

# Reorganization in the Pork Industry

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The Coharie Hog Farm  
Story



**Coharie Hog Farm, Inc.**  
Clinton, NC

D.R. Consulting

## Prologue

- October 2, 2009 Friday night phone call
- Monday morning, Oct. 5<sup>th</sup> in Clinton, NC
- Initial Meeting with Ownership and Management
- Cash crisis amidst continuing poor markets
- Initial assignment – Evaluate operations and present alternatives for consideration
- “Sense of urgency” – other alternatives had been explored over the past year

## Brief History of Coharie Hog Farms, Inc.

- 1972 – Founded by Lauch Faircloth (75%) and Nelson Waters (25%) as a partnership
- Primarily a farrow-to-finish operation, but also had grain merchandising, milling
- 1981 - Lauch and Nelson form a general partnership to own real estate; same percentage ownership interests
- 2002 – Incorporated Coharie Hog Farm, Inc.; same percentage ownership (75%/25%)
- In 2005, Anne Faircloth buys her father's 75% ownership interest in the company ; partnership interests remained the same.
- Rated 22<sup>nd</sup> largest pork producer in the 2009 U.S. Pork Powerhouse rating

# Overview of Operations

- 170 employees – very good continuity of management personnel
- 32,000 Sow Farrow-to Finish; all farrowing in NC
  - 14,500 sows in Company-owned
  - 17,500 sows in Contract Farrowing
- Boar stud and genetic multiplication
- 85,000 hd nursery space in N.C., primarily contract space
- 234,000 hd finishing capacity in N.C.
  - 19,000 hd in company-owned space
  - 215,000 hd in contract space

# Overview of Operations (cont'd)

- 108,000 hd contract finishing in Indiana
- 2,000 hd/wk weaned pig procurement contract
- Six elevators in NC with 3.9M bushel storage capacity
- Feedmill (2007) with 520K ton annual capacity
- Internal feed and livestock transportation
- 80 contract growers in North Carolina
- 19 contract growers in Indiana
- Dozens of grain procurement and sales contracts
- Largest independent supplier to Smithfield's Clinton processing plant
- 600,000+ market hogs per year

## Overview of Financial Information

- Revenues - \$110M in FY09
  - \$90M in hog production
  - \$20M in grain merchandising
- Net losses of approximately \$21M in FY09 and \$13M in FY08
- Total Debt - \$43M to two primary secured creditors
  - \$6.3M – Feedmill (built in 2007 for \$13M)
  - \$36.7M – Inventories, receivables, real estate, equipment
- Approximately 450 unsecured creditors (non-priority)
- Cash equity contribution of \$8M in Aug and Sept. 2009 was gone

## Developing the plan

Get up to speed and understand company operations

Evaluate current cash flow requirements amidst poor industry conditions

Review historical financial records

Develop a weekly cash flow forecast for next 12 months

Evaluate various market scenarios and impact on cash requirements

Discuss alternatives with ownership

# Alternatives Considered

1. Sell parts of the business that might provide immediate liquidity
2. Sell all of the business (difficult with real estate issues – diverse ownership)
3. Reorganize to survive
4. Cash equity contribution to survive until better times – estimated \$10M to May, 2010 when futures price would offset cash costs of production (memories of swine flu impact in April, 2009 on summer markets)
5. Conduct an orderly liquidation to down-size operations
  - a. Outside of bankruptcy – difficulties with number and diversity of contractual agreements
  - b. Inside of bankruptcy – Chapter 11
6. Combination of the above

## Unforeseen Event

**October 30, 2009** – Three grain farmers file a petition for involuntary bankruptcy

## Result

**November 6, 2009** – Coharie files a voluntary Chapter 11 petition in the Eastern District of North Carolina

- Eighth hog farm bankruptcy in NC in past two years
- At filing – roughly \$50M assets/\$50M liabilities

# The Filing – Raleigh, NC

## First-Day Orders

1. Authorization to operate the business
2. Ability to pay critical vendors
  - a. Employees, contract growers, utilities, transportation
  - b. Everyone else considered non-critical
3. Authorization to use cash collateral
4. Argued to keep existing cash accounts
5. Arrange DIP financing (Debtor-in Possession) – “predicting how suppliers will react on the open of business on Monday morning” - \$1.5M
6. Authorization for utility deposits

## The Plan

### Orderly liquidation of operations while planning a restructured smaller operation

1. Close the boar stud and immediately halt breedings
2. Suspend grain merchandising and farrow bred sows over the following 20 weeks (mid-March, 2010)
3. Sell weaned pigs from farrowing operations
4. Feed existing weaners to feeder pig stage and market
5. Finish market hogs over the following 20 weeks in NC (three-stage production)
6. Finish market hogs over the following 28 weeks in Indiana (wean-to-finish)
7. Market elevators immediately (not strategic to finishing hogs)
8. Auction personal property and feed mill after production completed

How Do You Get People to  
Work Harder, Faster, and  
Longer Hours Knowing  
That Their Jobs Are Going  
to be Eliminated Sooner?

## The Toughest Part – Employee Impact

- Shock phase (disbelief – “ I can’t believe this has happened”)
- Rally phase (loyalty – “we can do it, let’s give it our best”)
- Questioning phase (is the grass greener on the other side?)
- Running on fumes phase (more work for fewer remaining employees)
- The finish line

## Employee Issues

- Devoted employees – 15-30 +yrs service not uncommon
- Hadn't had raises in three years
- Planning the staged terminations (who goes first? who stays to the end?)
- Severance vs. non-severance
- Vacation pay/Sick pay/ Medical insurance
- Comp time
- Employees as contract growers
- Losing key employees
- Retention bonus plan – Bankruptcy Administrator objections

## Other Issues

Coharie-owned feed systems in grower buildings; many were management employees

PRRS outbreak early in the period

Claims for contract terminations

Genetic company “bailment” claim for secured interest

Challenges to validity of secured interest filings

Sale of property to insiders (related parties); court approval needed

# Challenges

## **Ownership issues**

- Partnership owned land, Company owned buildings
- Partnership wasn't in bankruptcy, Company was in bankruptcy
- Differing commitments as borrowers or guarantors on loans

## **Bankruptcy Administrator**

- Objected to most everything
- Judge was reasonable/practical-granted most of what we requested; “split the baby” on the retention bonus issue

**No General Creditors Committee – (that's a good thing)**

## Status – June 17, 2010

- Original amount owed to Cape Fear Farm Credit - \$36.7M
  - Paid to date - \$34.7M (\$30.3M from orderly liquidation of hog inventories and \$4.4M from sale of grain elevators)
  - Remaining \$2M of debt is being transferred to newly restructured entity that is acquiring sow farms
  - Cape Fear Farm Credit to be paid in full
- Original amount owed to BB&T - \$6.4M
  - Sale of feedmill at auction satisfied BB&T debt
- Unsecured Creditors – original amount owed - \$8.4M
  - \$4.2M paid personally by Anne Faircloth
  - Approximately \$2.5M of assets remaining to pay off the remaining general creditors
  - “Non-related” general creditors s/b paid 100%

## Outstanding Issues

- Company-owned feed systems offered to NC growers in exchange for contract claims
- Resolution with outstanding claim from Genetic Supplier – Two issues
- Liquidation of remaining assets for the benefit of unsecured creditors
- Approval of transfer of sow farms and miscellaneous assets to restructured entity
- Final conversion to a Chapter 7 filing

Sampson County,  
North Carolina

Trivia Question



**Who is this man?**

D.R. Consulting

## Hints

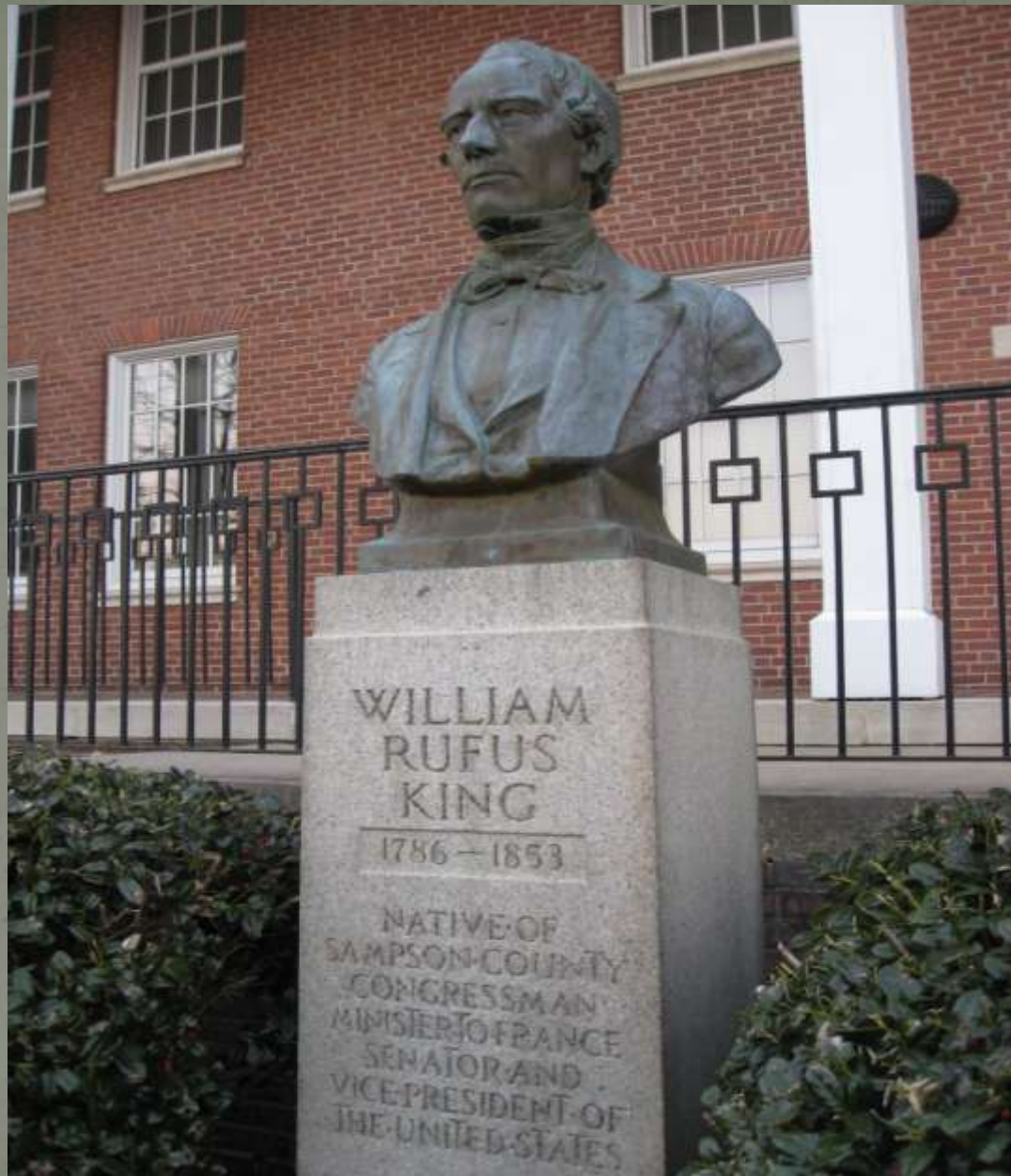
He was the 13<sup>th</sup> Vice President of the United States of America

He was from Sampson County, NC

He is the only Vice President in U.S. History to be administered the oath of office outside the U.S.

He died of tuberculosis after 45 days in office.

With the exceptions of John Tyler and Andrew Johnson, both of whom succeeded to the Presidency, he remains the shortest-serving Vice President.





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