



Frequently Asked Questions

1) What is being proposed by the boards of directors?

On Friday, April 28, 2017 the boards of directors of River Region Cooperative (RRC), Sleepy Eye, Minn.; and South Central Grain and Energy (SCGE), Fairfax, Minn. unanimously voted to bring the point of merger between the two cooperatives to a membership vote.

The timeline of the membership vote is as follows:

- Member information meetings: May 30, 2017 – June 9, 2017
- Voting packets mailed to members: May 30, 2017
- Membership voting closes: June 16, 2017 at 12:00 p.m.
- Special meeting to tally the votes: June 16, 2017 at 1:00 p.m.
- Potential effective date of the merger: August 1, 2017 (pending a successful member-vote)

2) Why is this proposal occurring during one of the busiest times of the year?

We understand and respect that this is a busy time of year for our members and employees. However, to meet the desired deadline of a potential effective date of August 1, 2017 (pending a successful member vote), this timeline had to be established and followed.

The August 1, 2017 effective date was chosen for a few reasons:

- To follow RRC's already established fiscal year end of July 31
- Only one company (SCGE) will have to run a short accounting year
- There are benefits for predominant grain/agronomy companies to have a summer fiscal year end

The board of directors and management team will make themselves available at your convenience during this process to answer all questions you may have about the merger. We thank you for your understanding of this timeline and reasoning.

Quick facts about the merger

Factor	Decision	Reasoning
Articles of incorporation and bylaws	SCGE's articles of incorporation and bylaws will be adopted. The merged board of directors will have the authority to review and revise as needed post-effective date.	<ul style="list-style-type: none"> • To maintain SCGE's 521 tax exemption • To carry forward SCGE's articles of incorporation and by-laws, which meet the boards' desire for ten total directors, five from each cooperative
Name of Company	A new name will be selected for the merged company. New name to be determined at a future date.	<ul style="list-style-type: none"> • To excite the members, employees, and marketplace about the merger • To mesh the cultures of the members and employees under one brand
Registered office address	Sleepy Eye	<ul style="list-style-type: none"> • Legal mailing address of the company • Branch or regional offices will remain open to continue to conduct business and maintain personal connections
Fiscal year end	July 31	<ul style="list-style-type: none"> • Ease of accounting purposes for grain/agronomy company • SCGE (only one company) will have to run a short year
Effective date of merger	August 1, 2017	<ul style="list-style-type: none"> • Ease of accounting purposes for grain/agronomy company • SCGE (only one company) will have to run a short year
General manager/ CEO	David Peters	The boards of directors voted and made the decision that David Peters will be the CEO for the merged organization.



3) How will patronage be paid and equity be earned in the new company?

As is the case with any cooperative, cash patronage and equity retirement is not guaranteed. The merger will not guarantee your equity is retired any faster than previous years. However, as the merger study identified profitable benefits and cost-savings, the merged cooperative will be in a strong position to retire patron equities **and** distribute cash. Members will earn and receive equity in the merged company in the following ways:

- Members will earn equity in the merged cooperative starting on the effective date of merger, August 1, 2017.
- The merged cooperative will award patronage (cash distributions and equity) yearly at the discretion of the board.
- Once the merged cooperative begins to revolve new equity, it will revolve equity on a “year-earned basis, oldest-first.”

4) What will happen to my equity in my current cooperative?

Each dollar of equity you hold in your cooperative today will be honored dollar for dollar in the merged company. The merged cooperative will revolve all the equity of the legacy companies before distributing any equity earned in the merged cooperative.

5) What will be the structure of the new board?

It was important to the boards of directors to maintain equal representation of both legacy companies on the merged board of directors. Each cooperative will be represented as such:

- RRC – 5 board members
- SCGE – 5 board members

6) What value will this merger create for my cooperative?

The cooperatives commissioned a study of the potential impacts of this merger. The study identified \$1.15 million in savings that could be generated because of this merger. These savings will come in the form of purchasing power, routing and logistics, and back office administration.

- Purchasing power: The consolidated company will be able to leverage its size with suppliers to receive better prices and services in agronomy, feed, and energy products.
- Routing and logistics: The consolidated company will be able to better coordinate logistics across its expanded and overlapped geography, taking advantage of arbitrage opportunities and better utilizing its fleet to service customers and move products.
- Back office administration: The consolidated company will be able to better negotiate interest rates and insurance premiums, while eliminating duplicate costs in systems and processes.

In addition to the savings this merger would likely create, additional values gained by the merger include:

- Access to four major railroads, opening new markets for all members of the consolidated cooperative
- Strong balance sheets, allowing the company access to additional capital for investment in your cooperative, including solving agronomy capacity constraints



- Growth potential in all geographies, adding new customers, volumes, and acres to the cooperative's portfolio

These savings and values will be further explained at the information meetings.

7) What will happen to the employees?

Some of the reasons the boards explored this merger was to create a company and culture that would be a "destination employer" in our geography and minimize turnover of employees. Merging into a larger organization will create new opportunities for our employees –to advance, gain new job experience, excel in specialized positions, and keep them at your cooperative.

- The merger study identified that 33% of employees in the merged cooperative are eligible to retire in the next ten years.
- A larger employee base will leverage our ability to purchase and offer quality benefits at a better rate.

8) What are the voting requirements to pass a member-vote?

Both RRC and SCGE memberships will vote on the merger. The bylaws of RRC and SCGE both indicate that 50 members are required to vote to achieve a quorum. Of those who vote, a super majority, or two-thirds, must vote in favor of the merger for it to pass.

- RRC defines a member as a producer of agricultural products that does at least \$2,500 business annually with the cooperative.
- SCGE defines a member as a producer of agricultural products that does at least \$5,000 of business annually with the cooperative.

9) What is the voting process?

All eligible voting members will be mailed a voting packet on May 30, 2017. Included in the packet will be a pre-addressed, stamped envelope to return your vote directly to a third-party tallier. Please return your completed ballot inside the stamped envelope at the address provided. Some key facts about the vote:

- All votes will be sent to and tallied by an independent third party
- No employees or board members from either cooperative will see any of the ballots
- In this vote, voting members are not required to sign ballots
- No reference on the ballot will be made to any individual

10) Why did the cooperative choose this specific growth path?

Your cooperative completed its due diligence in choosing this partnership path. As you know, many partnership opportunities were explored, including mergers with other local cooperatives. Your board of directors did its duty to the membership in exploring every opportunity to protect and grow the equity of the organization and will continue to do so in the future.

Many agriculture companies, and companies across all industries, have been and will continue to explore mergers as a path for growth. In addition to many other benefits, cooperative mergers allow locally owned



cooperatives to leverage the best aspects of each company and work towards a more efficient system, eliminating duplications in assets, rolling stock, and efforts, creating a more profitable system for the cooperative’s owners.

The boards of directors chose to pursue the partnership between RRC and SCGE because the boards saw in the cooperatives strengths and opportunities that together, would benefit the membership:

- The boards selected these merger partners because they have similar cultures and values, which the boards desire to retain in the new company. The directors value local ownership and control. The directors are proud of their legacy cooperatives and understand the best path forward involves the collective and cooperative efforts of the group.
- The boards of directors and management teams share the philosophy that together, the companies can leverage the best of each cooperative’s value propositions without duplicating efforts. (Example: Solving agronomy capacity issues, sharing fleet, employees, storage)
- The boards believe that the consolidated territory of the cooperatives will create economic and operational synergies that will grow scale and profitability. (Example: Leverage economies of scale with suppliers, Efficient dispatching and routing of trucks)

11) How can I get my questions on this merger and pending vote answered?

Don’t hesitate to contact your general manager, board chairman, or local board member of your cooperative for answers to questions. They will be happy to share with you the reasons the board of directors and management team are recommending approval of the proposed merger.

River Region Cooperative			South Central Grain and Energy		
Kevin Subart	General Manager	507-381-9927	David Peters	General Manager	507-649-0895
Bruce Kuelbs	Board Chairman	507-276-0900	Nathan Gieseke	Assistant General Manager	507-382-5362
			Larry Dean	Board Chairman	320-583-9408

You are also invited to attend a member-information meeting between May 30, 2017 and June 9, 2017. We will host several meetings across our geography between those dates for your convenience. More information will be shared with you leading up to the information meeting dates.