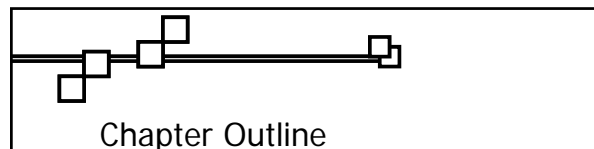


Production Contracts

Chapter 12

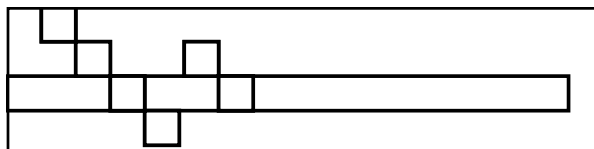
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Chapter Outline

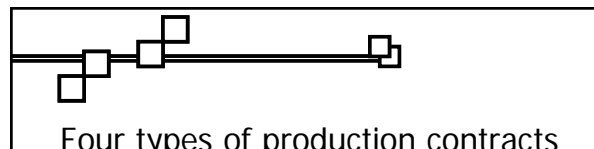
- Types of Production Contracts
- Evaluating Production Contracts
- A Production Contract Checklist
- A Concluding Comment

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Types of Production Contracts

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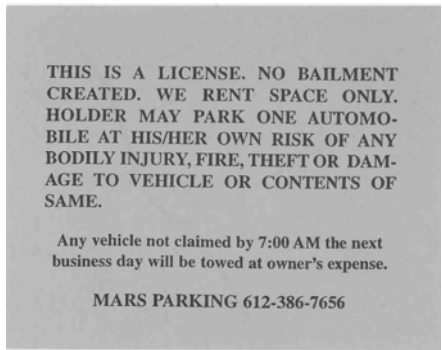


Four types of production contracts

- Sales contracts of market-specific
- Production-management
- Bailment
- Personal service or resource-providing

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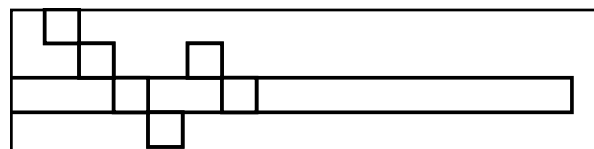
A parking lot slip at a Twins game.



THIS IS A LICENSE. NO BAILMENT CREATED. WE RENT SPACE ONLY. HOLDER MAY PARK ONE AUTOMOBILE AT HIS/HER OWN RISK OF ANY BODILY INJURY, FIRE, THEFT OR DAMAGE TO VEHICLE OR CONTENTS OF SAME.

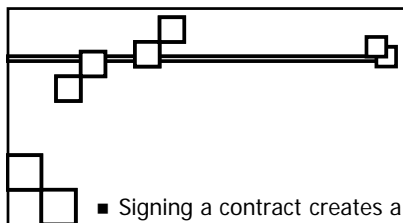
Any vehicle not claimed by 7:00 AM the next business day will be towed at owner's expense.

MARS PARKING 612-386-7656



Evaluating Production Contracts

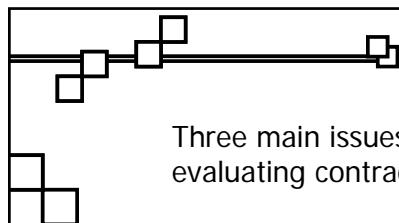
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- Signing a contract creates a very different business environment.
- Old relationships are not the same
- New risks may be larger than thought
- Talk to others to benefit from their experiences and knowledge

■ ■

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Three main issues when evaluating contracts:

- Profitability
- Risk
- Legal issues

■ ■

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Ag Production Risk

- Business risk
 - Production
 - Price/Markets
 - Institutional
 - Human/Personal
- Financial risk
 - Leverage (debt capital/total capital)
 - Credit

■ ■

From Christensen Farms

Contract Production Model

- Farmer permits & builds facilities
- Farmer provides labor & utilities
- Farmer utilizes manure resource
- Integrator provides/owns pigs
- Integrator provides feed, meds, vet service
- Integrator markets hogs

■ ■

From Christensen Farms

Risk sharing in contract production

- Building cost -- Contractor
- Environmental regulation – Contractor
- Neighbor relations – Contractor
- Labor cost – Contractor
- Cost of utilities & insurance – Contractor
- Weaned/Feeder pig cost – Integrator
- Feed cost – Integrator
- Med/vet cost -- Integrator
- Packer contract – Integrator
- Production contract performance -- Integrator

■ ■

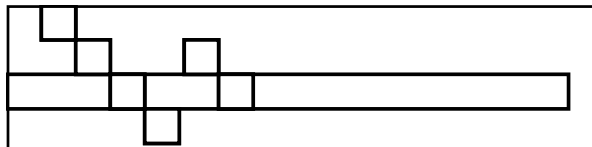
From Christensen Farms

CF Production Contract


- Material Risk Disclosure (cover page)
- Table of Contents
- Term – generally 10 years
- Obligations of both parties
- Force Majeure
- Default
- Remedies of CF
- Right of early exit
- Assignment
- Governing law/venue
- Payment schedule

■ ■

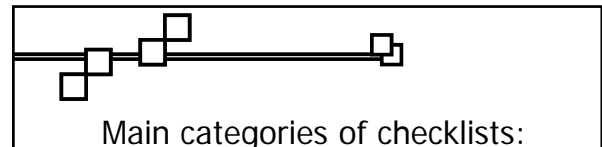
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A Production Contract Checklist




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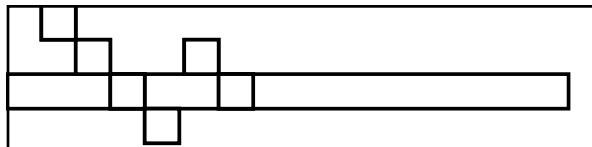


Main categories of checklists:


- Read and understood?
- In writing?
- Legal form, negotiation, reasons, etc.
- Parties to the contract
- Duration, termination, & renewal
- Legal relationship created by contract
- Price, payment, & compensation
- Production issues
- Disputes



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Questions?



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