

RESOLUTION AMENDING BYLAWS

BE IT RESOLVED That the Bylaws of CHANDLER CO-OP, CHANDLER, MINNESOTA be amended in their entirety to read as follows:

BYLAW I. MEMBERSHIP

Section 1.01 QUALIFICATIONS. All agricultural producers (individuals, firms, partnerships, corporations, or associations) who patronize this cooperative in the amount of minimum annual patronage business requirement established by resolution of the board of directors from time to time and published in newsletters or on the website of the cooperative shall be eligible to become members of this cooperative. Initially the minimum annual patronage business requirement is \$5,000 annually. In every case following the adoption of these Bylaws, any such agricultural producers entering into a patronage relationship with this cooperative becomes a member (unless the patron expressly states otherwise) upon receiving from this cooperative written notification of membership.

Section 1.02 TERMINATION OF MEMBERSHIP. Membership in this cooperative shall automatically be terminated if any of the following events occur:

- (a) a member has failed to patronize this cooperative for a period of one (1) year or more;
- (b) a member dies; or
- (c) if the Board by resolution finds that a member has:
 - (i) intentionally or repeatedly violated any Bylaws of this cooperative;
 - (ii) breached any contract with this cooperative, including the obligation to make timely payments on the member's account with this cooperative;
 - (iii) willfully obstructed any lawful purpose or activity of this cooperative; and
 - (iv) the member shall be notified by the Board that the membership is cancelled, and that the member no longer has the right to vote. A terminated member's equity credits shall be revoked or retired in the same manner as the equity credits of active members.
 - (v) Failure to adhere to uniform conditions of membership adopted by the board of directors. A uniform condition of membership, for example, could be the establishment of a minimum business requirement for voting member eligibility.

BYLAW II. MEMBERS' MEETINGS

Section 2.01 ANNUAL MEETING. The annual meeting of the members of this cooperative shall be held on a date and at a time designated by the Board of Directors.

Section 2.02 SPECIAL MEETINGS. The chairman shall cause a special meeting of the members to be called upon a written request of at least twenty percent (20%) of the members, or upon a majority vote of the directors. The notice of the time, place and purpose of such special meeting shall be issued within ten days from and after the presentation of such petition and such special meeting shall be held within thirty days from and after the date of presenting such petition. No business shall be considered at such meeting except as may be mentioned in the call and included in the notice of the meeting.

Section 2.03 NOTICE OF MEETINGS. Except as otherwise required by law, notice of all meetings, together with a statement of the purposes thereof, shall be mailed to each member at his last known address by the secretary at least fifteen (15) days prior to the meetings. In lieu of a mailed notice, the notice may be given by publishing it at least two (2) weeks prior to the date of the meeting in a legal newspaper published in the county of the principal

place of business of this cooperative. The notice shall state the date, time, and place of the meeting. The secretary shall execute a certificate, which contains a copy of the notice showing the date of mailing and states that the notice was mailed within the time prescribed by law. The certificate shall be made a part of the meeting. The failure of any member to receive notice shall not invalidate any action which may be taken by the members at a meeting.

Section 2.04 CONDUCT OF MEETINGS. The order of business at the regular meetings and so far as possible at all other meetings shall be:

- (i) Calling of meeting to order.
- (ii) Proof of notice of meeting.
- (iii) Reading and action on any unapproved minutes.
- (iv) Report of officers and committees.
- (v) Election of directors.
- (vi) Unfinished business.
- (vii) New business.
- (viii) Adjournment.

Section 2.05 VOTING. Each member shall be entitled to only one vote on any question, regardless of the number of shares held. A member absent from a meeting may submit a mail vote, on any motion, resolution, or amendment to be acted upon at a meeting, provided a mail ballot has been authorized by the Board of Directors. The mail vote must be cast on a ballot containing the exact text of the proposed motion, resolution, or amendment. The ballot shall either be mailed or delivered to this cooperative, and if received by this cooperative prior to the closing of the polls, shall be counted as the vote of the member. No proxy voting shall be allowed. An electronic ballot may be used not to exclusion of mail ballots, but as an addition, and an electronic ballot shall only be valid if properly marked by the member or member's principal officer and authenticated as determined by written policy of the Board of Directors

Section 2.06 TECHNOLOGY, VIRTUAL MEETINGS, AND GOVERNANCE The Board of Directors is encouraged to adopt technology to enhance member participation in the governance process, most particularly notice of a member meeting, meeting participation, transparency, recordkeeping, and minutes. Advancements in technology are usually an "add on" to an existing practice that is unchanged, in which case add-ons are always permissible. For example, adding an internet or virtual meeting alternative does not exclude attendance by those members who attend the meeting in person. Moreover, the law sometimes requires that an enhancement (electronic ballots for absent members, for example) must be accompanied by an existing practice (signed written ballots for absent members). Policies that adopt technology at the exclusion of an existing practice may be lawful but exclusion of practices that, for example, deprive some members of notice and participation must be compelling, such as a pandemic with the danger of person-to-person transmission and infection, and the analysis of compelling should include consideration of never before used technologies such as smartphones or land-line phones balanced against the exigencies of the business and its members. Influences outside of the cooperatives control, like a pandemic, may lead to a board of director's decision to suspend or postpone member meetings out to and as long as to the next regularly scheduled member meeting, and such decisions are acceptable, which should be communicated through newsletters and/or correspondence.

Section 2.07 SIGNED BALLOT. Any and all votes of the members under Article VIII of the Articles of Incorporation of the Cooperative shall only be considered by way of signed ballot or electronic means, as determined by the Board of Directors, mailed or electronically transmitted to each member as provided for under these bylaws. Such a signed ballot, if received within the time required by the laws of the State of Minnesota and as provided for with the notice of the meeting of the members, shall be counted as if the member were present and

voting in-person on each motion or resolution provided for with said notice. A signed mail ballot shall only be valid if properly marked by the member or member's principal officer, cast in a sealed envelope, and authenticated by the signature of such member or member's principal officer. If future technology is adopted for electronic ballots, a signed electronic ballot shall only be valid if properly marked by the member or member's principal officer and authenticated as shall be determined by written policy of the Board of Directors.

Section 2.08 RECORD DATE FOR VOTING. The Board of Directors may, in its discretion, establish a record date for the purpose of determining when patrons have done business with the cooperative for the purpose of calling an annual or special meeting of voting members. The record date cannot be earlier in time than the last day of the cooperative's most recently completed fiscal year.

BYLAW III. BOARD OF DIRECTORS

Section 3.01 NUMBER AND ELECTIONS. The Board of Directors shall comprise of not less than five (5) directors elected by the members. The Board of Directors may adjust the number of directors temporarily at the Board's discretion for, including but not limited to, mergers, acquisitions. Annually as many directors shall be elected to serve for a three (3) years' term as there are regular vacancies in the number of directors. All directors shall hold office until their successors are elected and qualified. No director who has served three consecutive terms may be re-elected until after a lapse of one year from the expiration of the last of such term.

Section 3.02 VACANCIES. Any vacancy in the Board, other than by expiration of a term of office, shall be filled by a majority vote of the remaining directors. In case a vacancy in the Board of Directors extends beyond the next annual meeting such vacancy shall be filled until such meeting, at which meeting a director shall be chosen by the members for the unexpired term of such vacancy; otherwise, the vacancy shall be filled by the directors for the unexpired term.

Section 3.03 REMOVAL. The Board may at any meeting, regularly called for that purpose, by a majority vote remove any director or officer for cause upon notice and hearing as provided by law; and in case of such removal to fill the vacancy. Any director who violates any of the following, shall be disqualified from the Board by a majority vote of directors:

- (a) who missed a total of six (6) regular or special meetings within the company's fiscal year;
- (b) whose account remains delinquent for more than 180 days;
- (c) flagrant and continuous non-use of services offered by the cooperative; and
- (d) who enters into a business dealing directly with customers who otherwise could have used the services of the cooperative.

Section 3.04 ANNUAL MEETING. The annual meeting of the Board of Directors shall be held within ten (10) days following the annual meeting of the members, without further notice. At this meeting, the officers of the cooperative shall be elected for ensuing year.

Section 3.05 REGULAR MEETINGS. Regular meetings of the Board shall be held each month at such time and place as may be determined by the Board.

Section 3.06 SPECIAL MEETINGS. Special meetings of the Board of Directors may be held at any time upon the call of the chairman or by a majority of the Board.

Section 3.07 QUORUM. A majority of the members of the Board shall constitute a quorum. Unless otherwise provided by law or these Bylaws, the decision of a majority of the directors made when duly assembled shall be valid.

Section 3.08 ACTING WITHOUT MEETING. Any action which may be taken at a meeting of the Board of Directors, or of a lawfully constituted committee, may be taken without a meeting if set forth and approved by all directors or by all committee members, as the case may be. The action shall be effective on the date specified, or if no date is specified, on the date on which the last signature is placed on the writing.

Section 3.09 EXECUTIVE COMMITTEE. The Board of Directors may designate three (3) or more directors, one of whom shall be the chairman, to constitute an executive committee. The Board may elect other directors as alternate members of the committee. The committee shall exercise authority as designated by the Board, but it shall not have the power to apportion or distribute proceeds, elect control, and direction of the Board.

Section 3.10 DUTIES AND POWERS. The Board of Directors, subject to restrictions of law, the Articles of Incorporation, or these Bylaws, shall exercise all the powers of this cooperative and perform all acts which said Board may deem in the best interest of this cooperative and its members. The powers of the Board of Directors shall include, without limiting in any other way, any other powers which said Board shall have in accordance with the laws of the State of Minnesota, the Articles of Incorporation and the Bylaws of this cooperative, the power to sell, lease, mortgage or otherwise dispose of all or any part of the property of this cooperative and to perform all acts which said Board may *deem* in the best interests of the cooperative or its members, or of the cooperative movement in general.

Section 3.11 DIRECTORS' POLICY HANDBOOK. Each Director shall fully comply with the Directors' policy handbook established and amended from time to time by the Board of Directors. The Board of Directors, not including a director thought to be in violation of the handbook, may remove a director who is disqualified by the policies in that handbook. This discretion of removal supplements removal in Section 4 above. The remaining Directors may also fill any vacancy caused by such removal until the next annual meeting of the members

Section 3.12 COMPENSATION. The Board of Directors may determine the compensation of the directors. The members of the Board shall be allowed their reasonable traveling expenses when actually engaged in the business of the cooperative and such reasonable compensation for attendance at any meeting of the Board of Directors and for all time actually spent upon business of the cooperative as shall be determined by the Board of Directors. The Chairman and Secretary of the cooperative may receive such additional compensation for their services as the Board shall determine.

Section 3.13 AUDIT. The Board of Directors shall have the books of this cooperative audited by a certified or licensed public accountant at least once each fiscal year; and the report of such audit shall be made at the next annual meeting of the members.

Section 3.14 NOMINATIONS. The Board of Directors shall appoint a nominating committee for the purpose of nominating one or more members or a principal officer of a member for each director position. The nominating committee can include some directors, or it could be the entire board of directors. A member or the principal officer of a member may self-nominate himself or herself for a director position if they submit to the nominating committee a completed director application form (90) days prior to the annual meeting of the members, provided such member or principal officer of a member has met the qualifications of Section 3 of this Article II. The nominating committee shall place into nomination one or more members or a principal officer of a member, including self-nominated members or principal officer of a member, for each director position. Nominations shall not be taken from the floor at member meetings. No person shall be eligible for nomination to the Board of Directors after their sixty-fifth (65th) birthday.

Section 3.15 DIRECTOR QUALIFICATIONS. No member or principal officer of a member may be nominated, elected, appointed, or serve as a director if such member ceases to be a member. No member or principal officer of a member may be nominated, elected, or appointed as a director at or above the age of sixty-five (65) or if they are not an active producer as defined in these bylaws. The Cooperative shall not regularly employ a director. A director shall not have any loyalty to other organizations that transcend or interfere with the director's loyalty to the Cooperative. A director shall not, at any time during the term of such director, serve as an officer, director or manager of, or advisor to, any organization which, in the sole determination of the Board of Directors, is

significantly competing with the Cooperative. Directors shall transact at least the minimum amount of patronage-based business as determined by the Board of Directors and outlined in the Director's policy handbook, at its sole discretion from time to time.

Section 3.16 GOVERNANCE. The Board of Directors shall have the power and authority to adopt and enact policies, rules, and procedures governing any and all of the business or affairs of the Cooperative that are not inconsistent with the Minnesota Law including without limitation Chapter 308A of Minnesota statutes, the Articles of Incorporation, or these Bylaws.

Section 3.17 DIRECTOR DISTRICTS. The Board may establish territorial districts, which may be adjusted from time to time by the Board, for the purpose of determining director representation across all trade areas. If districts are established, the Board shall review the boundaries of each territorial district at least every 5 years and make such adjustments as necessary to apportion the membership between the territorial districts by reviewing and considering (i) membership in the Cooperative, (ii) Patron equity in the Cooperative, and (iii) Cooperative assets, infrastructure, and sales.

BYLAW IV. OFFICERS

Section 4.01 ELECTION. The officers of this cooperative shall be a chairman, vice-chairman, secretary, and treasurer to be elected by the directors from among their number. The term of all officers shall be until the next annual meeting of the directors and until their successors are elected and qualified.

Section 4.02 CHAIRMAN. The chairman shall:

- (a) preside over all meetings of the cooperative and of the Board of Directors;
- (b) call special meetings of the cooperative and of the Board of Directors;
- (c) perform all acts and duties usually performed by an executive and presiding officer;
- (d) sign all papers of the cooperative as may *be* authorized or directed to sign by the Board of Directors, provided that the Board of Directors may authorize any person to sign any or all checks, contracts, and other instruments in writing on behalf of the cooperative;
- (e) perform such other duties as may be prescribed by the Board of Directors.

Section 4.03 VICE-CHAIRMAN. In the absence or disability of the chairman, the vice-chairman shall perform the duties of the chairman, provided, however, that in case of death, resignation or disability of the chairman, the Board of Directors may declare the office vacant and elect a successor.

Section 4.04 SECRETARY. The secretary shall:

- (a) keep a complete record of all meetings of the cooperative and of the Board of Directors;
- (b) have general charge and supervision of the books and records of the cooperative;
- (c) sign all papers pertaining to the cooperative as may be authorized or directed to by the Board of Directors;
- (d) serve all notices required by law and by these Bylaws;
- (e) make full reports of all meetings and business pertaining to the office to the members at the annual meeting;
- (f) make all reports required by law and shall perform such other duties as may be required by the cooperative or by the Board of Directors.

Upon the election and qualification of a successor, the secretary shall turn over all books and other property belonging to the cooperative that may be in the secretary's possession.

Section 4.05 TREASURER. The treasurer shall be the custodian of all funds, securities, and property of the cooperative. The treasurer shall deposit all funds in the name of the cooperative and disburse the same upon the authority of the Board of Directors and shall perform such other duties as may be prescribed by the Board of Directors.

Section 4.06 SECRETARY-TREASURER. Whenever the Board of Directors may so order, the offices of secretary and treasurer may be held by the same person, and such person shall be designated as secretary-treasurer. The secretary-treasurer may delegate any and all duties to any employee of the cooperative with the approval of the Board of Directors except such duties as are specifically required by law to be performed by the secretary-treasurer.

Section 4.07 BONDS AND INSURANCE. The Board of Directors shall require the general manager and all officers, agents and employees charged by this cooperative with responsibility for the custody of any of its funds or property to be bonded. Bonds shall be furnished by a responsible bonding company and approved by the Board and the cost shall be paid by this cooperative. The Board shall provide for insurance of this cooperative's property or property which may be in the possession of this cooperative and not otherwise adequately insured. In addition, the Board shall provide for insurance covering liability for accidents to all employees and the public.

BYLAW V. CHIEF EXECUTIVE OFFICER

Section 5.01 GENERAL MANAGER/CEO. The Board of Directors may employ a CEO and provide for other help under such contracts of employment and compensation as they may deem advisable and may terminate such employment at their discretion subject to terms thereof. They may also, in their discretion, provide for the operation of the business by other agencies for the benefit of the company, under such contract and upon such terms as they may deem advisable.

Section 5.02 GENERAL MANAGER/CEO'S DUTIES. The CEO actively supervises all the ordinary **business** of this Cooperative, employs **and** discharges all other employees of this Cooperative, and performs such additional duties and possesses such additional powers as the Board of Directors may require or delegate to the CEO.

BYLAW VI. OPERATION ON A COOPERATIVE BASIS

Section 6.01 COOPERATIVE OPERATION. This cooperative shall be operated upon the cooperative basis in carrying out its business within the scope of the powers and purposes defined in the Articles of Incorporation. Accordingly, the net income of this cooperative in excess of amounts credited by the Board of Directors to Capital Reserves shall be accounted for and distributed annually on the basis of allocation units as provided in this Bylaw VI. In determining the net income or net loss of this cooperative or its allocation units, the amount of dividends, if any, paid with respect to equity capital or capital stock shall not be deducted or considered. In determining the net income or net loss of this cooperative or its allocation units, there shall be taken into account this cooperative's share of the net income or net loss of any unincorporated entity in which it owns an equity interest, patronage dividends distributed by other cooperatives of which it is a patron and, to the extent determined by the Board of Directors, its share of the undistributed net income or net loss of any corporation in which it owns an equity interest.

Each transaction between this cooperative and each member shall be subject to and shall include as a part of its terms each provision of the Articles of Incorporation and Bylaws of this cooperative, whether or not the same be expressly referred to in said transaction. Each member for whom this cooperative markets or procures goods or services shall be entitled to the net income arising out of said transaction as provided in this Bylaw VI unless such member and this cooperative have expressly agreed to conduct said business on a nonpatronage basis. No nonmember for whom this cooperative markets or procures goods or services shall be entitled to the net income arising out of said transactions as provided in this Bylaw VI unless this cooperative agrees to conduct said business on a patronage basis.

SECTION 6.02 PATRONS; PATRONAGE BUSINESS; NONPATRONAGE BUSINESS.

As used in this Bylaw VI, the following definitions shall apply:

- (a) The term “patron” shall refer to any member or nonmember with respect to business conducted with this cooperative on a patronage basis in accordance with Section 1 of this Bylaw VI.
- (b) The term “patronage business” shall refer to business done by this cooperative with or for patrons.
- (c) The term “nonpatronage business” shall refer to business done by this cooperative that does not constitute “patronage business.”

Section 6.03. ESTABLISHMENT OF ALLOCATION UNITS. The Board of Directors may establish the entire cooperative as an allocation unit, but if allocation units are established, the Board of Directors shall establish the units on a reasonable and equitable basis, and they may be functional, divisional, departmental, geographic, tax orientation, or otherwise. Tax orientation distinguishes between patrons who patronize the cooperative as a business and deduct the purchases they make from the cooperative as a business expense on the one hand, or, on the other hand, as a consumer who does not deduct those purchases as expenses. The Board of Directors shall adopt such reasonable and equitable accounting procedures as will, in the Board's judgment, equitably allocate among such allocation units this cooperative's income, gains, expenses and losses and, to the extent provided in Section 1 of this Bylaw VI, patronage dividends received by this cooperative and its share of income, gain, loss and deduction of other entities in which it owns an interest.

Section 6.04 DETERMINATION OF THE PATRONAGE INCOME OR LOSS OF AN ALLOCATION UNIT. The net income or net loss of an allocation unit from patronage business for each fiscal year shall be the sum of (1) the gross revenues directly attributable to goods or services marketed or procured for patrons of such allocation unit, plus (2) an equitably apportioned share of other items of income or gain attributable to this cooperative's patronage business, less (3) all expenses and costs of goods or services directly attributable to goods or services marketed or procured for patrons of such allocation unit, less (4) an equitably apportioned share of all other expenses or losses attributable to this cooperative's patronage business and distributable net income from patronage business that is credited to the Capital Reserve pursuant to Section 8(c) of this Bylaw VI. The foregoing amounts shall be determined using the accounting methods and principles used by the cooperative in preparation of its annual audited financial statements; provided, however, that the Board of Directors may prospectively adopt a reasonable alternative method. Expenses and cost of goods or services shall include without limitation such amounts of depreciation, cost depletion and amortization as may be appropriate, any unit retentions provided in Section 10 of this Bylaw VI, amounts incurred for the promotion and encouragement of cooperative organization, and taxes other than federal income taxes. Such net income or net loss shall be subject to adjustment as provided in Sections 6 and 9(b) of this Bylaw VI relating to losses.

In the event that the Association makes an accounting change that is reported on a retrospective basis as currently ordinarily required by generally accepted accounting principles and practices, or in some other similar matter, and the reporting results in a cumulative effect on the earnings of the Association that is not reflected in an adjustment to income in the year of the change, then the Board of Directors of the Association shall make such adjustments to the total net income of the Association for the year of change or subsequent years as it deems necessary or appropriate in order to prevent amounts, either positive or negative, from being omitted in the calculation of the refund payable to patron.

Section 6.04 ALLOCATION OF PATRONAGE INCOME WITHIN ALLOCATION UNITS. The net income of an allocation unit from patronage business for each fiscal year, less any amounts thereof that are otherwise allocated in dissolution shall be allocated among the patrons of such allocation unit in the ratio that the quantity or value of the business done with or for each such patron bears to the quantity or value of the business done with or for all patrons of such allocation unit. The Board of Directors shall reasonably and equitably determine whether allocations within any allocation unit shall be made on the basis of quantity or value.

Section 6.05 TREATMENT OF PATRONAGE LOSSES OF AN ALLOCATION UNIT.

(a) Methods for Handling Patronage Losses. If an allocation unit incurs a net loss in any fiscal year from patronage business, this cooperative may take one or more of the following actions:

(i) Offset all or part of such net loss against the net income of other allocation units for such fiscal year to the extent allowed by law;

(ii) Establish accounts payable by patrons of the allocation unit that incurs the net loss that may be satisfied out of any future amounts that may become payable by this cooperative to each such patron;

(iii) Carry all or part of the loss forward to be charged against future net income of the allocation unit that incurs the loss;

(iv) Offset all or part of such net loss against the Capital Reserve; and

(v) Cancel outstanding Patrons' Equities.

(b) Allocation of Net Loss Among Patrons of Loss Unit. Any cancellation of equities and/or establishment of accounts payable pursuant to this Section 6 shall be made among the patrons of an allocation unit in a manner consistent with the allocation of net income of such allocation unit.

(c) Restoration of Net Loss out of Future Net Income. The future net income of an allocation unit that incurs a net loss may be reduced by part or all of such net loss that was offset against the Capital Reserve, Patrons' Equities of patrons of another allocation unit or against the net income of another allocation unit and may be used to restore the Capital Reserve, restore such Patrons' Equities or to increase the future net income of such other allocation unit; provided that reasonable notice of the intent to do so is given to the patrons of the loss unit.

(d) Board Discretion. The provisions of this Section 6 shall be implemented by the Board of Directors, having due consideration for all of the circumstances which caused the net loss, in a manner that it determines is both equitable and in the overall best interest of this cooperative.

(e) No Assessments against Members or Nonmember Patrons. There shall be no right of assessment against members or nonmember patrons for the purpose of restoring impairments to capital caused by net losses.

Section 6.06. DISTRIBUTION OF NET INCOME.

(a) Patronage Refunds. The net income allocated to a patron pursuant to Sections 5 and 9 of this Bylaw VI shall be distributed annually or more often to such patron as a patronage refund; provided, however, that no distribution need be made where the amount otherwise to be distributed to a patron is less than a de minimus amount that may be established from time to time by the Board of Directors.

(b) Form of Patronage Refunds. Patronage refunds shall be distributed in cash, allocated patronage equities, revolving fund certificates, securities of this cooperative, other securities, or any combination thereof designated by the Board of Directors (all such patronage refunds referred to collectively herein as "Patrons' Equities"), including, without limitation, the following instruments:

(i) Capital Equity Certificates, in one or more than one class or series, in such designations or denominations, and with such relative rights, preferences, privileges and limitations as may be fixed by the Board of Directors, and bearing no interest, dividend or other annual payment.

(ii) Certificates of Indebtedness in one or more than one class or series, in such designations or denominations, and with such relative rights, preferences, privileges and limitations as may be fixed by the Board of Directors, and bearing such maturity and rate of interest, if any, as may be fixed by the Board of Directors. Such certificates shall be callable for payment in cash or other assets at such times as may be determined by the Board of Directors.

(iii) Non-Patronage Earnings Certificates, in one or more than one class or series, in such designations or denominations, and with such relative rights, preferences, privileges and limitations as may be fixed by the Board of Directors, with no maturity date, and bearing no interest, dividend or other annual payment. Non-Patronage Earnings Certificates may be distributed only to members and to nonmember patrons as part of the allocation and distribution of nonpatronage income. Such certificates shall be callable for payment in cash or other assets at such times as may be determined by the Board of Directors.

(iv) Preferred Capital Certificates in one or more than one class or series, in such designations or denominations, and with such relative rights, preferences, privileges and limitations as may be fixed by the Board of Directors.

(c) Written Notices of Allocation. The noncash portion of a patronage refund distribution that is attributable to patronage business shall constitute a written notice of allocation as defined in 26 U.S.C. Section 1388 which shall be designated by the Board of Directors as a qualified written notice of allocation, as a nonqualified written notice of allocation or any combination thereof as provided in said section.

(d) No Voting Power. Patrons' Equities shall not entitle the holders thereof to any voting power or other rights to participate in the affairs of this cooperative (which rights are reserved solely for the members or Voting Members of this cooperative as provided in these Bylaws), provided that Patrons' Equities held by Voting Members shall be a factor in determining the voting power of such members as more particularly provided in these Bylaws.

(e) Transfer Restriction. Patrons' Equities may only be transferred with the consent and approval of the Board of Directors, and by such instrument of transfer as may be required or approved by this cooperative.

(f) Board Authority to Allow Conversion. The Board of Directors of this cooperative also shall have the authority to allow conversion of Patrons' Equities into Equity Participation Units, Preferred Equities, or such other debt and/or equity instruments of this cooperative on such terms as shall be established by the Board of Directors.

(g) Revolverment Discretionary. No person shall have any right whatsoever to require the retirement or redemption of any Patrons' Equities, other than certificates of indebtedness, non-patronage earnings certificates or preferred capital certificates, any of which may contain rights, preferences, privileges or limitations that are other than an indefinite allocated equity interest whose redemption is solely with the exclusive power and discretion of the Board of Directors to redeem as and when it determines in Bylaw VIII. Equity Capital Management Policy, or of any allocated capital reserve. Such redemption or retirement is solely within the discretion and on such terms as determined from time to time by the Board of Directors of this cooperative.

(h) Cash Portion of Patronage Refund Qualified Written Notices. The cash portion of a distribution of patronage income with qualified written notices of allocation can range from a minimum of 20% to as much as 100% cash. The Board of Directors may vary the size of the cash portion of any distribution with qualified written notice of allocation to recognize differences in tax orientation of those businesses who make purchases of products and services from the cooperative that are deductible and consumers whose purchases of products and services are not deductible as a business expense. The Board of Directors may also choose to use qualified written notices to distribute patronage income to one group of patrons, while choosing to use non-qualified written notices to distribute income to separately situated patrons.

Section 6.07 CAPITAL RESERVE. The Board of Directors shall cause to be created a Capital Reserve and, except as otherwise provided in Section 9 of this Bylaw VI, shall annually add to the Capital Reserve the sum of the following amounts:

(a) The annual net income of this cooperative attributable to nonpatronage business;

(b) Annual net income from patrons who are unidentified or to whom the amount otherwise to be distributed is less than the de minimus amount established from time to time for convenience by resolution of the Board of Directors; and

(c) An amount of the distributable net income from patronage business as determined annually by the Board of

Directors, in its sole discretion. The Board of Directors shall be guided by its assessment of the Cooperative's need for equity capital to finance the assets and operations that benefit its members and patrons.

Federal income taxes shall be charged to the Capital Reserve.

Section 6.08. ALLOCATION AND DISTRIBUTION OF NONPATRONAGE INCOME AND LOSS.

(a) Nonpatronage Income. The Board of Directors shall have the discretion to allocate to allocation units amounts that are otherwise to be added to the Capital Reserve pursuant to Section 8(a) of this Bylaw VI. Such allocation may be made on the basis of any reasonable and equitable method. Amounts so allocated to allocation units shall be further allocated among the patrons thereof on a patronage basis using such method as the Board of Directors determines to be reasonable and equitable. Amounts so allocated shall be distributed to patrons thereof in the form of cash, property, Non-Patronage Earnings Certificates, or any combination thereof designated by the Board of Directors. The Board of Directors may determine whether and to what extent nonmember patrons may share in such distributions.

(b) Nonpatronage Loss. If the cooperative incurs a net loss on its nonpatronage business or if a net loss is incurred with respect to the nonpatronage business of an allocation unit, such net loss generally shall be chargeable against Capital Reserve unless and to the extent the Board of Directors, having due consideration for the circumstances giving rise to such net loss, determines that it is reasonable and equitable to allocate all or part of such a net loss among allocation units generally or to a specific allocation unit or units. Any such loss allocated to an allocation unit shall reduce such unit's net income from patronage business to the extent thereof and the excess, if any, shall be treated generally in accordance with Section 6(a)(ii), (iii) and (v) of this Article VI.

BYLAW VII. EQUITY CAPITAL MANAGEMENT

Section 7.01 OVERVIEW. Any redemption of allocated equities is governed by this Bylaw VIII notwithstanding anything to the contrary in the Articles of Incorporation or Bylaws. The Board of Directors establishes redemption policies in its sole discretion. The Board of Director is charged with deploying the cooperative's capital to replace and grow its property, plant, and equipment, to manage its solvency and its liquidity, and to redeem allocated equities with cash to its users (i.e. patrons). The objectives of redeeming allocated equities include aligning ownership with use so the users or patrons are also the source of the cooperative's equity capital.

Section 7.02 DISTRIBUTION OF PATRONAGE EARNINGS IN CONTRAST TO REDEMPTION OF ALLOCATED EQUITY. Distribution of income is a zero-sum game because income is either distributed as a patronage refund or taxed as corporate income. Distribution is an objective process driven by accounting and federal tax principles that are applied through Minnesota law and Bylaw V herein. Each unit of patronage income is allocated and identified with the name of the patron who purchased products and/or services from the cooperative. Distribution of income does not consume financial resources. Either a cash patronage refund or income tax are paid by the cooperative. On the other hand, redemption of allocated equity is a subjective process that requires financial and strategic planning, evaluation of solvency and liquidity, and business judgment. A sustainable equity redemption program requires financial modeling and communication to and with patrons and members.

Section 7.03 RETURN OF EXCESS CAPITAL: PRIORITIES. Any redemption or retirement is solely within the discretion and on such terms as determined from time to time by the Board of Directors of this Cooperative. In establishing and interpreting any bylaw and policy, and in making such payment, redemption or retirement of allocated equity, the Board of Directors may distinguish natural members from unnatural members (corporations, partnerships, LLCs, and other business organizations, etc.) and, in doing so, favor natural members. The Board of Directors may distinguish between members and non-members, and/or patrons and non-patrons, between equity holders based on their tax orientation when the non-cash portion of patronage earnings was distributed to each holder, and/or on whether the prospective recipient of an allocated equity redemption is an active patron of the cooperative, and a current source of income. The Board of Directors cannot discriminate against any protected class of people as provided by federal or state law. The Board of Directors shall establish priorities for when, how and to whom excess capital is distributed to equity holders in a way that maximizes the value proposition, beginning with those patrons who are the wellspring of the cooperative as determined by the board in its

sole discretion.

Section 7.04. NO ADDRESS. Whenever the association determines that it does not have a current address for the member or patron who was previously allocated equity of the association, or whenever a member or patron fails to maintain a current address at the association, then, in that case and before the previously allocated equity ever becomes payable will be deemed to be contributed to the association's unallocated surplus and in the case of dissolution of the association, the total surplus remaining, including these contributed amounts, if any, will be distributed to the members and patrons as determined by the Board of Directors and in accordance with the Articles of Incorporation and Bylaws of this association.

BYLAW VIII. CONSENT

Each person (including individuals, partnerships, and business or corporations) who hereafter applies for and is accepted to membership in this cooperative and each member of this cooperative on the effective date of this bylaw who continues as a member after such date shall, by such act alone, consent that the amount of any distributions with respect to their patronage occurring in any fiscal year which are made in written notices of allocation (as defined in 26 U.S.C. 1388, the Internal Revenue Code) and which are received by him from the cooperative, will be taken into account by them at their stated dollar amounts in the manner provided in 26 U.S.C. 1385 in the taxable year in which such written notices of allocation are received by them -- it being the intent of this Bylaw to provide a consent binding on all members who retain or obtain membership in this cooperative after the adoption of this Bylaw and receipt of a written notification and copy of this Bylaw, for the purpose of making such distributions "qualified written notices of allocation" within the meaning of the United States Income Tax Laws.

BYLAW IX. LOSS AND INVESTMENTS

Section 9.01 NETTING LOSSES. In the event of a loss in one or more departments or divisions of operations of this cooperative, but not of such magnitude as to cause an overall loss for the fiscal year of the cooperative, such loss or losses may be prorated against each of the remaining profitable departments or divisions on the basis of their respective percentage of the total net margin during such fiscal year.

Section 9.02 HANDLING OF LOSSES. If the cooperative as a whole shall incur a net loss in any fiscal year, the Board of Directors, at its sole discretion, may (a) charge the net loss against any earned surplus or paid-in surplus which is unallocated or against any unallocated reserve other than valuation reserves, or (b) may recover the amount of such loss from prior or subsequent years' net margins or savings (allocated or to be allocated to Patron's equity accounts); provided the Board shall not have the authority to make a cash assessment against members. This section shall not be construed or administered so as to deprive this cooperative of the right to carry back or carry forward net operating losses to past or future years in accordance with the applicable provisions of the Internal Revenue Code or state taxing statutes.

Section 9.03 INVESTMENT WRITEDOWN. Whether or not an overall loss occurs, if this cooperative shall have a write-down in investments it holds in another cooperative, the Board shall have the discretion to apply the write-down to outstanding reserves of this cooperative or to allocate the write-down to the members' equities. The Board shall also have the authority to divide the write-down between the reserves and member's equities. Any allocation to members shall be made pro-rata against all members.

BYLAW X. DISSOLUTION

Upon the dissolution of this cooperative, all its debts and liabilities shall first be paid according to their respective priorities:

- (a) the cost of dissolution;
- (b) any liabilities;
- (c) the revolving funds;

- (d) any Statutory Capital Reserve;
- (e) any property remaining shall be distributed among the patrons in such proportions as patronage to each patron during a base period, the base period shall be comprised of the fiscal year proceeding dissolution.
- (f) each patron's patronage equities in any fiscal year during said base period shall *be* disregarded if less than ten dollars (\$10.00).

BYLAW XI. UNCLAIMED PROPERTY

In accordance with Minnesota Statutes 1989, Section 308A.711, this cooperative may distribute any unclaimed property which has been reported as unclaimed property to the Commissioner of Commerce of the State of Minnesota, to a corporation or organization which is exempt from taxation under Minnesota Statutes Section 290.05, subdivision 1, paragraph (b), or 2. The distribution of any unclaimed property to a tax-exempt organization shall be reported to the Commissioner of Commerce pursuant to Section 308A.711, subdivision 1. The rights of an owner to unclaimed property shall be extinguished upon the distribution of the property to a tax-exempt organization in accordance with Minnesota law.

BYLAW XII. FISCAL YEAR

The fiscal year of this cooperative shall begin on the first day of April and end on the last day of March of each year.

BYLAW XIII. AMENDMENT OF BY-LAWS

Section 13.01 MEMBERS. These Bylaws may be amended as provided by law, by the members at the annual meeting or at any special meeting of the members called for that purpose.

Section 13.02 BOARD OF DIRECTORS. The Board of Directors may amend the Bylaws, which amendment shall be effective immediately thereupon, provided also, however, that such amendment is reported at the next annual meeting. Amendments made by the Board of Directors are always subject to subsequent modification, amendment, or repeal by the voting members of this Cooperative with prior notice.