Valuing the Cooperative Business in the 21st Century
November 5-6, 2007

What we are seeing in Bioenergy
- Bio-diesel
  - Feedstock and distribution economics
  - Fluctuation in commodity prices
  - Government policies
- Ethanol
  - Rising organizational/construction costs
  - Increasing air/water regulatory activity
  - More difficult land use environment

Current Business Climate
- Opportunity in handling and processing commodities
- Cargill most-recent quarterly earnings report
- Capital is the key to move beyond production of agricultural commodities only in a competitive, profitable manner

What we are seeing in Bioenergy (cont.)
- Volatility on input and output commodities
- Historic lack of correlation between corn and ethanol prices
- Recent lack of correlation between ethanol and unleaded gasoline prices
  - Infrastructure disconnect
  - Localized over-supply
- Debt financing tightening

Key Considerations Driving Trends in Business Structures
- We are back to capital formation and access to equity capital as key consideration
- Tax considerations
- Governance
- Income vs. appreciation model
- Liquidity of investment

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Continuing “Trends”

- Challenges with capital formation and retention in Cooperatives
- Tension between patron expectations and business needs
  - Solution: CHS, Inc. Preferred Stock Programs
  - Solution: Active equity revolvement programs

Continuing “Trends” (cont.)

- Value-Added Cooperatives
  - Patrons invest permanent equity capital for right to deliver
- LLC/Cooperative Structures
  - Disregarded entities
  - Joint ventures (% ownership vs. patronage %)
  - Patronage-sourced income

Continuing “Trends” (cont.)

- LLC Structures
  - Tax obligation savings
  - Increased regulatory/transparency
  - Readily tradeable exchange issues
- Public Corporations
  - Public capital markets
  - Increased liquidity
  - Governance/loss of local control
  - Income vs. stock appreciation model

Recent Trends in Cooperatives

- Recapitalizations (secondary offerings)
  - Matching all patronage entitlements to current patronage rights
  - Revaluation
- Disadvantageous long-term capital gain treatment in cooperatives (vs. LLC)

Recent Trends in Cooperatives (cont.)

- Mergers and Acquisitions (have cake and eat it too)
  - Tax-free merger
  - Taxable transactions
  - LLC/Corporation (Cooperatives) tax-free transaction
  - Conversions

Recent Trends in Cooperatives (cont.)

- Farmland case held that long-term gain on the sale of assets used in the patronage business was properly treated as patronage-sourced income
  - Schedule F income and self-employment tax
- Understood that public corporations have no reduced long-term capital gain rate
- Nevertheless, there is an element of pass-through with a cooperative, both in governance and formation principles, as well as under tax law.
Recent Trends in Non-Cooperative Business Structures

- LLCs merging into corporations
  - Equity
  - Liquidity
- Value-added cooperatives merging into LLCs
  - Patronage business methods
  - Equity
- Traditional cooperatives
  - Redefining patrons
  - Nonpatronage business
  - Preferred stock
  - New-Generation cooperative statutes

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