

## Lehigh refinancing

(Continued from Page A1)

Seifert, comptroller of the Co-op, explained that the plan provided for a price per hundredweight contribution which accumulated in common stock.

The amount was somewhat flexible, but had a ceiling of about 25 cents.

While the bylaws have been altered over the years, in the late 1960s, the basic membership arrangement was an initial purchase of two shares of common stock (that is still required of new shippers)

Participation in the retain program allowed a maximum of 40 shares of common stock. Then the retain was converted to the purchase of preferred stock

So, someone who began shipping milk to the dairy in 1973 would have only a few shares of common stock and likely no shares of preferred stock

But someone who shipped to the dairy for many years might have a considerable number of shares just by participating in the program

Since 1974, shippers also have been required to make a per hundredweight contribution but that is considered membership dues and no return on that contribution is expected

Seifert suggested that the management of the dairy in the 1960s may have promoted the sale of the stock by encouraging a bandwagon atmosphere. Farmers invested, they told their families to invest, and employees invested

"I don't think the employees are angry," a dairy spokesman said, "but they are disappointed"

If the Co-op declares bankruptcy, preferred and common shareholders will receive nothing. The current plan will give preferred

shareholders 15 cents on the dollar and common shareholders nothing.

One dairy official said the 15 cents may be the best return shareholders will ever receive. Even if the dairy were to increase its value in upcoming years, inflation would probably offset that gain

A profile of the 4000 shareholders, that is how many are ex-shippers, employees, or institutions, was not available.

Officials do know that only eight percent of the preferred stock is held by current shippers. The remaining 92 percent is described as "outside interests"

Seifert said it would be difficult to pinpoint any specific reason for the financial slide the Co-op took in the early 70s. It may have begun as early as 1964 with the purchase of Martin Century Farms, primarily a home delivery business

Within 10 years, home delivery was nearly extinct and Lehigh was faced with a \$2.7 million loss on that deal alone

In 1974 the Co-op paid \$5.2 million in overdistributions which resulted in a major assessment to shippers and the loss of many members

There also was the \$3 million cheese plant which started operation in 1974

Stock in neither of the two new proposed companies will be traded on the open market. Only shippers to the proposed Lehigh Valley Farmers will hold one share of common stock valued at \$10

Shareholders in Atlantic Processing, Inc. will be limited to Lehigh Valley Farmers, initially. However, the structure does allow for other co-ops, not individuals, to invest in the future. See accompanying story

## Sheep meeting Thursday

LANCASTER — A Lancaster County sheep producers meeting will be held Thursday, April 10, at 7:30 p.m. in the basement meeting room at the Farm and Home Center

Clair Engle, Sheep Extension Specialist from Penn State, will lead the discussion on good sheep

feeding and management. He will also discuss the handling and marketing of the wool clip

The sheep enterprise continues to be a very successful farm industry, when properly managed. There will be a question and answer period

# Why Lehigh refinancing plan may work

BY CURT HARLER

BALTIMORE, Md. — The refinancing of Lehigh Valley Milk Producers Cooperative seems to be hinged on two factors: the lack of better alternatives, and a hope of success for Atlantic Processing, Inc. which may eventually involve participation by other co-ops.

Although there are no deals in the wings, Lehigh may take a partner or partners, which would give them joint control of the proposed processing entity.

Both Lehigh President Robert Barry and Bank for Cooperatives Senior Vice President C.F. Dickson agreed the Atlantic Processing, Inc. proposal is structured so such joint ownership could happen. But both emphasized there is no other entity waiting in the wings to take a piece of the API action.

The Baltimore Bank for Cooperatives, which has agreed to the terms of the Lehigh refinancing proposal, is banking on the idea's success to the tune of several millions of dollars

While admitting the Bank is not agreeing to the rosiest of all possible propositions, Dickson pointed out, "We don't have the rosiest deal as it stands today"

But to help Lehigh Valley with its restructuring, the Baltimore Bank is willing to retire \$3 million in stock.

At book value, Lehigh has an equity of about \$2.3 million. Some of that stock was to be retired 10 years, 9 years, 8 years, and so on in the future

Since the Baltimore Bank would be buying the stock back today rather than in the future, it is losing some money

The Bank figures it is buying back the stock at a discount figure of 80 percent of value since Lehigh needs cash to negotiate with its preferred stockholders

Because of the added risk, the Baltimore Bank is charging Lehigh one half percent more interest than its normal rate

The rate, at current charges, would be 14.25 percent

The Lehigh proposal calls for creation of two new businesses. The first, to be known as Lehigh Valley

Farmers, would be strictly a bargaining co-op, owning no plants, property or equipment.

The second would be Atlantic Processing, Inc., which would assume all the debts of Lehigh Valley Cooperative Farmers. That comes to nearly \$20 million.

Barry pointed out Thursday night that API will be a co-op with a single member: Lehigh.

"From the producer's standpoint, they will have a more viable conduit to process milk," Dickson said of API.

Lehigh has told members they eventually can buy back all of the stock in API. While this option does exist, there are other alternatives.

A voters trust will be established and will be held for the farmers. Present Lehigh directors will capitalize API at the nominal rate of \$20,000.

Those directors will hold the stock in trust for Lehigh farmers. This assures the directors will not make a profit if Lehigh or any of several other entities buys the stock in the future.

Therein lies an out for Lehigh and perhaps another big hope for the eventual success of API.

The stock may be sold to other cooperatives looking for a piece of the processing action as well as being sold back to the newly formed Lehigh Valley Farmers

"Others can acquire ownership in API," Dickson confirmed.

"It could be spun off."

Dickson said this feature should strengthen API and makes the entire package more attractive.

While he noted Lehigh has improved operationally, he said the Bank sees the entire deal as another step in the long journey back

"If the membership in A. votes to accept another member, that is legitimate," Barry said. "The possibility of increasing the volume of milk certainly is one thing that would make the business more profitable"

This increase likely would come from added milk flow from another co-op which

wanted to participate.

At the moment, Lehigh has no other co-op lined up. In fact, were such a deal being made behind the scenes, it could be illegal.

"There is no discussion of that at all right now," Dickson stated.

But Lehigh, as the sole stockholder could in the future vote in other co-ops. "At some time there could be three, four or five co-ops involved," Barry said.

At that time the members of Lehigh will not control it and will not hold API, he pointed out. They will have sold it.

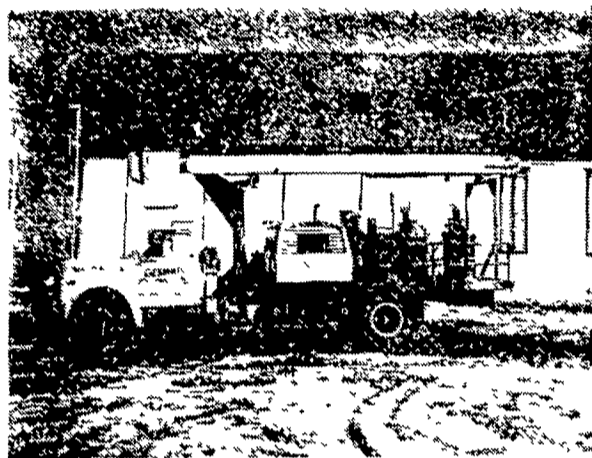
Barry said the current negotiations have been developed over the past six months.

Only the future will tell if some other entity wants to join in the API proposal, Dickson said.

"We think Lehigh is a vital cog in maintaining orderly milk marketing in the Northeast," he added, indicating that the Bank believes dairying will be better off if Lehigh survives.

And to that end, the Baltimore Bank for Cooperatives obviously is willing to put quite a bit of money where its mouth is.

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- Kenneth Taylor, Westmont, N.J. 1 R and financial expert
- Organic Center, New Holland, Pa. Phone 717 354 7064
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