



COOPERATIVE SOLUTIONS

Trust. Transparency. Ownership.

# Articles and Bylaws

Effective: January 1, 2018

**AMENDED AND RESTATED  
BYLAWS  
OF  
40 SQUARE COOPERATIVE SOLUTIONS  
Adopted August 28, 2017**

**ARTICLE I  
COOPERATIVE SEPARATE FROM PLAN AND TRUST**

40 Square Cooperative Solutions (the “Cooperative”) shall operate as a separate entity from the 40 Square Consortium Health Plan (the “Plan”) and the 40 Square Consortium Health Plan Trust (“the Trust”). All references to the Cooperative in these bylaws shall refer to the operations, finances, administration and governance of the Cooperative and shall not be deemed to apply to the Plan or the Trust.

**ARTICLE II  
MEMBERS**

**Section 2.1 Member Register.** The Cooperative shall maintain a membership register at its principal office or by a duly appointed agent of the Cooperative setting forth the name, address, and membership interest of each member and it shall be modified from time to time to reflect the admission of new members and the resignation or termination of members.

**ARTICLE III  
MEMBER CLASSES**

**Section 3.1 Member Classes and Member Shares.** There shall be three classes of members: (a) Class A Voting Patron Members, (b) Class B Voting Members, and (c) Class C Nonvoting Members. The Class A Voting Members hold the patronage membership interests, and the Class B and Class C Members hold non-patron membership interests for purposes of the Minnesota Cooperative Associations Act, Minnesota Statutes Chapter 308B. The Patron Voting Stock and Class A Common Stock represent the interests of patron members and the Class B Voting Common Stock and Class C Nonvoting Stock represent the interests of non-patron members. Members are sometimes referred to as shareholders in these bylaws.

**Section 3.2 Class A Voting Membership Criteria.** The Cooperative’s Class A Voting Members must, at minimum, meet the following criteria:

- (a) Be 18 years of age or older (if an individual); and
- (b) Purchase one share of Patron Voting Stock in the amount of \$100 or in such other amounts and on such other terms as determined by the Board from time to time; and
- (c) In addition to purchasing one share of Patron Voting Stock, Class A Voting Members must purchase 10 shares of Class A Common Stock at \$100 per share in the first policy year to help fund the Cooperative. Class A Voting Members may be required to purchase additional shares of Class A Common Stock at the discretion of the Board from time to time; and

(d) Actively at work in production agriculture and file either Form 1065 or Schedule F with the Member's income tax return; or

(e) Be a business enterprise providing direct services to production agriculture in Minnesota, subject to approval of the Cooperative.

**Section 3.3 Class B Voting and Class C Nonvoting Membership Criteria.** The Cooperative's Class B Voting Members must purchase or hold at least 10 shares of Class B Voting Common Stock with a par and liquidation of \$5,000 per share, and must be a business enterprise providing direct services to production agriculture in Minnesota, subject to approval by the Cooperative. Class C Nonvoting Members must purchase and hold at least 5 shares of Class C Nonvoting Stock with a par and liquidation value of \$5,000 per share, and must meet other eligibility criteria established by the Board from time to time, subject to approval by the Cooperative.

**Section 3.4 Approval of Class A Voting Patron Membership.** A prospective Class A Voting Patron Member shall become a member and shall remain a member subject to the Articles of Organization and these Bylaws, and any other rules or requirements that may have been established from time to time by the Board. The Board shall have the power and authority to determine whether a prospective member or current member has complied or is in compliance with the Articles of Organization, these Bylaws, and such other rules and requirements. The Board may delegate such power and authority to a committee of the Board or to an officer (as defined below).

**Section 3.5 Approval of Class B and Class C Nonvoting Membership.** Class B Voting Members shall be admitted by approval of the Board and compliance by the additional Class B Member with such requirements as may have been established from time to time by the Board. Additional Class C Nonvoting Members shall be admitted by approval of the Board and compliance by the additional Class C Nonvoting Member with such requirements as may have been established from time to time by the Board. The Board shall have the power and authority to determine whether a prospective member or current member has complied or is in compliance with the Articles of Organization, these Bylaws, and such other rules and requirements.

**Section 3.6 Voting Rights.** Each Class A Voting Patron Members shall be entitled to only one vote on each issue that Class A Voting Patron Members may vote upon regardless of the number of covered lives of such member covered by any health plan policy or plan held by the Cooperative. In connection with matters for which all members may vote, the voting rights of Class A Voting Patron Members count collectively, as if every eligible Class A Voting Patron Member is in attendance and voting on the resolution that is at issue. The vote of patrons shall be determined by a majority of those Class A Voting Patron Members who vote on the resolution provided a quorum of Class A Voting Patron Members is present.

Class B Voting Members shall have weighted voting power based on the number of shares Class B Voting Stock owned by all of the Class B Voting Members. In connection with matters for which all members may vote, the voting rights of Class B Voting Members count collectively, as if every eligible Class A Voting Patron Member is in attendance and voting on the resolution that is at issue. The vote of patrons shall be determined by a majority of those Class B Voting Members who vote on the resolution provided a quorum of Class B Voting Members is present.

**Section 3.7 Voting Power.** The Class A Voting Members taken as a whole shall hold fifty-one percent (51%) of the Cooperative's aggregate voting power on those matters for which all members may vote. The Class B Voting Members, including but not limited to Cooperative Network and United Farmers Cooperative, shall hold forty-nine percent (49%) of the Cooperative's aggregate voting power on those matters for which all members may vote.

**Section 3.8 Dividends and Redemption by the Cooperative.** Except for patronage dividends, no dividends may be paid on any shares of Patron Voting Stock, Class A Common Stock, Class B Voting Common Stock or Class C Nonvoting Stock. The Cooperative may redeem shares of Class B Voting Common Stock and Class C Nonvoting Stock at any time at its discretion, upon a vote of at least two-thirds of the total number of directors.

**Section 3.9 Transferability.** All shares of stock and all patron and non-patron membership interests shall be transferable only with the prior approval of the Board.

**Section 3.10 Voluntary Termination of Membership by Member.** A patron member may terminate membership in the Cooperative at any time by providing the Cooperative sixty (60) days' written advance notice.

A non-patron member of the Cooperative may terminate its interest by selling some or all, or gifting some or all of its equity in the Cooperative to patron members, the other non-patrons or to a third party. However, any equity sale shall be approved in advance by the original non-patron members of the Cooperative to the extent any one of them retains a non-patron ownership interest in the Cooperative.

**Section 3.11 Involuntary Termination of Membership by the Cooperative.** The Cooperative's Board may terminate a patron member's membership in the Cooperative upon the occurrence of any of the following events:

(a) A patron member fails (i) to make a required payment on a timely basis and does not remedy such failure within ten (10) business days of written notice thereof, or (ii) comply with the policies and procedures adopted by the Board that are applicable to patron members; or

(b) A patron member ceases to purchase products from the Cooperative or to fulfill the other membership criteria as set forth in these Bylaws or as otherwise specified by the Board such that the patron member would not be accepted as a new patron member if it were then initially applying for membership. If any patron member's membership terminates voluntarily or involuntarily, the Cooperative shall promptly pay to the terminated patron member the amount paid by the patron member for one share of Patron Voting Stock and one share of Class A Common Stock. In addition, the Cooperative will redeem the terminated patron member's Patrons' Equities over a period of five years, without interest, unless the Board determines in its sole discretion that the redemption of Patrons' Equities may violate any applicable loan covenants or regulatory requirements or have an adverse effect on the financial condition or prospects of the Cooperative. If any patron member's membership terminates involuntarily, the Cooperative shall promptly pay to the terminated patron member the amount paid by the patron member for one share of

Patron Voting Stock and one share of Class A Common Stock. If any patron member's membership terminates, the patron member will no longer have voting rights and the remaining shares of Class A Common Stock owned by the patron member will be redeemed by the Cooperative upon liquidation or at any earlier time as determined by the Board.

#### **ARTICLE IV NONVOTING PREFERRED STOCK**

**Section 4.1 Non-patron Members.** The Cooperative may have non-patron members who preferred equity interests which are identified as Nonvoting Preferred Stock. The owners of Nonvoting Preferred Stock may sell or otherwise transfer some or all of their ownership interest in the Cooperative subject to the Bylaw provision in Section 3.5.

**Section 4.2 Preferred Equity.** The Board may by resolution establish and issue to any person (whether member, nonmember patron, or other person) one or more than one class or series of non-voting preferred equity identified as Nonvoting Preferred Stock, may set forth the designation of classes or series of such Nonvoting Preferred Stock and may fix the relative rights, preferences, privileges and limitations of each class or series of Nonvoting Preferred Stock. If so specified by the Board at the time the issuance of a series or class of Nonvoting Preferred Stock is approved, the Nonvoting Preferred Stock shall not be subject to any lien created in favor of the Cooperative in these Bylaws. Dividends on Nonvoting Preferred Stock (i) shall be at a rate per annum (which may be an adjustable rate) established by the Board or based on any other formula as may be established by the Board, and (ii) shall be non-cumulative, except that dividends on any series or class of Nonvoting Preferred Stock may be cumulative if so specified by the Board at the time the issuance of the Nonvoting Preferred Stock is approved. Dividends payable on any series or class of Nonvoting Preferred Stock shall be deducted in determining annual net earnings if and to the extent specified by the Board at the time the issuance of the Nonvoting Preferred Stock is approved. Subject to any restrictions approved by the Board at the time the issuance of the Nonvoting Preferred Stock is approved, any series or class of preferred equity may be retired in whole or in part at any time as determined by the Board, upon payment of the par value thereof plus any unpaid dividends declared thereon. In case of dissolution or liquidation, the owners of Nonvoting Preferred Stock shall be entitled and limited to receive the par value of their Nonvoting Preferred Stock, plus any unpaid cumulative dividends declared thereon, before any payment is made to the holders of any patron's equities or on account of any Patron Voting Stock, Class A Common Stock, Class B Voting Common Stock or Class C Nonvoting Stock.

#### **ARTICLE V MEMBER MEETINGS**

**Section 5.1 Annual Meeting.** The annual meeting of the members shall be held each year at a time and place to be determined by the Board. The purpose of such meetings shall be to hear reports on operations and finances, to review issues that vitally affect the Cooperative, and to transact such other business as may properly come before the meeting.

**Section 5.2 Special Meetings.** Special meetings of the members for any purpose or purposes, unless otherwise prescribed by statute, may be called by either the Board or by the

Chairperson if he/she receives a written petition requesting the meeting signed by at least twenty percent (20%) of the patron members. A special members' meeting shall be held within thirty (30) days of the Chairperson's receipt of a petition meeting one of the foregoing requirements of this Section 5.2, provided such meeting is for a proper cooperative purpose.

**Section 5.3 Notice of Meeting.** Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than the number of days or hours set forth in Section 308B.511 of the Minnesota Statutes if a regular meeting, or Section 308B.515 of the Minnesota Statutes if a special meeting, nor more than thirty days before the date of the meeting, either personally or by mail, at the discretion of the officer or persons calling the meeting, to the members at each last known address. Written notice shall be deemed to be given when deposited in the United States mail, with postage paid thereon, addressed to the member as it appears on the records of the Cooperative. Oral notice shall be effective when communicated. Notice given by facsimile shall be effective when directed to a telephone number at which the member has consented to receive electronic notice. Notice given by electronic mail shall be effective when directed to an electronic mail address at which the member has consented to receive electronic notice.

**Section 5.4 Waiver of Notice by Member.** A member may waive notice of an annual or special members' meeting. Such a waiver is effective whether given before, at, or after such meeting, and whether given in writing, orally or by attendance. Attendance at a regular special members' meeting is a waiver of notice of such meeting, except where the member objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate in the meeting after the objection, or objects before a vote on an item of business at the meeting because the item may not lawfully be considered at the meeting and does not participate in the consideration of the item at the meeting.

**Section 5.5 Voting; Quorum.** Members with voting rights shall have the right to vote on all matters submitted to a vote of the members and such other additional rights and powers as set forth in these Bylaws or conferred upon them by the Minnesota Statutes. A quorum for the transaction of business at a members' meeting shall be as required by Minnesota Statutes Chapter 308B.525, provided that at least one patron member and at least one non-patron member with voting rights must be present. In determining whether a quorum is present at a members' meeting for the purposes of conducting a vote on a questions that members may vote on by mail or alternative ballot, the number of members physically present at the meeting shall be added to the number of members voting by mail or alternative ballot.

**Section 5.6 Virtual Meetings and Attendance.** Meetings of the members may be held such that all members participate in the meeting by a means of communication rather than by being physically present at the meeting. The Cooperative shall implement reasonable measures to verify that each person participating in the meeting by a means of communication is a member and provide each member so participating with a reasonable opportunity to:

- (a) actively participate in the meeting, including allowing such a member to read or hear the proceedings of the meeting substantially concurrently with those proceedings,

(b) if allowed by the procedures governing the meeting, have the members' remarks heard or read by other participants in the meeting substantially concurrently with the making of those remarks, and

(c) if otherwise entitled, vote on matters submitted to the members.

**Section 5.7 Action Without a Meeting.** Any action which may be taken at a meeting may be taken without a meeting if a writing setting forth and approving the action taken is signed by the number of members that would be required to approve the action at a members' meeting at which all members were present. Such consent shall have the same force and effect as an action authorized by vote of the number of authorizing members at a meeting at which all members are present.

## **ARTICLE VI BOARD OF DIRECTORS**

**Section 6.1 General Powers.** The business and affairs of the Cooperative shall be managed by its Board.

**Section 6.2 Number, Tenure and Voting Power.** The members of the initial Board shall include those individuals identified below and additional interim directors that may be appointed by the interim Board prior to the first election of permanent directors.

Curt Eischens, Minneota, Minnesota

Robby Gieseke, Nicollet, Minnesota

Kevin Lauwagie, Winthrop, Minnesota

Jeff Nielsen, Henderson, Minnesota

Steve Schlangen, Albany, Minnesota

Dean Sonnabend, Vernon Center, Minnesota

Cole Trebesch, Springfield, Minnesota

Within twelve months after the Cooperative begins operations and sale of health insurance products to patron members, the initial Board shall cause the Cooperative to hold elections for directors to serve on the permanent Board, which shall include an odd number of directors numbering not less than five (5) nor more than nine (9) directors. At least a majority of the directors shall be elected by the Class A Voting Members, and at least a majority minus one of the directors shall be designated and elected the Class B Voting Members. At all times, the majority of directors shall be designated and elected by the Voting Patron Members.

**Section 6.3 Qualifications and Election.**

(a) Directors elected by the Class A Voting Members shall be a Class A Voting Member in good standing and be at least 18 years of age and meet such other criteria as the Board determines from time to time. These patron directors shall be nominated and elected according to reasonable procedures established by the Board from time to time. These patron directors may delegate another plan participant to serve on the board in their stead.

(b) Patron directors shall hold office for a three-year, staggered term until their successors shall have been elected, or until their death, resignation, or removal. A patron director may resign at any time by filing a written resignation with the Board of the Cooperative. Every director shall be a member or a representative of a member if such member is other than a natural person.

(c) Directors elected by the Class B Voting Members shall be designated for nomination and elected by the Class B Voting Members according to nomination and election or appointment procedures adopted by the Class B Voting Members or the directors representing them from time to time, and shall serve for a three-year term unless the Board is notified by the non-patron members that the director representing them is no longer eligible to serve as the non-patron member's representative. At least one of directors elected by the Class B Voting Members shall be designated and appointed by each of United Farmers Cooperative and Cooperative Network.

**Section 6.4 Meetings.** The Board shall hold regular and special meetings at such time and place as it shall determine. All directors shall be notified in writing (including by electronic notification methods approved by the Board) of regular meetings at least ten (10) days in advance and special meetings at least two (2) days in advance. Meetings shall be open to all members unless the Board decides to go into executive session regarding confidential or proprietary matters such as: labor relations or personnel issues; negotiation of a contract; discussion of strategic goals or business plans, the disclosure of which would adversely impact the Cooperative's position in the marketplace; and/or discussion of a matter that may, by law or contract, be considered confidential.

**Section 6.5 Voting by Absent Directors.** A director may give advance written consent or opposition to a proposal to be acted on at a Board meeting. If the director is not present at the meeting, consent or opposition to a proposal does not constitute presence for purposes of determining the existence of a quorum. If the proposal to be acted on at the meeting is substantially the same or has substantially the same effect as the proposal to which the director has consented or opposed, the consent or opposition shall be counted as the vote of a director present at the meeting in favor of or against the proposal.

**Section 6.6 Quorum.** Except as otherwise provided by law or by the Articles of Organization or these Bylaws, the presence of two (2) directors appointed or elected by non-patron members, including at least one (1) director appointed by Cooperative Network, and three (3) directors elected by patron members shall constitute a quorum for the transaction of any business at any Board meeting of directors, but a majority of the directors present (though less than such quorum) may adjourn the meeting from time to time without further notice. Any director who objects at the beginning of a Board meeting to the transaction of business because the meeting is not lawfully called or convened and who fails to participate in the meeting after the objection

may not be considered as present for purposes of determining whether a quorum is present. If a quorum is present when a meeting is properly convened, the directors present may continue to transact business until adjournment, even though the withdrawal of a number of directors present leaves less than a quorum.

**Section 6.7 Manner of Acting.** The act of a majority of the voting power of the directors present at a meeting at which a quorum is present shall be the act of the Board, unless the act of a greater number is required by law or by the Articles of Organization or these Bylaws.

**Section 6.8 Virtual Meetings and Attendance.** Meetings of the Board may be held by any means of communication through which the directors may simultaneously hear each other during the meeting. A director may participate in a meeting of the Board at which other directors physically present by any means of communication through which the director, all other directors so participating, and all other directors physically present may simultaneously hear each other during the meeting. The number of directors physically present at a meeting, if any, shall be added to the number of directors otherwise participating in the meeting pursuant to this Section 6.8 to determine whether a quorum is present, except that any director who objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and who fails to participate in the meeting after the objection may not be considered as present at the meeting for purposes of determining whether a quorum is present.

**Section 6.9 Vacancies.** If a vacancy occurs in a directorship elected by the Class A Voting Members, including a vacancy created by an increase in the number of directors, the remaining directors shall appoint a patron member to temporarily fill the vacancy until a successor is elected at the next regular or special members' meeting. Such appointment shall be by majority vote of the directors regardless of whether a quorum of such directors is present. If there are no other directors, the members shall immediately call a special meeting for the purposes of appointing a director. Until such time the office shall remain vacant.

**Section 6.10 Removal.** A Board director may be removed by a two-thirds majority of the members present and voting at an annual or special meeting, by written ballot, or by a two-thirds vote of the Board directors for cause. Cause may include missing two or more meetings without an excused absence or for being convicted by a state or federal court of competent jurisdiction of a felony violation.

**Section 6.11 Compensation.** The Board may receive reasonable compensation for service on the Board. Directors may also receive reimbursement for reasonable expenses incurred in connection with Cooperative matters, provided that such reimbursement is authorized by an affirmative vote of the directors.

**Section 6.12 Presumption of Assent.** A director of the Cooperative who is present at a meeting of the Board or a committee thereof of which he/she is a member at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his/her dissent shall be entered in the minutes of the meeting or unless he/she files his/her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or forwards such dissent by registered mail to the Records Officer of the Cooperative immediately

after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

**Section 6.13 Audit Committee.** The Board shall establish an audit committee, consisting of members to review the financial information and accounting reports of the Cooperative. The Cooperative is not required to have audited financial statements prepared. However, the Cooperative shall prepare audited financial statements if it is otherwise required by law.

**Section 6.14 Unanimous Consent Without Meeting.** Any action which may be taken at a meeting may be taken without a meeting if a writing setting forth and approving the action shall be signed by all of the directors entitled to vote on such action. For purposes of this Section 6.14, a signature may be in writing or by execution of an electronic signature.

**Section 6.15 Board Policy Compliance.** Each director shall fully comply with the Board of Director's policy manual established by the Board. The Board, not including a director thought to be in violation of the manual, may remove a director who is disqualified by the policies in that manual. The remaining directors may also fill any vacancy caused by such removal until the next annual meeting of the members. This removal power shall be in addition to the power of the members under Section 6.10 above, but the process for removal, if any, under this Section 6.15 shall be governed exclusively by the policy manual.

**Section 6.16 Acts of Directors.** The Board of Directors may authorize members of the board to serve as directors, trustees or in other capacities as required for the effective and efficient operation of the Cooperative or in its interests. To the extent Directors are asked to serve in another capacity, the obligation of the Cooperative to indemnify its Directors shall extend to those Directors to the same extent that as if the director was acting only for the Cooperative.

## **ARTICLE VII OFFICERS**

**Section 7.1 Number.** The principal officers of the Cooperative shall be Chair, Vice Chair, Secretary, and Treasurer. The Chair and Vice Chair shall each be a director and member of the Cooperative (or a representative of a member if such member is other than a natural person). The same individual may simultaneously hold the office of Secretary and Treasurer. Such other officers and assistant officers as may be deemed necessary may be appointed by the Board. The duties of the officers shall be those enumerated herein and any further duties designated by the Board. The duties herein specified for particular officers may be transferred to and vested in such other officers as the Board shall appoint, from time to time and for such periods or without limitation as the Board shall order.

**Section 7.2 Appointment and Term of Office.** The officers of the Cooperative shall be elected annually by the Board at the annual meeting of the Board. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his/her successor shall have been duly elected or until his/her prior death, resignation or removal.

**Section 7.3 Removal.** Any officer or agent may be removed by the Board whenever in its judgment the best interests of the Cooperative will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment of an officer shall not of itself create contract rights.

**Section 7.4 Vacancies.** A vacancy in any principal office because of death, resignation, removal, disqualification or otherwise, shall be filled by the Board for the unexpired portion of the term.

**Section 7.5 Duties.** The officers shall perform such duties as are ordinarily assigned to such officers in the normal course of business. Any officer may be removed by a two-thirds (2/3) vote of all directors, provided that the removal is on the announced agenda prior to the meeting.

(a) The Chair shall: (i) preside at all meetings of the Board, (ii) appoint such agents and employees of the Cooperative as he/she shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them, and (iii) sign all documents, along with the Secretary, within the scope of the implied or express authorization of the Board, Chapter 308B of the Minnesota Statutes, and the Articles and Bylaws of this Cooperative.

(b) The Vice Chair shall act as Chair in the absence of disability of the Chair.

(c) The Secretary shall: (i) keep the minutes of the meetings of the Board in one or more books provided for that purpose; (ii) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (iii) be custodian of the Cooperative's records; and (iv) in general perform all duties incident to the office of Secretary and have such other duties and exercise such authority as from time to time may be delegated or assigned to him/her by the Chair or by the Board. The Secretary shall also sign all documents, along with the Chair, within the scope of the implied or express authorization of the Board, Chapter 308B of the Minnesota Statutes, and the Articles and Bylaws of this Cooperative.

(d) The Treasurer shall: (i) have charge and custody and responsible for all funds and securities of the Cooperative; (ii) receive and give receipts for moneys due and payable to the Cooperative from any source whatsoever, and deposit all such moneys in the name of the Cooperative in such banks, trust companies or other depositories; and (iii) in general perform of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned to him/her by the President or by the Board. If required by the Board, the Treasurer shall give a bond for the faithful discharge of his/her duties in such sum and with such surety or sureties as the Board shall determine.

**Section 7.6 Other Assistant and Acting Officers.** The Board shall have the power to appoint a general manager of the Cooperative. The Board shall also have the power to appoint any person to act as assistant to any officer, or as agent for the Cooperative in his/her stead, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer or other agent so appointed by the Board shall

have the power to perform all the duties of the office to which he/she is so appointed to be assistant, or as to which he/she is so appointed to act, except as such power may be otherwise defined or restricted by the Board.

## **ARTICLE VIII COOPERATIVE OPERATION**

### **Section 8.1 Cooperative Operation.**

(a) Operation on Cooperative Basis. The Cooperative shall be operated on a cooperative basis with respect to Patrons, such that each Patron doing business with the Cooperative shall be allocated a pro rata share of the Cooperative's Net Patronage Income based on the Patron's patronage. As used in these Bylaws, (a) the term "Patron" means each Member of the Cooperative and each non-Member of the Cooperative with whom the Cooperative has agreed in writing to do business on a cooperative basis prior to conducting such business, and (b) a Patron's patronage shall mean the total dollars paid by the Patron to the Cooperative for health insurance coverage or other services, or the value of services provided to the Cooperative by Non-patron Members or as otherwise determined by the Board. Each transaction between the Cooperative and its Patrons shall be done on a cooperative basis and shall be subject to and include as part of its terms each provision of the Cooperative's Articles of Incorporation and Bylaws, unless a Patron expressly agrees in writing in writing to conduct such transaction or transactions on a noncooperative basis. Upon conducting business with the Cooperative, each Member shall be entitled to Patronage Refunds as defined in this Article arising out of any such patronage transaction.

(b) Determination of Net Patronage Income. For each taxable year, the Cooperative shall calculate its "Net Patronage Income," which means the Cooperative's gross income less its total expenses for the taxable year, determined using the accounting methods and principles used by the Cooperative in preparation of its annual audited financial statements; provided, however, that the Board may prospectively adopt a reasonable alternative method of accounting. If calculation of the Cooperative's Net Patronage Income yields a negative amount (a "Net Patronage Loss"), such Net Patronage Loss shall be subject exclusively to the treatment specified in Section 8.1(f).

(c) Allocation of Net Patronage Income. The Cooperative's Net Patronage Income for each taxable year, less any amounts allocated to the Capital Reserve account pursuant to Section 8.4, shall be allocated annually at the discretion of the Board to recognize, in an equitable manner, the patronage of shareholders and the investments in all classes of Stock made by all classes of shareholders, as follows:

(i) At least sixty percent (60%) of the Net Patronage Income shall be allocated to Class A Voting Patron Members on the basis of their respective patronage as defined pursuant to Section 8.1(a), and

(ii) The remaining balance of the Net Patronage Income shall be allocated to the owners of the Class B Voting Stock and the Class C Nonvoting

Stock, pro rata, based on the number of shares Class B Voting Stock and the Class C Nonvoting Stock owned.

The Board shall annually review the percentages that will be allocated to Class A Voting Patrons and, using the guidelines specified above, shall have the discretion to change the percentage that will be allocated to Class A Voting Patron Members as specified in this Section 6.4 by the affirmative vote of eighty percent (80%) of the entire number of directors serving on the Board.

(d) Distribution of Net Patronage Income. The Net Patronage Income allocated to members pursuant to Section 8.1(c) shall be distributed as a “Patronage Refund” annually or more often to the members entitled to it, as determined by the Board; provided, however, that no distribution need be made where the amount otherwise to be distributed to a patron is a de minimis amount, as defined from time to time by the Board, or where the Patron who would otherwise be paid such Patronage Refund cannot reasonably be located, which undistributed amounts shall be added to the Capital Reserve account pursuant to Section 8.3.

(e) Form of Patronage Refunds; Patrons’ Equities. The Net Patronage Income allocated to members shall be distributed in cash, Patrons’ Equities, or any combination thereof designated by the Board. Patrons’ Equities represent the right to receive cash or other property at a stated dollar amount upon redemption by the Cooperative and shall be in the form of book entries. Patrons’ Equities form part of the capital of the Cooperative, do not bear interest, and are not subject to redemption at the request of any member. Patrons’ Equities may be transferred only with the consent and approval of the Board. The redemption of Patrons’ Equities is solely within the discretion of and on the terms described by the Board from time to time. The Board shall adopt and maintain in writing a redemption policy to guide the retirement or redemption of Patrons’ Equities, which may provide for redemption of Patrons’ Equities owned by the Class A Voting Patron Members earlier than Patrons’ Equities or other capital owned by Class B Voting Members and Class C Nonvoting Members. The redemption policy shall include a redemption goal under which Patrons’ Equities owned by Class A Voting Patron Members will be redeemed upon retirement or age attainment, over a period of five years after the final claim paid is paid under the Member’s health insurance, without interest, unless the Board determines in its sole discretion that the redemption of the Patrons’ Equities may violate any applicable loan covenants or regulatory requirements or have an adverse effect on the financial condition or prospects of the Cooperative.

(f) Treatment of Net Patronage Losses. If calculation of the Cooperative’s Net Patronage Income for the taxable year gives rise to a Net Patronage Loss, the Cooperative may take one or more of the following actions: (a) establish an account receivable for each member that patronized the Cooperative in the taxable year of the Net Patronage Loss and for each non-patron member, which account receivable may be satisfied by the Cooperative out of any future amounts that may become payable by the Cooperative to such Patron; (b) carry all or part of the Net Patronage Loss forward to be charged against future Net Patronage Income; (c) offset all or part of such Net Patronage Loss against the Capital Reserve account; or (d) cancel outstanding Patrons’ Equities. The Board, having due

consideration for all of the circumstances which caused the net loss, has the discretion to take one or more of these actions in a manner that it determines is both equitable and in the overall best interest of the Cooperative. The Board of Directors may not levy a cash assessment on patron members or non-patron members to recover a Net Patronage Loss.

**Section 8.2 Separate Allocation Units.**

(a) Establishment of Allocation Units. Allocation units may be established by the Board from time to time on a reasonable and equitable basis for purposes of determining and allocating the income, gains, expenses and losses of the Cooperative to the member patrons. Allocation units may be established based on membership classes, purchasing groups, joint venture initiatives, categories of services, or other business arrangements, or they may be based on any other functional, divisional, departmental, geographic or other criteria as determined by the Board. If more than one allocation unit is established, the Board shall adopt such reasonable and equitable accounting procedures as will, in the judgment of the Board, equitably allocate among the allocation units the Cooperative's income and expenses.

(b) Board of Advisors. The Board may also create a committee to serve as a board of advisors (each a "Board of Advisors") for any such separate allocation pool or for a group of related allocation units, with the number of advisors, method of election of advisors, and rules and procedures governing any Board of Advisors activities to be established by the Board.

(c) Board Authority. In all cases, the Board shall have the authority to dissolve, or reorganize any of the separate allocation units within the Cooperative, subject to the provisions of any written agreement between the Cooperative and the Patrons of the separate allocation units.

**Section 8.3 Capital Reserve Account.** The Board shall cause to be created an unallocated Capital Reserve account and may, in its discretion, annually add to it such amounts as it deems necessary or appropriate. Amounts added to the capital reserve shall be considered to be total expenses for the year in which the amount is allocated to the Capital Reserve or for subsequent years as determined by the Board.

**ARTICLE IX  
LIABILITY AND INDEMNITY OF OFFICERS AND DIRECTORS**

**Section 9.1 Indemnification.** The Cooperative shall indemnify and reimburse each present, past and future Director for any claim or liability (including expenses and attorney fees actually and reasonably incurred in connection therewith) to which such person may become subject by reason of being a Director, to the full extent allowed by law, except to the extent the Director acted in bad faith.

**ARTICLE X  
FISCAL YEAR**

**Section 10.1 Fiscal Year.** The fiscal year of the Cooperative shall be determined by the Board.

**ARTICLE XI  
AMENDMENTS**

**Section 11.1 By the Board.** These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board by affirmative vote of a majority of the number of directors present at any meeting at which a quorum is in attendance. However; the Board may not amend the Bylaws if such amendment:

- (a) is prohibited by Minnesota Statutes Chapter 308B,
- (b) would fix a greater quorum or voting requirement for members,
- (c) would amend a provision of the Bylaws regarding quorum requirements or voting requirements,
- (d) is described in Section 11.2(d) or (e), or
- (e) at least one non-patron director does not vote in favor of the amendment.

The Board shall distribute to the members any amendment to the Bylaws adopted by the Board no later than the 10th day after adoption and the notice of the next regular members' meeting occurring after adoption shall contain a notice and summary of, or a copy of the amendment.

**Section 11.2 By Members.** The Bylaws referred to in Section 11.1(a), (b), and (c) may be altered, amended or repealed and new Bylaws may be adopted only by the members at any annual or special members' meeting if all of the following requirements are met:

- (a) The notice of the annual or special members' meeting contains a statement that the Bylaws or amendments will be voted upon, a statement summarizing the proposed Bylaws or amendments, and either copies of the Bylaws or amendments or a statement that copies of the Bylaws or amendments are available from the Cooperative upon request;
- (b) A quorum of the members is registered as being present or represented by alternative vote at the meeting; and
- (c) The Bylaws or amendments are approved by a majority of the voting power of the Cooperative including at least one non-patron member; and
- (d) In the case of amendments to the number and designation or election of directors, or to the provisions of Section 8.1(c) (relating to allocation percentages), the amendment is approved by a majority of the voting power of both the Class A Voting Members and the Class B Voting Members, voting as separate classes; and

(e) In the case of amendments to the last sentence of Section 6.3(c), Cooperative Network and United Farmers Cooperative (if it continues as shareholder) must consent to the amendment.

**Section 11.3 Implied Amendments.** Any action taken or authorized by the members or by the Board, which would be inconsistent with the Bylaws then in effect but is taken or authorized by affirmative vote of not less than the number of members or the number of directors required to amend the Bylaws so that the Bylaws would be consistent with such action, shall be given the same effect as though the Bylaws had been temporarily amended or suspended so far, but only so far, as is necessary to permit the specific action so taken or authorized.

## **ARTICLE XII DISSOLUTION**

**Section 12.1 Asset Distribution.** The Cooperative may be dissolved upon a decision of the Board and a two-thirds (2/3) vote of the members who participate in the vote. Upon dissolution of the Cooperative, its assets (excluding any assets held by or administered for the Trust) shall be distributed in the following manner and order: To the payment of debts and liabilities of the Cooperative held by non-Member creditors according to their respective priorities and the costs and expenses of liquidation;

(a) To the payment of debts and liabilities of the Cooperative held by creditors according to their respective priorities, including any loans or advances to the Cooperative by any member;

(b) To the establishment of such reserves as the liquidator deems necessary or advisable;

(c) To the holders of Nonvoting Preferred Stock in an amount equal to the liquidation preference or stated value of the Nonvoting Preferred Stock together with any dividends cumulated but unpaid, in such priority of series of such Nonvoting Preferred Stock as may have been established upon the issuance of the units and on a pro rata basis within a series if necessary;

(d) To return the face amount, without appreciation or goodwill, of all Patrons' Equities allocated to any Member pursuant to Article 7 and not previously paid or retired (and if the liquidation proceeds are insufficient to pay all such Patrons' Equities in full, the Patrons' Equities shall be paid on a first allocated, first paid basis); and

(e) The remaining proceeds shall be paid (i) 80% to the Patron Members based upon the average patronage of each Patron Member over the life of the Cooperative or any other historical period reasonably selected by the Board, and (ii) 20% to Non-patron Members pro-rata based on the number of Class B Voting and Class C Nonvoting Shares held by them.