

**AMENDED AND RESTATED  
BYLAWS  
OF  
FEDERATED CO-OPS, INC.**

**ARTICLE I.  
Membership**

**Section 1. Members.** The members of this association shall be those who patronize this association and do a minimum of \$500 of business annually or hold equity of at least \$500 with the association. Upon showing of the aforementioned requirements a person will be admitted as a member. However, the Board of Directors maintains the right to determine if the qualifications required for membership are being met at any time, both for purposes of accepting a member and of termination of membership.

**Section 2. Termination.** If a member becomes ineligible for membership or moves from the territory served by the association, or for a period of one year either fails to maintain \$500 a year of patronage or \$500 of equity with the association, or whenever the Board of Directors by resolution finds that a member has (a) intentionally or repeatedly violated any By-Laws of this association, or (b) breached any contract with the association, or (c) remained indebted to this association for one (1) year after such indebtedness first became payable, or (d) willfully obstructed any lawful purpose or activity of the association, then, in any such event, such member's membership may be canceled by action of the Board and notification to the member. The member's interest in any retained equities or surplus funds of this association shall be paid to said member as provided in Article V, Section 4 and Section 7, of the By-Laws of this association, unless otherwise specifically authorized by the Board.

**ARTICLE II.  
Member Meetings**

**Section 1. Annual Meeting.** The annual meeting of the members of this association shall be held at such time and place as is determined by the Board of Directors, not later than six (6) months after the close of the fiscal year.

**Section 2. Notice of Meeting.** Notice shall be given by the secretary of all annual and special meetings of the members by publishing a notice thereof in a local legal newspaper at least two (2) weeks preceding the date of such meeting or by mailing a notice thereof to each member not less than fifteen (15) days preceding the date of the proposed meeting. The failure of any member to receive notice of such annual or special meeting shall not invalidate any action which might be taken by the members at such annual or special meeting.

**Section 3. Special Meetings.** The president 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 meeting shall be issued within ten (10) days from and after the presentation of said petition, and such special meeting shall be held within thirty (30) days from and after the date of the presentation of the petition.

**Section 4. Quorum.** A quorum for the transaction of business shall consist of at least ten percent (10%) of the total number of members in this association while the number of members does not exceed five hundred (500), and in all other cases fifty (50) members present shall constitute a quorum. In determining a quorum on a question submitted to a vote by mail, members present in person or represented by mail vote shall be counted. The existence of a quorum based on members present plus those appearing by mail or absentee ballot shall be verified by the president and secretary and shall be reported in the minutes of the meeting.

**Section 5. Voting.** Unless otherwise provided by law, a majority vote of all members present in person or represented by mail ballot shall decide all questions at any annual or special meeting of the members.

**Section 6. Voting-Members.** No member shall have more than one vote on any issue and voting by proxy shall not be allowed. Any firm, corporation or cooperative association that is considered a voting member in this association may elect or appoint any person to represent it at any meeting, and the person so elected or appointed shall have full power and authority to represent such organization and also to cast its vote at any meeting. If two or more persons hold one (1) membership in partnership, joint tenancy or otherwise, the vote of such membership shall be cast by any one (1) of such persons. The spouse of a member may vote on behalf of such member unless the member has indicated otherwise, and, if both spouses are members of the association individually, a spouse may be entitled to cast a vote for both spouses. Any member who is absent from any meeting of the members may vote by mail upon any motion, resolution or amendment which the Board of Directors may, in its discretion, submit to the members for mail ballot. Such ballot shall be in the form prescribed by the Board of Directors and in compliance with law containing the exact text of the proposed motion, resolution or amendment to be voted upon by the members. If authorized by the Board of Directors, election of directors may also be by mail ballot.

**Section 7. Order of Business.** The order of business at any annual meeting and so far as possible at all other meetings of the members shall be conducted according to the Roberts Rules of Order as follows:

- (1) Calling of roll
- (2) Proof of notice of meeting
- (3) Reading and disposal of all unapproved minutes
- (4) Annual reports of officers and committees
- (5) Receive the results of director elections from the membership districts
- (6) Unfinished business
- (7) New business
- (8) Adjournment

### **ARTICLE III.** **Board of Directors**

**Section 1. Number of Directors, Election and Term.** The number of directors of this association shall not be less than seven (7) directors and not more than twelve (12) directors, who shall be members of this association and elected by ballot at member meetings. A

nominating committee of the Board of Directors will nominate qualified members for election to the Board in advance of member meetings. The nominating committee will consist of each director who is serving the first year of his or her term. Directors shall hold office until their successors shall be elected and qualified. Directors shall serve a three year term.

**Section 2. Qualifications.** Every director shall be a member or a duly elected or appointed representative of a member which is other than a natural person. No person shall be eligible to be a director if he engages in activities in competition with the goals and best interests of the association. No person shall be eligible to be elected or appointed to serve as a director if a member of his or her immediate family is an employee of the association. To be eligible to be elected or appointed as a director, he or she must reside in the membership district that he or she will represent. Producer members shall hold at least two thirds (66.66%) of director offices. "Producer" shall mean and include persons (natural or corporate) actually engaged in the production of any one or more agricultural products, including tenants of land used for the production of any such product and lessors of such land who receive as rent therefor, part of any such product of such land. If a director that qualifies as a Producer resigns, dies, is disqualified as a Member or no longer is a Producer for any reason such resignation, death or disqualification causes the Board to fall below the 66.66% requirement set forth above the Board may continue to act until the next meeting at which point a new director that meets the qualifications of being a Producer will be appointed. The new Producer board member that is elected in the event of a resignation, death, or disqualification shall serve out the remainder of the term of the seat that they have filled. If a director causes the Board of Directors to fall below the 66.66% Producer requirement by reason of a change in his or her Producer status, such former Producer director will be eligible to serve the remainder of his or her term, at which time a replacement will be elected.

**Section 3. Removal and Vacancies.** If any director shall cease to be a member, his office shall be thereupon automatically vacated. If a majority of the directors find after hearing that any director is in competition with or is affiliated with any enterprise that is in competition with this association, such person shall cease to be a director. In addition, any director of the association may be removed from office for cause at any annual or special meeting called for that purpose at which a quorum of the members shall be present by vote of the majority of the members present. Failure of a director to attend three (3) consecutive directors' meetings or thirty percent (30%) of the directors' meetings, except for cause, during a year just preceding shall be conclusive cause for removal by the remaining directors. No director shall be removed from office at either an annual or special meeting unless he shall be informed of the meeting at which the matter is to be considered at least ten (10) days before such meeting. Such notice shall be by registered mail addressed to him at his last known address, and he/she shall be entitled to be heard at such meeting, except a director may be removed at an annual meeting for failure to attend the required number of Board meetings without notice.

Any vacancy in the Board of Directors, except as may be caused by removal by the members, may be filled by the remainder of the Board of Directors until the next annual meeting, at which meeting a director shall be chosen by the members for the unexpired term of such vacancy. Any vacancy in the Board of Directors caused by removal by the members shall be filled by the members for the unexpired term of such director, and such election may be held at the same meeting at which the director was removed from office.

**Section 4. Compensation or Reimbursement.** The rate of compensation, if any, of the directors and officers of the association shall be determined by the members of this association at any annual meeting or special meeting called for that purpose, provided that in the event the members fail to do so the Board of Directors shall have the right to set such rate. Such officers and directors shall, however, be entitled to reimbursement for actual expenses incurred in attending Board meetings or any other business of the association when such expense accounts have been approved by a majority vote of the directors. Compensation of officers, if any, shall be fixed by the Board; provided, however, that no officer who is a director may take part in the vote on his compensation.

**Section 5. Directors Meetings.** Meetings of the Board of Directors may be called by the president or by a majority of the Board. Each member of the Board of Directors shall be duly notified of all such meetings. Any or all of the directors may take part in, and be present at, any meeting of the Board of Directors, or of any duly constituted committee thereof, by any means of Remote Communication through which the directors may participate in the meeting on a substantially simultaneous basis. "Remote communication" means communication via electronic communication, conference telephone, video conference, the Internet, or such other means by which persons not physically present in the same location may communicate with each other on a substantially simultaneous basis. For the purposes of establishing a quorum and taking any action at the meeting, such directors participating pursuant to this Article III, Section 5 shall be deemed present in person at the meeting, and the place of the meeting shall be the place of origination of the communication.

**Section 6. Notice and Waiver of Directors Meetings.** Notice of meetings of the Board of Directors shall be given in person, by phone, by mail or electronic mail or other electronic communication at least twenty-four (24) hours prior to such meeting. A signed waiver of notice of a Board meeting is equivalent to personal notice to the person so signing. Attendance at a meeting is a waiver of notice of such meeting, except when a director attends the meeting and objects thereto to the transaction of business because the meeting was not properly convened. The purpose of any meeting of the Board need not be specified in the notice or waiver of notice of any regular meeting, but shall be specified in the notice of any special meeting.

**Section 7. Action Without Meeting.** Any action which may be taken at a meeting of the Board of Directors or of a lawfully constituted committee thereof may be taken without a meeting if set forth and approved by a writing signed by all directors or by all committee members, as the case may be, and such action shall be effective on the date on which the last signature is placed on such writing or such earlier effective date as set forth therein.

**Section 8. Quorum-Directors.** A majority of the directors in office shall constitute a quorum necessary for the transaction of business at any regular or special meeting of the Board of Directors; but if less than a quorum is present, those directors present may adjourn the meeting from time-to-time until a quorum shall be present. Unless otherwise required by law, all questions shall be decided by a vote of a majority of the directors present at a meeting.

**Section 9. Committees.** A resolution approved by the affirmative vote of a majority of the Board of Directors may establish committees having the authority of the Board in the

management of the business of the association to the extent provided in the resolution. A committee shall consist of one or more persons, who need not be directors, appointed by affirmative vote of a majority of the directors voting on such resolution. A majority of the members of the committee present at the meeting is a quorum for the transaction of business, unless a larger or smaller portion or number is provided in a resolution approved by the affirmative vote of a majority of the directors present. In the event the Board of Directors wishes to establish an Executive Committee, such committee shall consist of three (3) or more directors, one of whom shall be the president of the association. To the extent provided in the resolution, the Executive Committee shall have and exercise the authority of the Board in the management and business of the association; provided, however, that such committee shall not have the powers of the Board in regard to apportionment or distribution of proceeds, election of officers and filling vacancies on the Board.

**Section 10. Powers.** The Board of Directors shall have and exercise full control of the affairs of this association, except such as are conferred by law, these By-Laws or the Articles of Incorporation, upon the members or upon an officer of this association.

**Section 11. Duties.** The Board of Directors shall govern the business and the affairs of the association and shall make all necessary rules and regulations for the management of the business not inconsistent with the law, the Articles of Incorporation or these By-Laws. The Board shall have the power to appoint and dismiss the manager and to fix his/her compensation and prescribe his/her duties. The Board shall require the manager and all officers, agents or employees having custody of the funds of the association to provide, at the association's expense, surety bonds in such amounts as the Board shall determine. The Board shall have the books of the association audited at least once a year after the close of the fiscal year and shall present a financial report to the members at the annual meeting.

**Section 12. Board Policy Compliance.** Each director shall fully comply the Board of Director's Code of Ethics established by the Board of Directors, if any. The Board of Directors, not including a director thought to be in violation of the code, may remove a director who is disqualified by the policies in the code as the same may be in effect from time to time or as adopted by the Board of Directors. This power of removal shall be in addition to the removal power in Article III, Section 3.

**Section 13. Electing Directors by District; Mail Voting.** The Board of Directors may, in its sole discretion, establish procedures for voting for directors by mail ballot, establish director districts, and/or establish procedures for voting for directors by district.

#### **ARTICLE IV.** **Officers**

**Section 1. Officers.** The officers of the Board of Directors shall be a president, one or more vice presidents, a secretary and a treasurer, and shall be elected by and from the Board of Directors at their annual meeting; provided, however, that the secretary and the treasurer need not be directors or members, in which case they shall not have the right to vote as a director. The Board of Directors may also elect additional officers who need not be directors or members. The offices of secretary and treasurer may be combined and when so combined the person filling the

office shall be termed secretary-treasurer. Any officer may be removed and replaced by the Board when in its judgment the best interests of the association will be served thereby. Any vacancy occurring among the officers shall be filled by the Board at its next regular meeting following the vacancy.

**Section 2.**     **President.** The president shall:

- a.     Preside over all meetings of the association and of the Board of Directors and Executive Committee, if there be one.
- b.     With the secretary, sign all notes, deeds and conveyances of real estate and such other papers of the association as he may be authorized or directed to sign by the Board of Directors; provided, however, that the Board of Directors may authorize any other person to sign any and all checks, contracts or other instruments on behalf of the association.
- c.     Perform all acts and duties customarily performed by an executive and presiding officer.
- d.     Perform such other duties as may be prescribed by the Board of Directors.

**Section 3.**     **Vice-President.** In the absence or disability of the president, the vice president shall perform the duties of the president; provided, however, that in case of death, resignation or disability of the president the Board of Directors may declare the office vacant and elect a successor.

**Section 4.**     **Secretary.** The secretary shall:

- a.     Keep copies of the complete record of all meetings of the association and of the Board of Directors and Executive Committee's and have general charge and supervision of the books and records of the association.
- b.     With the president, sign all notes, deeds and conveyances of real estate and such other papers of the association as he may be authorized or directed to sign by the Board of Directors.
- c.     Serve all notices required by law and by these By-Laws.
- d.     Make a full report of all matters and business relating to his office to the members at the annual meeting.
- e.     Keep the corporate seal and affix the corporate seal to all papers requiring a seal.
- f.     Keep complete membership records and all reports required by law.
- g.     Perform such other duties as may be prescribed by the Board of Directors.

**Section 5.**     **Treasurer.** The treasurer shall:

- a.     Supervise the safekeeping of all funds and property of the association and the keeping of complete books and records of all financial transactions of the association.
- b.     Perform such other duties as may be prescribed by the Board of Directors.

**Section 6.**     **Delegation of Duties.** The Board of Directors shall have the authority to delegate the duties and powers of any officer to any other officer, director or employee of the association, except such duties as are specifically required by law to be performed by such officer.

**ARTICLE V.**  
**Distribution of Net Proceeds**

**Section 1.**     **Operation on Cooperative Basis.** This association shall be operated on a cooperative basis, and each item of patronage sourced income shall be distributed based on patronage. Each year this association shall apportion all patronage sourced income, less additions to capital reserves declared under Article V, Section 3 to its patrons pro rata with each patron's respective share of the total patronage of the association, or to the patronage of one or more divisions thereof, subject to the limitations set forth in Article V, Section 3. Each transaction between this association and each member shall be subject to and shall include as a part of its terms each provision of the Articles of Incorporation and By-Laws.

**Section 2.**     **Annual Net Earnings.** The association shall apply generally accepted accounting principles to all calculations of net income and loss of the association, unless the Board of Directors determines in its discretion that another method will ensure equitable allocations and distributions to the members under this Article V.

**Section 3.**     **Capital Reserve.** The Board of Directors may establish a capital reserve to ensure that this association retains sufficient capital to remain solvent and to pursue the goals of its members. The capital reserve will be maintained consistently with this association's values and cooperative principles.

The Board of Directors may annually add to the capital reserve the following:

- (a)    The annual net income of this association attributable to nonpatronage business;
- (b)    Annual net income from unidentified patrons or to whom the amount such patron would otherwise be entitled is less than a *de minimus* amount established from time to time by the Board of Directors;
- (c)    An amount of net income derived from patronage dividends received from other cooperatives; and
- (d)    Up to forty percent (40%) of patronage sourced net income (excluding patronage dividends received from other cooperative associations).

**Section 4. Distribution.** The patronage sourced net income of the association, after the deductions provided for in Article V, Section 3 shall be distributed annually to the patrons of the association in the form of cash, or cash equivalents, and written notice of allocation of retained patronage dividends. Written notices of allocation shall be delivered, when deemed practical by the Board of Directors, in a manner calculated to classify such retained patronage dividends as “qualified written notices of allocation” within the meaning of 26 U.S.C. 1388(c).

The association may elect to maintain separate accounts for patronage sourced income derived from different sources and to make separate allocations and distributions for different operations and divisions of the association. Within each such division of the association, the net income from patronage business for each fiscal year shall be allocated among the patrons pro rata with each such patron’s share of the total patronage business done with such division. The Board of Directors shall adopt such reasonable and equitable accounting procedures as will, in the Board’s judgment, equitably allocate among the association’s divisions the income, expenses, and losses of the association.

The association is also authorized to issue an unlimited amount of patronage surplus as patronage dividends in the form of nonqualified written notices of allocation, as defined in 26 U.S.C. 1388(d). Nonqualified written notices of allocation (patronage surplus) will generally be retired only upon the distribution of assets on liquidation or dissolution of the association and shall be treated as unallocated surplus for all purposes other than distribution of assets on liquidation or dissolution. However, at the end of any fiscal year, the Board of Directors may, in its discretion, pay out these nonqualified written notices on an equitable basis so long as the Board is first satisfied the association has sufficient financial resources for such a payment and that the association has, for that year, sufficiently retired qualified written notices of allocation. If and when nonqualified written notices are paid, they will be owned by the persons or organizations to which it was issued and by the transferees of such organizations or persons.

Upon a distribution of unallocated capital reserves of the association, which generally would occur in the event of a liquidation, dissolution, or extraordinary gain, the Board of Directors shall declare a procedure for determining the current patrons of the association entitled to such distribution. Distributions of nonpatronage sourced income may be made from time to time, and in such a manner, as the Board of Directors determines in its discretion.

**Section 5. Determination of Patronage Income or Loss.** The net income or net loss for any division of the association from patronage business for each fiscal year shall be the sum of (1) gross revenues from goods or services marketed or procured for patrons of such division, plus (2) an equitably apportioned share of other items of income or gain attributable to this association’s patronage business, less (3) all expenses and cost of goods or services directly attributable to goods or services marketed or procured for patrons of such division, less (4) an equitably apportioned share of all other expenses or losses attributable to this association’s patronage business and distributable net income from patronage business that is credited to the capital reserve pursuant to Article V, Section 3. The amounts deducted from net income of any division may include without limitation depreciation, amortization, unit retentions, costs of promotion and encouragement of cooperative associations and taxes, other than federal income taxes.

In the event that this association makes an accounting change that is reported on a retrospective basis as currently ordinarily required by generally accepted accounting principles, 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 shall make adjustments to the total net income of the association, either for the year of change or for subsequent years as it deems necessary or appropriate in order to prevent amounts from being omitted in the calculation of patronage dividends.

**Section 6. Loss or Losses.** In the event of a loss in one or more divisions of this association, but not of such magnitude as to cause an overall loss for the fiscal year of the association, 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.

If the association as a whole shall incur a net loss in any fiscal year, the Board of Directors, in its sole discretion, may (a) charge the net loss against the capital reserves of the association, or (b) may recover the amount of such loss from prior or subsequent years' allocated retained patronage dividends (allocated or to be allocated to member equity accounts). 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 association 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.

Whether or not an overall loss occurs, if this association shall have a write-down in investments it holds in another cooperative (hereinafter a "Federated Cooperative"), the Board shall have the discretion to apply the write-down to the outstanding allocated retained patronage dividends or unallocated capital reserves of this association. Any allocations of write-downs from Federated Cooperative losses to allocated retained patronage dividends shall be made equitably; provided, that no write-down shall be made as to amounts placed in the allocated reserves or patrons' equities issued or earned in years in which the association has not transacted business with the Federated Cooperative.

**Section 7. Revolving Capital.** When the Board of Directors, in its sole discretion, determines that the association has sufficient working capital, any and all allocated retained patronage dividends may be called for payment at the lesser of the stated value or book value thereof. Such retained patronage dividends may be paid or redeemed in whole or in part at such time, in such manner and in such order as shall be determined by the Board of Directors. The Board of Directors, in its sole discretion, may distinguish natural members from unnatural members (corporations, partnerships, LLC's, etc.) and, in doing so, favor natural members with respect to estate retirements and revolvments at specified ages.

**Section 8. Transfer.** No assignment or transfer of any equities held by one or more member(s) shall be binding upon this association without the consent of the Board of Directors.

**Section 9. Tax Consent.** Each person (including individuals, partnerships and businesses or cooperative corporations) who hereafter applies for and is accepted to membership in this association and each member of this association as of the effective date of these By-Laws

who continues as a member or patron after such date shall, by such act alone, consent that the amount of any distributions with respect to such member's 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 the member from the association, will be taken into account by the member at their stated dollar amounts in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received by the member. All members who retain or obtain membership in this association after the adoption of these By-Laws shall receipt of a written notification and copy of these By-Laws, for the purpose of making such distributions "qualified written notices of allocation" within the meaning of the United States Internal Revenue Code.

#### **ARTICLE VI.** **Indemnification**

This association shall indemnify each person who is or has been a director, officer, employee or agent of this association and each person who is serving or who has served at the request of this association as a director, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust organization, employee benefit plan or other enterprise against expenses, including attorneys' fees, judgments, fines (including excise taxes assessed against the person with respect to an employee benefit plan) and amounts paid in settlement, actually and reasonably incurred by such person, to the full extent to which directors, officers and employees may be indemnified under the laws of the State of Minnesota as now in effect and as hereinafter amended. Indemnification under this section shall not be exclusive of other rights to which a person so indemnified may be entitled.

The Board of Directors may authorize the purchase and maintenance by the association of insurance on behalf of any person who may be indemnified under the laws of the State of Minnesota.

#### **ARTICLE VII.** **Fiscal Year**

The fiscal year of this association shall begin on the first day of January and end on the last day of December in each year.

#### **ARTICLE VIII.** **Unclaimed Property**

In accordance with Minnesota Statutes, Section 308A.711, this association 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, Subd. 1, paragraph (b), or Subd. 2. The rights of an owner to unclaimed property shall be extinguished upon the disbursement of the property to a tax-exempt organization in accordance with Minnesota law.

**ARTICLE IX.**  
**Amendment**

These By-Laws 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.

**ARTICLE X.**  
**No Addresses**

The Board of Directors shall establish a policy for periodically reviewing the sufficiency of addresses of members and patrons. Whenever the association determines that it does not have a current address for the member or patron who was previously qualified 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, that allocated equity will be deemed to be contributed to the association's unallocated surplus and in the case of a 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 By-Laws of this association.

**ARTICLE XI.**  
**Equity Capital Management**

The Board of Directors shall manage the association's equity capital in a way to preserve and build upon the association's financial position while also allowing for redemptions of equity as and when the association has the financial strength to redeem equity. The Board of Directors may, from time to time, establish policies for redeeming equities or other forms of equity used for qualified or non-qualified notices of allocation, or the Board may eliminate equity redemption policies in favor of a capital management policy. Any of these policies may contain offers of discounts or required retentions of capital as part of any redemption of allocated equity. The Board retains the power to amend, modify or repeal these policies and may do so retroactively, all in the Board's sole discretion. For example, if the application of a policy to a specific circumstance suggests that the equity of a deceased member should be paid to the member's estate, the Board of Directors retains the right and power to determine whether to approve the expenditure. In each case, the Board of Directors may refuse any expenditure(s) if the Board determines that such expenditure(s) is/are not in the interest of the association. Therefore, no equity redemption policy shall be interpreted to require any expenditure of capital and the Board of Directors retains all right and power to the final review and approval of each expenditure of capital for any redemption of equity. No person shall have any right whatsoever to require the retirement or redemption of any patrons' equities except in accordance with their term, or of any allocated capital reserve. 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 association, which may, in making any such redemption or retirement, distinguish natural members from unnatural members (corporations, partnerships, LLCs and other business organizations, etc.) and, in doing so, favor natural members with respect to estate retirements and redemptions at specified ages.

**ARTICLE XII.**  
**First Lien/Discount/Setoff**

**Section 1.**     **First Lien.** This association shall have a first valid and perfected lien on all patronage capital, and other interests standing on its books for all indebtedness of the respective holders or owners thereof to the association and business entities through which the association conducts its patronage sourced business. This association shall also have the right, exercisable at the option of the Board of Directors, to set off such indebtedness against the amount of such patronage capital or other interests standing on its books; provided, however, that nothing contained herein shall give the owners of patronage capital or other interests any right to have such set off trade.

**Section 2.**     **Discount.** The association may discount the value of equity credits. The method of discounting the value of equity credits shall be to calculate the present value of the credits based on the number of years to the expected redemption of the equity credits had the offset against the indebtedness not occurred. The discount rate shall be determined by the Board of Directors in its sole discretion. If the discounted equity credits are more than the indebtedness to be offset, any excess credits shall be returned, in the Board's discretion, either at the time of the offset, or in the normal redemption cycle along with every other patron's equities. If the discounted equity credits are less than the indebtedness to be offset, the association's lien shall continue against future equity credits allocated to the patron, which shall be discounted and offset against the remaining indebtedness.

**Section 3.**     **Set-off.** Whenever the Board of Directors determines, in its sole discretion, that a member or patron who is obligated for the payment of any good or services purchased from the association or any business entity through which the association conducts a patronage-sourced business is insolvent, the Board of Directors may, in its sole discretion, discount and set off as much equity equal to the indebtedness owed to the association or other business entity. The balance, if any, after the discount and setoff shall not be redeemed unless and until the Board of Directors determines, in its sole discretion, that the redemption is consistent with and in support of the association's goals and objectives and business interests. Until a determination is made by the Board of Directors, if ever, to redeem the equity, the remaining equity shall remain accounted for on the books and records of the association at its remaining face value.