BANKRUPTCY OF A MICHIGAN COOPERATIVE

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ABSTRACT

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Farm Bureau Services (FBS), a producer cooperative based in Michigan, needed money. Local cooperatives made additional investments in their regional. FBS restructured its pension program to extract cash.

Land O' Lakes, Inc., a Minneapolis based cooperative, leased feed formulations and well recognized logo to FBS, to help improve FBS' image.

FBS Board control had been under Michigan Farm Bureau. New investment meant the local cooperatives controlled the board. Creditors voted in favor of reorganization under Chapter 11 of the U.S. Bankruptcy code. The company was renamed Agra Land. Post-reorganization profits were low. Agra Land officials now plan to reorganize again.

Hindsight provides lessons for the future. Client involvement should be stressed in reorganizing. A reorganization should streamline the company. Payment of legal work in formulating a plan of business operations after the reorganization needs consideration. Cooperatives should seek means to reduce their costs by sharing research and development expenses.

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LIST OF ABBREVIATIONS

AL	Agra Land, the reorganized FBS
CEO	Chief Executive Officer
FBS	Farm Bureau Services, Inc., a Michigan producer cooperative
FBIG	The Farm Bureau Insurance Group
FDA	Food and Drug Administration
LOL	Land-O-Lakes, a Minnesota based producer cooperative
MCC	Michigan Chemical Company
MDA	Michigan Department of Agriculture
MFB	Michigan Farm Bureau
MgO	Magnesium Oxide, a feed additive
PBB	Polybrominated Biphenal, a fire retardant
OF	Ohio Farmers Grain and Supply Association, an Ohio producer cooperative
SPB	St. Paul Bank for Cooperatives, also known as Farm Credit Services
USDA	United States Department of Agriculture

INTRODUCTION

An economic entity must, from time to time, alter its structure to cope with the changes that occur constantly in its milieu. Bankruptcy is a tool by which these adaptations can be made. Under the reorganization provisions of the U.S. Bankruptcy Code, bankruptcy can provide a chance for an ailing organization to purge itself of some of its problems and start afresh.

The purpose of this study is to provide a better understanding of bankruptcy and the options available in bankruptcy to managers and board members in the cooperative system. Its focus is not farmers or policy makers, although some comments in the concluding section and in the section entitled "An Economist's Perspective" are policy relevant. The first section of the paper is a brief review of those parts of bankruptcy law which may apply to farmer cooperatives. The second section traces out the experience of one cooperative, Farm Bureau Services (FBS), which completed a reorganization under bankruptcy law. The final section draws together the information from the preceding sections, and makes recommendations for farmer cooperatives contemplating bankruptcy action, as well as some general strategies for cooperatives. The main source of material for this study has been personal interviews with various participants in the proceedings. The interviews were supplemented with books, articles, and company documents.

THE LAW: HOW THE U.S. BANKRUPTCY CODE APPLIES TO PRODUCER COOPERATIVES[1]

It should be emphasized that this review of the law is designed to complement, not replace, legal advice. It is intended to make the reader's use of a lawyer's consulting services more efficient by outlining the basics of the law, as well as setting the stage for the case study that follows.

The advantage of bankruptcy is that it provides a legal basis by which a debtor may be disencumbered from overbearing financial obligations. It provides a fresh start for the debtor, while seeing to it that creditors are treated in a manner prioritized by law. Upon filing of bankruptcy, the debtor is granted an automatic stay from proceedings initiated by creditors to obtain monies owed them. Secured creditors and other interested persons may petition the court for exceptions to the automatic stay.

There are eight chapters of the U.S. Bankruptcy Code as revised under public law 95-958 in 1978. They are odd-numbered. Chapters 1, 3, and 5 apply to any bankruptcy case that is filed. Chapter 1 defines the terminology used in the code. Chapter 3 outlines how a bankruptcy case is to be administered. It indicates that a case may be either voluntary or involuntary. Inability to pay bills as they come due is considered adequate basis for voluntary filing. An involuntary case may be filed by one creditor if the debtor has less than twelve creditors, or by three or more creditors if the debtor has twelve or more creditors. Each of the creditors filing a petition for involuntary bankruptcy must have claims of at least $5,000 against the debtor. Creditors may also request and elect a trustee to administer the bankrupt estate if they feel a lack of confidence in the debtor.

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[1]Material for this review of the law was drawn from two books: A) Schnepper, Jeff A., "The New Bankruptcy Law: A Professional's Handbook," Addison-Welsley Publishing Co., 1980, and B) Stanley, David T., and Majorie Girth, "Bankruptcy: Problem Process, Reform," The Brookings Institution, 1971.

Creditors holding at least 20% of the debtor's liabilities must request election of a trustee at a meeting held shortly after filing of the bankruptcy petition in order for the election to be held. Otherwise, the debtor continues to manage the estate, and is referred to as the debtor-in-possession. The trustee or the debtor-in-possession must make a final accounting of activities to the court upon completion of the bankruptcy.

Chapter 5 gives priority rankings for creditors' claims, the duties and benefits of the debtor, exemptions allowed the debtor, and powers of avoidance given to the debtor-in-possession (or trustee). The priority rankings of unsecured creditors are as follows: 1) administrative expenses of the proceedings, 2) certain unsecured claims existing prior to the appointment of a trustee in involuntary cases, 3) unsecured claims for wages and other employee benefits up to $2000 per person which were earned within 90 days of filing or the date which the debtor stopped doing business, 4) unsecured claims for contributions to employee benefit plans up to $2000 per employee earned within 180 days of filing, 5) up to $900 per person for unsecured claims due to deposits for the purchase, lease, or rental of services from the debtor which were not delivered, and 6) unsecured claims from governmental units for taxes or customs.

The duties of the debtor after filing are to file a list of creditors, a list of assets and liabilities, a statement of affairs, to cooperate with and make records available to the trustee (if one is appointed), to be present at meetings concerning the discharge of debts, and to attend all creditor meetings.

The U.S. Bankruptcy Code provides many exceptions to the items which must be listed as assets of the estate in a bankruptcy action. The purpose of these exemptions is to allow the debtor some base from which to restart activities. The bulk of these are intended to protect individuals who are filing personal bankruptcies. The exemptions are very detailed, and many states have their own lists of exemptions, which may or may not overrule the federal exemptions. A comprehensive discussion of these exemptions would be many pages long and would soon need updating. Therefore a list of the exemptions is not included in this paper.

As mentioned earlier, there are two chapters in the U.S. Bankruptcy Code under which a farmer/producer cooperative may file for bankruptcy. These chapters, 7 and 11, were not written specifically for farmer/producer cooperatives and the elements of those chapters which do not apply to them will not be discussed for the sake of brevity.

A Chapter 7 bankruptcy, sometimes called a straight liquidation, is the simpler of the two types of bankruptcy. Here the trustee or the debtor-in-possession is responsible for assembling the estate, liquidating it, and distributing the proceeds on a priority basis to creditors (creditors must have satisfied the court as to the validity of their claims). If the proceeds from liquidation of the estate are not large enough to cover all the claims within a particular class, then payment is made by prorating the claims in that class. Upon payment of the various classes of creditors from the proceeds of the liquidation, the debtor is granted a discharge. The discharge frees the debtor from most types of debts. (The largest exceptions being: wage claims, trust amounts, taxes, debts not listed in the bankruptcy petition, debts that could have been listed in a prior bankruptcy case, and debts arising from fraud.) The debtor may waive the discharge of certain debts if the debtor so desires. This is normally done to preserve a preferred line of credit.

The debtor has the right to request stoppage of bankruptcy proceedings, or conversion to Chapter 11 proceedings. If the Chapter 7 proceeding has already been converted from a Chapter 11 proceeding, then the debtor may not request reconversion from Chapter 7 into Chapter 11.

Chapter 11 is more complex than Chapter 7. The debtor continues to do business, and the object in filing bankruptcy is to develop a plan to reorganize the cooperative in such a manner so that it will be able to continue to make a positive contribution to members and clients, and at the same time be a viable operation. This usually entails restructuring the discharge of debt. Creditors must therefore have a much larger voice in the reorganization than they would under liquidation.

The law provides for the formation of committees to represent the various classes of creditors. It requires formation of a committee for unsecured creditors, and states that the court is empowered to appoint additional committees if requested to do so. Generally, the seven largest creditors within a class form the committee, if they desire to. The court does have some discretion over the composition of the committees. What does a creditors' committee do? First, it engages the professional services that will be needed by the committee. Second, it negotiates with the trustee or debtor-in-possession. Third, it oversees the conduct of the debtor. Fourth, it may request the appointment of a trustee in lieu of the debtor-in-possession.

Appropriate grounds for the appointment of a trustee in a Chapter 11 case are fraud or incompetence of the debtor, or if the court deems that the appointment is in the best interest of creditors. In addition to the more general duties of a trustee listed above, the trustee (or debtor-in-possession) is responsible for filing a plan by which the reorganization is to be accomplished, and to file any reports the court may order after confirmation of the plan. The trustee (or debtor-in-possession) may also request that the case be converted to a Chapter 7 proceeding.

The debtor-in-possession must also file a plan for the reorganization within 120 days of filing for bankruptcy. After the plan is filed, the law allows 60 days for the various classes of claimants to accept the plan. Attorneys for the debtor-in-possession may petition the court for extension of these time limits. In practice, the court tends to grant extensions automatically. If a plan is not filed or accepted within the time allowed, then any interested party may file a plan of its own.

Any plan filed must specify how the various classes of claimants are to be treated in the reorganization. An impaired class is a class of claimants that receives less than the full amount of its claims. A class is considered unimpaired if one of the following three conditions are met. 1) the plan provides for full payment of claims within that class, 2) the plan leaves the claims of that class unaltered after the reorganization, or 3) the plan reinstates a claim or interest, usually by curing a default. The status of a particular class can be very important in acceptance or rejection of a plan, because unimpaired classes which reject the plan can be overruled if the impaired classes approve it. For example, an unimpaired class which objected to the plan because of a new distribution of voting rights could be overruled by subordinate impaired classes. Thus if the debtor-in-possession wished to employ a plan over the objections of a certain class of creditors, the best means to accomplish this would be to arrange to leave that class unimpaired. The principle of "equitable subordination" can be used to leave a class unimpaired and at the same time give it very little. In the eyes of the law, the rate of interest paid on the debt may be decreased, or the period of time over which the debt is paid back may be increased without impairing the creditor. As long as the face value of the claim is paid, the creditor is classified as an unimpaired creditor.

In addition to specifying the treatment of creditors, the plan must also provide an outline as to how the reorganization is to be accomplished. This includes descriptions of the estate that is to be retained by the debtor, the transfer of any assets, any business combinations, the liquidation of any part of the estate, changes in the status liens, indentures, defaults, or securities, reformulation of the cooperative's charter, and any new debt to be issued. Note: The assets may be completely liquidated under Chapter 11 if the cooperative prefers not to convert to Chapter 7.

The plan must also state that the debtor will not issue any further nonvoting equity securities, and provide an outline of voting powers of the various classes of creditors in elections of boards of directors. Executory contracts may be continued or rejected in Chapter 11. The plan must state the future of these contracts.

Once the plan has been filed, it is the responsibility of the debtor-in-possession to submit to each claimant a court approved disclosure statement. The disclosure statement is a summary of the plan and the financial status of the cooperative. The purpose of the disclosure statement is to provide each claimant with adequate information by which s/he may decide to affirm or reject the plan. In short, the disclosure statement is a court proctored sales pitch. It is an important tool which the bankrupt cooperative uses to persuade creditors to affirm the plan. Choice of wording and presentation may change the fate of the plan.

In order to be affirmed, the plan must receive "yes" votes from at least two-thirds of the creditors in dollars, and more than 50% of the individual claimants who exercise their right to vote. Classes and claimants which accepted the plan prior to filing of the bankruptcy are counted as "yes" votes if the court finds that they were adequately informed at the time.

After the claimants have accepted the plan, it must be confirmed by the court. For confirmation, the plan must be legal, and all payments and provisions for promotion of directors must be disclosed. Further, all holders of claims or interests must have either received a settlement of at least what they would have received in liquidation, or have accepted the plan. Secured creditors must receive full value of their claims. A plan may be approved over the objections of a class of impaired creditors, if it meets court standards of equity. This is called the cram down option. It is seldom used because it is difficult to prove the legal conditions necessary for its implementation. Perhaps its existence is sufficient, because the threat of cram down can be an effective bargaining tool in negotiations with obstreperous creditors. Other conditions for court approval are that priority claims be paid in the order of their priority, that at least one class of claimants accepts the plan, that the intent of the plan not be the avoidance of taxes, and that the plan appear feasible.

Upon confirmation of the plan, the debtor is discharged from all debts that were incurred prior to confirmation, except non-dischargeable debts (certain taxes, wage claims, trusts, etc.), and debts which will be paid under the plan. This discharge may be revoked if it is found that the debtor used fraudulent techniques to obtain the requisite approvals for the plan.

The next section describes how a regional producer cooperative, Farm Bureau Services (FBS), used Chapter 11 of bankruptcy law to get through a financial and image crisis.

BACKGROUND ON FARM BUREAU SERVICES

What FBS Was

In 1972, FBS was a large regional farm supply cooperative. Its marketing area covered the lower half of Michigan's lower peninsula. Its activities included: marketing of grain, beans, eggs, manufacturing of feed, fertilizer and seed, and retailing of various farm oriented products through local cooperatives and its own supply outlets. FBS served primarily local cooperatives, but board control of the company was held by the Michigan Farm Bureau (MFB). The MFB president was also the president of FBS. Effective control over FBS' day-to-day operations was maintained by the Executive Vice President, with the President being consulted only for broader policy decisions. This was a legacy of FBS's origin. FBS was created in 1920 as a Supply Service Department of MFB. In 1929 it was incorporated separately from MFB as an affiliated company. MFB owned about 81% of FBS, with the remainder being held by local cooperatives and farmers.

FBS had a wide variety of problems. An FBS document written in 1982 lists the following items as "non-recurring losses":

1976	-	Saginaw Terminal Explosion
1979	-	Bad Debt Write-Off
1980	-	Soybean Quality Loss
1982	-	Edible Bean Market Loss

The above losses were reported as having cost the cooperative $7.8 million. This is very high, considering that the assets of the cooperative ranged from between $50 and $70 million between 1973 and 1983. One costly tangent that doesn't appear in company documents describing financial problems were its investment and purchase obligations with CF industries. On the other hand, the management perspective that these losses were merely unforeseeable one-time occurrences that were just coincidentally close together in time is also plausible. The point here is that these problems did affect FBS' credibility within the industry. There are conflicting viewpoints on FBS' strength in the early seventies: people closely associated with the company tend to say that it was very strong, while outside observers think it was headed for eventual collapse. One point that everyone does agree on is that the Poly Brominated Biphenyl (PBB) problem was a major blow to FBS' financial stability.

PBB

The PBB contamination incident is probably one of the most infamous cases in Michigan's agricultural history. Books have been written on the subject. This paper does not try to encompass all the fascinating aspects of that case. Since the reader may not be familiar with some of the details which are relevant to this case study, a brief sketch of what happened is provided here. The reader who wishes a more complete description of the disaster may refer to Appendix B: "A Brief Chronology of PBB."

PBB was a fire retardant made by the Michigan Chemical Company (MCC). In one form, it is powdery, and has an off-white color. In 1972, MCC decided to do a test marketing of this form of PBB. It warehoused the product in 50-pound bags which were hand stenciled with the identification Firemaster FF-1. The test marketing did not elicit much of a response in MCC's clientele, and the company ceased production of that form of PBB. MCC then stored the unsold portion of the test run in order to reprocess it into another form.

At the same time, dairy researchers were finding that magnesium oxide (MgO) could, if mixed with feed, improve dairy production significantly. The MgO used to mix into diary feed is marketed in a powdery, off-white form. In 1971, FBS began to procure its MgO from MCC. In 1972, MCC began to market its MgO in 50-pound bags that were hand stenciled with the trade name "Nutrimaster".

In April 1973, someone at the MCC warehouse accidentally filled an FBS order for Nutrimaster with some bags of Nutrimaster, and with an undetermined number of bags of Firemaster FF-1. FBS personnel claim that the top bags which they received in that shipment were labeled "Nutrimaster". Touzeau[2] notes that

[2]Touzeau, Lois, "Our Side of the Story: Other Victims of PBB Contamination in Michigan," Vantage Press, 1985.

FBS received MgO from a number of sources with a variety of trade names. These were stored in one area of the warehouse, and everything in that area was presumed by employees to be MgO. In any event, the shipping error went undetected at FBS, and PBB was substituted for MgO in FBS feeds between the summer of 1973 and February of 1974. Further, bags of PBB were also shipped to some of the FBS retail outlets where it was mixed into feed, or sold directly to farmers who mixed it into their own feeds.

One other fact which compounded the PBB problem was that PBB tends to stick to metals. Thus machinery used to mix PBB into feed also became contaminated with the chemical. When the machinery was used to mix batches of feed with the correct ingredients, traces of PBB rubbed off of the machinery, slightly contaminating the feed.

Because of the varied ways in which PBB found its way into animal feed, contamination levels of the affected animals ranged from barely detectable to massive, fatal doses. This was to complicate the process of adjusting the claims against FBS considerably.

The first signs of PBB poisoning were not noticed until the fall of 1973, when a dairyman reported problems with his herd. The cause of these problems was not isolated until April of 1974. Since PBB was not intended for use in the human food chain, little research had been conducted concerning the hazards it posed for cows and humans. Because of this, the Federal Food and Drug Administration (FDA) and the Michigan Department of Agriculture (MDA) initially set fairly arbitrary "acceptable" levels for PBB contamination. Later, after further testing and lobbying by Michigan citizens, the maximum tolerances were reduced considerably. At first, if any animals on a farm showed levels above tolerance, the whole dairy operation of that farm was quarantined. Later, only the animals themselves were quarantined; farmers were allowed to market their milk. Eventually, many contaminated animals were destroyed and buried. Hundreds of farmers were damaged in the process.

AN HISTORY OF FBS FROM 1974 UNTIL THE REORGANIZATION

This section describes what happened to FBS from the time that PBB was discovered in its feed until it reorganized in late 1983. Included are analyses of the process of the claims made against FBS and MCC, FBS' changing financial condition during that time, and the ways in which FBS unsuccessfully tried to rid itself of the PBB problem prior to its reorganization.

Initial Litigations

After the discovery of PBB, the quarantining of herds, and the slaughter of animals, farmers began to look for ways of recouping their losses. FBS was a natural target for these efforts because it had sold them the feed and because they were part owners of the cooperative. The farmers' relationship with MCC was much more indirect. To expedite the claims process, MCC and FBS agreed to split the cost of litigation and leave the determination of who would pay the actual settlements for later. Initially, the litigation was limited to those farmers whose animals had been quarantined and destroyed. These claims were relatively easy to resolve. Claims from farmers whose animals had not been destroyed were much more difficult to get agreement on because the amount of their loss was not easily estimated. Personal injury suits also began to play a role. The largest of these, the Tacoma case, went on for over a year before the court ruled in FBS-MCC's favor.[3]

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[3]Touzeau, Lois, "Our Side of the Story: Other Victims of PBB Contamination in Michigan," Vantage Press, 1985.

At this point, MCC, FBS, and their respective insurers began to realize that the potential damages to be paid would be quite high. They therefore began to jockey among themselves for a position which would minimize their losses. One of FBS' 1974 insurers refused to commit any of its funds, saying that because the shipping error occurred in 1973, they were not liable for damages. FBS responded by suing the insurance company. MCC refused to supply funds to help operate burial sites for contaminated cattle. FBS therefore filed suit against MCC as well. These conflicts were not settled, but when officials from the state of Michigan requested that the disputing parties come to an agreement which would allow farmers claims to move forward, a $15.5 million fund was created to pay off farmers. This fund included $5 million from the dissenting insurance company, and $2.1 million that FBS borrowed from its chief source of credit, St. Paul Bank for Cooperatives (SPB). The remainder came from MCC's carriers and FBS' other carriers. Most persons interviewed commented that they felt that the early PBB claims were handled very poorly. They indicated that settlements were made too fast, and that the amounts paid were too large. Several factors interacted to cause this. First, since little was known about the effects of PBB in the food chain, the tendency was to take farmers' claims at face value. Second, the extent of the claims yet to be made was unanticipated; FBS' strategy was therefore to pay people off quickly in order to minimize publicity, hard feelings and court costs. Third, FBS management felt that as a cooperative it was their responsibility to help farmers out as much as possible. They wanted to be seen as more responsive to farmer needs than a proprietary business. Another aspect of this third point is that the Michigan Farm Bureau owned controlling interest in FBS at the time. Some people speculate that Michigan Farm Bureau may have felt that it was worth sacrificing its affiliate's financial health in exchange for relief from pressure its farmers were putting on it to get PBB resolved. FBS management deny that they ever were influenced directly by MFB in this area. Rather, it was the personal sentiments of the producer dominated board. One local cooperative manager's comment: "FBS was overly concerned for the individual farmer to the detriment of the cooperative. I wouldn't say that this was entirely the fault of management because the board was controlled by producers, and it was their friends and neighbors out there getting hit, so to speak. They demanded a payoff."

Some individuals theorize that the insurance companies, seeing that damages would exceed their liability, opted for high settlements in order to reduce their administrative costs by paying their maximum liability quickly. This is probably not the case because insurers adjustment costs are deducted from their total liability.

The quick, high payoffs did not have the intended effect. This probably would have been the best strategy if the number of potential claimants had been relatively small. But a huge number of farmers had received varying amounts of PBB in their feed (over 1,000 claims were eventually filed against the company). Farmers that had not previously made claims began to do so after seeing the high settlements. These farmers were encouraged by lawyers who took PBB cases on a "contingency" basis--that is, they would not ask for a fee from their client unless a settlement was won. These lawyers were willing to take the risk of court costs and fees for the farmers, so the farmers had little to lose by filing. The number of claims against FBS and MCC began to snowball.

The agreement to set up the $15.5 million fund did not end the litigation between MCC and FBS or between FBS and its insurer. In the summer of 1975, or about six months after the fund was created, FBS' coverage for property damage liability ran out. Farmers' claims were still unsettled, and the new safety levels set by the MDA were causing more farms to be quarantined. MCC's carriers refused to pay any more claims unless FBS contributed 50 percent of the payment. There was legal basis for this demand. At the time, Michigan law held that in a property damage case, there were only three categories of liability: 1) zero liability, 2) 50 percent liability, and 3) 100 percent liability. Since FBS obviously shared some of the blame (albeit a small share), it was liable for 50 percent of the property damage under Michigan law. This forced FBS and MCC to an agreement. Each company agreed to put up an additional $9.8 million to settle PBB claims. In exchange for this, FBS promised to waive all past and future claims against MCC due to PBB losses. FBS also agreed that it would not ask MCC for any more money to pay PBB claimants until a total of $60 million had been paid out to claimants. In retrospect, this settlement was premature. The amount of claims yet to be filed was unquantifiable, and MCC had no legal basis with which to avoid paying claims. The agreement's $19.6 million meant that a total of $45 million had been marshalled to pay PBB claims made by farmers.

How did FBS' business fare during this turbulent period? Figures 1 and 2 show that FBS was really floundering during these years. The company was not very sound prior to the PBB problem. Management energy and capital investments that could have gone towards strengthening FBS' structure were instead diverted towards seeking a way to bring the company's PBB-related problems to a close. The figures from Ohio Farmers are shown to provide a basis of comparison between what went on at FBS, and what FBS could have accomplished under similar economic conditions without the contamination lawsuits. The Ohio Farmers figures show clearly that the early seventies were boom years in Midwestern agri-business. The seventies was a time when judicious planning could have assured a business' continued viability for years to come. FBS was not able to take advantage of those years, and thus may have crippled itself permanently.

This is not to say that FBS did not change at all during those years. Some progress was made in consolidating the company. The unprofitable egg marketing and building divisions were cut. Some of the less profitable service centers were closed. The hardware division was also sharply cut back. But these measures were not enough. FBS still clung to its very unprofitable fertilizer plant in Saginaw and did not use the aggressive marketing techniques necessary to keep its sales volume up.

On October 1, 1982, FBS filed bankruptcy under Chapter 11 of Title 11 of the U.S. legal code. As was explained in an earlier section, this established a legal barrier to protect FBS from its creditors. At that point, approximately $42 million had been paid out to individual PBB claimants. Only 50 of the 1004 claims that had been filed were still in dispute. But FBS' case against its insurer had not been settled and Michigan's Attorney General had sued FBS and MCC for $120 million in damages to the State of Michigan.

The board decision to file a Chapter 11 proceeding was unanimous. It was hoped that such a move would free FBS once and for all of its PBB legacy. By this time, FBS assets and profits had eroded so far that it had insufficient capital to operate effectively (see Figure 1 and Figure 2), and the media coverage of PBB (in the board's eyes) seriously damaged the Farm Bureau Services' image. By seeking a merger with another cooperative in Chapter 11 proceeding, the board hoped to rid itself of three burdens: 1) PBB litigation, 2) negative image problems (by changing its name), and 3) capital shortages.

Before filing, FBS' Chief Executive Officer (CEO) contacted several Midwestern regional cooperatives to look into the possibility of a merger. Only one of these regionals, Ohio Farmers Grain and Supply Association (OF), expressed interest in joining forces with FBS. On paper the potential for a merger looked excellent. The marketing areas of the two companies had considerable overlap--

Figure 1

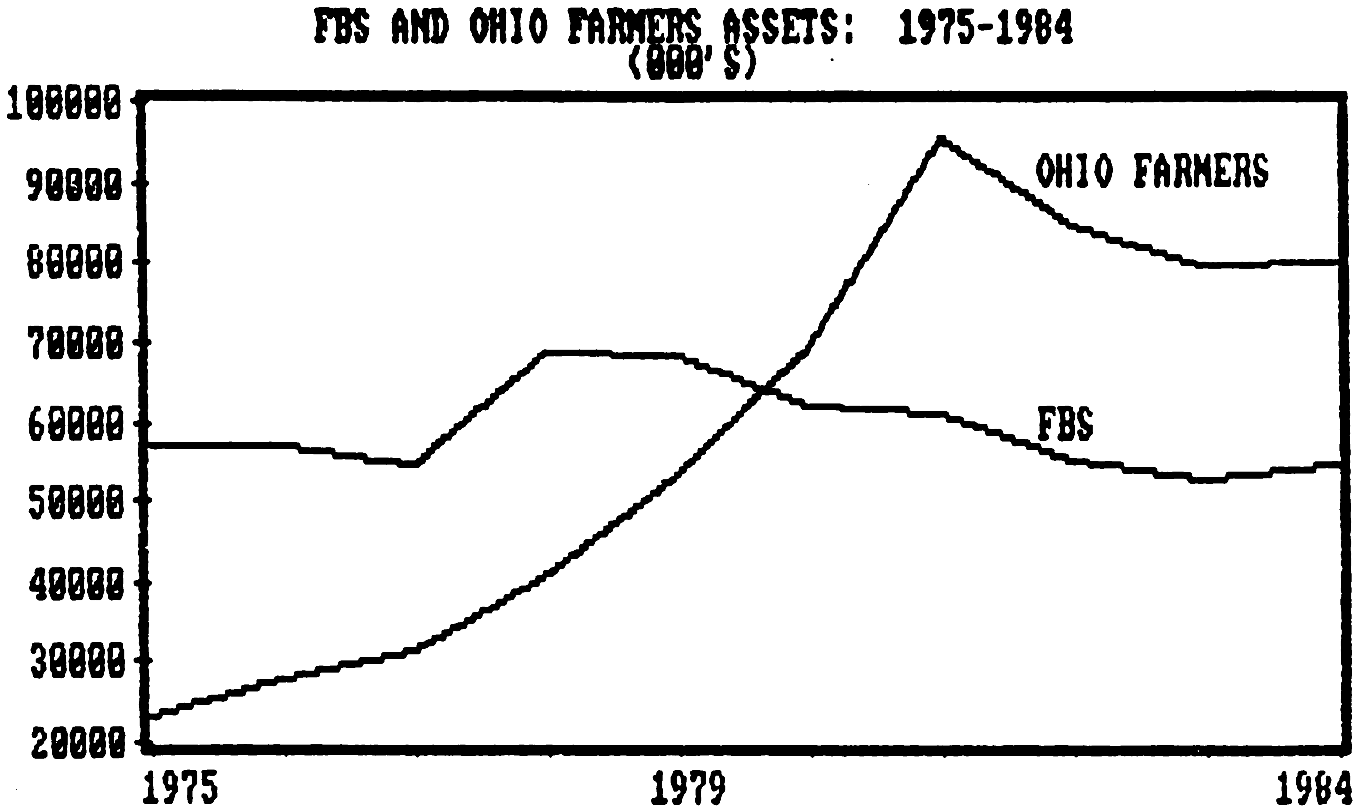
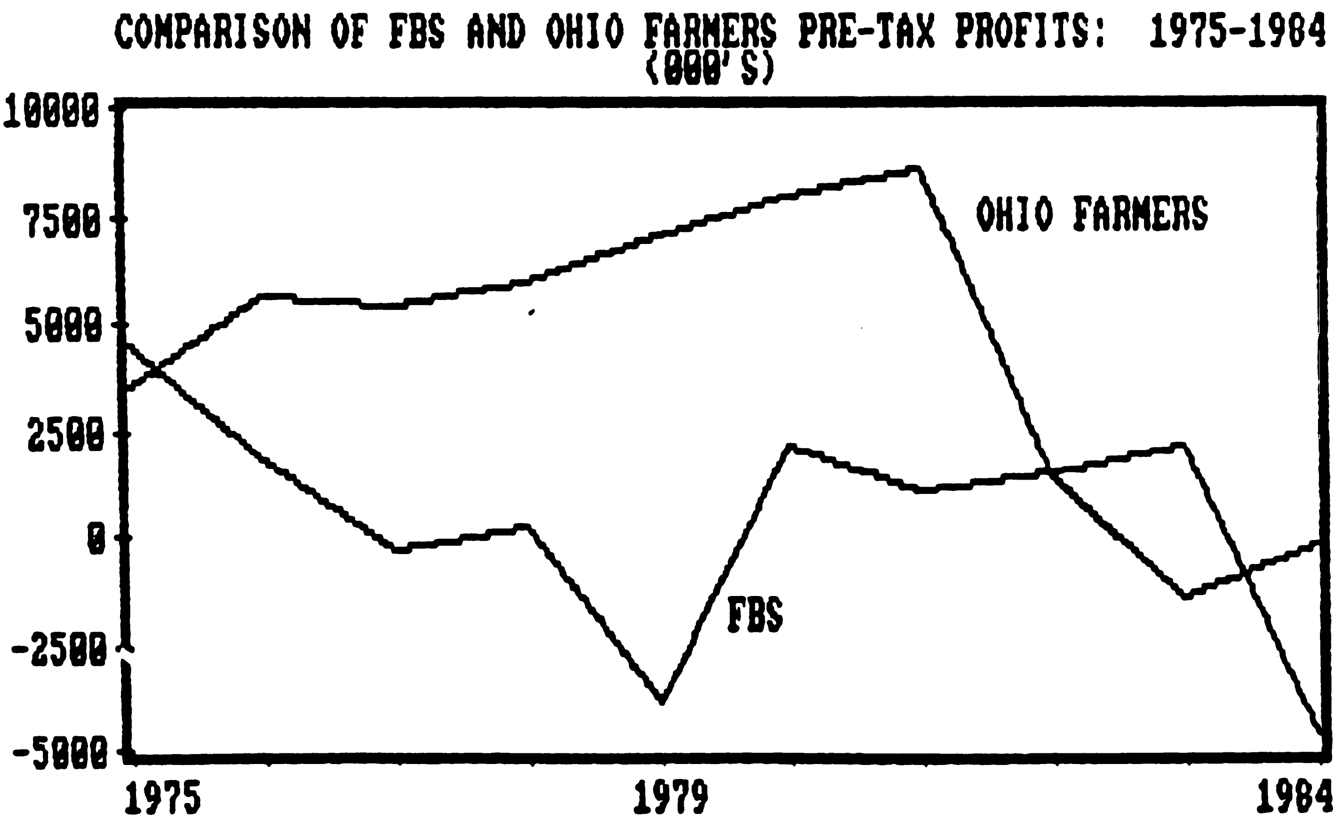


Figure 2



Sources: FBS and Ohio Farmers Annual Reports.

they both provided the same kinds of services to their clients; OF had a strong feed program while FBS had superior accounting facilities. Thus, considerable economies of scale were to be gained and the companies' assets complemented each other well. After some preliminary negotiations, OF wrote FBS a "letter of intent," stating:

> This letter evidences the intention of FBS and Ohio Farmers to combine their memberships, assets and resources into one regional cooperative covering Michigan, Ohio and, to a lesser extent, certain other states. The combination is subject to each and every one of the terms and conditions contained in this letter..."

FBS demanded that both companies agree to negotiate only with each other in their pursuit of new partners (OF has recently negotiated a merger with another Ohio cooperative). At that point, the two companies entered into a dialogue to iron out the details of the combination. This dialogue would last twelve months. In the end no agreement was reached. The next section describes the nature of the dialogue and the reasons for its demise.

The FBS-Ohio Farmers Combination: Why it Failed

Toward the beginning of their negotiations, FBS and OF put together what they called a "Consolidation Proposal" which they used to inform people of the general direction that FBS was heading. At the time the plan was written, the two companies were not even specifying what the legal form of the combination would be. Instead they stated, "As a practical matter, the combination will probably be either a simple statutory merger between Ohio Farmers and FBS, a statutory merger between FBS and a subsidiary of Ohio Farmers, or a dissolution of FBS with subsequent purchase of assets by Ohio Farmers." So the consolidation proposal did not delineate the proposed corporate structure to be put in place during the reorganization; it concentrated instead on the advantages to be gained in the consolidation. It was more of a selling tool than a real working document.

The document was prepared to sell the idea of a combination to the Louisville Bank for Cooperatives, OF's major source of credit.

The Consolidation Proposal is dated July 16, 1982, or two and a half months prior to FBS' filing of Chapter 11. FBS would probably not have initiated bankruptcy proceedings at that time without OF's interest. (Recall that if an attempted reorganization fails, the debtor-in-possession may be forced to revert to liquidation proceedings. Naturally, FBS had a strong aversion to being liquidated.)

The Consolidation Proposal listed the following as a summary of how well the two companies would mesh (p. iv):

1. Geographically their markets meet and provide convenience and efficiency in the overall management of the two companies.

2. The fixed assets are non-duplicating and allow for volume growth without added immediate investments.

3. The distribution philosophies of the two companies will make the transition of customers simple and services will be uninterrupted.

4. Farm Bureau Services has computer capacity and related corporate and member services that are needed by Ohio Farmers.

5. Ohio Farmers has a strong financial base that is needed by Farm Bureau Services.

Item 1 on the above list is self-evident and needs no further comment. Item 2 refers to the fact that at the time the proposal was written, FBS' fertilizer and feed manufacturing plants were operating at only about 20 percent of capacity while OF's plants were much more fully utilized. Item 3 seems to be an oblique reference to the fact that both companies were cooperatives; in reality their philosophies were quite different because FBS was linked to MFB, while OF was independent of the Farm Bureau system. Item 4 will be commented on later. Item

5 was, of course, the impetus for the consolidation. Another major interest was to expand operations, and thus enjoy cost savings through economies of scale.

The bulk of the consolidation proposal is given over to description of the two companies' assets, activities and future sales. Profits and losses for the two companies were projected four years into the future both as individual companies and as one combined company (pages 54, 82 and 108 of the Consolidation Proposal--see Appendix C). Figures 3, 4 and 5 show the 1982-84 projected sales of the two companies compared to their actual 1982-84 sales. As one can see, these figures were wildly optimistic. OF planned on doubling its output over the course of four years. True, its sales had increased dramatically from 1972 to 1981, with sales up 59 percent from 1978, but sound business practice dictates planning for the cyclical nature of the economy. In OF's (and FBS') projections, the good times were going to last a long time. This overestimation of growth potential may have contributed to Louisville's hesitation in approving the plan. But Louisville had other reasons for its reluctance, as will be discussed later.

One aspect of the Consolidation Proposal which was concretely formulated was the proposed treatment of creditors during the course of the planned chapter 11 proceedings. Put simply, all creditors would be unimpaired, except for St. Paul Bank for Coops. St. Paul was to forgive $900,000 of the balance of its seasonal loan to FBS and convert $7 million of its seasonal loans to FBS into term loans with a maximum maturity of 12 years. St. Paul had already agreed to this plan even though it could have gotten the full amount of its claims from FBS because of its position as a secured creditor. The following excerpt from a June 25, 1982 letter to FBS' CEO from St. Paul explains the bank's official reasons for its cooperation:

> "PBB related litigation, high leverage, under-utilized facilities and high interest overhead are all contributing to FBS' inability to survive in its present form. The Bank's loans to FBS are fully collateralized and would be fully recovered if FBS were simply

to liquidate. However, there are concerns relative to the potential effects such an action could have in disruption of service to your members, the probable impairment of FBS stock, the possible compromise of obligations to unsecured creditors, and the impact on other cooperatives in Michigan. Recognizing these factors, the Bank is willing to make concessions if such actions result in a merged organization that economically serves its members."

Figure 3

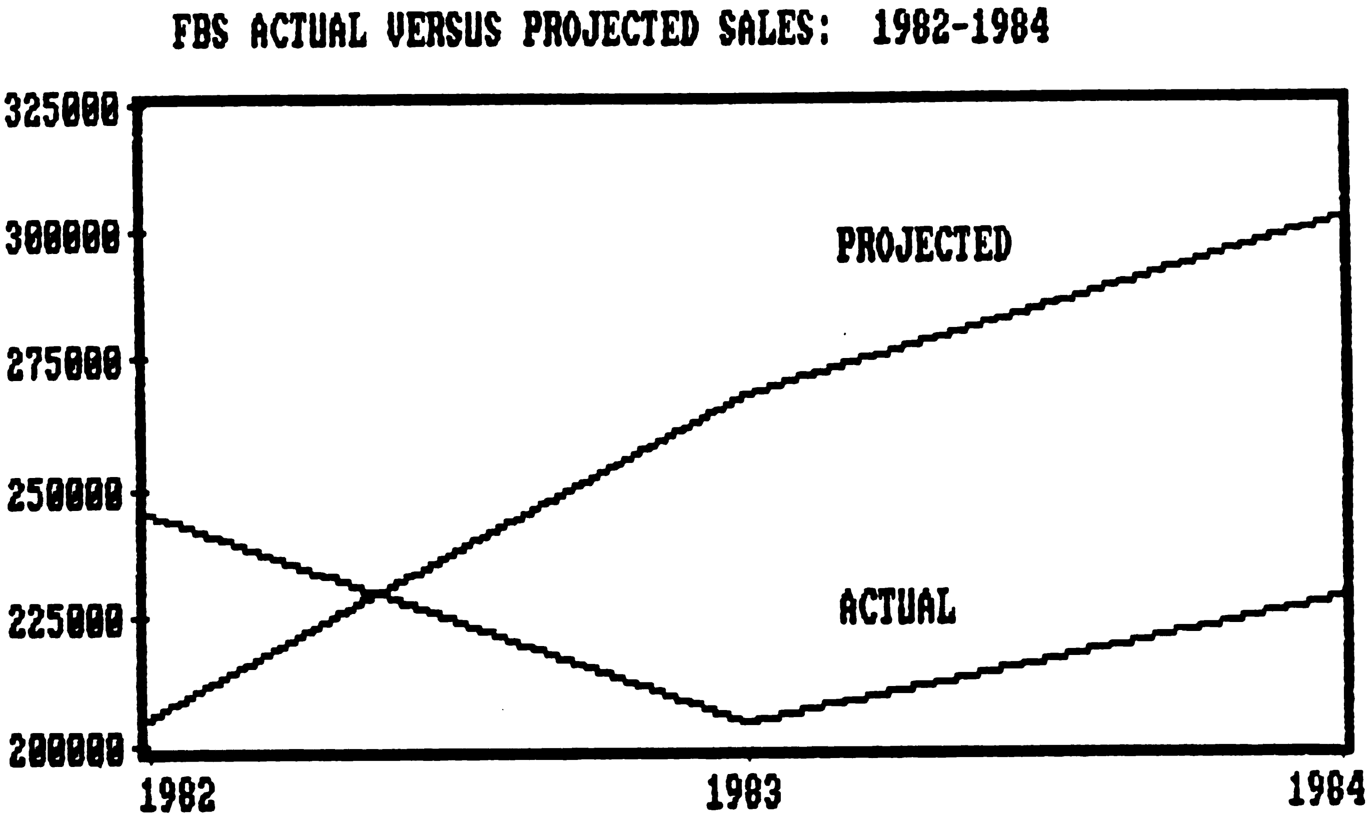
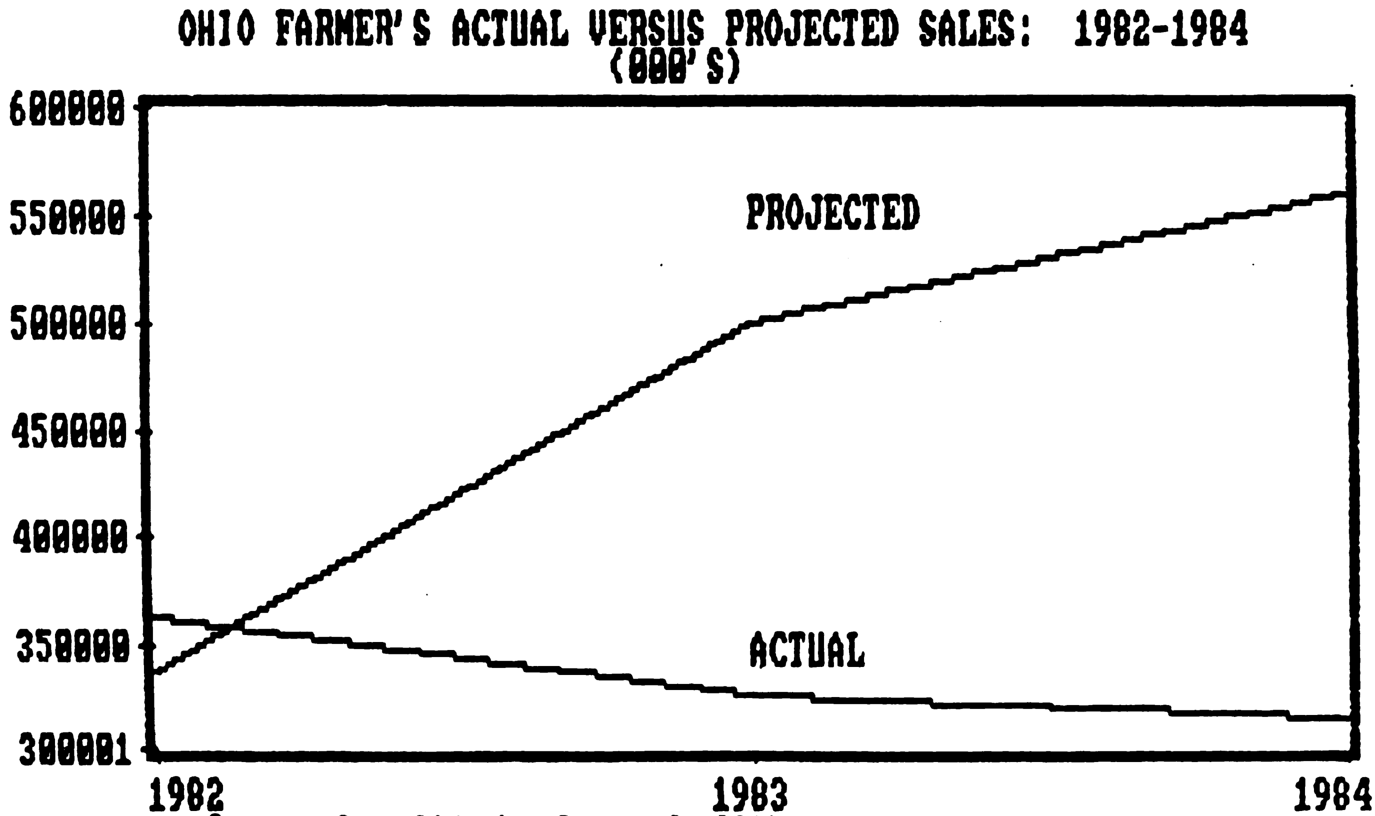
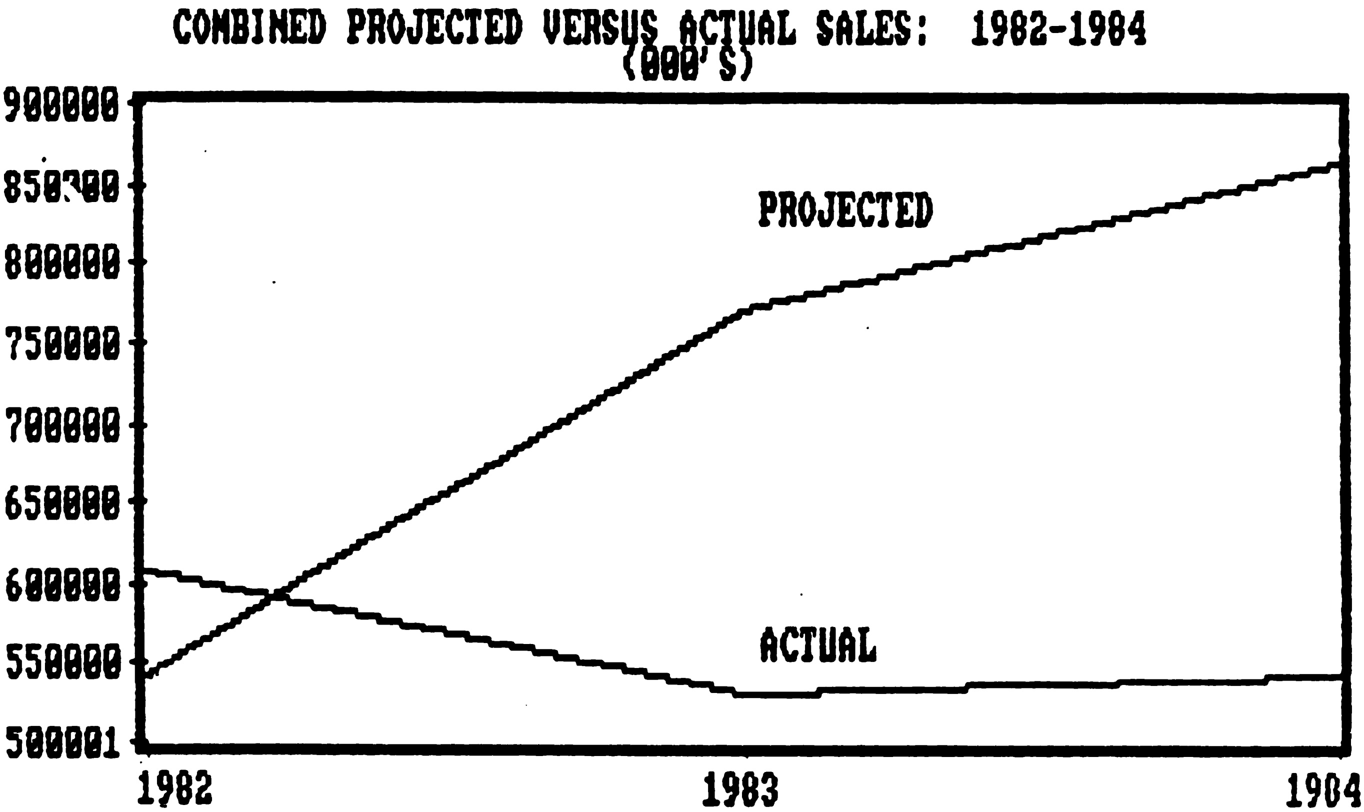


Figure 4



Source: Consolidation Proposal, 1982.

Figure 5



Sources: Consolidation Proposal (1982), and FBS, Ohio Farmers Annual Reports.

Meetings with representatives of St. Paul Bank for Cooperatives and other people interested in the process gave insight to one more possible motive for the bank agreeing to take such a loss. FBS was a problem creditor and the consolidation would have put the combined company into the jurisdiction of the Louisville Bank for Coops, ridding SPB of one of its biggest headaches. As the letter mentions, SPB would have received its money in a liquidation, but one must also remember that FBS' board would have resisted filing bankruptcy without the potential consolidation. FBS' assets were rapidly eroding (recall figure 1). A great amount of delay in liquidation of the company might have meant that SPB would not have received payment for its loans. As a creditor, SPB only had the right to demand bankruptcy proceedings in the event of default of scheduled payments. A default would not have come soon, meaning further deterioration of FBS' assets. Also, forcing the bankruptcy of such a large cooperative could have had substantial negative impact on the Bank's public relations. It may have seemed worth $900,000 to SPB to get FBS stabilized or at least into a reorganization mode. It should be stressed here that this hypothesis is put forward as a possible additional reason for SPB's willingness to make the concession, not the only reason, or even the major one.

At this point, a brief digression provides the reader with a taxonomy of types of business combinations. These are:

1. Cash for Assets. One company pays cash for the assets of the other company. In so doing, the purchasing company generally assumes only those liabilities listed on the balance sheet of the purchased company. A disadvantage of this type of transaction is that the money received in payment for assets is taxable in the current fiscal year, if the payment stockholders receive is greater than the value of the stock.

2. Cash for Stock. One company pays cash for stock in the other company (i.e., obtains voting control). In this case, it assumes the other company's assets plus all liabilities against the acquired company.

3. Stock for Stock. The two companies exchange stock so that one company has voting control over the other. Again, the controlling company is liable for all claims against the company which it has taken over. An advantage of payment with stock instead of cash is that the bidder does not need to tap cash or credit reserves to complete the takeover. All that is required is shareholder approval to issue more stock. Persons receiving stock as payment in a takeover also have the advantage of not having to pay most taxes until they sell that stock.

4. Stock for Assets. This is the most advantageous from the bidder's viewpoint because it combines the advantages of a "Cash for Assets" takeover (limited liability) with the advantages of a "Stock for Stock" takeover (no drain on cash or credit line).

With these general types of business combinations laid out, the types of combinations discussed by OF and FBS can now be described. At the time the consolidation proposal was written, both companies were probably thinking of some type of merger (i.e., a "Cash for Stock" or "Stock for Stock" transaction), instead of a buy-out of FBS' assets. Indeed, within the Consolidation Proposal itself, the word "merger" was mistakenly used instead of "consolidation" or combination" in several places. The use of the word "merger" was generally avoided for the stated reason that "Income tax effects, matters of pension plan, and similar considerations may strongly influence the legal form of combination".[4] PBB claims were de-emphasized in the Consolidation Proposal. But PBB did strongly influence every legal structure that was proposed to join the two companies.

The problem was this: If OF were not careful in the way it went about joining forces with FBS, it could become subject to PBB related lawsuits. If OF could be defined as a "successor business" under Michigan law, then every claim against FBS would be a potential claim against the new company. The "successor business" concept is much stronger in Michigan than it is in most states, with legal precedent having been established in a number of cases.

The legal maneuver which was initially proposed to avoid Ohio farmers being classified as FBS' successor business was described by many as a "reverse triangular merger." A reverse triangular merger is used when an ailing company's liabilities or contingent liabilities exceed its equity. It allows achievement of a business combination while at the same time insulating the balance sheet of the weak corporation so that its liabilities do not become the other's responsibility. It is used mainly as a way of deferring the filing of a Chapter 11 without stalling the

[4]Consolidation Proposal, 1982, p. 21.

business combination. This is the way it is accomplished: First, the solvent partner forms a subsidiary, which then merges into the troubled company. At the same time, some or all of the stock is exchanged, or the subsidiary can assume voting control of the troubled company. The troubled company must write off its equity. In the case of FBS, it would have been a way of keeping any new profits which accrued out of the hands of the PBB claimants.

In reality, the form of merger which was first proposed was not a reverse triangular merger, even though most of the personnel of both companies thought that it was. It was very similar to a reverse triangular merger, so that the two forms were easily confused. Also, the form of the merger had (to the best of OF counsel's knowledge) never before been proposed, so there was no other established name for it. Thus, the appellation "reverse triangular merger" stuck. OF's general counsel called it a "modified holding company."

The proposed modified holding company would have been formed as follows: MFB and OF were to jointly form a company to be called "Newco." MFB would then transfer its stock in FBS to Newco, making FBS a subsidiary of Newco. OF would provide operating capital to Newco. MFB and OF would split the voting control of Newco. A plan would be devised to get FBS' membership to become members of OF. OF would then be their official regional cooperative. FBS would continue to do the actual handling of services to its old membership, but now on a subcontracting basis from OF. OF would be FBS' only official member/client.

The idea behind the modified holding company was essentially the same as the reasons for doing a reverse triangular merger: To achieve a business combination while maintaining corporate layers between the companies for legal protection. The modified holding company proposal was different than the reverse triangular merger because the subsidiary, Newco, would not merge into FBS, but would instead simply assume voting control from MFB, and because two companies (MFB and OF) jointly form the subsidiary.

There were two major problems with the modified holding company concept. First, initiating such a plan would have created a burdensome bookkeeping situation. This is because for services provided to FBS customers, three separate sets of records would need to be kept. Records would have been necessary at OF, Newco, and FBS. This would have been a continued strain both on operating funds and on the ability of the organization to coordinate itself.

The second major problem with the modified holding company was that there was disagreement as to whether the corporate layers established by the move would have actually protected OF from the contingent PBB liabilities that FBS faced. OF maintained that it would, but an independent advisor suggested by the Louisville Bank for Coops warned that it might not provide adequate legal protection. This issue was to come up again in other proposed means of combination.

Another potential problem would have been the split of voting control of Newco between MFB and OF. This was not a major problem at the time of the proposal, but the different philosophical outlooks and political motivations of OF and MFB may have caused serious clashes once the new company was formed. OF is proud of its independence of the Farm Bureau network; it viewed FBS' control by MFB as a hindrance to FBS' efficacy as a profitable business. This attitude would probably have resulted in a power struggle between OF and MFB over day to day operations of Newco. This power struggle might have eventually become detrimental to the company's ability to operate efficiently.

The idea of the modified holding company was rejected as a vehicle to join FBS and OF because of the complexity of the proposal and also because of the possibility of OF inheriting PBB claims. The negotiations moved on, but now the focus was on OF acquiring FBS through a direct purchase of assets. The merger was dead.

The Louisville Bank for Cooperatives exerted a lot of influence at this point. It was leery of the combination for several reasons. First, the legal advice that the consultant hired by OF at the Bank's behest was that OF could be defined as a 'successor business" of FBS even if the Michigan company's assets were purchased instead of merged into OF. Second, FBS did not have a very good track record, even before the PBB disaster. Louisville felt that a combination with an historically weak company such as FBS could serve to destabilize OF. It is important to remember here that FBS was being served by a different arm of the Coop Banking system: The St. Paul Bank for Coops. Louisville was not anxious to add FBS to its portfolio. Had both OF and FBS started out with the same Bank for Coops, things might have ended quite differently.

The first demand that Louisville made was that OF pull back from the promises it had made to FBS in its "Letter of Intent" that was included in the Consolidation Proposal. A new "letter of intent" dated September 27, 1983 was written for inclusion in FBS' petition for Chapter 11 proceedings. OF was forced to withdraw the promise to achieve some form of business combination. Instead, the new "letter of intent" had the following disclaimer as its closing paragraph:

> This letter of intent is not an offer by either party and does not constitute acceptance by either party of an offer heretofore made by the other. Any negotiations between the parties as to the terms and conditions of the agreement may be unilaterally terminated by either party without any liability to the other party with or without cause and without regard to the presence or absence of good faith in such termination or negotiations.

Next, Louisville set up stringent conditions under which it would allow the acquisition of FBS' assets. These included a specific level of working capital, and a specific debt/equity ratio. Louisville's criteria appeared in the revised "letter of intent":

> "The proforma consolidated balance sheet of Ohio Farmers and its affiliates immediately after the closing date shall show a ratio of long-term debt, excluding current maturities, to equity of not more than .65 to 1 and net working capital of at least $18,000,000 after taking into account any conversion of FBS long-term debt to equity and/or conversion of short-term debt to long-term debt at or prior to the closing date. Either of these criteria may be modified at or before the closing date if required or deemed appropriate by the St. Paul Bank for Cooperatives...and the Louisville Bank for Cooperatives..."

OF was to find these conditions very difficult to work within. At this point, OF seems to have made a serious error in diplomacy. It did not effectively communicate to FBS that Louisville had a hostile attitude towards both a merger and an acquisition of FBS by OF. Perhaps OF felt that the last sentence of the above quotation would be sufficient to make FBS aware of the source of the criteria. In any event OF did not make sufficient effort to make FBS aware of the problem or that those conditions would have a large effect on its ability to put forth a bid. The evidence in this is mostly negative. In many interviews with several FBS official on the subject of the failed combination, Louisville's reluctance was never mentioned. Further, OF management never mentioned any attempt to inform FBS of its problems with Louisville. Instead of being more open, OF simply tried to make its bid conform to the constraints imposed by Louisville.

OF needed time to react to Louisville's news and to put together a bid for FBS' assets. They did a careful assessment of FBS' books, trying to find ways to cut the bid down to meet Louisville's requirements. The time that they took to put the bid together made things worse for two reasons. First, because of the poor economic conditions at the time, FBS was deteriorating rapidly, causing its net worth to become smaller. To FBS management, the amount of time OF needed to put the bid together was interpreted as stalling or disinterest. Second, FBS management had the impression that OF would value all its assets fairly high. They were shocked at the final bid.

The difference of opinion about valuation of assets included every category of FBS' holdings. There were bids on some categories of holdings that probably surprised FBS more than others. FBS valued its own real estate and equipment assets at $11 million. OF offered only $6 million. After examining the computer system mentioned as potentially useful to OF in the Consolidation Proposal, OF personnel decided that the system was obsolete. OF's bid for the system: zero. OF looked at FBS' holdings in two interregional cooperatives, CF Industries, and Midstates Terminals, and saw that adding FBS' equity in them to its own would not significantly increase its voting power in either of them. This is because OF's 2% of CF Industries combined with FBS' 2% of CF industries would yield 4% control of the company, and because OF already had majority stock (63%) in Midstates Terminals. Both of the interregionals were solid cooperatives which paid adequate patronage. OF's bid for FBS' holdings in the interregionals: zero. Poor communication played a role here too, because OF's bid included a statement to the effect that the bid was not a firm one. OF claims to have intended this to mean that they knew the bid was low, and that they were willing to negotiate further on some issues. They did not make a distinction between their negotiables and their non-negotiables, though. FBS' interpretation of the statement was that OF was saying they might lower their bid even further. This fear was probably a result of OF's earlier reversal on their "letter of intent" which stated their desire to combine the two companies.

In a letter dated June 14, 1983, the CEO of FBS set forth what was to be his final offer to sell FBS to OF. He gave OF six days from the time the letter was dictated (until June 20th) to accept his offer.[5] He asked for $49 million, which he accounted for as follows:

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[5]FBS' CEO counters that he made a verbal return bid more than a week prior to dictating this letter. OF personnel could not substantiate this claim. FBS felt that more time would not be needed by a company seriously contemplating an acquision.

1.	Real estate and equipment	$10,470,000
2.	Accounts receivable	11,025,000
3.	Inventory	8,217,000
4.	Interregional Coop holdings	16,641,000
5.	Pension reversion	1,640,000
6.	Miscellaneous	1,500,000

One concession that he made was that if OF did not wish to purchase FBS' interregional holdings, then the offer could be reduced by $16 million. OF could not evaluate FBS' offer within the allocated time period. They were shocked that they were given so little time to react. No counter-proposal was proferred by OF. Less than a week after June 20th, FBS' CEO held his first meeting of local cooperative managers to announce that the OF-FBS combination was dead.

In retrospect, OF had some regrets over its handling of the affair. OF management stated that they had made the mistake of valuing the whole of FBS as the sum of its parts, instead of looking at some of the broader benefits that would have accrued in marketing efficiencies generated by the enlarged service area. They also regretted their failure to communicate how flexible they could be in their final bid. OF had some complaints with respect to the behavior of FBS management. The biggest of these was that FBS had not been very open in its dealings with OF. Not only had FBS management failed to indicate what their thought process was in the last months of negotiations, but FBS had also refused to allow OF to be represented when FBS advised local cooperatives on the progress of the merger. OF also took exception to some of the managerial reorganizations that FBS undertook during the course of their negotiations. Specifically, FBS increased the size of its staff during that time. To OF, this made FBS "...look like they weren't preparing themselves to be taken over...."

FBS management and the local cooperative managers served by FBS came away with very bitter feelings towards OF. This was natural because the negotiations with OF cost FBS about a year in finding a solution to its problems, with the company deteriorating more with each passing month. Contributing to these hard feelings was OF's failure to make the people in Michigan understand the reasons behind its changes in stance towards the combination. Many people on the FBS side of the affair had attitudes which correspond to one local cooperative manager's statement that OF's motives were to "...get a chance to walk through the company's books..." and that it had misrepresented itself when it expressed interest in a combination.

In summary, both sides of the negotiations ended up being hurt by the failure of the merger: OF ended up with a badly tarnished image in Michigan, and FBS wasted valuable time in finding a way out of its difficulties. Both sides incurred legal and administrative expenses for naught. This might have been avoided if both sides had been more careful in keeping each other aware of their situations.

The Bootstrap Plan

When FBS' CEO went to the first meeting with local cooperative managers to announce the breakdown of negotiations with OF, he did not go empty handed. He introduced what became known as "The Bootstrap Plan." As the name indicated, the plan called for the local cooperatives to pull together and help their regional out of its problems without any outside assistance. The plan called for $5,000,000 in new equity to be raised. Members were to contribute $2,500,000, the Farm Bureau Insurance Group would invest $1,000,000, and the remaining $1,500,000 was to come from what is known as a "pension reversion."

A pension reversion is possible when it is determined that the current assets of a pension fund significantly exceed the current liabilities of the fund. Overfunding of pension plans is common because insurance companies, in the face of uncertainty, build in some safety measures to guard against adverse interest rates, etc. They plan for economic conditions that are worse than they actually expect. A company contributing to a pension plan may elect to cash its fund in at any time, and start a new contract with a different insurer, or the same insurer under different terms. Normally, a company is required to make up any benefits to employees, but bankruptcy law allows the rejection of contracts in the course of a reorganization. FBS did not substantially alter the benefits to be paid to employees in the reversion. The result was that FBS had $1,500,000 available to draw from its pension plan.

The Bootstrap Plan failed. Members did not commit themselves to raising enough capital to meet the needs of the company. A variety of reasons have been cited. One reason was that farmers did not understand or did not have confidence in the plan. FBS management attributed this to the fact that it was able to allocate less than a day to each set of farmers for explanation of the plan. Another big reason for the failure was that members did not have enough capital available to make the additional investments in the company.

FBS may or may not have been aware that the membership would not have been able to invest enough money for the recapitalization of the company. It needed to provide some evidence that it was making an effort to come up with a reorganization plan in order to protect itself from being forced by creditors to revert to a liquidation proceeding. The absence of a plan would have also demoralized the cooperative's staff and membership unnecessarily. The Bootstrap Plan served well as something present while other things were being worked out.

Enter Land-O-Lakes

Land-O-Lakes is a Minnesota based producer cooperative. It is well known for its logo picturing an Indian woman, which has appeared on dairy products in Michigan stores for some time. FBS had contacted Land-O-Lakes (LOL) several months prior to the breakdown of negotiations with OF about the possibility of a merger with, or investment by, that cooperative. LOL had expressed interest in establishing some ties with FBS, but FBS had broken off these informal talks in favor of its negotiations with OF. This was mainly because LOL did not have a contiguous area of operations in services similar to those which FBS provided. A combination of FBS and LOL would have brought few efficiencies, and would have been unwieldly to administer. In late June of 1983, FBS brought LOL back into negotiations. A combination was still out of the question, but LOL was interested in establishing some more tenuous ties. LOL indicated that it would be willing to invest a small amount of capital, but the bulk of the new money would have to come from elsewhere. LOL, FBS, and SPB undertook a joint study to determine how to accomplish the reorganization.

A plan which came out of this joint effort called for "Member Purchase Agreements." In this plan, local cooperatives investing new equity would be given control of the board of directors of a reorganized FBS. The new investments would be based on the amount of business the locals planned on doing with the reorganized company. The locals would be required to obtain a certain percentage of their needs from the regional. The hope here was that a large enough guaranteed volume could be generated to more fully utilize FBS' equipment. More than a few cooperatives agreed to the plan, with some pledging to buy 75% of their requirements from the company, and others promising to use the regional for 85% of their needs. Those that promised to buy 85% of their volume from the company were not able to invest capital at that time, but were willing to let the cooperative keep its cash patronage (dividends paid to members on the basis of the volume of business they have done with the cooperative) in lieu of direct payment until the regional had retained the amount that the local determined it should invest. It should be noted that L-O-L did not ever think these agreements were a sound idea, because they demanded too much from the member coops.

The major problem with the member purchase agreements was that FBS felt that it could not continue to do business with those locals that did not contribute new capital or guarantee a certain level of business. In other words, a local had to sign an agreement, or it could not do business with the reorganized regional. After FBS tallied the amount of business it would be guaranteed under the agreements, it realized that it could do more business without them. The member purchase agreements had to be scrapped. The formulation of the member purchase agreements represented a real breakthrough, because it was during negotiations for these that FBS first realized that certain local cooperatives would be willing to contribute new capital in exchange for control of the board of directors. A way of raising new capital had been found, paving the way to the agreement under which the company was finally reorganized.

FARM BUREAU SERVICES TRANSFORMED: AGRA LAND

This section outlines the reorganization plan that was finally implemented in FBS' Chapter 11 proceeding. It discusses how FBS raised capital, the structural changes in the control of the company, and the ties that were established between FBS and LOL. Eleven years after the PBB story began, FBS was dead, and a new company, Agra Land (AL) had been created.

FBS' pension reversion became the largest source of new capital for the reorganized company. The reversion accessed about $1.6 million for the company. Only one labor group, the Jenison local Teamsters #406, officially objected to having the pension fund tapped. Their objection was not a large impediment to approval of the reorganization plan, because of the debtor's option of rejecting union contracts in a reorganization. The AFL-CIO is currently pushing to change bankruptcy law so that union contracts may not be rejected. If bankruptcy law had been amended to disallow rejection of union contracts at the time the FBS submitted its plan of reorganization, acceptance of the plan could have been delayed considerably.

A large source of outside capital in the reorganization was the Farm Bureau Insurance Group (FBIG). The Insurance Group invested $375,000. In exchange for this, FBIG has the right to select one member of AL's board of directors. The Group was issued Series B Preferred stock. Series B stock pays dividends of 8% per annum, and carries with it one vote per $1,000 invested. Series B stock is the second stock to be paid off in a liquidation.

Another major investor was LOL. LOL had little to gain by investing in FBS. It realized that FBS was unlikely to pay high dividends on the investment. Further, the risk of losing the money invested was large. Why did LOL invest? LOL was interested in using FBS as a marketing tool. LOL has a very strong feed program in its own market area. This program was unknown in Michigan. LOL did not feel it could expand its operations to set up its own program in Michigan, but it was eager to lease its logo and formulation to AL. AL would be responsible for the manufacture and marketing of the feed. Both companies saw potential benefits from the arrangement. LOL would recoup some of the development costs of its feed program, and AL would have quick client recognition of its new line of feed.

LOL indicated initially that it would not be making investments in FBS. The local cooperatives saw LOL's refusal to put up new capital as exploitative. It was their feeling that LOL had much to gain from the marketing agreement, so it should be willing to provide credit to help the company in its new start. They communicated their dissatisfaction with LOL's apparent lack of confidence to FBS. In order to assuage the locals, LOL agreed to invest up to $350,000 ($201,350 was actually invested in the end.). LOL stipulated many conditions prior to agreeing to make the investment. Perhaps the most important of these was that LOL have the right to place one person on AL's board of directors. This was done by issuing LOL a special stock, Series X. AL is restricted from issuing Series X stock to any other person. A minimum of 73% of LOL's investment is to be paid back within three years of the reorganization. The balance is to be paid as soon as certain agreements between AL and SPB allow. Further, it was agreed that LOL would have first priority ahead of all other equity holders in a liquidation. Series X stock bears 8% interest per annum. Other conditions were that AL enter into a non-binding agreement to use LOL trademarks in "...animal and poultry feeds and field seed;" that FBS would use its "best efforts to permit a merger or amalgamation with...Farmers Petroleum Cooperative, Inc.;" and that FBS attempt to restructure its grain business to become more profitable. Note that the leasing arrangement with LOL was non-binding. In fact, AL markets some feed under its own label. LOL considers this to be a temporary situation, necessary because some dairy people do not want to change old cows to a new formulation. Some claim that a herd's productivity will drop while the cows adjust themselves to a new feed. LOL and AL have a verbal contract that the AL label will be phased out, making LOL the only brand of feed marketed by AL. For those readers interested in a description of the particulars of the leasing arrangement between AL and LOL, Appendix C provides a synopsis of the two contracts the companies entered into.

In order to induce new investors to put up capital, provisions had to be made to allocate control over the new company to these groups. To accomplish this, someone had to give up some power. MFB held most of the power in FBS, so it stood to lose some influence. What actually happened was that MFB gave up almost all of its control over the company. MFB was issued one share of Series D preferred stock for every 1,000 shares of its common stock in FBS. Series D preferred stock is voting stock which bears no dividends, and which is the 4th stock in line in to be paid in the case of a liquidation.

Another group also had their share of influence reduced: The holders of Class A, AAA, and B preferred shares exchanged their stock for Series D preferred stock at the rate of one for one hundred.

Both MFB and the other recipients of Series D preferred stock probably agreed to these changes for the simple reason that their committees (Recall from the section where Bankruptcy law was described that each group of creditors forms a committee to represent it.) advised them that they would receive more under the reorganization plan than they would in a liquidation. Several interviewees indicated that return of funds invested had a much higher priority with shareholders than did corporate control. They were willing to sacrifice control in order to salvage more of their investment.

In contrast to the situation envisioned in the FBS-OF Consolidation Proposal, SPB did not forgive any of its loans for the reorganization. Instead, FBS' debt was restructured. $6 million of the seasonal loans was transferred into term loan, with provisions for extending the term loan if necessary. On its existing term loan, AL was required to pay only the interest for two years following the reorganization. FBS has some holdings in SPB. Only if it cashed these in would it be required to make payments on the principle before June 30, 1985. On July 1, 1985, AL would begin paying off the principle by making the first of 23 equal quarterly payments.

SPB made the above adjustments contingent upon several things. First, it required that 60% of FBS' debentures be converted to non-dividend bearing preferred stock. The remaining debentures would be honored by the new company. Second, the company would have to raise approximately $1 million in new equity. Third, AL and LOL would have to establish some ties between them. Fourth, the new company was required to have working capital of at least $3 million by May 1, 1984. (Note that this is one-sixth the amount required by the Louisville Bank for Coops for the FBS-OF combination.) Fifth, a deadline of December 31, 1983 was set for confirmation of the reorganization plan. SPB's final condition was that its position as secured creditor be improved by putting its claims against the new company ahead of sellers of grain under "Price Later" agreements. SPB came out better under the reorganization plan than it would have under the Consolidation Proposal.

As per SPB's conditions, Debenture holders lost interest income and liquidity of 57.6% of their investments. In exchange, they received one share of Series C preferred stock for every $1,000 of their initial investment. Series C stock has one vote per share in board elections, and is the third stock in line in a liquidation. Provisions were made in the plan to redeem this stock at its face value beginning in 1992 (or earlier if AL is "very successful"). One can assume that trading dividends for voting rights represents a hardship to debenture holders, because they would not have elected to buy debentures if they were interested in voting control. Further, the number of votes they have in the current capital structure does not constitute a large enough block to have any real power.

As mentioned in the preceding section, an outcome of the "Member Purchase Agreement" proposal was that FBS realized that some of its member cooperatives were willing to invest new capital into a reorganized regional in exchange for more control of the company. This became the largest outside source of new capital for the cooperative. In the end, seventeen of the seventy-four cooperatives which were members of FBS invested new capital. The amount which they invested was about $400,000. Those that made new investments bought a lot of influence with their money. The following excerpt from the disclosure statement describes the form of that influence:

> Common shareholders who contribute new equity investments in FBS will receive new Class A common stock. Other common shareholders will receive new Class B common stock. Holders of Class A common stock will have one vote per share. Holders of Class B common stock will have one vote per original holder.
>
> Class A common stock will be issued on the basis of one share for each dollar of cash contributed by member cooperatives. The issuance of such stock to member cooperatives would be based on the agreed estimate of the business that such member should transact with the new company. Member cooperatives that make their full cash contribution will also receive one share of class A common stock for each share of existing common stock and each dollar of existing allocated patronage on the books of FBS (p. 50).

Member cooperatives that were willing to make new investments, but unable to assemble the capital at that time had the option of signing promissory notes for their share. The promissory notes would be paid off by retention of cash patronage. These cooperatives were issued Class A stock for any portion of their promised investment that was made in cash. They received the rest in Class B stock, which is to be converted into Class A stock as the promissory notes are paid off. In a liquidation, the common stocks are not paid off until all preferred stocks are repaid. The locals were bearing risk, and the payoff was increased control of the company.

Table 1 (adapted from page 53 of the Consolidation Proposal) summarizes the changes in the capital structure and voting control of the cooperative.

Table 1

CAPITAL STRUCTURE OF FBS BEFORE AND AFTER THE REORGANIZATION

Capital Structure as of June 30, 1983

		Votes
Debentures	$10,707,336	0
Preferred Stock (shares)	294,941	294,941
Common Stock (shares)	77,506	77,506
Patronage Credit	6,724,270	0

Capital Structure After the Reorganization

		Votes	Special Rights
Debentures	4,282,934	0	
Preferred Stock (shares)			
Series X (LOL)	200	200	Names one director
Series B (FBIG)	375	375	Names one director
Series C (Debentures)	6,175	6,175	
Series D (MFB & Others)	3,577	3,577	
Common Stock (shares)			
Class A	2,970,525	2,970,525	
Class B	3,768,398	13,784	Convertible to Class A

AL's new board has eleven directors. Nine are elected by a vote by all holders of stock bearing voting rights. One is selected by LOL, and one by FBIG. As Table 3 shows, the ability to control who occupies the other nine seats on the board has shifted from MFB to the holders of Class A stock (the local cooperatives). FBS' board was controlled by farmers, with local cooperative managers in the minority. Under the new capital structure, there are only three farmers, and six local cooperative managers. The local cooperative managers, voting in a block, have complete control of the company. Within the local cooperatives, the power is very concentrated. Recall that only 17 out of 74 locals invested new capital. The five largest investors make up a majority, while the seven largest constitute a two-thirds majority, and the nine largest a threefourths majority. This amount of control may have the long term effect of biasing AL towards servicing the needs of a few powerful locals. Participation of the more peripheral locals may continue to decline. AL management attitude towards the locals that have not yet invested new capital is that they probably will not take that option in the near future. This attitude may reify the current capital structure.

On a more positive note, the election of more local cooperative managers to the board may improve AL's ability to respond to business crises. Managers are better equipped to cope with the kinds of decisions that have to be made in operating a large cooperative. The old board has been criticized by some as tending to act too often on emotion and instinct instead of on demonstrated business principles. Some people feel that farmers are under-represented in the new board, and that the new company risks losing touch with farmers. A counter argument is that the regional exists to serve the locals, which in turn serve the farmer. Because of the indirect relationship between the farmer and the regional, the farmer is less aware of how the regional can better serve area agriculture than the local manager.

PBB claimants, which had been an unimpaired class under the consolidation proposal, were impaired in the actual reorganization. PBB claims filed after the bar date of January 14, 1983 were not eligible for any part of the monies made available to this class as part of the reorganization. Many people believe that this bar date protects the new company from all future PBB litigation. In fact, the bar date does protect the company from further claims by those who have already filed, but if offers no protection from persons who have not yet made any claim. The great fear of FBS management was that persons who had filed property damage suits would begin filing suits for personal damages suffered as a result of their having consumed PBB. Once a legal precedent of FBS liability for personal damages were established, any hope of saving the company would be lost, because personal injury settlements, unlike property damage cases, are not constrained by any quantifiable market value of that which was lost. In other words, it is easy to estimate the value of a cow's lost production, but impossible to evaluate the money necessary to compensate a person for an illness. Personal injury settlements tend to be much higher than property damage settlements. The bar date prevented people who had already received a settlement from filing any personal damage suits. Realistically, the bar date solved the company's PBB problems. It is unlikely that anyone who had not yet filed a PBB claim at the time of the bankruptcy proceeding will ever file, because of the amount of time which has elapsed since the contamination incident.

PBB claimants who had filed at the time of the bankruptcy proceeding, but who had not yet settled their claim were treated as follows. There was still money left in the joint pool of funds created under the 1976 FBS-MCC agreement. FBS' portion of this became the basis for a new fund, the "PBB Class Claims Fund." To this was added \$200,000 in cash from FBS, and \$588,000 from FBS' insurers. The total amount of the fund was approximately \$2 million. PBB claimants were each allocated a percentage of the fund. This percentage was determined by the committee representing PBB claimants in FBS' bankruptcy proceeding. Claimants wishing to dispute their allocation had 20 days after their publication in which to bring their complaints before the bankruptcy court. FBS was responsible only for establishing the fund. After setting up the fund, FBS was discharged from its obligations to those claimants. The chemical company is still liable to all PBB claimants, but any settlement it reaches with claimants having received a portion on the "PBB Class Claims Fund" will be reduced by the amount they were paid from the fund.

One final group of creditors, the unsecured creditors with claims over \$3,000, was also impaired. The plan provided for these creditors to receive 83% of what they were due.

To facilitate comprehension of the treatment of the various classes of creditors under the final reorganization plan and under the failed consolidation proposal. Table 2 summarizes the legal status of each class under both plans.

Table 2

STATUS OF FBS CREDITORS UNDER TWO REORGANIZATION PLANS

Creditor	OF-FBS Plan	Final Plan
Wage Claims	Unimpaired	Unimpaired
Taxes	Unimpaired	Unimpaired
New Hampshire Insurance Co.	Unimpaired	Impaired
The Chemical Company	Unimpaired	Impaired
PBB Claimants	Unimpaired	Impaired
Other Contingent Claimants	Unimpaired	Impaired
Reclamation Claims	Unimpaired	Unimpaired
Unsecured Creditors (Claims over \$3,000)	Unimpaired	Impaired
Unsecured Creditors (Claims under \$3,000)	Unimpaired	Unimpaired
Debenture Holders	Unimpaired	Impaired
Class A Preferred Shareholders	Unimpaired	Impaired
Class AAA Preferred Shareholders	Unimpaired	Impaired
Class B Preferred Shareholders	Unimpaired	Impaired
Common Shareholders	Unimpaired	Impaired
St. Paul Bank for Cooperatives	Impaired	Impaired

Table 2 makes it clear that most types of creditors would have fared much better under the proposed combination with OF than they did with the final reorganization plan if both companies had followed through with the FBS-OF plan. In fact, SPB is the only creditor which would have had the right to kill the OF-FBS combination under bankruptcy law. The other classes, being unimpaired, would have taken non-binding votes. The final plan needed the approval of 11 different types of creditors. This made it much more difficult to sell, both because of the opposing interests of the different groups, and because more people had to accept that they were going to lose money in the reorganization. One AL administrator claimed that this forced the company to issue voting control to an excessive number of stockholders. He indicated that 25,000 voters causes the company overbearing problems in keeping people current with developments within the company, and in tallying votes. FBS may not have had a choice in this, because the law states that a reorganization plan cannot call for the issuance of any more non-voting securities. Issuing stock is one way to avoid payment of creditors, and at the same time allow for some assurance of future payment. The stock issuance was hugely successful in terms of gaining creditor support for the plan. The plan received overwhelming support from all classes of creditors in the vote on the disclosure statement, with over 80% of the vote in each class being for the plan. It is doubtful that the plan would have received that much support if no new paper had been issued. On the other hand, the plan received much more support than it actually needed for approval. AL would be a more manageable company now if it had been less concerned about placating each group of creditors.

THE POST RECONSTRUCTION ERA

This section summarizes the attitudes of Local Cooperative Managers, Board members, AL managers, LOL administrators, OF managers, and farmers on prospects for AL's future. Insights on these attitudes were gained through informal interviews, with the exception of farmers. Farmer attitudes were tested through a formal survey described in detail below.

Local Cooperative Managers

Local Cooperative Managers tended to feel as if the changes brought about by the reorganization were superficial rather than substantive. They were dealing with the same people, and having the same problems as before. No managers felt that AL's ability to compete with other suppliers had changed with the reorganization. It was no better or worse than before. In their eyes, one positive aspect of the reorganization was the change of the board membership from one controlled by farmers to one controlled by managers, but they still felt that AL was not making enough of an effort in terms of both price and service to win their business. Some thought that the middle management personnel (which did not change after the reorganization) was incompetent. One manager wondered why a M.S.U. graduate student would come out asking questions about AL's failings before any AL representative could find time to do so. No complaints were registered with respect to the form of the reorganization, although some thought that the OF plan would have provided more efficiencies. Reaction to the new LOL line of feed was lukewarm.

Members of Agra Land's Board of Directors

Most board members expressed confidence in AL's ability to continue to serve Michigan agriculture. They felt that they were much more capable of meeting the needs of the local cooperatives than the previous administrative structure had been. Some directors admitted that the LOL feed program was not as successful as had been hoped at the outset, although 1984 was the first year in many years that the company showed an increase in the amount of branded feed that it sold. No mention of personnel problems was made. Bitterness towards OF for its part in FBS' attempts to restructure itself runs very high among this group.

Agra Land Employees

AL Staff is very enthusiastic about the LOL products they are now responsible for marketing. They note that the 1984 increase in feed sales came despite changes in dairy price supports designed to reduce U.S. government surplus problems. These changes had a significant impact on the dairy industry, with LOL feed sales down in LOL's own area. The agreement to lease LOL formulation has had a very positive effect on the morale of this group.

AL's top managers are disappointed with the response to LOL products. They feel the increase is not enough to save the company. Company strategy to alleviate this problem is to get very aggressive in its selling of the new line of feed. As noted above, it believes that further refinancing of the company is impossible. It sees the upcoming year as crucial to AL's continued existence in its reorganized form. One manager noted that the reorganization imposed difficulties on the company because the large number of stockholders creates information distribution problems.

AL's cost of reorganization in 1984 alone was $3.2 million. A large portion of this went to cover attorney fees that the company did not expect to be billed for. This was a serious blow to the planning of the company.

AL managers feel that the OF-FBS combination would have created great efficiencies for cooperatives in the two companies' product area. They think that such a combination is inevitable in the not too distant future as proprietary firms expand and threaten the cooperatives. There are still some ill feelings towards OF because the combination failed.

Land O'Lakes Administrators

Initially, some LOL officials were afraid their association with FBS' successor could potentially damage the LOL reputation. Great care was taken so that AL quality control will not let an incident like PBB happen again (See Appendix C.). Now the people at LOL are quite satisfied with the arrangement. AL has not yet fully adopted LOL's seed program. LOL is anxious to see AL begin to make use of that part of its research and development. When asked if the ties between AL and LOL could become much closer, as in a merger or some other type of business combination, LOL management expressed doubts that such an arrangement could be interesting to LOL. The two companies' non-contiguous market area was cited as the major obstacle to a closer association. LOL is also not interested in seeing AL team up with OF, because OF is happy with its own feed and seed programs, so that it would not wish to lease rights to LOL programs.

LOL, realizing that is in its best interest that AL continue to be a viable business, is providing AL with management advice. It views AL's greatest current problems as lack of aggressive marketing, and unwillingness to trim programs with a low return to investment. One AL program that LOL views as particularly bad is the grain marketing program, which has been a consistent money loser over the last few years. LOL would like to see this program terminated.

Ohio Farmers Management

Ohio Farmers has a lot of regrets about is involvement with the attempted reorganization of FBS. It wishes it had done a more complete study of the potential efficiencies to be gained in the combination with FBS in order to be able to present a stronger case to its source of credit. It also realizes that communications could have been better between the two companies during their negotiations. It seems to be trying to avoid these mistakes in its current negotiations.

OF is interested in restarting negotiations to combine with AL, but it sees LOL's current involvement with AL as a complicating factor. OF is not interested in what LOL has to offer, because it feels that its products are on a par with LOL's. OF officials give LOL credit for marketing genius in coming up with the leasing arrangements in use between LOL and AL. One OF official remarked, "If we had been smart enough to figure out that they would go for that kind of deal, we would have offered it to them months before Land O'Lakes did."[6] OF seems generally unaware of the hostile attitude that its role in delaying FBS' reorganization has generated in AL's territory. It was aware that personality conflicts existed between itself and FBS' CEO (who has since left AL), but was oblivious of damage that has been done to its reputation with other AL staff and local cooperative managers. OF management noted that its sales in Michigan have diminished since the reorganization, but put this down to the Member Purchase Agreements which it believed were in force between member cooperatives and FBS. Recall that these Member Purchase Agreements were never consummated. After negotiations with FBS broke down, OF continued to seek merger partners, and has recently completed a deal combining it with another Ohio firm.

Farmers

Material in this section is taken primarily from the results of a farmer attitude survey undertaken by the John R. Dunn of the Agricultural Cooperative Service division of the USDA with the cooperation of the Department of Agricultural Economics, Michigan State University.[7] In this survey, 1,000 randomly selected (names and addresses were supplied by Crop Reporting Service of the

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[6]The FBS CEO remarked after reading a draft of this paper that he would not have considered this kind of arrangement with OF. He indicated that he felt that OF's brand label did not carry the same weight as LOL's.

[7]Dunn, John R., "Agra Land Study: Findings of the Michigan Farmer Survey," Agricultural Cooperative Service, USDA Technical Assistance Report, May 1985.

USDA and MDA) Michigan farmers were mailed questionnaires covering a broad range of themes relating to the several cooperatives that might be serving these farmers. A copy of the questionnaire can be found in Appendix D. 241 usable responses were received and processed.

Many of the questions do not focus specifically on Agra Land, but deal with attitudes towards cooperatives in general. Therefore, some caution must be taken when applying the results to Agra Land. Bearing that caveat in mind, this section draws inferences as to what the survey results imply for Agra Land.

One survey question dealt with farmer recognition of the names of several cooperative organizations that operate in Michigan. Sixty-three percent of the respondents who answered this section of the survey had little or no knowledge of Agra Land. Meanwhile, only 15 percent of the respondents were ignorant about Farm Bureau Services. Dunn also wrote that "While quantification is not possible from the survey data, it appears that many of the farmers responding believe that Farm Bureau Services remains an active participant in Michigan agriculture." Ignorance of Agra Land activities cut across all sizes and types of farms, although some groups did seem to have more knowledge than others.

From this it seems clear that FBS had lost contact with farmers, and that Agra Land has failed to regain it. Some might rationalize that Agra Land exists primarily to service the local cooperatives, so that farmer awareness of Agra Land activities is of secondary importance. While there is some truth to the first part of the last sentence, the thought in the second part does not follow. In the final instance, it is farmers who purchase Agra Land goods and services, and the cooperative is dependent on their perceptions of price competitiveness quality.

Another question in the survey asked farmers to rate various cooperative organizations. The survey analyst reported that Agra Land received slightly better than neutral ratings on average, and that is was rated at about the same level as FBS. The variance in FBS' ratings was higher than for AL. Farmers were also asked to rank a list of criteria in order of importance both in their selection of a marketing outlet, and in their selection of a source of farm supplies. Price was the number one criterion in selection of suppliers, and number two in selection of marketing outlets. Quality of feed ranked sixth out of seventeen in importance in selection of suppliers, although dairy farmers ranked quality of feed higher than other types of farmers.

Farmers ranked the fact that the firm is a cooperative least important in choosing a supplier, and second to the last in importance in choosing a marketing outlet. Dairy farmers seemd to be the only group which considered cooperatives important in selecting a marketing outlet.

Farmers were receptive to doing business with cooperatives, as indicated by a series of questions with which the respondent was asked to agree or disagree. The statement, "Cooperatives give me higher prices" received the lowest amount of agreement of the questions in this section. The highest amount of agreement was to the statement, "If cooperatives offer a competitive price, I will sell them my products." In a similar series of questions relating to supplies, the statement "Cooperatives offer a full line of quality supplies" received the highest percentage of agreement from farmers. Farmers generally agreed that cooperative feed prices were competitive, but indicated that they felt cooperative chemical prices were not. Farmers also indicated that they do not consider cooperatives in all their major purchases, and they disagreed with the statement, "I support cooperatives more today than I used to."

All this indicates that the PBB related image problems perceived by many to be hurting the company are probably minor. Price is what farmers are most interested in. Agra Land should concentrate its efforts in building an image of price competitiveness if it wishes to compete with proprietary firms and other cooperatives in building a substantial volume of business. Agra Land should stress increasing its name recognition, and associating its name with price competitiveness.

SUMMARY AND CONCLUSIONS

This paper summarizes U.S. Bankruptcy law as it applies to cooperatives, and uses the case study approach to look at one bankruptcy, the Farm Bureau Services reorganization.

Cooperative Bankruptcy in a Nutshell

There are no special provisions in the United States Bankruptcy Code for cooperatives filing for bankruptcy. There are many provisions which do not generally come into use with cooperatives, and these are not discussed in this paper. Cooperative bankruptcy takes one of two forms: liquidation or reorganization. Liquidation is the simpler of the two. In a liquidation, the cooperative's assets are sold off, and the proceeds of the sale are distributed to creditors and stockholders according to a legally ordained hierarchy.

A reorganization under bankruptcy is much more complex because the changes in the corporate structure must gain the approval of certain interested creditors. More people are therefore involved, making it more difficult to find a solution. Creditors must be paid off completely (in legal jargon, they must be unimpaired), or they must vote to approve the plan to reorganization. As in liquidation proceedings, a hierarchy of creditors exists. A plan may be approved over the objections of subordinate impaired creditors if priority creditors vote to accept it. The plan must also be subjected to the "best interest" test, which means that creditors must receive more in the reorganization than they would have in a liquidation, unless they vote to approve the plan. The debtor is required to provide creditors with a "Disclosure Statement" outlining the proposed changes to be carried out in the reorganization. The "Disclosure Statement" is accompanied by a ballot.

Debtors usually have several different types of creditors. For a class of creditors to approve a plan, two-thirds of the class in dollar terms, and at least one half of the class in terms of numbers must vote "yes" on the plan. Creditors are advised by court appointed committees. These committees are generally made up of the seven largest creditors in the class.

The advantage that a reorganization under bankruptcy law offers a business is that it provides an opportunity to free the firm of overbearing debts and liabilities, while at the same time allowing it to continue its operations. A reorganization can save a business. It is most recommended when the business has some viable components, but because of bad luck or unprofitable divisions, it is unable to pay its debts. The bankruptcy provides a means of separating the viable portion of a business from those aspects of its operations which are dragging it down.

If a corporation is having serious difficulties across the board, then a reorganization will probably not save the business.

The timing of a bankruptcy petition is crucial to a firm's success after the reorganization. Many firms resist bankruptcy too long, allowing their business to deteriorate too far before attempting a reorganization. Other firms have been guilty of the opposite mistake; they file too early, while other less expensive options still exist.

The Farm Bureau Services Story

Farm Bureau Services (FBS) was a large Michigan producer cooperative. It was controlled by the Michigan Farm Bureau (MFB), which owned 81% of its stock. Individual farmers and local cooperatives owned the remainder of the company. Its primary customers were 74 local cooperatives, although it did sell directly to farmers in some areas through its own supply centers. It did business in hardware, building, grain marketing, dairy feed, hog feed, egg marketing, fertilizer, chemicals, and seed. FBS was never regarded as an industry leader among regional cooperatives of its size. Others in the industry felt that it was very highly leveraged, and overdiversified. One bank spokesperson referred to it as "...always a problem creditor...."

In 1973, an accident occurred which was to compound FBS' problems. Michigan Chemical Company (MCC), FBS' supplier of a feed additive mistakenly shipped FBS an unknown quantity of PBB, a fire retardant. PBB was similar in appearance to the feed additive, and it was packaged in the kind of bags that FBS received its feed additive shipments in. Further, the labels stenciled onto the bags of PBB were similar to what the normal feed additive markings were. FBS began mixing the PBB into its feed. Some farmers also regularly mixed MGO into their own feed. FBS shipped some of these farmers bags of PBB, which the farmers duly mixed into their feed. PBB sticks to metal surfaces. FBS machinery used to mix its formulation is made from metal. Long after the last bag of PBB had been added to a batch of feed, trace elements of the retardant were still finding their way into the finished feed. Thus, three basic levels of PBB contamination were caused. The farmers who had mixed PBB into their own feed experienced the highest levels, those who had received feed to which PBB had been directly added had the next highest level, while those who bought feed later experienced very small levels of contamination. Of course, there were many gradations of contamination within each class of farmers. This was to greatly complicate the process of finding a solution to farmers' problems.

In late 1973, farmers began to report having problems with their herds. An investigation was conducted, and it was determined the MCC and FBS were the source of the problems. Little was known about the effects of PBB on humans, because the substance was not known to have previously entered into the food chain. The FDA set fairly arbitrary maximum tolerable levels for PBB in cows. Farmers with cows having quantities of PBB above the maximum had their herds and the production from those herds quarantined. The tolerance levels were later revised by the FDA, and the Michigan Department of Agriculture also imposed its own (more stringent) standard. Hundreds of farmers were damaged either by illness in their herds, or by the quarantining. Eventually, it was determined that many animals would have to be destroyed. Selection of the burial site and its operation proved to be expensive and time consuming.

Because FBS was their cooperative, and because the chemical company's relationship to the farmer was very indirect, farmers came to FBS with their claims. The chemical company maintained a low profile at first. FBS was anxious to help farmers get back on their feet, and operated the burial site without the help of the chemical company. Realizing that the aid of the chemical company would have to be coerced, FBS sued MCC. FBS also found it necessary to sue its 1974 insurance carriers, which claimed that it was not liable for damages, because misshipment of PBB had occurred in 1973. Litigation continued until 1976, when the state of Michigan asked the companies to settle their differences so that the claims process could move forward more quickly. FBS and MCC agreed to establish a claims fund. To obtain this agreement, FBS conceded to MCC that it would not ask MCC for any more money for PBB related claims until a total of $60 million in claims had been paid.

In signing this agreement, FBS seriously underestimated the number of claims that would be forthcoming. Claimants, who had initially limited themselves to property damage suits, began to file personal damage suits.

Personal damage suits are much more dangerous to a business, because the settlements tend to be larger, and because it is difficult to prove that someone is faking an illness. FBS, in extended litigation, began to fight the personal damage suits. This was very expensive.

FBS management, having to spend most of their time dealing with the ongoing PBB crisis, was not left with enough time to look after the day to day operations of the business. The litigation drained the company of money it should have been using to hire appropriate personnel, and invest in new capital equipment. Company morale began to decline, and the business started eroding.

FBS realized that it needed to reorganize in order to rid itself of PBB claims, improve its balance sheet, and to boost morale. It felt that a merger would be the best way to achieve this end. It looked for a potential partner. The Ohio Farmers Grain and Supply Association, a regional cooperative, was interested in a combination. Serious negotiations between OF and FBS began in mid 1982, and lasted about twelve months. No deal was ever consummated.

On paper, the combination looked very attractive. The market areas of the two companies had a substantial amount of overlap, and they provided similar services to their locals. FBS had excess capacity that OF could potentially use, and OF had a very healthy balance sheet.

There were two fundamental reasons for the breakdown of negotiations between FBS and OF. First, the concept of "successor business liability" is strong in Michigan. That is, if a business is bought out by a second business, then the buyer can become liable for any damage done by the business that it has purchased. It was thus conceivable that OF could become liable for PBB damages if it combined with FBS. The second problem was that FBS had a very poor balance sheet, which could have served to destabilize OF. OF was aware of these problems when it entered into negotiations with FBS. OF management also felt that the problems were surmountable. Unfortunately, in order to consummate the combination, OF needed the approval of its major source of credit, the Louisville Bank for Cooperatives. Louisville's estimation of the problems with the FBS-OF combination was much more conservative than OF management's was. Louisville set strict conditions regarding the debt to equity ratio and the working capital to be available to the combined company. If these conditions were not met, Louisville would not approve the deal.

In order to stay within the constraints imposed by Louisville, OF was forced to tender a very low bid for the assets owned by FBS. This bid was intended as a first bid bargaining stance. When FBS personnel saw the bid, they were insulted. They made a counteroffer, but gave OF very little time in which to respond. OF could not react in time to this proposal, and the combination was dead.

FBS began to search for other ways to reorganize. The cooperative knew that it could tap a large amount of working capital by restructuring its pension plan, and that it could get a small investment from the Farm Bureau Insurance Group, but it still needed more. It tried to get the local cooperatives to invest enough new capital to revitalize the company. This failed because the locals could not raise enough capital to satisfy FBS' needs. Also, the image problems would not be solved by getting new capital from the locals.

FBS contacted Land O'Lakes (LOL), a regional marketing and supply cooperative based in Minnesota. LOL was not interested in merging with or buying out FBS. This was because it felt that the market areas of the two companies were too separated geographically to make a successful business combination feasible. An alternative to a combination was worked out. LOL has a very successful line of feed in its own market area. LOL would lease the reorganized FBS it formulation, logo, and advice on promotion of the feed. LOL would benefit because it would receive money for its research and development efforts, and FBS would gain because the LOL line of products would help it in its effort to change its image.

With LOL's offer in hand, FBS went back to the locals. Eventually, seventeen of the seventy-four local cooperatives served by FBS agreed to invest new capital in the company. The locals felt that LOL should risk some of its capital too. LOL then agreed to invest a small amount.

The company was renamed Agra Land (AL) during the reorganization. The new investors were to get substantial control of the reorganized company. AL's board has eleven members. LOL and the Farm Bureau Insurance Group are each allowed to appoint one member to the board of directors. The other nine are elected in general elections. The local cooperatives which invested new capital have a huge majority of votes among the general stockholders. They effectively control the rest of the board. Michigan Farm Bureau has given up most of its control over the company.

Other effects of the reorganization are that several classes of FBS creditors will receive less than what was legally owed them. Nonetheless, all classes of FBS creditors were overwhelmingly in favor of the plan in the balloting. Further, any person who has received money for PBB related claims is constrained from filing any future PBB litigation against AL. This will probably shield AL from any personal damage suits in the future, although it should be noted that the new company is not protected from those who never filed a claim against FBS.

AL still has numerous problems. Feed sales for 1984, while higher than previous years, were still not as good as management had anticipated. It will take some time to introduce the LOL feed to the area. The company is very highly leveraged. Local cooperatives complain that AL service is still not as effective as its competitors. The reorganization did little to trim the less profitable divisions of the company.

Conclusions

Experience breeds wisdom. As one local coop manager commented after reading a draft of this work, "...hindsight is 20-20...." The reflections which follow should not be considered as a criticism of administrators of the companies involved. Given the information at hand, many company actions which later proved costly may have been the best risk at the time. These companies are pioneers. Few cooperative reorganizations of this size have been accomplished. A new system of contractural arrangements may have evolved. This happened through a process of trial and error. The comments herein are intended to help minimize future errors, not indict those who bore the costs of exploring the possibilities.

These conclusions are based on interviews with some of the major participants, a survey of documents that chronical the development of the company's position, and a good dose of hindsight, which make it possible to point out some lessons that may be learned from the company's experience, and to make suggestions for the future.

The lessons and suggestions are divided into three subsections. First, FBS' reorganizational strategy is reworked. Second, suggestions are made that might help Agra Land's future performance. Third, possible coop policies toward bankruptcy, both as individual firms and as a political group, are formulated.

The Reorganization Could Have Been Handled Better

Loans to Farmers. The argument has been presented in many interviews that one of FBS' problems was that by acting to encourage quick large settlements for PBB claims, FBS created a "bandwagon of litigation" coming from persons encouraged by the payments their friends and acquaintances had received. Legal firms contributed to the problem by offering their services on a contingency basis. That is, they would ask for a fee only if the case were won. Had FBS management foreseen this development, an alternative strategy might have reduced the flood of claims.

The problem was how to protect farmers from hardships due to losses suffered because of PBB while at the same time avoiding extra litigation. The way to solve this problem would have been to borrow enough money from the St. Paul Bank for Cooperatives to make temporary low interest loans to farmers that FBS was convinced had actually been damaged by PBB. These loans would be somewhat below the value that FBS estimated the farmers' losses to be. After the litigation between FBS, the 1974 insurer, and the chemical company was cleared up, FBS could take the amount of its loan out of any settlement payment to a farmer.

During interviews many people stated that the idea of making loans to claimants would not have worked. A variety of reasons were discussed. One reason given was that St. Paul Bank would not have made any loans for such a purpose. This was refuted during an interview with St. Paul officials, who stated, "We were willing to give them credit up to their specified limit. What they did with that credit after they got it was their business. Towards the end, we were making loans to them to pay off PBB claimants."

Another weakness of the loan scheme brought out in interviews was that cooperative loans are "...notoriously poorly collateralized...", and that the cooperative would have had difficulty administering and collecting its loans. This is probably a very valid position in most instance, but if FBS were to have held any future settlement monies as collateral, and if it were conservative in its estimation of the farmers' damages, there would not have been any problem in repayment.

By making modest loans, FBS could have maintained the confidence of the farmers, and bought time to get a better bargain out of the chemical company.

A Better Approach to the OF-FBS Combination. The OF-FBS combination would have been a better solution for Michigan farmers than the actual reorganization was. Most persons interviewed felt that the efficiencies generated by the FBS-OF combination would have been greater than anything possible under the association with LOL. We have seen that OF and FBS could not reach an agreement on a combination, but OF management has stated that they would have been willing to participate in a leasing arrangement similar to the one now in force between FBS and LOL if they had thought of it.

A leasing arrangement between OF and FBS would have been better for the long term potential of Agra Land, because OF feed was already known in the area, so the introduction process would have been less time consuming than it is proving to be with LOL feeds. Another reason that it would have been better for the Michigan cooperative to keep on trying to deal with OF is that LOL offers AL no potential for closer ties in the future should AL need more help. With OF, the option of greater joint efforts between the two companies would have been open, especially if the reorganization proved effective in stopping further PBB claims against the company.

The above argument should not be interpreted to mean that AL should try to drop its ties with LOL at this point. Considerable resources have been spent introducing the LOL feed system to Michigan farmers. To attempt to begin promoting OF feeds now would probably mean duplicating some of these efforts. Further, a switch at this time would be a sign of instability in the company to some people. Farmers might change to another supplier whom they felt would be more consistent.

Another point which cooperatives undergoing reorganizations in the future might be able to improve upon is communication. Both FBS and OF get poor grades on the effectiveness of communication in the negotiation process. The correspondence between these companies on the subject of their combination ranges from the terse to the sarcastic. A much larger percentage of their negotiations should have been undertaken with face to face conferences between top managers of both companies. Another aspect of the companies' poor communication skills was the lack of trust evident in their dealings with each other. FBS refused to allow an OF representative to be present at meetings held to inform local cooperatives on progress in negotiations. For its part, OF did not agree to state in advance what it wanted to present at member meetings, nor did it make its problems with the Louisville Bank for Cooperatives very explicit to FBS. If both companies had been more open in their dealings, they might have understood each other well enough to come to an agreement.

How to Improve Agra Land

Get More Locals Involved. FBS did not use bankruptcy law to its fullest advantage in its reorganization. It promised every group of creditors (excepting secured creditors) more than was needed for acceptance of the plan. As a result, FBS ended up with more debt than it would have had if it had been more hard nosed with certain groups of creditors. What was FBS' reason for doing this? It wished to avoid alienating its clientele. To leave a creditor with little or nothing after the reorganization may have been the same as permanently losing a customer, because many creditors are also customers. Loyalty as defined by Hirshman (Exit, Voice, and Loyalty, Harvard University Press, 1970) is important here. The cooperative was loyal to the creditors in hopes that the creditors would be loyal to the cooperative, by continuing to patronize it even when better deals might be had elsewhere.

While some of the locals chose to remain loyal when FBS asked for new capital investments, the majority of them selected the exit option. (Recall that only 17 out of 74 locals put up new capital.) Even if AL survives its current problems of adjusting to the new structure of the company, the fact that the power in the company is concentrated among so few locals may bring the eventual downfall of the company. The potential for a social trap[8] exists. This is because the rewards for the individual cooperatives which have power may work counter to their long run goals, and the long run goals of Michigan farmer cooperatives. The powerful cooperatives will have incentives to demand that AL tailor its services to meet their individual needs at the expense of serving those cooperatives on the periphery of the system. Unfortunately, those cooperatives which now hold a lot of power in the company cannot generate enough business by themselves to adequately utilize AL's equipment. If AL specializes too much, then volume will stay low, and AL will not be able to pay its debts as they come due.

Recall that the local cooperatives now on the periphery of the system have the option of increasing their power under the reorganization plan. They may do this by investing capital which would allow them to exchange their Series B stock for Series A stock, which has a lot more votes in board elections. AL management has expressed the opinion that locals which have not yet made any new investments are unlikely to do so. With few votes, the holders of the Series B stock are likely to exit further from the regional's activities as they are confronted with cutbacks on (or lack of expansion of) services they need. The

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[8]As defined by John Platt, "Social Traps," American Psychologist, August 1973, pp. 641-651.

voice option, embodied in substantial voting power in the company, does not exist for them with the current situation, so it will not be used. Thus the company may lose the feedback necessary to maintain effective relations with a substantial proportion of its member/clients.

The only way to avoid this scenario is for management to aggressively sell the cooperatives on the periphery on becoming active members of the reorganized company. Management must solicit capital investments even if it doesn't feel a pressing need for more capital. Care must be taken to avoid overspecialization, but at the same time, the locals must be offered enough incentives in terms of services to make it worth their while to become active members again. The only method of finding out what they want is to enter into a continuous dialogue with them. Top management personnel should meet regularly with managers from local cooperatives that have left the company to find out how to bring them back, and to gain their trust. At the moment, these managers feel ignored.

<u>Streamline the Company</u>. AL should continue to seek the counsel of LOL and St. Paul Bank. Both of these institutions have a lot of experience in the operations of cooperatives, and both have the interest in the future success of AL. LOL has been blunt about AL's need to make substantial changes in its grain marketing division. A study was completed in 1984 to see what changes might be feasible in that division. AL should take these suggestions to heart. At the same time, effort should be spent to find out out what the company has done right in the past, and concentrating on those areas in future operations. Consolidation should be a key concept in all company planning.

Suggestions for Cooperative Strategies

Strategies Relating to Banks. Perhaps a word about the Bank for Cooperatives system is in order here. The Bank for Cooperatives system was established in 1933 by the U.S. Government. Over a period of thirty-three years, the system paid back the original capital loaned to it by the government, so it is now independently funded. It is still monitored by a government agency. The system is split into twelve non-overlapping districts.

The advantage of working within the Bank for Cooperatives system should be obvious from the case study. The St. Paul Bank for Cooperatives was instrumental in helping FBS find a plausible solution to its problems. This was partly due to the fact that SPB had large loans due from FBS. Still, any other bank holding a large amount of FBS paper could not have been so helpful, because it would not have had the familiarity and expertise with cooperative problems that the Bank for Cooperatives could draw on. Now recall that the most important factor in the failure of FBS and OF to combine was that OF's bank, the Louisville Bank for Cooperatives, was not enthusiastic about adding FBS to its portfolio. Meanwhile, SPB was anxious to get FBS out of its portfolio. Neither branch of the system wanted FBS. The combined company would have been headquartered in Ohio, which is Louisville's territory. Thus Louisville moved to block the combination, while St. Paul favored it.

Clearly, this represents an institutional weakness of the cooperative banking system. Some incentives are to jockey for a better position relative to the adjoining district, rather than to consider which policy might be best for the system as a whole. In a typical business situation, when one bank will not make a loan, the manager of the business will walk across the street to see if the bank's competition will lend the money. For OF, there was no alternative source of credit within the Bank for Cooperatives system. The division of the system into districts made it hard for OF to ask St. Paul to take on its loans. If the system had allowed such a move, it seems reasonable that St. Paul would have accepted such a borrower, because OF has a solid balance sheet and a good record of growth with profits. Once both cooperatives were within the domain of one district, a more objective analysis of what was best for both cooperatives might have followed.

If cooperatives wish to get big in order to compete effectively with the proprietary firms, then one may expect to see mergers between cooperatives headquartered in different states in the future. The present districting of the Bank for Cooperatives might become burdensome to cooperatives wishing to consolidate. A way of avoiding this problem is to amend the bylaws governing the Banks for Cooperatives to allow a transfer of the accounts of the stronger company to the Bank of the weaker company when two companies are being combined. This would help eliminate locational bias from bank behavior in mergers and acquisitions.

Another area that needs reform in the Bank for Cooperatives system is the process of loan approval. Currently, the policy at SPB is to establish a line of credit for each of its clients based on assets and past earnings. The client is responsible for determining appropriate use of that credit. In principle, this sounds fine, but in practice, it may lead to problems. First of all, the Bank for Cooperatives has the benefit of the experience of other cooperatives to draw upon in deciding appropriate business strategies. It should make use of these in counseling its clients' use of credit, in order to keep cooperatives from making unwise investments. SPB does play this role to a certain extent, but it should expand its activities in this area, by withholding credit when necessary. Secondly, SPB needs to become more concerned about coordinating the investments that it backs with its loans. SPB loan officers commented that one reason that regionals are in trouble now is that they are facing increasing competition from locals which have increased the line of services they can provide. SPB makes loans to both locals and regionals. Clearly, an SPB loan to a local can lead to reduced return on investments to the regional, and overcapacity in a region. This should be considered more carefully before credit is extended. A series of sound moves on the part of locals may mean that the regional will not have the volume to justify continued operations. Regional overcapacity means that the salvage value of certain assets can fall below their acquisition or book price. SPB could lose a lot in a liquidation.

Keep the Power to Reject Union Contracts in Bankruptcies. A principal source of new capital in the FBS reorganization was money obtained cashing in an old pension plan, and starting a new one with similar benefits, excepting the date which employees would be vested. One union that FBS was dealing with objected to this restructuring of their pension. Without the potential court approval of rejecting this union's contract during the bankruptcy, FBS would have had a much more tenuous bargaining position with the union. The proceedings could have been delayed many more months.

The AFL-CIO is currently pushing legislation that would eliminate a debtor's ability to reject union contracts in bankruptcy proceedings.[9] This would represent a lessening of cooperative organizations' ease of transition into combined or reorganized forms. Cooperatives should lobby against these measures.

Lobby for More Effective Ways to Deal With Large Numbers of Claimants Here we must ask if there are other institutional structures which would have resulted

[9]"Legislative Alert! Bankruptcy Bill Pushed to Big Victory in House," AFL-CIO News, Vol 29, No. 13, P. 8, March 31, 1984.

in a faster solution to FBS' problems. PBB related claims and litigation continued for years after the accident was discovered. The potential for continued claims hindered its search for a merger partner. Clearly, if an avenue had existed to reduce the amount of attorney work and to block further claims without undergoing bankruptcy, FBS shareholders would be in a better position today.

The law has made provisions for large numbers of small claimants to file a collective suit against an entity which they believe has damaged them. The basis for this law is that claimants may reduce the contractural costs of litigation.[10] No law providing for the reverse situation exists. That is, if an economic entity is faced with a large number of small claimants, it has few means available to it under the law to force claimants to come forward by a certain date. A law providing the basis for a reverse class action suit might have improved the coop's chances of dealing with its difficulties outside of bankruptcy. The law would work like this: the coop would file a petition which, if approved by the court, would require all potential litigants to forward their claims by a certain date. (Recall that all farms that were subjected to any level of PBB were identified within a year of the accident.) The coop would bear the cost of insuring that all potential litigants were notified well before this date (registered letters, etc.). After the filing deadline, subsequent claims stemming from the original incident would be valued at zero. The class of potential claimants would appoint attorneys to represent them.

The court would determine the extent of the coop's liability (assuming no out of court settlement), and each of the claimants would receive a percentage of the monies allotted to the class. The class would be required to come up with its own plan for the distribution of payments awarded by the court.

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[10] Schmid, A. Allan, Property, Power, and Public Choice: An Inquiry into Law and Economics, Praeger, 1978.

In essence, the law outlined above varies little from the method that the cooperative actually employed to rid itself of PBB related litigation. Only the form is different. The cooperative needed the legal sanctions of bankruptcy for the move. If bankruptcy is avoided, the costs of involving all classes of creditors, the costs (both emotional and economic) of the stigma normally associated with bankruptcy, and finally the costs of changing the company name and rebuilding an image can all be avoided also. The coop could have saved millions of dollars in legal costs with such a law. A workable plan to revitalize the coop might also have been found earlier (because potential partners would not have worried about contingent liabilities), saving additional legal and information costs.

The Harvard Law Review[11] reports that a financially sound firm, Manville, has also used Chapter 11 proceedings to free itself from the burden of contingent asbestos claims. The Review suggests that in cases like Manville, the extent of company liability be estimated, and a fund be established for the claimants. The company would then be free from its responsibility, and claimants would bargain or litigate for a pro rata share of the fund, just as was done in Farm Bureau Services' case. The fact that a financially sound company has used Chapter 11 for such purposes substantiates the argument that separate reverse class action legislation be enacted.

Kauffman, writing in the Stanford Law Review[12] is also concerned with massive contingent litigation facing bankrupts. He suggests court created class actions, the consolidation of proofs needed by many claimants, and/or the appointment of "special masters" to attend to the litigation and expedite the process. Here again, these techniques could be employed outside of bankruptcy.

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[11]"The Manville Bankruptcy: Treating Mass Tort Claims in Chapter 11 Bankruptcy," Harvard Law Review, Vol. 96, March, 1983.

[12]Kauffman, David, "Procedures for Estimating Contingent or Unliquidated Claims in Bankruptcy," Stanford Law Review, Vol. 35, November, 1982.

Such a structural change would alter rights. It would reduce the voice available to individual potential claimants not satisfied with group decisions in actions against the coop. This is balanced by the fact that the reduced transactions costs might make is possible for the coop to pay a more generous settlement.

Eliminate the Requirement that No Non-Voting Securities be Issued in Bankruptcies. In its reorganization, FBS issued securities to at least two groups not very interested in active participation in the election of the board of directors. These groups were the debenture holders and the local cooperatives that did not contribute new capital investments to the reorganization. FBS got around the legal requirements that these groups be issued voting stocks by attaching such a small amount of voting power to these stocks as to make them insignificant. Now, even though these groups do not have enough votes to make any difference in board elections, AL must keep them informed of board elections, and tally their votes. This represents an unnecessary administrative expense to the new company.

The current system is not effective in its intent to protect the property rights of creditors issued new stock, as the FBS case study shows. Elimination of the requirement that no new non-voting securities be issued would not alter creditors' rights in a substantive fashion. The only real effect of suspending that clause of the U.S. Bankruptcy Code would be to reduce to the costs of holding board elections.

Keep Track of Attorney Fees in Bankruptcy. AL's planning was set back considerably when it received notice from its lawyers that AL still owed them a large amount of money for legal work done in the course of the bankruptcy. This had not been expected by company administrators. A debtor cooperative contemplating bankruptcy should demand projections of legal costs from its counselors before every phase of the proceedings.

Buy Low and Sell High. One local coop manager commented that he had recently suggested to his board of directors that they liquidate the cooperative's holdings. This cooperative is one of the most successful locals in Michigan. The manager's rationale for making the suggestion was that the cooperative had been established because farmers lacked essential services that they needed. The cooperative's facilities had been constructed, and were not going to go anywhere soon. Therefore, the manager reasoned, the cooperative had fulfilled its function. If the facilities were sold, proprietary firms would continue to operate them, so farmers would still benefit from these services. Meanwhile, farmers who initially invested in the cooperative facilities would receive a substantial profit on their investment.

One must be realistic in assessing the trends in cooperative ways of doing business. Everywhere, cooperatives are facing increasing competition from proprietary enterprises. In response, cooperatives are adapting themselves to become more like proprietary firms. A cooperative that acts like a proprietary firm will end up with clientele that think of it as a proprietary firm. The farmer survey alluded to in a previous section highlights this trend. Farmer loyalty to cooperatives has eroded.

Fighting for the continued existence of a cooperative is moot from the perspective of the farmer if proprietary firms are ready to provide similar services at comparable prices. A manager truly concerned about the welfare of the membership should sell the cooperative assets when prices are right if the cooperative can't give its members more than other kinds of firms. Very rarely do farmers get the opportunity to cash in their shares at a profit from cooperative investments. Perhaps this should happen more often.

Conversely, if the cooperative can offer something that proprietary firms cannot, or if its existence means that excess profits will be not be retained by other types of firms, then there is reason to stay in business. If a cooperative wants to play a moderating role in the market, then by definition it will not behave as a proprietary firm. Managers wishing to play a dual role as profit maximizers and as market moderators should rethink their goals, because the two positions conflict with each other.

Share the Costs of Research and Development Through Leasing Arrangements. The cooperative system is currently facing stiff competition from proprietary firms. One source of this problem is that when proprietary firms expand, they are able to spread their research and development costs over a larger quantity of goods produced, which reduces the average cost of the good.

It is difficult for a cooperative to attain the size of some of the proprietary firms and still claim to be providing farmers and/or local cooperatives much input into the day to day operations and long term planning decisions of the organization. As the number of members increases, the amount of voice available to each individual becomes attenuated. The complexity of operations also mounts with increasing size, making it difficult for members to make good judgements about how the cooperative should be run.

The leasing arrangements pioneered between AL and LOL offer a means to capture some of the economies of scale available to the proprietary firms, while at the same time maintaining the close ties to the member/client so important to the cooperative system. AL is simply renting the knowledge and image that LOL paid money to accumulate, thereby reducing costs to both firms. Cooperatives should not wait until they are on the verge of financial collapse to begin exploring this new possibility. A weak business is less able to drive an equitable bargain than a vibrant one. The time to seek such opportunities is now, whether a cooperative is sick or healthy.

Opportunities for reciprocity exist if firms can each concentrate on one area of research. For example, one firm could specialize in development of improved varieties of seed, while another emphasized research on feed formulations. The two companies could then share their knowledge.

Leasing knowledge obtained through research has great potential for benefiting cooperatives throughout the United States.

EPILOGUE

On the afternoon of Friday, August 16, 1985, Agra Land and CountryMark issued a press release stating that, pending approval by the respective companies' boards and lending institutions (St. Paul and Louisville Banks for Coops), CountryMark would acquire Agra Land's assets. Exact details of the agreement have not been finalized yet, but Agra Land will probably become a subsidiary of Midstates Terminals, Inc., providing some insulation to CountryMark from any future PBB litigation. The current proposal is for CountryMark to assume all mortgages and debentures of Agra Land. No shareholder stocks would be redeemed, except for Series X, the Land O' Lakes investment. The rest of the stocks would remain as part of the corporate shell that Agra Land would become, and would not be redeemed unless this new corporate restructuring is unsuccessful.

Agra Land officials hope to be able to create a new series of preferred stock (Series E). Series E stock would be issued to each of the 17 local coops which made new investments in Agra Land at the time of its 1983 reorganization. The face value of the Series E stock would be equal to the amount of new money each of the locals invested in the 1983 reorganization. The effect of the creation of Series E would be to split the Class A common stock into two categories, with Class A stock representing pre-reorganization investments, and Series E preferred stock representing investments made during the reorganization in 1983. Series E stock would have priority over all common stocks in liquidation, but would be the lowest priority preferred stock (Both classes of common stock, A and B, have the same priority ranking). In a liquidation, all other stocks would have the same priority assigned to them as in the disclosure statement.

Other than the special treatment of their most recent investments, the 17 locals which put up new capital in the 1983 reorganization will receive no special treatment if Agra Land becomes a Midstates subsidiary. One local coop manager indicated that, in the event of liquidation, losses on equity invested by locals prior to the 1983 reorganization would not affect the operations of any locals, because local coop managers had ceased to expect any return on those investments many years ago, but have continued to carry them on the books.

Under the current plan, local coops doing business in grain will automatically become members of Midstates (Recall that CountryMark holds majority stock in Midstates.). Locals will probably join CountryMark directly for their farm supply needs. Details on how Agra Land's locals will participate in the decision making processes at CountryMark are not yet available. The acquisition of Agra Land and the inclusion of its 56 member coops means that CountryMark (formerly Ohio Farmers Grain and Supply Association and LandMark, Inc.) may have a membership of 173 local coops. Agra Land officials project that the acquisition, if approved, will result in an annual sales volume of $1.3 billion for CountryMark, and assets worth $171 million.

An Agra Land official cited a desire for a larger sales area and a desire to keep Agra Land's Ottawa Lake grain terminal out of the hands of proprietary firms as CountryMark's major incentives for the acquisition.

As a part of the analysis of Agra Land, it is relevant to ask where Agra Land went wrong, and inspect the composition of its losses. A business strategy can go awry either because of poor projections of demand for services the company provides, or it can fail because it is impossible to support the company in spite of accurate demand predictions. In Agra Land's case, both of these errors may have played a part in its demise.

The company did not emerge from the reorganization as healthy as was needed. Its annual interest payments were large. Legal fees relating to the reorganization were also quite large. Agra Land paid its bankruptcy attorneys over $500,000 in 1984 alone. Agra Land officials were unable to put an exact figure on the amounts paid to the attorneys retained to represent the various classes of creditors in the reorganization, or to attorneys representing them in litigation. The net reduction in the company's financial position as a result of the reorganization in 1984 was quoted in Agra Land's annual report at $2.6 million (this includes payment of $2.6 million to PBB claims funds, payment of 83% of trade payables, attorney fees, less approximately $1 million of investments that the company was able to attract). An additional $39,000 was spent on legal fees defending the company from those challenging the Chapter 11 settlements in 1985.

Agra Land's projections were off target as well. The company projected sales of $260 million in 1984, and $284 million in 1985. The actual sales figures that they recorded were $228 million in 1984, and $183 million in 1985. The trend in Agra Land's sales was moving in the wrong direction, opposite of what had been predicted. Projections to 1988 called for a 9% to 11% increase in sales every year (Inflation was projected to run between 3% and 5%.). Since the company was planning on liquidation at the time of the close of the 1985 fiscal year, they included the full $3.4 million value of the pension reversion (normally amortized over fifteen years) in the balance sheet. This, coupled with $188,000 the company received as a tax refund with interest from business done in 1974 allowed the company to show a $710,000 profit in 1985. Condensed balance sheets for the two years are presented in Table 3:

Table 3

	1984	1985
Operating Losses:		
Grain and Bean Marketing	(1.0)	(1.9)
Farm Supply	(0.6)	(0.7)
Other Sources of Income/Expense:		
PBB Claims Fund	(2.6)	---
New Investments	1.0	---
Payment to Debenture Holders	(0.2)	---
Attorney Fees	(0.6)	---
Pension Reversion	--	---
Asset Write Down & Misc.	(0.6)	---
Net:	(4.6)	0.7

Note: All figures rounded to the nearest hundred thousand dollars.

Although farm supply division losses increased, these figures represent a mild improvement in the performance of the division in comparison to previous years. The grain marketing division represented the greatest drain on Agra Land. Why didn't Agra Land spin off its troubled division in the reorganization? Agra Land management felt a challenge to rehabilitate both divisions of the company, and waited for the results of the grain marketing study it helped fund to make a decision in that arena, despite pressure from St. Paul Bank to get rid of the division. When the grain marketing study was completed, it found that too many tiers were involved in marketing of grains in the Michigan-Ohio-Indiana tri-state area for the slim marketing margins to support. Some of the middleman needed to be cut. After receiving this advice, along with increased pressure from St. Paul Bank, AL management decided that they would sell the division. Their search for a buyer led them back to Ohio Farmers (now part of CountryMark).

Preserving the grain marketing services for their members does not appear to have been the major factor in motivating AL's long retention of its grain marketing division. Rather, the reasons seem to have been an initial belief that the division could be returned to profitability, followed by a search for an appropriate buyer.

In analyzing AL's fate, one must remember that AL's last two years were difficult for everyone in Agribusiness. Ohio Farmers posted a small loss in 1984, and a small profit in 1985. Had 1984 and 1985 been better years for agriculture, Agra Land would probably have lasted longer. AL management now believe that the end result would still have been liquidation. They cite local coops' lack of confidence in AL's ability to survive and provide valuable services as the ultimate reason for the failure of the company. They felt that some of the locals would not have come back into the fold for many years following the reorganization. Projections made at the time of the reorganization forsaw more locals coming back to Agra Land.

Thus the old saw "the operation was a success, but the patient died" may be applied to the reorganization of Farm Bureau Services. The reorganization did introduce a successful contracting system between Land O' Lakes and Agra Land, but failed to make other changes necessary to ensure the viability of the company.

Hindsight shows that the abandonment of negotiations with Ohio Farmers was premature. The company has returned to these negotiations. This highlights the need for close communications between potential partners in consolidations. In the meantime, the company has experienced about $4.2 million in operating losses ($3.9 million in losses after legal expenses, and financial restructuring). The experiment has been costly. These losses came out of stockholder equity, as the company borrowed more to finance its operations. If the company is every liquidated, this reduced equity will cost the local coops the most, because their stocks have the lowest priority. Without liquidation, local coop investment remains locked in the corporation. The local coop managers are realistic in assuming they will never see the money again. The other investors face more uncertainty as to their fate in a liquidation. After local coops, next in line to have their equity eroded in liquidation are (in order of ascending priority): the Michigan Farm Bureau, debenture holders who received stock in lieu of payment, and the Farm Bureau Insurance Group.

AN ECONOMIST'S PERSPECTIVE

Winners and Losers

As stated in the introduction, the emphasis of this work was to provide information to managers and board members useful in making chapter moves away from that perspective, and examines the broader social consequences of events at Farm Bureau Services and Agra Land. This analysis focuses on those immediately affected by the outcomes, omitting those further removed from the situation, such as consumers. Much of this section repeats what has been stated or implied in earlier sections of this work. This section merely assembles all the information in one place, and makes it more explicit.

Some economists define a social improvement as a situation whereby at least one person is made better off, without anyone being made worse off. The changes at Farm Bureau Services do not fit this criterion. There were winners, but there were also losers. The categories outlined below are not intended to be mutually exclusive. It is possible to win on one front, but lose on another.

Winners

Attorneys. A law firm received large fees for helping Farm bureau Services process its Chapter 11 proceedings. They provided a very specialized service, and were rewarded for this service. Other law firms represented Farm Bureau Services in litigations against claimants. They were also remunerated.

Some PBB Claimants. Those that received the initial large payments may possibly have been overcompensated for their losses.

Proprietary Firms. The PBB scare and subsequent destabilization of Farm Bureau Services increased proprietary firms' sales volume in the area.

Ohio Farmers Grain and Supply Association/CountryMark. This regional supply cooperative was also able to increase its sales in Michigan after PBB was publicized.

Land O' Lakes. Land O' Lakes investments in Agra Land are secured, and will be repaid in the event of a liquidation. In the meantime, Land O' Lakes has received substantial payments for the use of its formulations, logo, and consulting services.

Losers

PBB claimants. PBB claimants were an impaired class of creditors under the reorganization. Some claimants who received full payment may have also made claims that were less than the full extent of the damages they incurred.

Attorneys. The attorneys who represented claimants in court, and who lost, such as the Tacoma case, took their clients on a contingency basis. Thus they received nothing in exchange for their legal services.

St. Paul Bank for Coops. The bank rescheduled loans in the reorganization, and will probably write down assets in any liquidation.

Farm Bureau Services Employees. Mental duress is a cost. These employees endured mental duress from being associated with a health problem that concerned almost every citizen in the state, and from the uncertainty associated with the potential collapse of the institution from which they earned their livelihood. They may now also endure the cost of finding a new job, which can be very high for older employees.

Members of FBS' Board. Mental duress is also the argument here. These people were undoubtably targets for criticism of company actions.

Michigan Chemical Company/Velsicol. MCC lost business, and found it necessary to sell to Velsicol. Velsicol became enmired in the "successor business" problems associated with PBB. MCC plant which shipped the PBB was shut down, and most employees lost their jobs.

Insurance Companies. The insurers of FBS and MCC lost the full limit of their liabilities, plus additional processing and court costs.

Feed Producers. All companies now producing feed now face higher insurance premiums because of the costs incurred by PBB, which in the long run are passed on to consumers.

Michigan Farm Bureau. MFB lost equity before the reorganization as the company incurred losses, during the reorganization as MFB holdings were written down, and after the reorganization as Agra Land continued to lose money. MFB also lost control of its subsidiary in the reorganization.

Local Coops. Those locals that invested new equity in Agra Land will probably not receive a high return on their investment.

Shareholders and Debenture Holders. Persons holding securities issued before the reorganization will lose (have lost) substantial equity.

Outcome Indeterminant

Farmers. The number of cooperatives operating in the region will probably be reduced. This may reduce farmer options, and reduce the "watchdog" effect that cooperatives have in forcing proprietary firms to keep profits low. On the other hand, a larger centralized cooperative may emerge, enabling it to bring lower prices to farmers. Another consideration is that farmers may not have lost much, given the sales volumes they provided Agra Land in the past few years. The conclusion is that some farmers may lose, some will be unaffected, and some will gain from the changes in FBS.

Public Policy Implications

To the economist, it is also interesting to ask the question, "Would alternative modes of capital organization have performed differently in this context?" Here the relevant alternative form of capital organization is the proprietary firm. Perhaps it is fair to use the response of Michigan Chemical Company as a model for proprietary firm behavior. It was a proprietary firm, and under Michigan law, it was liable for 50% of damages incurred by farmers during the PBB crisis. MCC was much less concerned about farmers, and much more concerned about its own survival and the continuing income of its employees than was FBS.

MCC liquidated much sooner than FBS. MCC was bought out by Velsicol. Velsicol suffered under Michigan's strong "successor business" liability legal tradition. Touzeau[12] claims that overzealous Michigan pollution control enforcement eventually forced the closure of the Michigan Chemical Company plant site.

It is interesting that FBS officials never complained of harassment by Michigan Agencies. Why the differential treatment between FBS and MCC? This may have been related to the perceived differences in the cooperative's willingness to shoulder some of the responsibility in addressing the needs of farmers and the State of Michigan in solving the PBB problem. Michigan officials may have seen FBS as a more responsible institution, and were therefore more willing to let it have some room to try to save itself.

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12 Op. cit.

The implication that one may draw from all these inferences is that fostering of the cooperative movement may make enforcement less difficult for government. Compliance is necessary for effective public policy, as enforcement represents a cost to society. Low enforcement costs free funds for more positive measures.

In assessing whether or not to encourage cooperative reorganization, policy makers must consider who bears the costs, and who receives the benefits of such an action. In the case study presented here, hindsight shows that the cooperative eroded its equity in the two years following the reorganization. This loss utimately comes out of the equity of members. Given the very difficult economic environment, the changes at Farm Bureau Services were not adequate, and liquidation would have better preserved member equity. It is interesting to speculate as to whether an investor owned firm would have made different decisions, being more oriented towards preserving equity, and less towards service to members.

APPENDIX A

PERSONS INTERVIEWED

APPENDIX A

PERSONS INTERVIEWED

1. Allen, Newton, Ex-Chief Executive Officer, Farm Bureau Services.
2. Armstrong, Donald, Ex-Chief Executive Officer, Farm Bureau Services.
3. Bailey, Arthur, Farmer and Former Farm Bureau Services Board Member.
4. Blanton, Weldon, President and Chief Executive Officer, Agra Land.
5. Braden, Robert, Administrative Director, Michigan Farm Bureau.
6. Bucholz, Chuck, Executive Secretary, Michigan Association of Farmer Cooperatives.
7. Butzin, Matthew, Ex-Chief Financial Officer, Farmer Bureau Services.
8. Chalfin, Loren, Chief Executive Officer, Ohio Farmers Grain and Supply Association.
9. Curry, Don, Wholesale Manager, Agra Land.
10. Dunn, John, Agricultural Cooperative Service, USDA.
11. Husby, Gregory, Vice President, Agra Land.
12. Leipprandt, Ted, Manager of Pigeon Cooperative.
13. Meyering, Hein, Member of Agra Land Board of Directors, Manager of Falmouth Cooperative Company.
14. Morgan, Dick, Vice President of Human Resources, Agra Land.
15. O'Henley, Joseph, Chairman of the Board of directors of Agra Land, Manager of Lapeer County Cooperative, Inc.
16. Opp, Roger, Assoc. Vice President, Special Credit Division, Farm Credit Services (St. Paul Bank for Coops).
17. Peterson, Stuart, Loan Officer, Farm Credit Services (St. Paul Bank of Coops).
18. Porter, Homer, Senior Vice President of Marketing & Agri Services, Land-O-Lakes, Inc., Board Member, Agra Land.
19. Rabinowitz, Asher, Farm Bureau Services' Bankruptcy Attorney.
20. Stanton, Harry, Board Member of Agra Land, Manager of Eaton Farm Cooperative, Inc.

21. Stebbins, Ronald, Manager of B & W Cooperative.

22. Stewart, Mark, General Counsel, Ohio Farmers Grain and Supply Association.

23. Walker, Harvey, Bankruptcy Court Judge.

24. Wilkinson, William, General Counsel, Michigan Farm.

APPENDIX B

A BRIEF CHRONOLOGY OF THE PBB INCIDENT

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This brief historical chronology of the PBB incident in Michigan has been prepared by the Information and Education Division of the Michigan Department of Agriculture in response to requests for data about the incident for use in term papers, themes and articles.

1971	Michigan Chemical Corporation's plant at St. Louis, Michigan, began commercial production of polybrominated biphenyl (PBB) as a component of a fire retardant compound trademarked "Firemaster." The product was packaged in red bags with black letter labelling.
Early 1973	Michigan Chemical Corporation marketing magnesium oxide (an additive to enrich livestock feed) under the brand name "Nutrimaster." This product was packaged in green bags with black lettering.
May 1973	The usual red and green bags became unavailable due to the paper shortage. "Nutrimaster" and "Firemaster" were packaged in similar brown bags with their respective commercial names. Michigan Chemical shipped "Firemaster" to Michigan Farm Bureau Services instead of "Nutrimaster" which was ordered. "Firemaster" was introduced into feed mixtures at Michigan Farm Bureau Services feed mills.
July 1973	Frederick L. Halbert, a dairy farmer from the Battle Creek/ Kalamazoo area, ordered custom feed containing twice the usual amount of magnesium oxide. Much later, it was learned the feed delivered contained "Firemaster" instead of "Nutrimaster."
September to November 1973	Halbert noticed unusual animal health problems...milk production down 40%, feed consumption down 50% and abnormal hoof growth by November. Michigan Department of Agriculture (MDA) and Michigan State University (MSU) experts called in by Halbert.
November through December 1973	Tissue samples submitted to MDA laboratory for histopathological examination and tested for arsenic, lead, mercury, copper, aflatoxins, ochratoxins, sterigmatocystin, zearaleonone, lindane, DDE, DDD, DDT.
January 1974	The presence of an unknown substance in the feed was revealed by the national Animal Disease Center in Ames, Iowa.

January through March 1974	Silage, haylage samples tested for nitrates; blood tested for Vitamin A and Carotene content; urine tested for pentachloro-phenol by MDA laboratory.
March 1974	Rabbit tissues tested for arsenic, lead, mercury, copper. Cattle pellets tested for lead. Studies carried out by MDA, MSU, Agway Laboratory in New Jersey, Wisconsin Alumni Research Foundation and National Animal Disease Laboratory. No conclusive results except report of "disease of unknown origin."
May 2, 1974	MDA notified unknown substance has been identified as PBB on April 26, 1974, by Dr. George Fries of the National Pesticide Laboratory of the U.S. Department of Agriculture (USDA), Beltsville, Maryland.
May 3, 1974	MDA personnel began obtaining milk samples.
May 9, 1974	MDA and Food and drug Administration (FDA) began checking feed mills for contaminated feed.
	Director of MDA alerts Governor.
	MDA alerted Michigan Department of Public Health by letter.
May 10, 1974	First reports of analysis of milk samples received. Milk from 15 herds taken off market and quarantines issued.
	FDA set administrative guideline of 1.0 parts per million of PBB in milk.
May 13, 1974	First status report issued: 29 dairy herds, 2 beef herds, 3 poultry flocks, 1 swine herd quarantined. (Entire farm premises quarantined at that time on the basis of contaminated milk. Later only livestock involved were quarantined.)
May 17, 1974	MDA scientific meeting regarding PBB problem -- USDA, FDA, MSU, Michigan Chemical, Farm Bureau Services, Michigan Public Health, Attorney General representatives present.
May 21, 1974	The Michigan Commission of Agriculture proposed emergency legislation which, if adopted by the legislature, would pay farmers for loss of animals and income due to PBB contamination. The proposed legislation would permit MDA to condemn affected animals and authorize indemnity payments, then enter into civil suits against the parties responsible for the feed contamination.

June 6, 1974	Attorney General Advised MDA it had no authority to order livestock condemned unless required to prevent spread of infection or contagious disease. Also, no authority to pay indemnity to owners of animals contaminated with toxic chemicals.
June 7, 1974	MDA indicated to Governor's office there was little expectation of federal assistance.
	FDA established guidelines in meat and meat products of 1.0 parts per million of PBB.
June 11, 1974	MDA's Director Ball reported to Governor on provisions for disposal of contaminated livestock.
Mid-June 1974	710 tons of contaminated feed were seized by MDA during the first six weeks and ultimately destroyed.
June 21, 1974	FDA set guideline level for eggs at 0.1 parts per million.
July 2, 1974	Public Act 181 enacted, enabling establishment of burial site for contaminated livestock. First cattle buried at Kalkaska (116 on July 2 and 3).
July 5, 1974	Restraining order issued by court on burial of animals at Kalkaska site.
July 24, 1974	Dr. Maurice Reizen, Director of Michigan Department of Public Health, stated that the first medical tests showed humans not harmed by PBB.
August 21, 1974	Court of Appeals decided state could proceed with burial at Kalkaska.
October 28, 1974	Letter to Governor regarding new developments and citing costs and possible need for emergency funds.
November 4, 1974	FDA reduced guidelines in meat and milk from 1.0 ppm to 0.3 ppm, .05 ppm in eggs.
	By this time, about 10,000 cattle had been quarantined, about 9,000 had been destroyed and buried at Kalkaska site.
November 26, 1974	Letter to Governor updating PBB information.
December 19, 1974	Director Ball letter to Secretary of Agriculture requested PBB problem be declared a national emergency and asked for disaster relief funds.
May 29, 1975	Michigan Commission of Agriculture held hearing to determine if the PBB tolerance level should be lowered. This hearing was in response to House Concurrent Resolution 41.

Officials from Michigan Department of Public Health, MSU and FDA testified that their research to date had shown no adverse human or animal health effects at the current FDA level of 0.3 parts per million of PBB.

June 11, 1975	The Michigan Commission of Agriculture approved continuance of the FDA guidelines...(0.3 ppm in milk and meat and .05 ppm in eggs).
December 1, 1975	From May 3, 1974, to December 1, 1975, analysis of 15,488 different products was completed by MDA laboratory. Products destroyed were: 865 tons of feed, 17,944 pounds of cheese, 2,634 pounds of butter, 34,000 pounds of dry milk products and 4,847,227 eggs. Livestock buried at Kalkaska site totalled 22,691 cattle, 3,707 swine, 1,371 sheep, 573 poultry, 2 goats, 32 rabbits and 2 horses. A total of 519 premises had been quarantined with 467 released from quarantine when their animals had been removed and destroyed.
May 24, 1976	Governor Milliken released report from his scientific panel appointed in March which recommended lowering the tolerance level. The panel stated there was no evidence available to indicate acute human health problems from PBB, but expressed concern about possible long-term effects, so recommended guidelines by set at the lowest measurable levels. Governor Milliken requested the Commission of Agriculture lower the guidelines to the scientific Panel's recommended level.
June 10, 1976	The Commission of Agriculture held a public hearing to gather evidence on lowering the PBB tolerance level. Under state law, it is necessary to "clearly establish a necessity" in order to change from the federal guidelines.
June 22, 1976	Commission of Agriculture voted to retain the FDA guidelines on the basis there was no overwhelming evidence which would justify a change from the federal guidelines.
November 4, 1976	Dr. Irving Selikoff, Mt. Sinai School of Medicine (NYC), conducted a field survey of 1,029 selected individuals to determine if there were adverse human health effects from PBB. The study was done at the request of Governor Milliken and Michigan House of Representatives Speaker Crim.
January 3, 1977	Dr. Selikoff presented preliminary findings indicating adverse health effects may occur among some individuals surveyed, but there was much individual variability. He indicated no conclusions could be drawn, and that this should not be correlated to the general population, as his sample was drawn

from people with the greatest exposure. He concluded further tests and analyses were necessary before any conclusions could be made.

February 10, 1977 HB 4109 was introduced by by Representative Spaniola to reduce the tolerance level of PBB to .02 ppm and indemnify farmers for destroyed cattle.

June 23, 1977 Kenneth Van Patten, Chief of dairy division, named Chief of PBB unit. Development of a plan of action to implement pending law begun.

July 22, 1977 Bid requests were sent to nine laboratories along with eight PBB check samples.

August 2, 1977 Governor signed into law Public Act 77 (HB 4109 revised). This law lowers tolerance level of PBB to 20 parts per billion in meat and five parts per billion in whole milk. It requires testing of the milk supply on every dairy farm in Michigan during the first four months of the law. In addition every dairy cow born before January 1, 1976, having lactated (given milk) and culled for a slaughter must have a tissue biopsy test prior to being sold for meat. When violative dairy cows are found, the farmer is paid fair market value for those cull dairy cows. The law becomes effective 60 days after signing.

August 4, 1977 From May 3, 1974, to August 4, 1977, analysis of 32,523 different products was completed by MDA laboratory. Products destroyed to date were: 865 tons of feed, 17,944 pounds of cheese, 2,634 pounds of butter, 34,000 pounds of dry milk products and 403,936 dozen eggs. Livestock buried at Kalkaska site amounted to: 23,671 cattle, 4,621 swine, 1,399 sheep, 565 poultry, 2 goats, 32 rabbits and 6 horses. A total of 576 premises had been quarantine, with 551 released from quarantine when their animals had been removed and destroyed.

August 15, 1977 Analytical contract awarded to Research 900, St. Louis, Missouri. Details to be worked out so work can begin October 3, 1977.

August 1,1977 Development of a complete computerized data program for records, including: producer and veterinary identification for sample identification and voucher preparation; sample receival information; all analytical results; generation of all certificates and forms required by law; complete individual producer records of sample test results, quarantined animal disposal, indemnification payments; a statistical record retrieval system able to generate statistics to meet nearly any request.

September 22, 1977 9,000 PBB farm information packets mailed to Michigan dairy farms.

September 26, 1977	Forty milk and 40 tissue samples analyzed at Research 900 to test system for proper operation.
October 3, 1977	Public Act 77 became effective. PBB Project unit established as separate unit of Michigan Department of Agriculture.
October 7, 1977	First set of results returned by Research 900.
December 16, 1977	Direct computer hookup via communication lines was established with Research 900. Test results transmitted direct to PBB unit computer.
February 3,1978	MDA completed testing of milk supply of all of the nearly 9,000 dairy farms in Michigan. Only one farm was found in violation of the 5 parts per billion tolerance level. This farm was a six cow heard which had been selling cream to an Indiana creamery.
March 3, 1978	Michigan legislature passed House Bill 5811 amending Act 77. Changes include increased and expanded reimbursements to farmers and authority to test and indemnify animals other than adult dairy cows on certain highly contaminated farms.
April 3, 1978	During the first six months of the PBB testing program, nearly 45,500 tissue samples were tested, of which 781 were found violative. This is a violative percentage of 1.71%.
April 17, 1978	Entire Upper Peninsula exempted from PBB testing program by concurrent resolution of the legislature.
April 21, 1978	Report of finished meat products sampled by Meat Inspection staff of MDA's Bureau of Consumer Protection. During year from March 2, 1977, to April 4, 1978...259 samples of various comminuted meat products from packing plants throughout the state of Michigan...were tested and none had any detectable amount of PBB contamination.
April 27, 1978	House Resolution No. 436 passed which established criteria for exempting regions of Michigan from the testing program of Act 77. A region may be recommended for exemption by the Michigan Department of Agriculture when, after an acceptable number of tests have been conducted, it is determined one-half of one percent or less of the dairy cattle in that region have PBB levels over the tolerance limit of 20 parts per billion.
May, 1978	Seven former highly contaminated farms were checked for residual amounts of PBB in animals not covered under Act 77. Testing of these animals revealed that they contained unacceptable levels of PBB. Fifty-four additional farms were then surveyed to determine what animals were on those farms.

May 31, 1978	Testing of animals other than adult dairy cows began on farms which have had a milk or tissue sample tested at five parts per million or more of PBB.
June 30, 1978	Legislature passed House Resolution No. 790 allowing qualified dairy farmers throughout Michigan to be exempted from provisions of Act 77 effective October 1, 1978. A farm must have a minimum of 15% of its dairy cows tested under Act 77 with no detectable level of PBB found to be eligible for exemption status. A farm which remains under the testing program will be eligible for exemption when tests on a representative sample of its dairy herd are all nondetected for PBB.
July 6, 1978	Resolutions passed by the legislature became effective, enabling qualified farms in Ionia, Clinton, and Lapeer Counties to be exempt from provisions of Act 77. Qualified farms must have at least 15% of their dairy cows tested under Act 77 with no detectable PBB found.
July 1978	House Bill No. 5533 was passed by the legislature and signed into law by Governor Milliken. This bill amends Act 181 to provide indemnification to farmers who have had livestock and livestock products quarantined and disposed of by the state. Qualified farmers will be indemnified 75% of their loss. The bill is retroactive to August 1, 1973.
July 24, 1978	Results of testing conducted on animals other than cull dairy cows were published. Four farms were considered to have a residual problem. Violative PBB levels were found on five other farms. Twelve additional farms were tested with no violative levels of PBB found.
July 27, 1978	Senate Bill No. 1605, which amends Act 77 to provide for testing, quarantine, destruction, and indemnification of livestock and poultry, was signed by Governor Milliken. Act 77 had previously been limited to dairy cows except when a farm had a dairy cow tested at 300 ppb or more of PBB. In addition, the bill eliminates the annual bulk milk test for all Michigan dairy herds. The bill is retroactive to October 3, 1977.
August 1, 1978	Michigan Supreme Court approves use of Oscoda County burial pit for burial of PBB contaminated cattle. First barrelled carcasses were buried.
August 8, 1978	First live animals slaughtered and buried at Oscoda site.
August 11, 1978	Burial completed at first pit. 921 contaminated cows and 1,789 barrels containing contaminated carcasses buried. Each barrel contained approximately one-fourth of a carcass.
August 15, 1978	The first installment of funds was transferred to Michigan State University to begin work on a $200,000.00 research

	project funded by the state. The goal of the research project is to identify areas and levels of PBB contamination on certain highly contaminated farms and to recommend clean-up procedures to rid the farms of PBB.
August 16, 1978	Capping of Oscoda County Burial pit with 200 feet of clay started.
August 25, 1978	Testing of animals other than adult dairy cows started on farms which have had at least 30% of their tested dairy animals violative for PBB.
September 1, 1978	First annual PBB Report to the legislature completed and delivered. During the first twelve months of the PBB testing program, over 86,000 tissue samples were tested, of which 1,384 were found violative. This is a violative percentage of 1.60%.
September 1978	Bulk milk was tested from each herd in Michigan. Only one farm was found to contain a detectable level of PBB. This level was below state guidelines for PBB in milk.
September 27, 1978	Preliminary report of a health study conducted by Dr. Irving Selikoff revealed 651 of 722 Michigan residents studied have measurable levels of PBB in their bodies, but no pattern of abnormal health disorders.
September 29, 1978	Exempt Farm Slaughter Permits mailed to nearly 4,000 Michigan dairy farms.
October 1, 1978	House Resolution No. 790 became effective. Nearly 4,000 additional dairy farms exempted from Act 77, bringing the total number of dairy farms exempted to 5,285.
October 26, 1978	Ruling of Wexford County Circuit Court Judge William R. Peterson, dismissed all charges against the Michigan Chemical Co., and Michigan Farm Bureau Services, Inc., in the state's first PBB damage trial, instituted by Roy and Marilyn Tacoma of Falmouth.
December 21, 1978	Ingham Circuit Judge James T. Kallman ruled that the state can sue the companies responsible for the PBB incident to recover expenses incurred in cleaning up and testing for PBB contamination.
January 30, 1979	The exemption clause of Act 77, section 10(1), was ruled unconstitutional by Attorney General Frank J. Kelley because "it purports to authorize members of the legislature to exercise power limited to the executive branch of government and allows enactment of legislation without passage of a bill into law.

February 1, 1979	MDA requested the attorney general to rule on the status of farms which were exempted prior to 1/30/79. MDA also announced that no additional farms would be exempted until the attorney general's ruling is received or Act 77 amended.
February 7, 1979	MDA began indemnifying farmers the fair market value, rather than slaughter value, for animals which are violative for PBB but not culled for slaughter. Cull animals are still indemnified at slaughter value. This is in accord with a ruling by the attorney general.
February 7-8, 1979	Two identical bills were introduced in the legislature (S.B. No. 67 and H.R. No. 4107) to amend section 10(1) of Act 77. The proposed changes would satisfy the requirements of the constitution and allow the exemption program to continue.
February 13, 1979	A preliminary research report on the location and levels of PBB contamination on 20 highly contaminated farms was presented to the Agriculture Commission by a member of the research team from Michigan State University. The report concluded that PBB levels on these farms could be reduced but that farmers would have to intensify their clean-up efforts.
February 16, 1979	Test results from PBB samples are now being transmitted every other day, rather than daily, from the contract laboratory to Lansing. The PBB Unit will now receive the test results on Mondays, Wednesdays and Fridays. The move was due to a decrease in testing volume.
April 5, 1979	H.B. 4107 signed into law by Governor Milliken. This bill amends Act 77 and gives MDA authority to exempt all dairy herds in which at least 15% of the dairy cattle have been tested for PBB with no violative animals found. The law also provides criteria for partial exemption of herds which have contained violative animals. In addition, exempt herd owners cannot purchase dairy cattle from nonexempt herds unless the animals are tested for PBB and found to be nonviolative.

APPENDIX C

CONTRACTUAL AGREEMENT BETWEEN LOL AND AL

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CONTRACTUAL AGREEMENT BETWEEN LOL AND AL

The arrangements between AL and LOL are unique in the domain of cooperatives. They may be useful as a model for future similar arrangements by the readers of this document who wish to capture some of the potentially available economies of scale by using knowledge and techniques developed by another cooperative, instead of investing in parallel research and development.

LOL and AL signed two major contracts describing the arrangements between the two companies. One was a general agreement stipulating the type of relationship the two companies would maintain with each other. The other was an arrangement for AL to purchase feed formulations and technical advice from LOL. The contracts are described in more detail below. Each article of each contract is listed as it appeared in contracts. This is followed by a brief interpretation of the content of the article.

The general agreement had eleven articles:

1. "General Scope and Limitations." LOL agreed to allow AL to resell some of its products as a non-member. It also agreed to be available for certain consultations, and to make promotional and extension materials available to AL. LOL agreed that it would not impose management decisions on AL. AL agreed that LOL would not be responsible or liable for AL's activities under the LOL brand name.

2. "Trademarks." LOL agreed to let AL use certain trademarks, but that these trademarks would remain the sole property of LOL. AL agreed to help LOL with any problems it might encounter with respect to potential entry into the market of suppliers using similar trademarks.

3. "Term." The agreement was to last three years, although it could be terminated at any time by either party, or renewed.

4. "Compensation." AL agreed to pay a flat yearly fee for general consulting services from LOL. LOL might also charge additional consulting fees if AL agreed in advance to paying for such services as they were needed. AL agreed to pay an additional yearly flat fee for "...the right to do business with LOL and to purchase certain products manufactured or distributed by LOL as agreed to by the parties."

5. "Relationship of the Parties." LOL and AL disclaimed status as partners or joint venturers, and stated that all agreements between the two companies were non-binding. Agra Land was to maintain control of its own board of directors.

6. "Confidential Information." LOL agreed to keep confidential any information it had on AL's business affairs; AL agreed that it would not demand any information from LOL that LOL did not wish to disclose.

7. "Notices." Addresses of the two companies were listed.

8. "Assignment." Both parties agreed that the contract was not transferable to another business entity.

9. "Entire Agreement." This stipulated that the contract had no annexes or appendices, and could not be altered except by the agreement of both parties.

10. "Severability." Any portions of the contract found unlawful would be treated as if they did not exist in the contract. The rest of the contract would still be valid in this event.

11. "Governing Laws." The agreement would fall under the laws of the state of Michigan.

The Feed Licensing Agreement had sixteen articles:

1. "Feed." LOL agreed to provide to AL its formulas for feed and feed additives. AL agreed to follow these formulas and LOL quality standards in manufacturing feeds and feed additives, and mark them with LOL trademarks. LOL reserved the right to inspect manufacturing facilities and records pertaining to the manufacture of items marketed under its label.

2. "Trademarks." LOL gave AL the right to use certain LOL trademarks on a "non-exclusive, royalty free basis."

3. "Packaging." LOL agreed to sell AL feed bags and feed tags which AL would use to market the products it manufactured under the LOL labels.

4. "Governmental Registration." LOL agreed to register feeds manufactured under its labels, and AL agreed to submit to regulatory agency inspection of its facilities. AL agreed to register or obtain permits from state and local governments.

5. "Feed Ingredients." LOL agreed to make every reasonable attempt to " ensure that adequate quantities of proprietary feed ingredients will be available..." to meet AL orders. AL would be invoiced for all ingredients ordered.

6. "Term of Agreement." Three years, unless otherwise terminated, or renewed.

7. "Termination." Each party had the right to terminate the agreement. Termination did not free either party from any debts or other liabilities accrued prior to the termination date. Termination of the general agreement automatically terminates the feed license agreement.

8. "Compensation." AL agreed to pay LOL a given rate per ton of feed manufactured by AL using LOL formulas.

9. "Indemnification." AL agreed to follow LOL rules in the manufacture of feed, as well as local regulations. AL agreed that LOL would not be responsible for claims made as a result of AL's failure to follow LOL rules or local regulations. LOL agreed that it would be liable for claims arising from

LOL products it manufactured. AL agreed not to extend any warranties on feed produced in the LOL label beyond the terms that LOL normally offers.

10. "Insurance." AL agreed to provide proof that it had purchased the following types of insurance:

    a) Workers Compensation in accordance with local laws, and including at least $100,000 per occurrence of Employer's liability insurance coverage.

    b) Comprehensive General Liability Insurance ($30 million per occurrence), which would include Contractual Liability Insurance to cover liabilities under this agreement, and Products Liability covering products manufactured under the agreement.

    c) At least $1 million (per occurrence) of Comprehensive Automobile Liability Insurance.

    AL also agreed not to materially alter any of its coverages without notifying LOL at least 30 days in advance.

11. "Confidentiality." AL agreed not to disclose LOL formula to anyone other than employees who need them in order to do their tasks.

12. "Relationship of Parties." LOL stressed that it was an independent contractor, and the AL and LOL were not partners or joint venturers, or representatives of each other in any manner. It was stipulated that AL was to remain in charge of its own feed operations.

13. "Notices." Addresses of the two companies were listed.

14. "Assignment." It was agreed that AL could not sell any rights to LOL trademarks to anyone else.

15. "Modification." This noted that the document was complete, and could not be modified, except with written consent of both parties.

16. "Choice of Laws." Michigan state law was given priority.

APPENDIX D

MICHIGAN FARMER SURVEY - SUPPLY AND FARM PRODUCT OUTLETS

APPENDIX D

MICHIGAN FARMER SURVEY - SUPPLY AND FARM PRODUCT OUTLETS

Response to this survey is voluntary. While you are not required to respond, your help is very much needed to make the results of this survey complete and meaningful. Your responses will be kept completely confidential.

Name (Optional) ______________________________
Country (Primary location of farm) ______________________________
Total acres farmed in 1984 ______________

I. GENERAL INFORMATION

1. Which of the following best describes your farm? (Check one).

Dairy	________
Livestock/ poultry	________
Grain	________
Fruit/vegetable	________
Dry edible beans	________
Sugarbeets	________

2. Which of the following best represents the gross value of products sold from the farm you operated in 1984? Please include both the landlord and tenant share. (Check one)

Under $20,000	________
$20,000 to 39,999	________
$40,000 to 99,999	________
$100,000 to 199,999	________
$200,000 to 499,999	________
$500,000 or more	________

3. Approximately how many years have you been operating a farm? (Check one)

Less than 4	________
4 to 10	________
11 to 15	________
16 to 25	________
26 to 35	________
Over 35	________

4. Do you presently belong to any of the following farm organizations, and if so, how active are you in those organizations? (Please check your membership status and the best description of your involvement.)

Farm organization	Belong to: Yes	No	Level of your involvement: Very active	Moderately active	Not very active
				Check	
National Farmers Organization	____	____	____	____	____
Farm Bureau	____	____	____	____	____
The Grange	____	____	____	____	____
Farmers' Union	____	____	____	____	____
American Agriculture Movement	____	____	____	____	____

II. YOUR INVOLVEMENT WITH COOPERATIVES

5. How many agricultural cooperatives do you hold a membership in at the present time? (Please indicate for each of the following types of cooperatives.)

Type of cooperative	Number to which you belong
Marketing only	______
Farm supply only	______
Marketing and farm supply	______
Bargaining only	______
Other (REA, PCA, etc.)	______

6. Please give your best estimate of the percent of your farm's products that you normally sell to cooperatives and the percent of your farm supplies that you normally buy from cooperatives? (Please check the percentage for each item below.)

Percent of dollar volume	Products sold to cooperatives	Supplies purchased from cooperatives: Fertilizer	Feed	Chemicals	Fuels	Seed and other
		Check				
None	____	____	____	____	____	____
1 to 25%	____	____	____	____	____	____
26 to 50%	____	____	____	____	____	____
51 to 75%	____	____	____	____	____	____
76 to 99%	____	____	____	____	____	____
100%	____	____	____	____	____	____

III. WHAT YOU KNOW ABOUT SOME AGRICULTURAL ORGANIZATIONS

7. The following items are designed to find out what you know about some of the cooperative organizations serving Michigan agriculture. Under each organization's name please check all items that you know to be true about the organization or that best describes your level knowledge about the organization.

Statement	Agra-Land	Farm Bureau Services	Indiana Farm coop. assn. Bureau	Land O'Lakes	Ohio Farmers Grain and Supply Assn.
Never heard of the organization	____	____	____	____	____
Heard of, but know very little about	____	____	____	____	____
Is not involved in Michigan agriculture	____	____	____	____	____
Is a general farm organization	____	____	____	____	____
Is a cooperative	____	____	____	____	____
Is a private business	____	____	____	____	____
Markets Michigan farm products	____	____	____	____	____
Sells farm supplies to farms	____	____	____	____	____
Supplies local dealers and cooperatives	____	____	____	____	____
Sells fertilizers and chemicals	____	____	____	____	____
Sells petroleum products	____	____	____	____	____
Sells feed and feed products	____	____	____	____	____
Provides market information	____	____	____	____	____
Provides technical information on farming	____	____	____	____	____
Works with agricultural legislation	____	____	____	____	____

8. What is your overall opinion about each of the above organizations? Please circle the rating below that best describes your attitude, considering what you know about the organization. (A rating of 1 means very favorable and 5 means very unfavorable.)

Organization	Very favorable		Neutral		Very unfavorable
			Circle rating		
Agra Land Inc.	1	2	3	4	5
Farm Bureau Services	1	2	3	4	5
Indiana Farm Bureau Coop. Assn.	1	2	3	4	5
Land O'Lakes	1	2	3	4	5
Ohio Farmers Grain and Supply Assn.	1	2	3	4	5

9. How many years has it been since you last switched your primary farm product buyer and your primary supplier? (Your primary buyer or supplier is that firm to which you give the largest share of your business).

Years since you switched primary outlet	Farm product buyer	Feed supplier	Fertilizer supplier	Chemical supplier	Seed supplier
			Check one in each column		
0 - 2 years	____	____	____	____	____
2 - 4 years	____	____	____	____	____
4 - 6 years	____	____	____	____	____
6 - 8 years	____	____	____	____	____
More than 8 years	____	____	____	____	____

IV. HOW YOU CHOOSE WHERE YOU MARKET YOUR FARM'S PRODUCTS

10. Please rate the following features of a marketing outlet as to how important they are to you in deciding where to market your farm products. Please circle the appropriate rating from a 1 (meaning extremely important) to a 5 (meaning not important at all).

Marketing Outlet Feature	Extremely important		Circle rating	Not important at all	
Location is near to your farm	1	2	3	4	5
Has good storage facilities	1	2	3	4	5
Provides market information	1	2	3	4	5
Has capable, honest personnel	1	2	3	4	5
Is a cooperative	1	2	3	4	5
Provides hedging and marketing services	1	2	3	4	5
Is always competitive price	1	2	3	4	5
Sells farm supplies	1	2	3	4	5
Has been in business a long time	1	2	3	4	5
Is financially strong	1	2	3	4	5
Is part of a large marketing organization	1	2	3	4	5
Has done business with you over the years	1	2	3	4	5

V. HOW YOU CHOOSE WHERE YOU BUY FARM SUPPLIES

11. Please rate the following features of a farm supplies outlet as to how important each is to you in deciding where to purchase your farm supplies. Please circle the appropriate rating from a 1 (meaning extremely important) to a 5 (meaning not important at all).

Marketing Outlet Feature	Extremely important		Circle rating	Not important at all	
Offers a full line of supplies	1	2	3	4	5
Has the lowest prices	1	2	3	4	5
Is located near your farm	1	2	3	4	5
Provides you credit	1	2	3	4	5
Makes deliveries on time	1	2	3	4	5
Provides application services	1	2	3	4	5
Buys and/or sells your farm's products	1	2	3	4	5
Has high quality feed	1	2	3	4	5
Custom blends feed to your specifications	1	2	3	4	5

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Marketing Outlet Feature	Extremely important				Not important at all
	Circle rating				
Has fieldmen who visit your farm	1	2	3	4	5
Blends fertilizer to your needs	1	2	3	4	5
Is a cooperative	1	2	3	4	5
Offers agronomic testing and advice	1	2	3	4	5
Has been providing farm supplies for a long time	1	2	3	4	5
Has done business with you over the years	1	2	3	4	5
Is a large organization	1	2	3	4	5
Handles well known name brands	1	2	3	4	5

VI. YOUR OPINION ON COOPERATIVES IN YOUR AREA

12. The following series of statements concern your opinion about the performance of cooperatives that you deal with presently (or could deal with if you choose to). Please indicate how strongly you agree or disagree with each statement by circling a number between 1 (meaning strongly agree) to 5 (meaning strongly disagree).

Statement	Strongly agree		Neutral		Strongly disagree
			Circle		
STATEMENT ABOUT MARKETING YOUR FARM'S PRODUCTS:					
Cooperatives give me higher prices	1	2	3	4	5
Cooperatives keep my local market competitive	1	2	3	4	5
Cooperatives are efficient, marketers of farm products	1	2	3	4	5
If cooperatives offer a competitive price, I will sell them my products	1	2	3	4	5
Cooperatives do a good job marketing because they are part of a larger cooperative system	1	2	3	4	5
Cooperatives have to offer a higher price than other firms if they want my business	1	2	3	4	5

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Statement	Strongly agree		Neutral		Strongly disagree
			Circle		
STATEMENTS ABOUT BUYING YOUR FARM'S SUPPLIES:					
Cooperatives offer a full line of quality supplies	1	2	3	4	5
I consider cooperatives for all my major supply purchases	1	2	3	4	5
A cooperative name on the label assures me of high quality supplies	1	2	3	4	5
I like to sell my farm's products and buy my supplies from the same dealer	1	2	3	4	5
Cooperatives sell top quality fertilizers and chemicals	1	2	3	4	4
The application services offered by cooperatives are important to me	1	2	3	4	5
Fertilizer prices charged by cooperatives usually meet or beat other dealers	1	2	3	4	5
Chemical prices charged by cooperatives usually meet or beat other dealers	1	2	3	4	5
I look to cooperatives for sound advice on using fertilizer and chemicals	1	2	3	4	5
Cooperatives sell top quality feed	1	2	3	4	5
Feed prices charged by cooperatives usually meet or beat other dealers	1	2	3	4	5
I look to cooperatives for sound advice on feeding my animals	1	2	3	4	5
STATEMENTS ABOUT COOPERATIVES IN GENERAL:					
Cooperatives have a beneficial impact on the success of my farm	1	2	3	4	5
Cooperatives used to be more important to farmers than they are today	1	2	3	4	5
If farmers are committed to their cooperative, it will be successful	1	2	3	4	5
Cooperatives are just like any other business--no better, no worse	1	2	3	4	5
I feel that I have a say in the way my cooperatives are run	1	2	3	4	5
I support cooperatives more today than I used to	1	2	3	4	5
I would buy more from cooperatives if they lowered their prices	1	2	3	4	5
I would deal with cooperatives more if they increased their cash refunds	1	2	3	4	5
I would deal with cooperatives more if they handled better quality products	1	2	3	4	5
I would deal with cooperatives more if they had better employees	1	2	3	4	5

THANK YOU VERY MUCH FOR YOUR TIME AND PATIENCE. YOUR SUPPORT AND PARTICIPATION IN THIS STUDY IS GREATLY APPRECIATED.

APPENDIX E

REFERENCES

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