
Total Liabilities	74,839.21
Equity	
Capital - TNC	1,007,812.62
Net Losses - TNC	-424,691.22
Capital - Artemis	439,021.08
Net Losses - Artemis	-456,005.23
Net Income	-369,473.77
Total Equity	196,663.48
TOTAL LIABILITIES & EQUITY	271,502.69

11:13 AM
03/29/04
Accrual Basis

Conservation Beef, LLC 2002
Profit & Loss
January through December 2002

	<u>Jan - Dec 02</u>
Ordinary Income/Expense	
Income	
Interest Income	377.12
Cattle Sale Income	5,542.64
Retail Sales	49,907.84
Retail Sales PM	205.00
PM Beef Returns	-17,565.30
Wholesale Sales	86,120.84
Returns / Refunds	-278.40
Total Income	<u>124,309.74</u>
Cost of Goods Sold	
Cattle Expense	
Cattle Purchases	188,196.16
Trucking Live Cattle	26,654.25
Fabrication & Processing	50,912.41
Feeding	20,889.48
Cattle Expense - Other	3,107.50
Total Cattle Expense	<u>289,759.80</u>
Product Expenses	
Credit Card Fees	1,368.99
Freezer Storage	780.00
Product Shipping	20,272.81
Complimentary Products	3,373.50
Replacement Product	2,400.00
Total Product Expenses	<u>28,195.30</u>
Inventory Change for Year	<u>-42,313.77</u>
Total COGS	<u>275,641.33</u>
Gross Profit	-151,331.59
Expense	
Amortization Expense	267.00
Bank Fees	448.88
Consultants	
Rich Hewitt	2,035.36
Novak	3,000.00
Peterson	1,350.00
Vollmer	1,559.95
Other Consultants	785.00
Total Consultants	<u>8,730.31</u>
Depreciation Expense	1,038.00
Insurance	
Health	1,466.06
Workers Comp	665.75
Liability	1,713.83
Unemployment Insurance	940.53
Total Insurance	<u>4,786.17</u>
Marketing Expense	
Design Services	1,094.95
Postage / Mailing	292.00
Printing / Mailing	4,652.30
Total Marketing Expense	<u>6,039.25</u>
Meeting Expenses	59.04
Office Expense	
Office Expense	1,994.32
Computer Expenses	1,071.68
Total Office Expense	<u>3,066.00</u>
Office Rent	2,011.95

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Accrual Basis

Conservation Beef, LLC 2002
Profit & Loss
January through December 2002

	<u>Jan - Dec 02</u>
Payroll Expenses	
Retirement Benefits	16,387.41
Payroll Taxes	8,486.44
Salaries Expense	110,933.85
Payroll Expenses - Other	<u>5,217.55</u>
Total Payroll Expenses	141,025.25
Postage - Office	985.77
Printing	554.79
Professional Fees	18,554.45
Telephone	6,507.02
Travel	<u>24,068.30</u>
Total Expense	<u>218,142.18</u>
Net Ordinary Income	<u>-369,473.77</u>
Net Income	<u><u>-369,473.77</u></u> //

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05/03/02
Accrual Basis

Conservation Beef, LLC
Balance Sheet
As of December 31, 2001

	<u>Dec 31, 01</u>
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	6,455.81
CB/PM Holding MT West Ckg.	26,969.91
CB/Sun Ranch ML Acct	24,485.10
Merrill Lynch Money Market	5,213.88
Total Checking/Savings	<u>63,124.70</u>
Accounts Receivable	
Accounts Receivable	37,270.55
Total Accounts Receivable	<u>37,270.55</u>
Other Current Assets	
Inventory	50,520.08
Total Other Current Assets	<u>50,520.08</u>
Total Current Assets	150,915.33
Fixed Assets	
Furniture & Equipment	4,794.00
Accumulated Depreciation	-1,551.00
Total Fixed Assets	<u>3,243.00</u>
Other Assets	
Organizational Expenditures	1,334.50
Accumulated amortization	-601.00
Total Other Assets	<u>733.50</u>
TOTAL ASSETS	<u><u>154,891.83</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	24,458.93
Total Accounts Payable	<u>24,458.93</u>
Total Current Liabilities	<u>24,458.93</u>
Total Liabilities	24,458.93
Equity	
Capital - TNC	572,108.27
Net Losses - TNC	-424,691.22
Capital - Artemis	439,021.08
Net Losses - Artemis	-456,005.23
Retained Earnings	176,162.45
Net Income	-176,162.45
Total Equity	<u>130,432.90</u>
TOTAL LIABILITIES & EQUITY	<u><u>154,891.83</u></u>

Conservation Beef, LLC
Addendum to Balance Sheet
Capital Contribution Schedule

Balance Sheet Date: December 31, 2001

Capital Contributions per Accounting Records	572,107	439,021
Additional Contributions made prior to legal formation	<u>143,053</u>	
Total Partnership Investment to Date	715,160	439,021

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 05/03/02
 Accrual Basis

Conservation Beef, LLC
Profit & Loss
 January through December 2001

	Jan - Dec 01
Ordinary Income/Expense	
Income	
Cattle Sale Income	168,267.83
Retail Sales	18,220.65
Retail Sales PM	47,485.93
Wholesale Sales	62,573.04
Returns / Refunds	-48.00
Total Income	296,499.45
Cost of Goods Sold	
Cattle Expense	
Cattle Purchases	255,713.15
Trucking Live Cattle	23,117.60
Fabrication & Processing	12,529.98
Cattle Expense - Other	735.00
Total Cattle Expense	292,095.73
Product Expenses	
Credit Card Fees	2,118.67
Inventory Change for Year	6,673.63
Freezer Storage	2,914.04
Product Shipping	11,964.23
Complimentary Products	4,439.00
Total Product Expenses	28,109.57
Total COGS	320,205.30
Gross Profit	-23,705.85
Expense	
Amortization Expense	267.00
Advertising	101.60
Bank Fees	82.77
Consultants	
Breuer	1,186.85
Peterson	3,988.55
Vollmer	3,139.88
Other Consultants	884.46
Consultants - Other	9,559.52
Total Consultants	18,759.26
Depreciation Expense	858.00
Insurance	
Workers Comp	341.03
Liability	1,431.98
Unemployment Insurance	874.77
Total Insurance	2,647.78
Marketing Expense	
Design Services	1,505.39
Postage / Mailing	2,358.58
Printing / Mailing	15,619.13
Promotional Items	1,097.77
Total Marketing Expense	20,580.87
Meeting Expenses	48.32
Misc. Expense	1,009.18
Office Expense	
Office Expense	2,749.55
Computer Expenses	1,802.91
Total Office Expense	4,552.46
Office Furniture & Equipment	715.99
Office Rent	1,699.80
Payroll Expenses	
Retirement Benefits	10,788.89
Payroll Taxes	5,671.79

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Accrual Basis

Conservation Beef, LLC
Profit & Loss
January through December 2003

	Jan - Dec 03
Amortization Expense	267.00
Depreciation Expense	1,432.00
Total Expense	368,161.00
Net Ordinary Income	-441,056.78
Other Income/Expense	
Other Income	
Interest Income	33.02
Total Other Income	33.02
Other Expense	
Interest Expense	158.76
Total Other Expense	158.76
Net Other Income	-125.74
Net Income	-441,182.52

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03/29/04

Accrual Basis

Conservation Beef, LLC 2002

Balance Sheet

As of December 31, 2002

	<u>Dec 31, 02</u>
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	13,007.57
CB/Crumley Premium Account	4,798.98
Merrill Lynch Money Market	0.27
Total Checking/Savings	<u>17,806.82</u>
Accounts Receivable	
Accounts Receivable	36,067.79
Total Accounts Receivable	<u>36,067.79</u>
Total Current Assets	53,874.61
Fixed Assets	
Furniture & Equipment	4,794.00
Accumulated Depreciation	-2,589.00
Total Fixed Assets	<u>2,205.00</u>
Other Assets	
Finished Goods Inventory	14,120.00
Live Cattle Inventory	200,836.58
Organizational Expenditures	1,334.50
Accumulated amortization	-868.00
Total Other Assets	<u>215,423.08</u>
TOTAL ASSETS	<u><u>271,502.69</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	33,629.09
Total Accounts Payable	<u>33,629.09</u>
Other Current Liabilities	
Accrued Expenses Payable	1,166.06
Loan Payable - Artemis	40,000.00
Payroll Liabilities	44.06
Total Other Current Liabilities	<u>41,210.12</u>
Total Current Liabilities	<u>74,839.21</u>
Total Liabilities	74,839.21
Equity	
Capital - TNC	1,007,812.62
Net Losses - TNC	-424,691.22
Capital - Artemis	439,021.08
Net Losses - Artemis	-456,005.23
Net Income	-369,473.77
Total Equity	<u>196,663.48</u>
TOTAL LIABILITIES & EQUITY	<u><u>271,502.69</u></u>

Conservation Beef, LLC
Profit & Loss
 January through December 2000

	Jan - Dec '00
Ordinary Income/Expense	
Income	
Interest Income	2,156.30
Retail Sales	52,494.43
Wholesale Sales	69,996.16
Returns / Refunds	-1,050.26
Total Income	123,596.63
Expense	
Advertising	3,533.74
Bank Fees	111.19
Cattle Expense	
Inventory on Hand	-55,836.02
Trucking	6,122.83
Cattle Purchases	165,017.35
Fabrication & Processing	59,116.34
Cattle Expense - Other	634.45
Total Cattle Expense	175,054.95
Consultants	
Brandenburg	6,448.05
Breuer	2,724.22
Zadig	27,528.83
Peterson	9,816.38
Volmer	10,325.52
Other Consultants	4,131.22
Total Consultants	60,974.22
Credit Card Fees	2,453.23
Insurance	
Auto	471.21
Workers Comp	955.42
Liability	4,711.27
Unemployment Insurance	1,145.60
Total Insurance	7,283.50
Marketing Expense	
Comp Products	16,792.31
Design Services	17,146.51
Postage / Mailing	-6,596.73
Printing / Mailing	10,412.83
Promotional Items	3,155.18
Brochure Other	500.00
Total Marketing Expense	41,410.10
Meeting Expenses	
Conference Call Meetings	1,967.06
Total Meeting Expenses	1,967.06
Office Expense	
Office Expense	2,026.83
Computer Expenses	2,606.06
Total Office Expense	4,632.89
Office Furniture & Equipment	1,527.86
Office Rent	5,661.45
Payroll Expenses	
Retirement Benefits	8,661.34
Payroll Taxes	6,560.02
Salaries Expense	96,657.24
Payroll Expenses - Other	68.50
Total Payroll Expenses	111,947.10
Postage - Office	2,347.00
Printing	936.81
Product Expense	
Freezer Storage	4,029.50

Conservation Beef, LLC
Profit & Loss
January through December 2000

	<u>Jan - Dec '00</u>
Shipping	<u>44,197.02</u>
Total Product Expense	48,226.52
Professional Fees	10,549.49
Telephone	10,911.16
Travel	<u>27,543.22</u>
Total Expense	<u>517,071.49</u>
Net Ordinary Income	-393,474.86
Other Income/Expense	
Other Income	22,500.00
Grant Income	277,565.72
Donations	<u>300,065.72</u>
Total Other Income	<u>300,065.72</u>
Net Other Income	<u>300,065.72</u>
Net Income	<u><u>-93,409.14</u></u>

PM-CONSERVATION BEEF® PROTOCOL FOR LIVE ANIMAL HANDLING, HARVEST, BEEF FABRICATION, PORTIONING AND SHIPPING

Conservation Beef® (CB) is a premium product commanding a premium price. To justify that price, all steps must be taken in processing, fabrication and shipment to insure maintenance of the impeccable standard of excellence that CB customers expect. CB and PM are fully capable of and committed to meeting this standard. This protocol outlines the key requirements to do so. As experience dictates, this protocol may be updated and revised.

HANDLING OF LIVE ANIMALS:

All CB animals will be treated and handled in a humane manner, with all appropriate steps taken to minimize animal stress. No electric prods, “hot shots” or other such tools will be used at any time. While in pre-harvest holding areas, the animals will always have adequate supply of clean drinking water. If held for more than six hours after delivery, CB animals will be fed ample amounts of high quality hay. They will be kept in holding pens that have concrete floors and are cleaned regularly.

HARVEST:

Animals will be harvested in Windom, MN. Carcasses will be slow-cooled, and each half shall be placed prior to cooling in a cotton canvas shroud to further reduce any chance of cold-shortening.

Once cooled, carcasses will be shipped hanging in refrigerated trucks to Hartley, Iowa, where they will promptly be broken down into fabs for refrigerated truck shipment. Middle meats will be shipped to Chicago for dry-aging, non-middle meats to the Richmond, VA plant. Portioning will be done in Richmond, as will all order fulfillment of non-middle meats to wholesale clients, and all fulfillment of frozen/gift pack product. As of the date of this memo it is anticipated that after dry-aging in Chicago, wholesale middle meats will be shipped from Chicago to food service clients; subprimal middle meats will be sent to Richmond for portioning.

CARCASS IDENTIFICATION AND SEGREGATION:

All CB cattle, carcasses, fabs and portioned beef will be kept separate at all times from other animals. As CB is free of artificial hormones and a significant portion is antibiotic free, it is essential that all necessary steps be taken to maintain product integrity,

including but not limited to avoidance of any co-mingling of other meat residues through tools, surfaces or any other means.

It is essential that CB be able to trace carcasses back to the live animal/source. All primals cuts shipped by PM will retain on the primal the PM Carcass ID #, which will be traceable back to the animal ear tag color/# and brand. When primals are broken into subprimals, CB will be notified of all carcasses/ID# that are deemed of unsatisfactory quality, as well as the specific quality problem.

HARVEST DATES, DRY AND WET-AGING AND TIMELY DELIVERY

Harvest dates for 2001 will begin on approximately September 13 and will continue weekly, approximately forty cattle each week, for approximately ten weeks.

Dry-aging is essential for maximum flavor and quality of CB middle meats. It is essential that every step be taken prior to, during and after dry aging to minimize temperature and humidity changes. If PM is uncertain about the details of this handling, it will make a thorough, best effort to obtain the needed information from people experienced in and excellent at dry-aging. All middle meats will be dry-aged for a minimum of twenty-one days.

Wet-Aging: Non-middle meats will be aged in cryovac.

Shelf life is limited on the fresh dry-aged product. Therefore that portion of dry-aged middle meat fabs designated for D'Artagnan Meats in Newark, New Jersey will be delivered by refrigerated truck to D'Artagnan no later than 24 hours after the completion of the twenty-one day aging period. Wet-aged meats will be delivered to D'Artagnan no sooner than ten days, nor later than seventeen days after harvest.

Middle meats designated for corporate/home delivery customers will be portioned and flash-frozen no sooner than the twenty-first day after harvest, and no later than the twenty-eighth day. Ground Steak for corporate/home delivery customers will be ground and flash-frozen between five and eight days after harvest.

ORDER FULFILLMENT/SHIPPING:

CB is responsible for receiving restaurant, corporate and home delivery orders and will communicate clearly and in writing—by fax or e-mail, as specified by PM—all orders and needed delivery dates. PM's responsibility is to insure all orders are fulfilled in a timely and fully professional manner. CB home delivery is shipped by second day Federal Express and guaranteed on a date certain. Therefore, PM will need to establish internal procedures to assure orders are shipped on the dates required to meet this commitment to the customer. PM will notify CB as to the minimum "advance" timing required to fulfill such orders. CB will observe those timeframes. In exceptional circumstances customer satisfaction may require that orders be fulfilled within less than the agreed minimum. In

such cases, both CB and PM will make best reasonable effort to meet customer needs, but the parties recognize this may not always be feasible.

After consultation with PM, CB may decide to serve specific western food service customers, such as Yellowstone National Park. For such deliveries, PM will thoroughly assess the most cost/effective shipping options to deliver product in a timely manner.

FABRICATION:

All wholesale and retail cuts will be trimmed, cut and otherwise fabricated with a consistent standard of excellence.

CB Ground Steak: This is a premium product in every respect and must be handled accordingly. PM will process ground steak as follows:

Frozen Ground Steak Patties: Double grind—first grind at ¼ inch, second at 3/16 inch. 85/15 lean to fat ratio. Patties are to have a “hand-formed” appearance. The tight-packed “hockey-puck” factory patty appearance is not acceptable for our retail patties, for which we are charging in excess of \$8.00 a pound. Patties will be 2/1, either oval or round. Minimum pressure will be applied to form the patty so as to avoid the “tight packed” look and mouth feel. Two patties, with waxed paper in between, will be cryovaced in a single packet. Vacuum used for the cryovac will be limited to that needed to remove excess air and to avoid visible air crystals on the product. Excess vacuum results in patty deformation “squashing” and will be avoided. Patties will be pre-frozen or chilled prior to cryovacing if needed to achieve the proper presentation. Each pack of two patties (and each pack of all cuts sold for home delivery) will have the “blue sky/white cloud” CB label neatly attached.

Frozen Ground Steak Bulk: Same grind, pressure, put in one-pound chubs. Labeled on each chub. Wholesale accounts may want 10 lb. chubs.

Some food service clients may require 80/20 ground beef and/or other patty shapes/weights or chub weights, which PM will provide.

Fresh Ground Steak for Markets: PM will provide CB with written customer specs for lean/fat ratio and all other issues, and process accordingly. Unless otherwise required by customer, grind will be the same as for frozen product.

Fat content of each batch of Ground Steak processed will be accurately measured, and the results recorded and communicated to CB by e-mail by the end of the next business day.

SUBPRIMALS

Middle meat subprimals will be cryovaced, boxed and delivered to customers on time, as specified above. PM will take all necessary steps to insure that refrigerated truck

shippers utilized to deliver CB are fully professional and reliable in their handling of CB. Subprimals will be needed whenever technically feasible.

PORTIONED CUTS:

All portioned cuts will be cut, within one ounce of the weight agreed upon by PM and CB, as reflected the Gift Pack list or as specified by CB for specific food service customers. Any errors must be on the heavy side, to avoid under weight cuts. All steaks will be cut of uniform and even thickness from one side to the other. Unless otherwise specified, fat trim will be one-quarter inch. Portioned cuts will be needed, unless otherwise directed by CB.

No middle meat steaks will be cut less than 1 ¼ inches in thickness, or more than 1 5/8 inches maximum, unless otherwise specified by CB. In the event a subprimal's dimensions are too small to achieve weight at maximum thickness, that subprimal will be cut to fit the parameters of the Petite Steak line, or if that is not feasible, used wherever possible for other cuts, such as value-added items.

All retail portion cuts will be cryovaced after dry aging, as described above. Sufficient vacuum pressure will be utilized to avoid visible ice crystals inside the package; Each steak will be pre-frozen or chilled to the extent necessary to avoid significant vacuum pressure distortion of the steak inside the package.

CB/NATURAL BEEF SEGREGATION:

All CB will be handled according to written protocols and in a manner which insures no mingling of CB with, or contamination by residues from, any other meats, except where CB is sold to PM for marketing under another label.

QUALITY CONTROL:

Impeccable Quality Control is essential for CB. PM will inspect CB at every point in fabrication and separate out meat it deems unsuitable for CB marketing. Wholesale cuts will be re-inspected prior to packing for shipment. At the time of retail order fulfillment, PM will visually re-inspect every portioned cut prior to wrapping for shipment to be sure that cryovac vacuum seal is intact and the meat is fully presentable in every respect. Every portioned package of steaks and/or Ground Steak, shall have neatly and uniformly attached CB label, either the CB "Blue Sky" label or a design acceptable to CB utilizing the CB logo. CB will work with PM to try to develop a label design enabling use of PM's existing labeling equipment.

SHIPMENT TO CUSTOMER:

Retail CB product will be packaged by PM to CB's exacting specifications, to be provided in writing in a separate document.

All parties will coordinate carefully to insure clear understanding of required customer delivery dates for both retail and wholesale. PM will take all reasonable steps to insure timely delivery of the meat, and its arrival in impeccable condition.—fresh or frozen as the order requires.

Rick Carlson

Brian Kahn

Date

Date

JOINT VENTURE AGREEMENT

For consideration received, Conservation Beef, LLC (CB), a Montana Limited Liability Company and PM Holdings, LLC (PM), a _____ Limited Liability Company, agree to pursue a joint venture to develop and expand the marketing of Conservation Beef®, including but not limited to slaughter, aging, fabrication, portion control, sales, marketing, promotion, shipping, retail and wholesale, fresh and frozen product delivery. Conservation Beef® shall mean beef produced pursuant to this Agreement and raised by ranchers who commit to long-term land conservation strategies, in furtherance of the tax-exempt purposes of those holding ownership interests in Conservation Beef, LLC. To implement this joint venture, the parties, on this the ____ day of _____, 2001, recite and agree on the following terms and conditions:

RECITALS

WHEREAS, CB was organized as a landscape conservation strategy, promoting the same by paying a reliable and fair premium price to ranch families who commit to ecologically sound land stewardship and long-term conservation strategies; and whereas this strategy helps keep families committed to such stewardship on the land, protecting land from development, reducing pollution of surface and ground waters, building soil and plant diversity, sustaining local rural economies, and passing down traditional farming and animal husbandry skills;

WHEREAS, PM desires, as a leading food company, through continuous process refinement, to add value, promote growth and deliver profitability, which is mutually beneficial for its shareholders, communities and the company;

WHEREAS, CB desires to engage PM to provide processing, marketing and shipping services for the purposes of accelerating market growth and achieving profitability for CB products, and both parties are interested in developing a long-term equity-based partnership between PM and CB.

AGREEMENT

1. Definitions. For the purposes of this Agreement, the following terms shall have the meanings set forth below.

- a. Break Even: generally defined as the Sales Revenue necessary to cover costs so that there is zero profit or loss shall in this context specifically mean the amount of revenue generated from wholesale and retail sales, at which PM and CB are able to cover their direct costs for the purchase, transportation, harvesting, fabrication, and portioning of CB cattle and direct marketing and sales expenses, and indirect costs including but not limited to associated management, without any added profit margin.
- b. Cash Out: shall mean (i) the commodity price paid by PM to CB for cattle delivered to the Windom, Minnesota plant, and (ii) the costs associated with shipping cattle to the Windom, Minnesota plant and the additional premium paid to ranchers by CB.

- c. CB Overhead: shall mean all its indirect costs including but not limited to general and administrative expenses, rent, utilities, insurance and communication.
- d. CB Program Costs: shall mean all CB costs, including but not limited to product development, marketing, sales and design, animal husbandry, supplemental feed development, pasturage issues including nutrition and development of extended seasonality of supply and expansion of CB to new landscapes, quality control of all operational phases from cattle production to product delivery, collaborating with and obtaining from elements of local ranching communities support for the principles of the Conservation Beef program, including but not limited to developing ranch management plans and long-term conservation agreements, annual ranchland use monitoring, and multi-year vegetation monitoring.
- e. Commodity Price: shall mean the price paid for fat cattle in the southern Minnesota/northern Iowa market as posted on the United States Department of Agriculture web site on the date of delivery.
- f. Conservation Beef Account: shall refer to the two accounts specifically set up for the purpose of allocating revenues and expenses incurred in the execution of the joint venture agreement between CB and PM. One CB account will be established within PM and the second within CB, for tracking revenues and expenses not included in the first.
- g. PM Overhead: shall mean PM's indirect costs associated with processing and handling the Conservation Beef line.
- h. Slaughter-Ready: see attached CB Beef Handling Protocol.

2. Delivery. CB will be responsible for delivering, at its own cost and risk, slaughter-ready cattle to PM's Windom, Minnesota plant. CB expects to deliver approximately four hundred (400) cattle over a ten (10) week period. CB's goal will be to deliver forty suitable animals per week for ten weeks, with deliveries beginning on approximately September 13, 2001. The parties recognize that, due to the grass-fed nature of the beef, the precise number of cattle that will be suitably finished, and the dates of said finishing, are beyond CB's control. CB will use free-range, chemical-free supplemental feed to the degree it determines necessary to help assure timely and adequate cattle finishing.

Title to cattle which are the subject matter of this agreement shall pass from CB to PM when the cattle are delivered by CB and accepted by PM. Transfer of title will be deemed to have taken place when the cattle are delivered to PM's Windom, Minnesota plant. Risk of loss remains with CB until delivery.

Prior to slaughter the cattle will be weighed so a price can be determined for each animal. The cattle shall be weighed when they arrive at the holding facility and shrinkage shall be calculated at three percent of the live weight when received. Based on these weights PM will pay to CB the commodity price as listed by the United States Department of Agriculture (USDA) for fat cattle on the day of slaughter. The commodity price will be the southern Minnesota /northern Iowa Market price for fat cattle, as posted on the USDA website. Payment is due within ten (10) days of delivery.

If the CB cattle are held at the PM holding facility for more than eight hours prior to harvesting, PM shall use high quality grass/hay feed and shall assure the cattle are properly fed during the entire holding period. Clean water shall be accessible at all times during the animals' stay at the holding facility.

3. Handling and Processing. PM will fully implement the Beef Protocol for handling live cattle and beef. The parties agree that humane handling of CB cattle and processing the beef according to the Beef Protocol is essential for product quality, maintenance, and consumer credibility. Carcasses will be shipped to the PM Hartley facility for sub-primal fabrication. Middle meats will be shipped to Chicago for dry-aging, and from there to Newark/D'Artagnan and to the Richmond, VA, plant respectively. Non-middle meats will be shipped from Hartley to the PM Richmond facility for portioning, as required to service various CB markets.

Immediately after slaughter, PM will inspect the CB carcasses. Any deemed unfit for the CB program by PM shall be removed from the program and sold, obtaining the best price then available. PM will notify CB of the carcass/ear tag number of such animal(s) so that CB can recapture the premium paid to the producer.

4. Marketing. The parties agree that lead responsibility for sales areas is needed to assure efficient marketing efforts. PM will have lead responsibility for marketing to fresh meat markets and Corporate Gifting/Incentive markets. CB will have lead responsibility for marketing to Home List consumers and restaurants. In the sales areas where it is not the lead, PM and CB, respectively, commit to contribute their best efforts to support the organization with lead marketing responsibility.

The parties jointly, and with the active cooperation of The Nature Conservancy, will pursue the development of Corporate Gifting/Incentive clients as a top priority. The parties will make reasonable efforts to begin corporate solicitation in June 2001, and will work to complete this effort by October 1, 2001. The parties recognize that timely implementation of this effort is an essential ingredient to success. In addition, the parties understand that The Nature Conservancy and its Compatible Ventures Group is committed to provide its support in a timely manner to develop the Corporate Gifting/Incentive market. Toward that end, CB has with his concurrence budgeted for eighteen days of W. William Weeks' focused time in support of this element of market development.

PM warrants that: (a) it has insurance policies in force that include commercial general liability coverage and products liability coverage; and that (b) it will continue to maintain coverages throughout the term of the agreement. PM will provide CB with a copy of its certificate of insurance. While ownership of the trademark Conservation Beef® will remain with CB at all times, ownership of the cattle and beef products that are the subject of this agreement will transfer in accordance with section 2 herein.

5. Distribution. PM will be responsible for distribution of CB products to all customers and agrees to carry out its obligations according to the attached CB Order Fulfillment Protocol (Order Protocol) and in such a manner as to assure to the best of its ability timely delivery of CB products in excellent condition. Modifications to this Order Protocol, if mutually agreed upon, will be made in writing with copies retained by both parties. PM agrees to allow CB to review PM's compliance with this Order Protocol.

Before September 15 the parties will establish a fax or e-mail-based system to assure clear

communication regarding order placement and order fulfillment. The parties will take all necessary steps to assure mutual inventory control for all phases of the fabrication, processing, shipping and delivery process.

CB's Helena office will, beginning October 1, solicit by phone and/or mail retail (frozen) orders from its existing Home List. It will in a complete and timely fashion inform PM's Richmond plant of all orders, including corporate orders. The Richmond plant will fill these orders in a timely manner, fully implementing the Order Protocol. The parties agree that excellent presentation of the CB product, in all venues, is of paramount importance.

6. Financial Accounts. The parties will establish within PM a CB account, against which charges will be made for PM's costs of cattle processing and handling. No profit of any kind above costs will be included in these charges. PM will provide CB with detailed itemization of these costs, as well as the basis for their calculations.

PM will receive and retain in the CB account revenues from all wholesale CB product sales.

CB will receive and retain in a distinct joint venture account revenues from all direct mail (frozen) sales and its cash out, program and overhead costs as defined in Section 1.

The revenues in these accounts will be applied exclusively against the costs, and toward profit, if any, of both parties.

Each party will have the right to have conducted a complete and full audit of all records required to be kept pursuant to this agreement.

7. Revenue Allocation. Revenue from the sale of the CB products specified herein will be allocated in the following order: (a) simultaneous return of revenues to PM and CB based on cash out percentages; (b) return of revenues to PM equivalent to PM direct costs, including slaughter, fabrication and portioning, and shipping costs associated with delivery of CB products to the end consumer, and PM's overhead associated with the CB line; (c) return of revenues to CB for its direct sales and marketing costs, and overhead and program costs; and (d) revenue above costs, if any, will be allocated pro-rata based on the percentage of total investment by the parties.

The parties understand that any distribution of revenues above costs, both for this joint venture and a potential equity-based partnership, must meet legal standards avoiding private inurement/inappropriate use of charitable dollars for private gain. The parties agree that attorneys representing CB and The Nature Conservancy will be consulted on this point between the time of signing of this agreement and December 1, 2001, and that if modifications in the above allocation of profit *are* legally required, the parties will agree to so modify this provision.

8. Availability of Information. The parties agree to openly, without cost and in a timely manner provide/share all relevant financial, carcass, and other data/information in order to facilitate full disclosure, open communication, and trust.

9. Joint Control. The joint venture shall be jointly controlled by the parties whose role shall be equivalent to the board of directors of a corporation. The parties (or their duly designated representatives) shall meet or discuss from time to time issues affecting the joint venture. In the event the parties are unable to agree on an issue the matter shall be submitted to arbitration as provided herein.

10. Expiration, Re-Commitment, Withdrawal. It is the intent of the parties that this agreement shall continue in effect from its date of signing to March 1, 2003. At that time the parties, based on an assessment of the experience of the joint venture, intend to consider the formation of an equity-based partnership to further expand CB's market penetration. However, either party may withdraw from this agreement between March 1 and March 31, 2002, with thirty days notice, by notifying the other party by certified mail at the following addresses:

Conservation Beef, LLC
25 South Ewing Street, Suite 415
Helena, Montana 59601

PM Holdings, LLC
2095 Dabney Road
Richmond, Virginia 23230

11. Apportionment of Share of Loss. Should a loss be sustained as a result of the joint venture the parties shall bear such loss. In computing any such loss among the parties, deductions shall first be made to pay expenses in the same order as laid out in Section 7. Other unrecovered expenses are for the respective accounts of the two parties to this joint venture agreement.

11. Disputes. The parties intend to avoid major differences among themselves in the conduct of the joint venture. The parties intend that the contract terms shall control the parties' rights and obligations with respect to operations of the venture. But as matters not specifically controlled by the contract terms, the parties agree to submit their differences for determination and award to a mutually agreeable binding arbitrator, whose conduct and duties shall be governed by the laws of Montana.

12. Entire Instrument/Amendment. The entire agreement of the parties is contained in this instrument, and in the offer and acceptance. This instrument may not be modified or amended without the agreement of all the parties in writing.

13. Not a Partnership. The parties agree that this joint venture is not a partnership and shall not be governed by the partnership laws of any country or state.

14. This agreement shall be governed by the laws of Montana.

15. This agreement shall be binding upon the parties' respective assignees, heirs, successors, administrators, and executors, subject to the provisions of this agreement.

16. Effective Dates. This agreement shall be effective up signature of the parties and continue in effect until March 1, 2003, unless sooner terminated by mutual agreement of all the parties to this

agreement; or the death or incapacity of all the parties; or the impossibility of performance by all the parties.

17. Dissolution. Upon the termination of this contract as provided herein, the joint venture shall be dissolved and wound up in accordance with the law, and its profits distributed among the parties entitled to it or its losses paid by the parties liable for it, as provided for in this agreement.

In witness of the above, the parties have signed this agreement on the dates associated with their names.

Conservation Beef®, LLC

PM Holdings, LLC

By _____

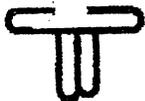
By _____

Its _____

Its _____

Date

Date



Conservation Beef

Audrey -

Pls send

John \$8,000⁰⁰

*as per this agreement
ASAP.*

THXS. BIT

Conservation Beef® Option/Purchase Agreement

Conservation Beef®, (buyer) and John Crumley, (seller) agree to the following terms and conditions:

- I. Buyer will have the option to buy from seller, in the fall of 2000, twenty yearling steers and/or heifers no younger than eighteen months and no older than twenty-six months, said steers/heifers now in possession of seller and having been calved by him from his home herd in 1999;
- II. Seller warrants that said cattle:

- 1) have not as of the date of this agreement received nor will receive any growth hormones, antibiotics of any type, implants or otherwise;
- 2) will for the summer and fall of 2000 be fed exclusively on natural grass, unless approved in writing by Conservation Beef®;
- 3) will, at buyer's sole discretion and at seller's expense, be fed grain for a duration specified by buyer, prior to delivery to seller, but in no case fed in a commercial feedlot;
- 4) will be fed in a winter enclosure only to the extent approved by buyer;

III. Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's steers will comprise a substantial percentage of the year 2000 Conservation Beef® purchase, the quality of the cattle sold to buyer, and the meat derived from them, is of utmost importance. In view of these factors:

IV. Seller warrants that:

- 1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and fall delivery;

CONSERVATION BEEF®
25 SOUTH EWING STREET #415
P. O. BOX 740 HELENA, MONTANA 59624
TELEPHONE 406.449.9480 FAX 406.449.3015
EMAIL: ARTEMIS@MCH.NET WWW.CONSERVATIONBEEF.ORG

- 2) all cattle will be delivered to buyer in excellent health and excellent physical and high quality merchantable condition;
 - a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any steer/heifer which, in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers/heifers meeting the same management and care criteria specified herein.
 - b) any of said steers/heifers receiving preventative antibiotics between date of signing and date of delivery will be appropriately marked and not included among those delivered to buyers; any which receive antibiotics of any type will be marked or otherwise identified, with the dates and nature of treatment recorded, as well as illness or condition treated and buyer supplied with all such records; buyer has sole discretion to accept or reject such animals.

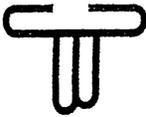
V. In consideration of the above, buyer agrees to:

- 1) Pay seller the amount of four hundred dollars per steer/heifer, US, as a down payment, payable within 5 working days of the date of this agreement, said total down payment to be applied against the total amount payable if the purchase option is exercised;
- 2) Notify seller no later than July 1, 2000 whether buyer will exercise his option to purchase any or all of said cattle; if seller elects not to exercise the purchase option on one or more of the twenty cattle, buyer shall within thirty days refund to buyer, for each of the twenty animals on which the purchase option is not exercised, three hundred dollars (\$300.00 US) of the initial down payment received from buyer, thus retaining one hundred dollars (\$100.00) per animal. For any animals not purchased by buyer due to inadequate health, physical condition or treatment with antibiotics, the one hundred dollar retention shall not apply, and all of the down payment on those animals will be applied to the total balance due seller, if any. *
- 3) Pay seller the balance due for each steer/heifer on which the purchase option has been exercised, the amount due per animal to be as follows: *

- a) For each steer/heifer which, after slaughter and three weeks dry-aging, meets or exceeds Conservation Beef's® shear-test requirements of 6.5 pounds pressure maximum, fifteen cents, US, above the price per pound for steer yearlings as determined by the Billings Stock Exchange one week prior to the date of delivery; at buyer's sole discretion the period of pre-shear-test dry-aging may be extended to four weeks; for each carcass where a second shear-test is required to meet or exceed the 6.5 pounds pressure maximum, buyer will deduct from the balance due seller the cost of said second shear-test, not to exceed seven dollars per test;
 - b) For each steer/heifer which, after slaughter and three weeks dry-aging, does not meet the above shear-test requirements, the same price per pound as determined by Billings Stock Exchange one week prior to the date of delivery;
 - c) Payment will be made as follows: The full then current market price, as described in 2(b), above, will be paid on delivery; the additional fifteen cents per pound due for animals passing the shear-test will be paid within five (5) working days of the shear-test results.
- 3) Accept as fulfillment of this agreement the maximum number of steer/heifer yearlings, up to twenty, delivered by seller and which meet the above standards;
 - 4) Provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results and other relevant information in order that improvements can be made over time in product quality and consistency;
 - 5) Provide seller with notice as to whether said cattle will be required to be grass finished, or grain finished, no later than ninety days prior to the specified date of delivery;
 - 6) Provide seller with notice of required date of delivery, no later than 90 days prior to date of delivery.

The parties agree that:

1) for twelve hours prior to delivery, that said steers shall not be given salt or water; further, that the cattle will not be fed for twenty-four hours prior to delivery; said steers will on the date of delivery be delivered for weighing by nine o'clock in the morning at mutually



Conservation Beef

~~sent~~ sent

Copy to KO
5/5
with ✓

Conservation Beef® Option/Purchase Agreement

Conservation Beef®, (buyer) and Karl Ohs, (seller) agree to the following terms and conditions:

Buyer will have the option to buy from seller, in the fall of 2000, twenty yearling steers and/or heifers no younger than eighteen months and no older than twenty-six months, weighing between 1,000 and 1,200 lbs, said steers/heifers now in possession of seller and having been calved by him from his home herd in 1999, or having been purchased with certification as provided in II, below.

II. Seller warrants, and will provide notarized affidavits confirming, that said cattle:

- 1) have not as of the date of this agreement received nor will receive any growth hormones, preventative antibiotics, implants or otherwise, or fed any genetically-altered foods;
- 2) will between date of this agreement and delivery in fall, 2000, be fed exclusively on natural grass, unless approved in writing by Conservation Beef®;
- 3) will, at buyer's sole discretion, be fed grain for a duration and of a nature and in an amount as mutually agreed, prior to delivery to seller, but in no case fed in a commercial feedlot;
- 4) will be fed in a winter enclosure only to the extent approved by buyer;
- 5) if cattle have not been in his possession since calving, seller will provide buyer with notarized affidavit from the original seller certifying II, 1), above;

I. Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's cattle will comprise a substantial percentage of the year 2000 Conservation Beef® purchase, the quality of the cattle sold to buyer, and the meat derived from them, is of utmost importance. In view of these factors:

IV. Seller warrants that:

CONSERVATION BEEF®
 25 SOUTH EWING STREET #415
 P. O. BOX 748 HELENA, MONTANA 59624
 TELEPHONE 406.449.9460 / FAX 406.449.3015
 EMAIL: ARTEMIS@MCH.NET WWW.CONSERVATIONBEEF.ORG

- 1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and delivery;
- 2) all cattle will be delivered to buyer in excellent health and excellent physical and high quality merchantable condition;
 - a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any steer/heifer which, in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers/heifers meeting the same management and care criteria specified herein.
 - b) any of said steers/heifers which, prior to the date of this agreement, have received antibiotics for serious illness which might affect meat quality will be identified to buyer; animals receiving preventative antibiotics between date of signing and date of delivery will be appropriately marked and not included among those delivered to buyers; any cattle which, between the date of signing and date of delivery, receive antibiotics of any type will be marked or otherwise clearly identified, with the dates and nature of treatment recorded, as well as illness or condition treated and buyer supplied with all such records; buyer has sole discretion to accept or reject such animals.

V. In consideration of the above, buyer agrees to:

- 1) Pay seller the amount of two hundred dollars per steer/heifer, US, as a down payment, payable within 5 working days of the date of this agreement, said total down payment to be applied against the total amount payable if the purchase option is exercised;
- 2) Notify seller no later than August 1, 2000 whether buyer will exercise his option to purchase any or all of said cattle; if seller elects not to exercise the purchase option on one or more of the optioned cattle, seller shall within thirty days refund to buyer, for each of the animals on which the purchase option is not exercised, one hundred dollars of the initial down payment received from buyer, thus retaining one hundred dollars per animal. For any animals not purchased by buyer due

- to inadequate health, physical condition or treatment with antibiotics, the \$100 dollar retention shall not apply, and all of the down payment made on such animals will be applied against the total balance due seller, if any.
- 3) Pay seller the balance due for each steer/heifer on which the purchase option has been exercised, and which meet all buyer's specified criteria, the amount due per animal to be as follows:
- a) For each steer/heifer which, after slaughter and three weeks dry-aging, meets or exceeds Conservation Beef's® shear-test requirements of 6.5 pounds pressure maximum, fifteen cents, US, above the price per pound for steer yearlings or heifers (depending on sex of the animals supplied by Seller) as determined by the Billings Stock Exchange one week prior to the date of delivery; at buyer's sole discretion the period of pre-shear-test dry-aging may be extended to four weeks; for each carcass where a second shear-test is required to meet the 6.5 pounds pressure maximum, buyer will deduct from the balance due seller the cost of said second shear-test, not to exceed seven dollars per test;
 - b) For each steer/heifer which, after slaughter and dry-aging, does not meet the above shear-test requirements, the same price per pound as determined by Billings Stock Exchange one week prior to the date of delivery;
 - c) Payment will be made as follows: The full then current market price, as described in 2(b), above, will be paid on delivery, subtracting any down payment made; the additional fifteen cents per pound due for animals passing the shear-test will be paid within five (5) working days of the shear-test results.

VI. Accept as fulfillment of this agreement the maximum number of steer/heifer yearlings, up to twenty animals, delivered by seller and which meet the above standards;

VII. Provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results and other relevant information in order that improvements can be made over time in product quality and consistency;

VIII. Provide seller with notice as to whether said cattle will be required to be grass finished, or grain finished, no

later than ninety days prior to the specified date of delivery;

IX. Provide seller with notice of required date of delivery, no later than 90 days prior to date of delivery.

The parties agree that:

X. For twelve hours prior to delivery, that said steers shall not be given salt or water; further, that the cattle will not be fed for twenty-four hours prior to delivery; said steers will on the date of delivery be delivered for weighing by nine o'clock in the morning at mutually agreeable livestock scales, seller to bear trucking cost to scales, if any; until delivery to and acceptance by buyer, said cattle shall be the property of seller, who will retain all rights and liability of ownership, limited only by the obligations of this agreement; in the event that the total payment due seller for yearlings delivered is less than the down payment received, seller will refund to buyer within twenty working days of delivery the balance so due.

XI. Security Interest: To secure the payment and performance of the above liabilities and obligations, buyer hereby receives a security interest, subordinate and second to no other, in the cattle deliverable under this agreement, wherever the cattle are or may be located, and all proceeds and products from these cattle. Seller warrants there are no other or prior security interests held by any third party on the cattle which are subject of this agreement.

XII. 1) Introductory Stewardship Plan: Conservation Beef® requires that for the first year following initial supply of cattle to Conservation Beef®, an introductory Stewardship Plan must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef® a copy of the proposed Stewardship Plan no later than July 1, 2000; if seller desires, Conservation Beef® staff will assist in preparation of said plan. Conservation Beef® will review said Plan and notify seller as to its acceptability within thirty days of receipt. Notwithstanding the payment provisions above, payment due on delivery of cattle will not be made unless seller's introductory Stewardship Plan has been submitted and approved by Conservation Beef®.

2) For second year participation in Conservation Beef®, a full Stewardship Plan is required; if desired by seller, Conservation Beef® staff will assist in development of said plan. To be operative, said Plan must be reviewed and approved by both the local watershed collaborative rancher

group and Conservation Beef's® Stewardship Review Panel. Said Plan must be submitted for review no later than June 1 of the second participating year. Approval of the Plan is required prior to payment (due on delivery) being tendered for cattle. If the plan is not submitted by seller, or not approved as prescribed above, seller's cattle will not be purchased by buyer, and the full down payment made will be refunded to buyer.

Kalish
Seller

5/2/00
Date

Brubel
Buyer

5-5-00
Date

Conservation Beef® Option/Purchase Agreement

Conservation Beef®, (buyer) and Sun Ranch, LLC, (seller) agree to the following terms and conditions:

Buyer will have the option to buy from seller, in the fall of 2000, 160 yearling steers no younger than eighteen months and no older than twenty-six months, weighing between 1,000 and 1,250 lbs, said steers now in possession of seller and purchased with certification as provided in II, below.

II. Seller warrants, and will provide producer affidavits confirming, that said cattle:

- 1) have not as of the date of this agreement received nor will receive any growth hormones, preventative antibiotics, implants, or fed any genetically-altered foods;
- 2) will between date of this agreement and delivery in fall, 2000, be fed exclusively on natural grass, unless other feeding methods are approved in writing by Conservation Beef®;
- 3) may, at buyer's sole discretion, be fed supplemental feed for a duration and of a nature and in an amount as mutually agreed, prior to delivery to seller, but in no case fed in a commercial feedlot; the cost of supplemental feed will be included in the purchase price of the cattle as described in V. 3) a) below;
- 4) will be fed in a winter enclosure only to the extent mutually agreeable to seller and buyer;
- 5) if cattle have not been in his possession since calving, seller will provide buyer with a producer affidavit from the original seller, certifying II, 1), above, and in addition, if available, include a history of each/any animal having required medical treatment or which has received any antibiotics of any kind; and each such animal will be visibly and clearly identified.

I. Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's cattle will comprise a substantial percentage of the year 2000 Conservation Beef® purchase, the quality of the cattle sold to

buyer, and the meat derived from them, is of utmost importance. In view of these factors:

IV. Seller warrants that:

- 1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and delivery;
- 2) all cattle will be delivered to buyer in excellent health and physical condition;
 - a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any steer which in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers from seller meeting the same management and care criteria specified herein.
 - b) any of said steers in possession of seller which, prior to the date of this agreement, have received antibiotics will be identified to buyer; animals receiving preventative antibiotics between date of signing and date of delivery will be appropriately marked; any cattle which, between the date of signing and date of delivery, receive antibiotics of any type will be marked or otherwise clearly identified, with the dates and nature of treatment recorded, as well as illness or condition treated and buyer supplied with all such records. Buyer has sole discretion to accept or reject any such animals.

V. In consideration of the above, buyer agrees to:

- 1) Pay seller the amount of \$50.00 dollars per steer, US, for 160 steers, as a down payment, payable within 5 working days of the date of this agreement, said total down payment to be applied against the total amount payable if the purchase option is exercised.
- 2) If buyer elects to reject 1 or more of the contracted cattle, the per head down payment of \$50.00 will be retained by seller and applied against the final purchase price at the time of final delivery should delivery be at more than one time.

3) Pay seller the balance due for each steer on which the purchase option has been exercised, and which meet all buyer's specified criteria, the amount due per animal to be as follows:

a) For each steer which, after slaughter and three weeks dry-aging, meets or exceeds Conservation Beef's® shear-test requirements of 6.5 pounds pressure maximum, pay seller six cents, US, above the price per pound for steer yearlings as determined by the seller's average investment price including the cost of the steer, freight to Sun Ranch from ranch of purchase, pasture (at \$50 per head for full Sun Ranch grazing season), brand inspection at \$2 per head. All costs will be documented and presented to buyer prior to final settlement. Buyer and seller understand that the price to be paid for steers by buyer will vary, based on difference in Seller's cost of purchase and freight for different groups of yearling steers purchased by Seller for Sun Ranch grazing/finishing. Seller's cost calculations will be based on the average per head purchase price of each of three yearling groups purchased, plus the average per head freight costs for each group.

At buyer's sole discretion the period of pre-shear-test dry-aging may be extended to four weeks; for each carcass where a second shear-test is required to meet the 6.5 pounds pressure maximum, buyer will deduct from the balance due seller the cost of said second shear-test, not to exceed seven dollars per test.

- b) For each steer which, after slaughter and dry-aging, does not meet the above shear-test requirements, the same price per pound as determined by the sales average in V. 3) a) above closest to the date of delivery.
- c) Payment will be made as follows: The full then production cost, as described in V. 3) a), above, will be paid on delivery, subtracting any down payment made; the additional six cents per pound due for animals passing the shear-test will be paid within five (5) working days of the shear-test results.
- d) After sale incidental costs:
- 1) Seller will pay for the additional incidental costs of pasture and/or hay feeding for any cattle that do not meet buyer's criteria at the

end of the Sun Ranch grazing season and that seller and buyer agree will likely finish adequately with additional time;

- 2) Buyer will pay seller for any shipping or other mutually agreed upon expenses incurred by seller after sale of said steers to buyer;

VI. Accept as fulfillment of this agreement the maximum number of steer yearlings, up to 160 animals, delivered by seller and which meet the above standards;

VII. Provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results and other relevant information in order that improvements can be made over time in product quality and consistency;

VIII. Provide seller with notice as to whether said cattle will be required to be grass finished, or supplement finished, no later than ninety days prior to the specified date of delivery;

The parties agree that:

IX. Ownership of cattle, and all rights, responsibilities and liabilities arising therefrom, will change from seller to buyer at the time the steer's State of Montana brand inspection certificate transfer of ownership has been completed after said steer has been weighed on certified scale and been determined by buyer or buyer's representative to meet all buyer's criteria.

X. For twelve hours prior to delivery, that said steers shall not be given feed, water, or salt; said steers will on the date of delivery be delivered for weighing by seven o'clock in the morning at the Sun Ranch, LLC certified scales on highway 287 N. Cameron, Montana. Until buyer accepts said steers, said cattle shall be the property of seller, who will retain all rights and liability of ownership, limited only by the obligations of this agreement.

XI. 1) Introductory Stewardship Plan: Conservation Beef ® requires that for the first year following initial supply of cattle to Conservation Beef®, an introductory Stewardship Plan must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef® a copy of the proposed Stewardship Plan no later than September 1, 2000; if seller desires, Conservation Beef® staff will assist in preparation of said

plan. Conservation Beef® will review said Plan and notify seller as to its acceptability within thirty days of receipt. Notwithstanding the payment provisions above, payment due on delivery of cattle will not be made unless seller's introductory Stewardship Plan has been submitted and approved by Conservation Beef® unless prior arrangement have been agreed to by buyer and seller.

2) For second year participation in Conservation Beef®, a full Stewardship Plan is required; if desired by seller, Conservation Beef® staff will assist in development of said plan. To be operative, said Plan must be reviewed and approved by both the local watershed collaborative rancher group and Conservation Beef's® Stewardship Review Panel. Said Plan must be submitted for review no later than June 1 of the second participating year. Approval of the Plan is required prior to payment (due on delivery) being tendered for cattle. If the plan is not submitted by seller, or not approved as prescribed above, seller's cattle will not be purchased by buyer, and the full down payment made will be refunded to buyer.

Don [Signature] 9-18-00
Seller Date

[Signature] 9-18-00
Buyer Date

4/61

Conservation Beef® Purchase Agreement

Conservation Beef®, (buyer) and John Crumley, (seller) agree to the following terms and conditions:

Buyer has by the terms of this agreement contracted to buy from seller, in the fall of 2001, ninety (90) steer calves to be delivered at a weight averaging not less than 575 pounds, said steers now in possession of seller and having been calved by him from his home herd in 2000.

Seller warrants, and will provide affidavits confirming, that said cattle:

- 1) have not as of the date of this agreement received nor will receive any growth hormones, antibiotics, implants or otherwise, or fed any genetically-altered foods;
- 2) will between date of this agreement and delivery in fall, 2000, be fed exclusively on natural grass, unless approved in writing by Conservation Beef®;
- 3) may, at buyer's sole discretion, be fed supplemental feed for a duration and of a nature and in an amount as mutually agreed, prior to delivery to seller, but in no case fed in a commercial feedlot;
- 4) any said animals that require medical treatment between the date of signing and date of delivery will be accurately and visibly marked or the information otherwise recorded, and this information provided to buyer. If any of said animals require treatment with antibiotics, they will become ineligible for Conservation Beef® and will be excluded from delivery to CB.

Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's cattle will comprise a substantial percentage of the year 2001-2 Conservation Beef® purchase, the quality of the cattle sold to buyer, and the meat derived from them, is of utmost importance. In view of these factors:

Seller warrants that:

- 1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and delivery; delivery will be oct 25th to nov 5th and
- 2) all cattle will be delivered to buyer in excellent health and excellent physical and high quality merchantable condition;
 - a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any animal which, in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers/heifers meeting the same management and care criteria specified herein.

In consideration of the above, buyer agrees to:

- 1) Pay seller the amount of thirty dollars (\$30) per steer, as a down payment, payable within 10 working days of the date of this agreement, said total down payment to be applied against the total amount payable on fall delivery;
- 2) For any animals not purchased by buyer due to inadequate health, physical condition or treatment with antibiotics, all of the down payment made on such animals will be applied against the total balance due seller, if any.
- 3) Pay seller the balance due for each steer and which meet all buyer's specified criteria, the amount due per animal to be as follows:
 - a) For each steer, ten cents per pound above the price obtained at the specified June 26 video auction for comparable cattle, this was \$1.055 for a total of \$1.155/ lb.

Buyer agrees to accept as fulfillment of this agreement a maximum of ninety steer calves, delivered by seller and which meet the above standards;

Buyer will provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results as available and other relevant information in order that improvements can be made over time in product quality and consistency;

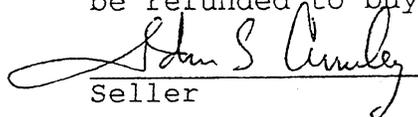
The parties agree that:

There will be three family brands On the cattle; seller will select the best 90 head out of 150 head of steer calves. Bill of sale and health certificates will be given to the buyer at time of weighing in exchange for payment.

On the morning of weighing, the calves will be gathered ASAP, sorted, sexed, loaded, and hauled 7 miles to the scales , unloaded and weighed on the ground straight. Cattle will be worked approximately 2 hrs before they reach the scales. The cattle will be taken back and weaned and fed for two weeks at Crumley ranch. CB will take possession at this time yardage and feed costs will be charged after the two week period, until delivery.

Security Interest: To secure the payment and performance of the above liabilities and obligations, buyer hereby receives a security interest, subordinate and second to no other, in the cattle deliverable under this agreement, wherever the cattle are or may be located, and all proceeds and products from these cattle. Seller warrants there are no other or prior security interests held by any third party on the cattle which are subject of this agreement.

Stewardship Plan: Conservation Beef ® requires that for the second year of supply of cattle to Conservation Beef®, a Stewardship Plan, including seller's selection from among the CB long-term conservation alternatives, must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef® a copy of the proposed Stewardship Plan no later than October 1, 2000; if seller desires, Conservation Beef® staff will assist in preparation of said plan. Conservation Beef® will review said Plan and notify seller as to its acceptability within thirty days of receipt. Notwithstanding the payment provisions above, if the plan is not submitted by seller, or not approved as prescribed above, seller's cattle will not be purchased by buyer, and the full down payment made will be refunded to buyer.



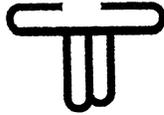
Seller

8-30-01
Date



Buyer

9-10-01
Date



Conservation Beef Purchase Agreement

Conservation Beef (buyer) and Sun Ranch, LLC (seller) hereby agree to the following terms and conditions:

Buyer agrees to buy from seller, in the fall of 2001, up to 385 yearling cattle no younger than twenty months of age, or more than twenty eight months of age, weighing between 1,125 pounds and 1,425 pounds. Said cattle are now in the possession of seller and are being purchased with certain certifications as provided in I below.

- I. Seller warrants and will provide affidavits confirming that the cattle buyer purchases:
 - 1) have not as of the date of this agreement, and while in seller's possession, received nor will receive any growth hormones, implants, preventative antibiotics, or, fed any genetically altered foods.
 - 2) since arrival on the Sun Ranch, all cattle have been fed exclusively on natural grass and supplemented with not more than 6 pounds per head per day of the Wheat Montana, chemical free, wheat/alfalfa pellet and fed under free range conditions. All cattle purchased by buyer will continue to be so fed until the day of shipment.
 - 3) if the cattle buyer purchases have not been in the possession of seller since calving, seller will provide buyer with a producer affidavit from the original owner, certifying that his/her cattle have not received any implants or artificial hormones. Original owner will also certify, if possible, that his/her cattle have not received any antibiotics in any form. Any cattle that have received antibiotic treatment during seller's ownership will not be a part of this contract and will be removed from any cattle presented to buyer for purchase.
- II. Seller warrants that he has communicated with the original producer or his/her representative and all cattle purchased by buyer meet free range criteria throughout their lives, said criteria allowing temporary enclosure when cattle are weaned.
- III. Buyer and seller mutually agree that the success of Conservation Beef is ultimately dependent on the delivery of a premium quality beef product to the customer. Further, since seller's cattle will comprise a substantial percentage of the year 2001 Conservation Beef purchases, the quality of the cattle sold to buyer and the meat derived from them is of utmost importance.

IV. In view of the factors described in I above, seller warrants that:

- 1) he will make consistent best effort to care for said cattle in a consistently humane manner between the date of the animals arriving on the Sun Ranch and delivery to buyer.
- 2) all cattle will be delivered to buyer in excellent health and physical condition. Each group of cattle sold to buyer and shipped to PM Beef will receive a health inspection performed by a Montana licensed veterinarian.
 - a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any animal which in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute animals from seller meeting the same management and care criteria specified herein.
 - b) buyer shall retain the right to approve or reject animals as meeting CB's quality standards for up to 24 hours after USDA grading. Animals rejected by CB due to inadequate fat cover, and/or grade less than USDA Select grade, will be recorded by carcass ID number and the buyer will be so notified. Such animals will be paid for at a rate described in V., below. If a higher price has already been paid, it will be either refunded by seller or deducted from the next buyer payment to seller.

V. In consideration of the above, and provided seller has met the Conservation Beef® Stewardship Guidelines land management and long-term conservation requirements as summarized below, buyer agrees to:

- 1) pay seller for each animal that meets all of buyer's specified criteria. Animals rejected for marketing under the CB label due to condemnation or do not meet the above criteria, will be recorded by carcass ID number and the buyer will be so notified. Such animals will not be eligible for the CB price premium, and will be paid for at the price received by CB from PM, based on the commodity value for the day of delivery. For animals grading Standard, and determined by buyer as qualifying for partial use of the carcass for CB marketing, payment will be sixty-nine cents (\$0.69) per pound, without any additional premium. If a payment above this amount has already been paid it will be deducted from next buyer payment to seller, and clearly so indicated by invoice.
- 2) animals that grade Select or above will be paid for at eighty-three and seventy-five hundredths of a cent per pound (\$.8375) six cents, US, for two year old cattle, and eighty-five cents for up to twenty two-and-a-half year-old cattle, yearlings that were held over from 2000.

- 3) payment to seller will be due within five business days of receiving the shipping invoice.
- 4) in the event that the Sun Ranch has not entered into a legally binding long-term conservation agreement as outlined under the provisions of CB's Stewardship Guidelines, but has submitted in good faith to CB a written letter of intent to do so, CB will make a payment on shipment of seventy cents (\$.70) per pound, US, for cattle shipped. Buyer will retain the balance of thirteen and seventy-five hundredths cents (\$.1375) for Select and above yearlings and fifteen cents (\$.15) per pound for such "two year-olds", minus any unpaid refund due buyer from seller for animals deemed unacceptable after USDA grading, and Standard Grade cattle. Said balance will be placed in a designated, separate and interest-bearing CB account, until such time as a legally binding long-term conservation commitment has been consummated that is acceptable to CB. Buyer will within five business days of receiving written confirmation of such conservation commitment pay to seller the premium withheld, including all interest accrued.

VI. Accept as fulfillment of this agreement the maximum number of cattle, up to 385 delivered by seller, and which meet the above standards.

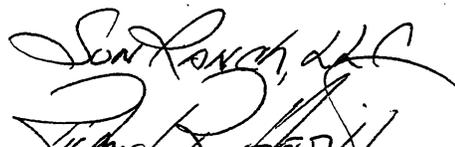
VII. Provide seller with carcass data concerning back fat, slaughter and carcass weight, and other relevant information in order that improvements can be made over time in product quality and consistency.

The parties agree that:

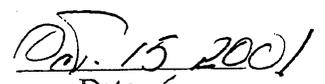
VIII. Ownership of cattle, and all rights, responsibilities and liabilities arising therefrom, will change from seller to buyer at the time the cattle receive their State of Montana brand inspection certificate transferring ownership and the cattle have been weighed on a certified scale and have been determined by buyer or buyer's representative to meet all buyer's criteria. At this time, seller will include with each shipment his written certification regarding eligibility of each and every animal shipped to meet the artificial hormone, free range, and, grass-fed standards as described above. Seller will further certify animals that meet USDA "no antibiotics used". Seller will make every reasonable effort to ship animals that are certified antibiotic free in separate trucks from the other animals. Where this is not feasible, antibiotic free animals will be fully segregated within the truck/trailer, and written documentation will describe clearly which cattle are antibiotic free and where they are located in the truck. Driver will be instructed by seller to assist CB's representative at the delivery point to assure continued segregation of the antibiotic free cattle from other cattle.

IX. To minimize stress during shipment, animals will be fed a mixture of hay and pellets within 12 hours of weighing and loading, have water available until time of weighing, and given a 4% pencil shrink. They will be weighed by 7 A.M. at the Sun Ranch, LLC certified scales on highway 287 N, Cameron, Montana. Until buyer accepts said cattle, they will remain the property of seller who will retain all rights and liability of ownership, limited only by the obligations of this agreement.

X. Conservation Beef requires that for the second year following initial supply of cattle to Conservation Beef, an approved Stewardship Plan must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef a copy of the proposed Stewardship Plan no later than November 1, 2001. To be operative, said Plan must be reviewed and approved by both the local watershed collaborative rancher group and Conservation Beef's Stewardship Panel. Approval of the Plan is required prior to the full CB payment being tendered for cattle, on the same terms as in III, above.



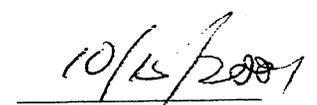
Seller



Date



Buyer



Date