



## War Stories:

### Challenges Arising From Commodity Price Volatility in the Agribusiness Economy



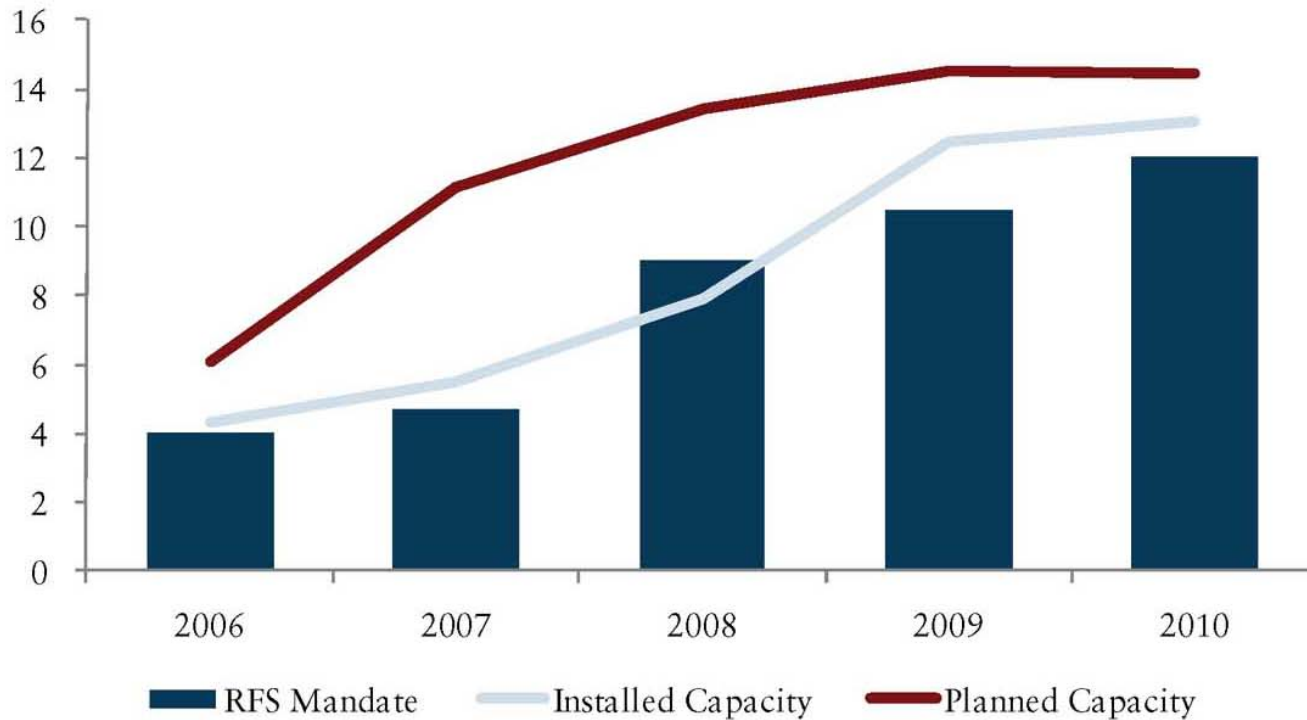
Michael R. Stewart | Faegre & Benson, LLP | Minneapolis, Minnesota



- Altra Nebraska
- Aurora Foods
- Aventine
- Cascade Grain Products
- Central Illinois Energy
- Changing World Technologies
- Crestland Cooperative
- Farmland
- Gateway Ethanol
- Grabanski Grain
- Hawkeye Renewables
- Hereford Biofuels
- Mid-America Agri Products
- Nova BioSource Fuels
- Pacific Ethanol
- Pilgrims Pride
- Renew Energy
- SemCrude
- VeraSun
- White Energy



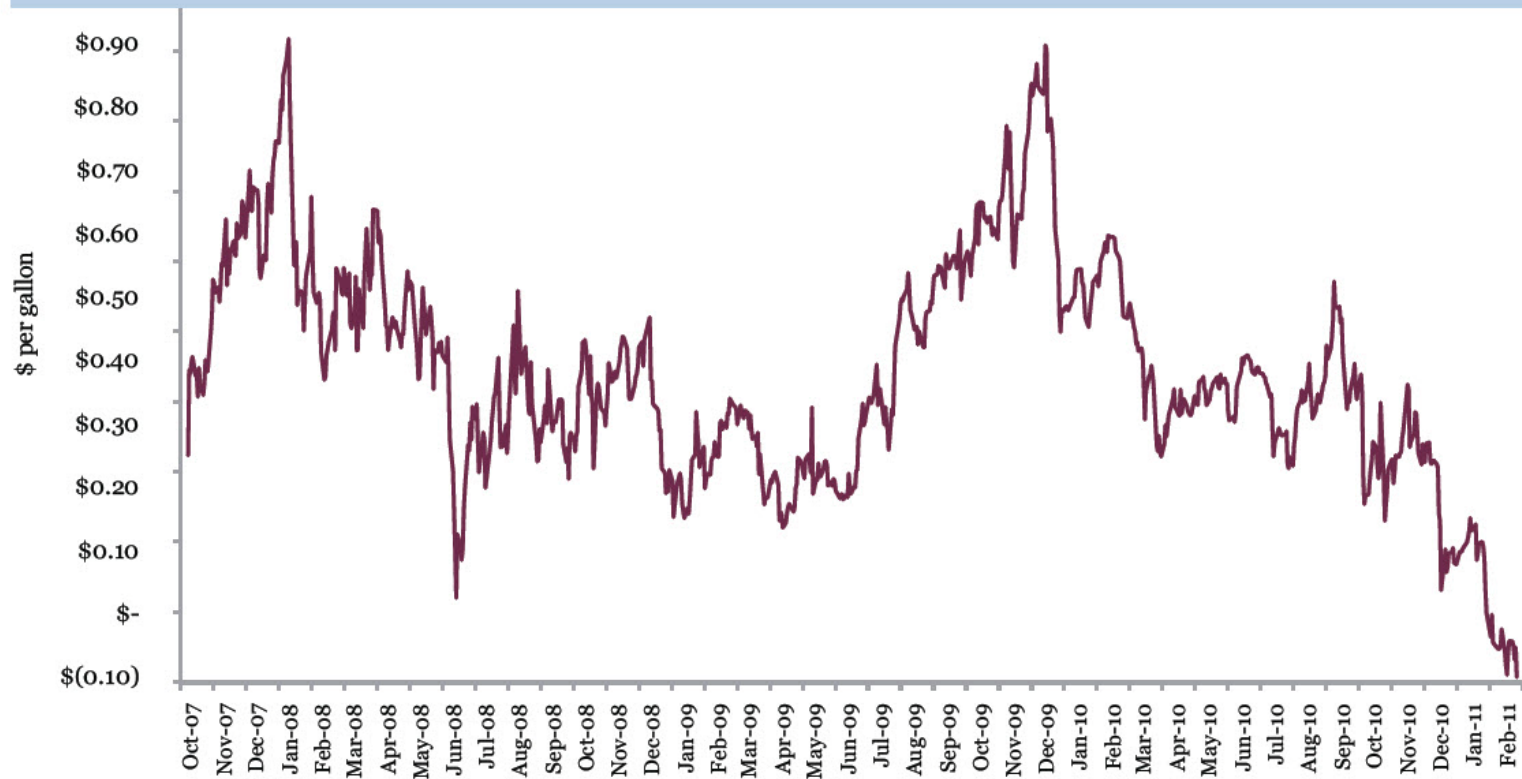
**Annual U.S. Ethanol Capacity and Mandated Levels (gallons in billions)**



Source: Renewable Fuel Association



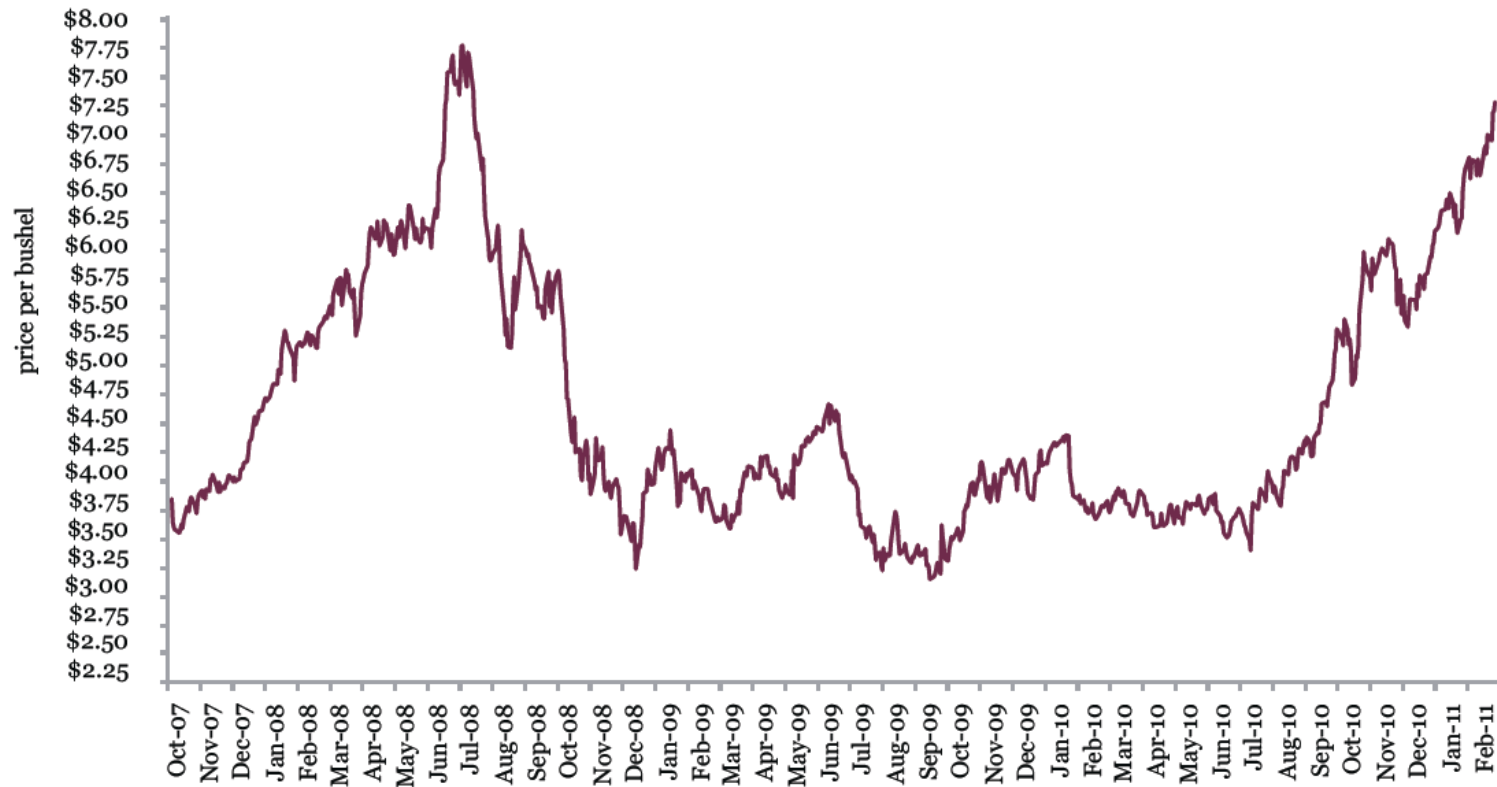
## Historical CBOT Crush Spread



Source: CME Group



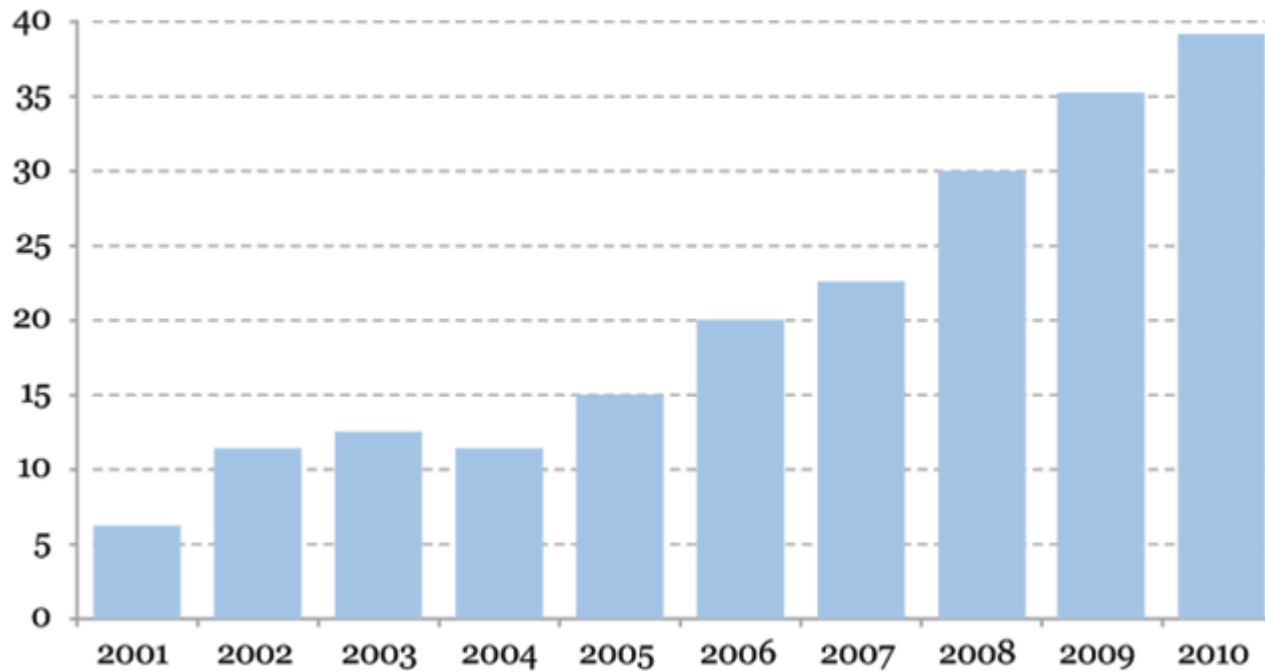
## Historical CBOT Corn Prices



Source: CME Group



## Corn Used for Ethanol as a Percentage of U.S. Corn Production



Source: USDA



- Corn Price Volatility in 2008
- Hedging Errors
- Long Term Debt
- Over Capacity Resulting from Supply/Demand Imbalance
- Downward Pressure on Margins
- Liquidity Crises



- Many Large Ethanol Producers File for Bankruptcy in 2008-2009
- Contract Breaches and Counterparty Risks
- Termination of Forward Contracts
- Impact on Lenders
- Impact on Elevators
- Impact on Investors
- Impact on Farmers
- Preference Claims





# The Ethanol Industry



- Another Supply/Demand Imbalance in 2009
- Margin Recoveries
- Corn Prices Spike Again in 2010-2011
- Lessons Learned



# Grain Storage and Trading Company



- Liquidity Demands Arising from Margin Calls
- Lender's Unfamiliarity with Grain Contracting and Hedging
- Risk of Producer Defaults on Contracts
- Legal Issues with Producer Contracts (Cash forward contracts, HTA, Flex-HTA, Rolling of Contracts, Etc.)
- Erosion of Profitability
- Lender's Unwillingness/Inability to Increase Credit Facility to Meet Margin Calls
- Owner's Inability to Make Equity Contributions
- Potential Loss of Grain Dealer License



# Grain Storage and Trading Company



- Claims of Farmers on Grain in Storage
- Priority Issues with Secured Lender
- Demands by Counterparties for Adequate Assurance of Performance
- Ability of Secured Lender to Enforce Producer Contracts
- Risk of Termination of Producer Contracts



- Financial Ability to Perform
- Know Your Customer - Numerous Legal Entities and Partners
- Enforceable Contract?
- Effect of Commodity Price Volatility
- Liens and Priority Issues
- Hedging Issues
- Bankruptcy Issues



# Other Agribusiness Industries



- Trends
- Default Rates
- Impact on Industry Participants



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