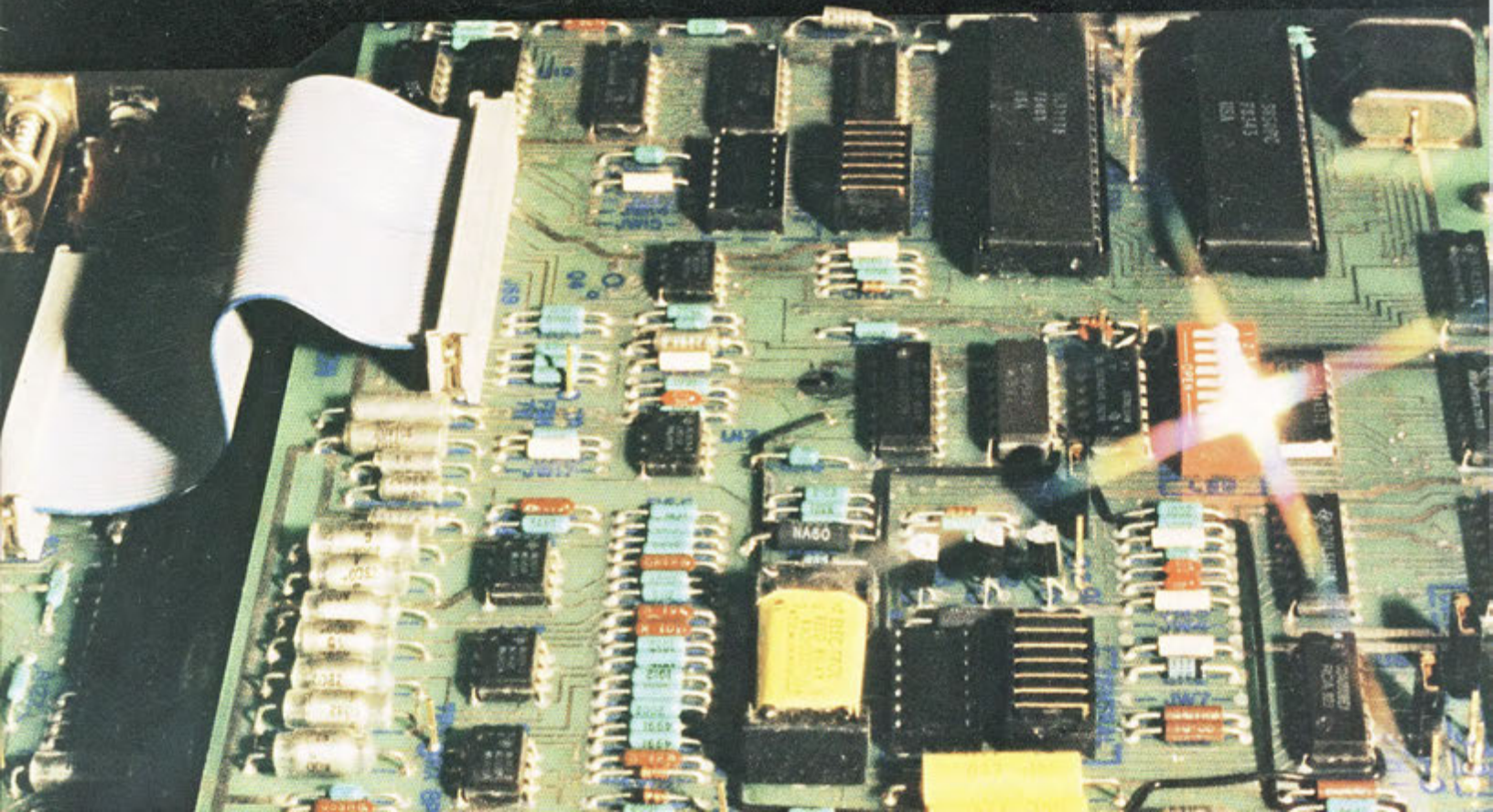


TELCOT







Plains Cotton Cooperative Association (PCCA) was founded in 1953 to help cotton producers achieve the best competitive price for their cotton. But, during PCCA's early years, cotton producers still had no organized system to market their crops. Consequently, the only means to determine the value of their crops was the price offered that day by a local buyer. Little information was available for producers to anticipate the value of their cotton a few days later, nor were they aware of prices being offered for cotton "a few miles down the road." This situation was compounded by access to only a few buyers. Therefore, competitive bidding for cotton was still a thing of the future, and there were no guarantees producers

would receive payment once their cotton was sold.

Similarly, buyers had to rely on a repetitive, labor-intensive system to acquire cotton. Often, the system was flawed and subject to error. Buyers had no way of knowing prices being offered by their competitors, and in some cases, may have offered prices in excess of market value. Access to cotton was limited and expensive to locate. To overcome this, buyers employed country agents or "road-runners" who travelled to local gins to review available cotton and negotiate the sale. This process often was preceded by recaps prepared by local gins and relayed to buyers via telephone. This system required numerous middlemen and made cotton marketing an expensive proposition.



The system was slow and time-consuming for local gins as well. Manual recapping of cotton qualities required intensive labor. This process involved a gin clerk who used an adding machine to figure the recap. Information was relayed back and forth between producer and prospective buyer through the gin office until a sale was consummated or the offer rejected. Often the producer and buyer could not agree on a price, and a few days later or only a few hours later the process was repeated. The element of human error was an ever present possibility, but the system was a "necessary evil" since no other alternative existed.

By the late 1960s and early 1970s, the concept of a centralized clearing house to swiftly and efficiently acquire PCCA members' cotton then re-offer it simultaneously to numerous merchants for competitive bidding was being born. It would be an extension of the way cotton producers had traded their cotton for decades in the Southwest. Today, TELCOT provides a full complement of cotton marketing alternatives for both producers and buyers.

The concept of TELCOT is similar to that of the New York Stock Exchange. Producers have a number of options to sell their cotton, and TELCOT provides access to more than 40 major buyers of U.S. cotton. With TELCOT the producer had the opportunity to receive the most competitive price available at the time he wants to sell his cotton. More importantly, TELCOT guarantees each producer will receive payment for his cotton.

TELCOT Features



TELCOT became a commercial reality in 1975 when remote terminals were installed in 15 cotton buyers' offices in Lubbock and Dallas, Texas, and Memphis, Tennessee. The first feature incorporated by TELCOT was Regular Offer in which buyers bid on a blind basis for cotton entered into the TELCOT computer. After 15 minutes, the computer closed the bidding and awarded the cotton to the highest bidder provided the price was above a predetermined minimum. There were many advantages to this early TELCOT system. A lot of cotton could be purchased quickly on the terminal and all the administrative work would be handled by the TELCOT computer.

An early innovation in the TELCOT system, Firm Offer, was implemented in 1977. This new option allowed producers to offer their cotton on the buyer network at a firm asking price set by the producer. The offer remains outstanding until a buyer purchases the lot of cotton or it is withdrawn by the producer. The cotton is sold to the first buyer who meets the offer price, and Firm Offer has become the most popular option among both producers and buyers.

Acreage crop contracting is another feature of TELCOT to provide producers flexibility in dealing with the market on a forward basis and bring together buyers and sellers. In previous years, crop contracting worked much like Firm Offer. Producers could offer their cotton acreage via TELCOT on a forward basis at prices they (the producers) desired. Today, TELCOT serves as the principal contractor by offering a number of contracting options to producers. In most cases, TELCOT then re-offers these contracts to other buyers in order to offset risk.

Following Regular and Firm Offer, one of the most popular TELCOT innovations used during periods of low prices is the Loan Advance Program (LAP). Producers can tender their cotton to PCCA and receive an interim cash advance equal to the CCC loan price. When the market is right, PCCA then offers the cotton over TELCOT to obtain the best price available. Thus,

the producer has available an immediate cash advance to help meet short-term financial commitments, and the cotton is not sold when the market is depressed.

Equity Trading is yet another enhancement to TELCOT that works with LAP. Once a producer places cotton in the loan, he can enter the net equity per bale he desires. TELCOT calculates the loan amount and all charges such as storage and interest in order to offer the cotton at a firm price to buyers to exactly net the grower the desired per-bale equity. TELCOT recalculates these charges each day and re-offers the cotton to net the desired equity.

One of the most recent innovations is an Automated Counter Offer program. This new feature gives buyers a quick and documented method to notify gins what they are willing to pay for a particular lot of cotton already offered in Firm Offer. This provides producers additional price discovery and information concerning their cotton and the opportunity to sell their cotton for an agreeable price.

TELCOT extends tremendous benefits to buyers as well as producers. An initial benefit was and continues to be timely, accurate recaps of cotton offered for sale. Similarly, buyers benefit from TELCOT's marketing options such as Regular and Firm Offer.

Firm Offer Index is a good example of a timely, accurate recap available to buyers via TELCOT. With this program, buyers can review all lots of cotton offered for sale at a firm price. Also, buyers can establish price, quality, warehouse/gin location, and crop-year parameters, and TELCOT selects and displays only those lots that meet the criteria. Today's Firm Offer program displays only those lots entered by producers into Firm Offer that day. The most current offer that day is listed first on the TELCOT terminal.

Automated Counter Offer has become one of the most popular features for buyers because of its quick and documented

methods to negotiate an acceptable price with the producer. In many cases, Automated Counter Offer results in a transaction that otherwise would not have occurred.

Overall, the benefits enjoyed by cotton buyers are basic to their business. TELCOT's selection capabilities provide valuable information regarding each lot offered for sale. Further, TELCOT differentiates between cotton placed in





the CCC loan program and non-loan cotton, and it notifies buyers if the cotton was ginned at a cooperative or independent gin. TELCOT also provides a summary of daily purchases and assignments and accurate invoicing. Most important, TELCOT guarantees delivery of each lot purchased. Reduced administrative expense is an ultimate benefit.

With TELCOT, gins no longer rely on manual recapping. It also takes the gin "out of the middle" as producers and buyers negotiate a sale. Like buyers, gins have reduced their labor requirements thanks to TELCOT. Much like a stock broker's ticker-tape, TELCOT provides gins, their patrons and buyers reports on all trades via Monitor and Monitor Summary. This important "price discovery" feature displays the sale prices for all trades at all locations to everyone on the system. All TELCOT users also have access to futures prices for all major commodities, weather forecasts and general news.

The advent of TELCOT provided an opportunity for PCCA to expand its services to local gins through an On-Line Gin Accounting (OLGA) system. In other words, electronics replaced the cumbersome hand set of books and "computer batch system" as local gins were able to use their TELCOT terminals to enter bookkeeping data into PCCA's central computer. Today, approximately 145 gins subscribe to OLGA. OLGA's significant features include Bale Accounting, General Ledger, Payroll and Financial Statements which augment the more traditional bookkeeping functions.

In 1985 TELMARK, Inc., was founded to extend TELCOT services to independent gins and their customers in Texas and Oklahoma. This expansion enabled TELCOT's data processing services to be shared by a larger number of users, thus making the electronic service more cost-effective for growers and buyers alike. TELMARK's growth and acceptance in the independent sector has consistently outpaced expectations.



TELCOT's buyer network is now over 40 strong, stretching from Fresno, California, to Memphis, Tennessee. Over 200 gins use their TELCOT terminal year-round for such diverse functions as news, commodity quotes, accounting and rainfall/crop reporting in addition to the traditional cotton ginning and marketing applications.

PCCA has continued to keep its data processing technology equal to the task of marketing cotton and installed newer, faster and more reliable disk storage, new communications equipment and an IBM 3081-D central processor with 24 million characters of main storage, 10 MIPS speed and greater reliability than the 3033. When a failure occurs, IBM in Atlanta places a telephone call to PCCA's computer, diagnoses the problem to the failing part and contacts an IBM service representative in Lubbock with appropriate instructions.

PCCA's disk storage capacity has grown from 10 billion characters in 1979 to 37.5 billion in 1987, and the time to locate any of those characters has shrunk from 60 thousandths of a second to less than 30 thousandths. Disk equipment is expected to fail less than once in 3 years. This extraordinary progress in speed and reliability is now available at substantially less cost than in any other period in the 1980s. TELCOT is a dependable and valuable marketing tool for both buyers and sellers because of this improved technology.

Data is transferred at speeds measured in nano-seconds (billionth seconds) and stored on disk files. The disk drives transfer the data to and from the computer at a rate of 3 million



characters per second. Connected to the central site are over 377 terminals (205 gins, 45 buyers, 7 remotes, 120 internal). The data is carried to and from the users via leased telephone lines involving over 37 different telephone companies covering approximately 11,000 miles of telephone lines on 40 different circuits. PCCA's longest gin circuit is 600 miles and the most remote buyer circuit is 1,050 miles. Each telephone circuit on PCCA's network transfers data at 2,400 bits per second, or 240 characters per second, to and from the computer.

Users generate work for the computer as transactions or requests. Today, a typical gin averages about 80 transactions per hour, with an average of 10 characters inbound, and 1,000 characters outbound. A typical buyer averages 40 transactions per hour, 10 characters inbound, and 1,200 characters outbound. The computer typically processes two to four transactions per second or around 100,000 transactions per day. In peak trading periods, the sustained transaction rate can be 8 to 10 transactions per second with daily rates of 150,000 transactions or more.

Computing power is moving to the field in step with the personal computer revolution. PCCA supports a wide variety of different devices in users' offices from the plain, black terminal - to the PC - to a small IBM System 34 computer in a cotton compress. In addition, PCCA has developed a way to move some TELCOT transactions unchanged to the personal computer, thus extending the time available to gin personnel to use various programs.



TELCOT is a marketing success unequaled in the agricultural industry. Over 10 million bales of cotton have traded over the system since its inception. Cotton producers and buyers have come to like its concept and respect its integrity. Since 1975, PCCA has continued to enhance the TELCOT system to satisfy the needs of both buyer and seller. The producers wanted more flexibility in marketing options, greater market information and guaranteed payment, and TELCOT provides it. Buyers wanted a more comprehensive description of the cotton offered, the ability to buy large volumes faster, to maintain a running tally of their purchases and guaranteed delivery of cotton, and TELCOT provides it. This legacy of innovation and creativity continues today as a satellite communication system is being installed at four gins and one buyer location for data (and potentially voice) transmission designed to increase reliability and lower user costs. Two-way radio links recently have become economically attractive alternatives to leased telephone lines in some locations and possibly could be utilized in the near future. Also, personal computers are currently being evaluated for integration into the TELCOT communication system. With technology moving in this direction, voice and video transmission may eventually become additional enhancements in the future to maintain TELCOT's reputation as "The Window of the Marketplace."



TELCOT TRADING

Crop Year	Total Number of Bales Sold	Estimated Total Value of Bales Sold
1975	123,302	\$25,924,246
1976	280,651	83,493,673
1977	756,802	166,912,681
1978	702,193	77,654,829
1979	1,378,741	362,471,009
1980	753,352	257,533,381
1981	906,499	192,268,438
1982	725,859	179,758,981
1983	1,184,492	343,275,161
1984	686,581	154,686,699
1985	1,131,707	264,107,340
1986	1,144,733	157,032,391
TOTAL	9,774,912	\$2,365,118,829



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