



## **Morris Theatre Cooperative**

**Class A Unit Offering at \$250 per Unit – Minimum purchase of one unit**

***Offered to Minnesota Residents Only***

Morris Theatre Cooperative, a Minnesota cooperative (also referred to as “we,” “us,” “our,” or the “Cooperative”), is offering its Class A Units (also referred to as “Units”) at an offering price of \$250 per Unit to Minnesota residents who wish to become members of the Cooperative (this “Offering”). The Units are being offered on a first-come, first-serve basis, subject to the terms and conditions described elsewhere in this Private Placement Memorandum (this “Memorandum”). The minimum subscription amount is one Unit. We intend to use the proceeds of this Offering to fund the revitalization of the Morris movie theatre, located at 12 East 6<sup>th</sup> St., Morris MN (the “Morris Theatre”). We intend to raise between \$400,000 and \$500,000 in this Offering, but may raise more or less.

The Units in this Offering confer membership, voting, and financial rights. For more information on our Units see, “Description of Units.”

This Memorandum contains important information about the Cooperative and the terms of this Offering that you should read carefully before making a decision to invest in the Units.

This Offering will close upon the earlier of its termination by a resolution of our Board of Directors or on March 31, 2008, subject to the right of our Board of Directors to extend this Offering one or more times. Subscriptions will require a cash payment equal to the total subscription amount at the time of subscription.

**Caution: Investing in the Units involves significant risks. Please see “Risk Factors” beginning on page 9 for important factors you should consider before purchasing Units. The Units will not be listed on any national securities exchange or traded on any over-the-counter market. Significant restrictions on transfer apply to the Units.**

**THE SECURITIES BEING SOLD IN THIS OFFERING HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR ANY STATE SECURITIES AUTHORITY, NOR HAS THE COMMISSION OR ANY STATE SECURITIES AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY CONTRARY REPRESENTATION IS A CRIMINAL OFFENSE.**

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## **WARNING REGARDING FORWARD-LOOKING STATEMENTS**

This Memorandum and the documents it references contain forward-looking statements that involve future events, our future performance and our expected future operations and actions. In some cases you can identify forward-looking statements by the use of words such as “may,” “should,” “anticipate,” “believe,” “expect,” “plan,” “future,” “intend,” “could,” “estimate,” “predict,” “hope,” “potential,” “continue,” or the negative of these terms or other similar expressions. These forward-looking statements are only our predictions and involve numerous assumptions, risks and uncertainties. Our actual results or actions may differ materially from these forward-looking statements for many reasons, including the risks described in this Memorandum and events that are beyond our control. We are not under any duty to update the forward-looking statements contained in this Memorandum. We cannot guarantee future results, levels of activity, performance or achievements. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this Memorandum.

You should read this Memorandum and the documents that we reference in this Memorandum completely and with the understanding that our actual future results may be materially different from what we currently expect. We qualify all of our forward-looking statements by these cautionary statements.

## **IMPORTANT NOTICES TO INVESTORS**

This Memorandum contains important information about us that you should read and consider carefully before you decide whether to invest in our Units. The principal sections of this Memorandum are located on the pages referenced in the Table of Contents. Some of the documents related to this offering are included in the Appendices to this Memorandum. If you have any questions regarding the information in this Memorandum, please contact David Ericksen on the Board of Directors by telephone at (320) 589-2200 option 3 or by email at [joinus@morristheatre.net](mailto:joinus@morristheatre.net).

**You will be required to verify in writing that you were given the opportunity to ask questions regarding the information in this Memorandum and either did so or waived such opportunity.**

**We have not registered the Units with the SEC or with any state securities commission. We are offering the Units pursuant to claimed exemptions from registration provided by the Securities Act of 1933, as amended, and applicable state securities laws.**

**We may reject your subscription, in whole or in part, for any reason, and your subscription is subject to the subscription procedures we have established for this Offering. To accept your subscription, one of our officers will countersign a copy of your subscription agreement and return it to you. This is the only way we will accept your subscription. Please read the more detailed information about subscribing under “Plan of Offering – Subscription Procedures.”**

**The Units are restricted securities under federal and state securities laws. This means that you cannot transfer the Units except pursuant to exemptions from the registration requirements of such laws, and that you must purchase the Units for your own account and for investment purposes only.**

**We have not authorized anyone to give any information or to make any representations with respect to the Units except the information contained in this Memorandum. You should only rely on this Memorandum in making an investment decision. You should not rely on any other offering literature, advertising or other information in any form that anyone may give you.**

**We reserve the right to suspend or terminate this Offering at any time prior to the close of this Offering. Neither the delivery of this Memorandum nor the sale of Units hereunder shall create any implication that there has been no change in the information contained herein or in our business since the date of this Memorandum.**

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## I. SUMMARY

*The following summary highlights selected information from this Memorandum and may not contain all of the information that is important to you. You should read this entire Memorandum carefully, including the section entitled "Risk Factors," our financial information, the documents attached as Appendices and other documents referred to herein, before you decide to invest.*

### 1.01 The Cooperative

Morris Theatre Cooperative (referred to herein as "we," "us," or the "Cooperative") is a Cooperative organized under the laws of the State of Minnesota on November 13, 2007. The Cooperative was organized to revitalize the Morris Theatre. We are a development stage organization with no revenues or assets and our efforts to date have been devoted to organizational matters. We currently have seven individuals serving on our Board of Directors. See "GOVERNANCE AND MANAGEMENT OF THE COOPERATIVE."

At present, the Morris Theatre is owned by the Morris Theatre Group, LLC. This LLC was formed by parties related to the Cooperative in order to purchase the theatre and operate it until the Cooperative could be formed and sufficient funds could be raised. Although we have no agreement with Morris Theatre Group for the transfer of Morris Theatre to us, we expect such a transfer to occur in early January, 2008.

### 1.02 The Offering

We are offering Class A Membership Units in the Cooperative at a price of \$250 per Unit to members of the Cooperative who are Minnesota residents. The minimum subscription required to invest in this Offering is one Unit (\$250).

This Offering will close upon the earlier of its termination by a resolution of our Board of Directors or on March 31, 2008, subject to the right of our Board of Directors to extend this Offering one or more times. Subscriptions will require a cash payment equal to the total subscription amount at the time of subscription. We reserve the right to modify the Offering, to waive conditions to the purchase of Units and to reject subscriptions in whole or in part, in our sole discretion.

Our Units will be sold directly to investors on a best efforts basis without the assistance of an underwriter. No commissions will be paid to any person in connection with this Offering. No Units have been issued prior to this offering.

### 1.03 Governance Documents

The rights associated with Unit ownership will be governed by our Articles of Incorporation ("Articles") and our Bylaws ("Bylaws"). These documents are included as exhibits A and B to this Memorandum. These are the legal documents that will govern the rights associated with our Class A Units and the management of our internal affairs.

### 1.04 Our Management

Our Bylaws provide that our Board of Directors has the principal power and responsibility to govern our business and affairs. Our Board has the right to elect or appoint officers to manage our operations. Our Board of Directors

presently consists of seven Directors elected by our members. Information regarding our current Directors, including biographical information, may be found under “GOVERNANCE AND MANAGEMENT OF THE COOPERATIVE.”

### 1.05 Suitability for Investors

The Units are being offered to Minnesota residents. See “PLAN OF OFFERING – INVESTOR QUALIFICATIONS AND SUITABILITY” in this Memorandum and the subscription agreement contained in the Form of Subscription Package attached as Appendix C to this Memorandum for a full definition of those potential investors who qualify. **Subscribers for Units will be required to represent in the Subscription Agreement that they meet the criteria for investment.** The Units are speculative, are subject to significant restrictions on transfer and involve a high degree of risk. Accordingly, the Units are suitable only as a long-term investment for persons who can afford to lose their entire investment. The Board of Directors reserves the right to reject any subscription, in whole or in part, for any reason.

### 1.06 Completion of Subscriptions

In order to purchase Units in this Offering, you must:

- (1) Read, complete and sign the subscription agreement(s) included in the appropriate Subscription Package in the form attached as Appendix C of this Memorandum;
- (2) Prepare a check payable to Morris Theatre Cooperative in the amount of the total purchase price for the Units for which you wish to subscribe; and
- (3) Mail items (1) and (2) to us at Morris Theatre Cooperative, P.O.Box 552, Morris, MN 56267

In your subscription agreement, you will be required to make representations to us that you are a Minnesota resident, that you have received this Memorandum and the Appendices and any supplements to this Memorandum, that you understand the risks associated with an investment in the Units, that you are aware that the Units are subject to significant restrictions on transfer and that an investment in the Units is suitable for you. You should review these representations and other provisions of the subscription agreement carefully before signing it. The subscription agreement also requires you to provide information concerning the registration of your Units, your residence, and your social security number.

### 1.07 Securities Exemptions

We have not registered this Offering and sale of the Units with the Securities and Exchange Commission or the securities authorities of any state. The Units are being offered to Minnesota residents only. We are offering and selling the Units in Minnesota in reliance on exemptions from state registration requirements.

Prospective investors must rely upon their own analysis of the terms of this Offering, the terms of our Units, the terms of our Articles and Bylaws and our business, including the risks involved, in making a decision to invest in our Units. An investment in our Units is suitable only for investors who can assume the financial risks of an investment in us for an indefinite period of time and who can afford to lose their entire investment. We make no representations or warranties of any kind with respect to the likelihood of the success of our business, the value of our Units, any financial returns that we may generate or any tax benefits or consequences that may result from an investment in us.

## 1.08 Contacts for Information

Prospective investors and their representatives are invited to contact us for additional information and to ask questions of us with respect to this Offering. We will be pleased to respond to questions and provide additional information if we have the information requested or can acquire it without unreasonable effort or expense and will be permitted to provide it under applicable securities laws. If you have questions or wish to request additional information, please contact David Ericksen, one of our Board Members, by telephone at (320) 589-2200 option 3 or email us at [joinus@morristheatre.net](mailto:joinus@morristheatre.net).

## II. RISK FACTORS

***An investment in our Units will involve a high degree of risk. An investment in our Units is suitable only for investors who can assume the financial risks of an investment for an indefinite period of time and who can afford to lose their entire investment. You should carefully consider the Risk Factors set forth below, and the other information provided about us and this Offering before deciding to make an investment in the Units. If any of these risk events occur, our business, financial condition or results of operations could be harmed, which could cause the value of your Units to decline and you could lose all or part of your investment.***

### 2.01 Risks Related to the Units

***The offering price for our Units has been arbitrarily determined and may bear very little or no relationship to the current value of the Units or the value the Units might have in the future.*** The offering price for the Units in this offering has been arbitrarily determined by us based on our estimate of our capital requirements and is not based on perceived market value, book value or other measurable criteria of value. The Units may have a current value significantly less than the offering price and we make no representations, express or implied, as to the value of the Units offered hereby. There is no assurance that the Units will ever obtain a value equal to or greater than the offering price or that the Units will be able to be sold at either the offering price or any other price in the future.

***The Units sold in this offering may be subject to dilution in value.*** We may, in the future, issue additional Units or Units of different classes to meet capital needs and for other purposes. The sale or issuance of additional Class A Units or Units of different classes may cause dilution to your equity interest in the Cooperative, reduce the ability of the Cooperative to make distributions on your Units and reduce the value of your Units.

***You will not be allowed to withdraw your subscription for Units after it is submitted to us.*** After you submit your subscription for Units, you will not be allowed to withdraw your subscription for any reason unless a material change in this offering requires us to make a rescission offer to investors. Upon acceptance by us of your subscription, your cash payment will be invested in Units.

***The Units to be issued in this offering have no public market and no public market is expected to develop.*** There is no public trading market for our Units, and we do not expect one to develop in the foreseeable future. As a result, your Units will not be readily marketable and you may be required to hold your Units indefinitely. Moreover, as set forth in our Bylaws, the Units may not be transferred or sold except to the Cooperative and the acceptance of offers of sale are at the discretion of the Board.

**You will be bound by actions taken by a majority of our members and the decisions of our Board of Directors, and because you have no dissenters' rights and there is no public market for the Units, you could be forced to hold a substantially changed investment.** We cannot engage in certain transactions, such as a merger, consolidation or sale of all or substantially all of our assets without the approval of our members. If a majority of our members approve a transaction, however, then you will also be bound to that transaction regardless of whether you agree with the transaction. Consequently, because there is no public market for the Units, you may be forced to keep a substantially changed investment.

**Our Units will be subordinate to all of our debts and liabilities.** Our Units are equity interests that will be subordinate to all future indebtedness with respect to claims on our assets. In any liquidation, all of our debts and liabilities must be paid before any payment is made on Class A Units.

**Certain members will receive a disproportionate distribution in the event of a liquidation.** In the event of a liquidation of the Cooperative, any cash remaining after our debts and liabilities have been fully satisfied will be distributed to members of the Cooperative in an amount proportionate to investment in the Cooperative. However, under our Bylaws those members who entered into advertising agreements in connection with an investment through this Offering shall be entitled to receive a distribution as if the amount of the of payment for the advertising agreement was an investment in this Offering.

**We are not required to deliver annual reports or proxy statements to Shareholders and we will have no obligation to file reports with the SEC, which limits your access to information about us.** Except for our obligation to provide annual financial statements to our members pursuant to our Bylaws, we are not required to deliver reports to our Unitholders. We are also not required to furnish proxy statements to our Unitholders and we are not required to file publicly available reports containing financial statements and other information about us with the Securities and Exchange Commission. These factors significantly limit your access to financial and other information regarding us and our operations.

## 2.02 Risks Related to Tax Issues

**EACH PROSPECTIVE INVESTOR SHOULD CONSULT THE INVESTOR'S OWN TAX ADVISOR WITH RESPECT TO THE FEDERAL AND STATE TAX CONSEQUENCES OF AN INVESTMENT IN US AND IMPACT ON THE INVESTOR'S TAX REPORTING OBLIGATIONS AND LIABILITY.**

## 2.03 Risks Related to Conflicts of Interest

**Our Directors and officers have other business and personal interests that may receive a greater share of their time and attention than will the Cooperative.** Our Directors and officers have other business interests and responsibilities that may be given priority over the time and attention they are willing to devote to us. This could reduce the quality of the management and governance of the Cooperative which in turn could affect our operations, financial results and the value of your Units.

## 2.04 Risks Related to our Operations and Industry

**We are a development stage company with no operational history.** The Cooperative was recently formed and its activities to date have been organizational. We do not expect to purchase the Morris Theatre until early in 2008. Moreover, our officers, directors, and managers have at best limited experience

in operating a movie theatre. There is no assurance that we will be able to successfully operate the Theatre.

**Current operations must be improved if profitable operation is to be achieved.** The Morris Theatre currently operates at a “break-even” level, even though no investments are being made in long-term maintenance. Sales at the theatre will need to improve significantly to maintain the quality and character of a restored building. There is no guarantee that we can achieve a sufficient improvement in business.

**Our business plan may result in increased operating costs.** We plan to increase the number of screens at the theatre. Operating more screens will increase our operating costs. In order to cover these increased costs we will need to improve our sales. If we increase our operating costs but are unable to increase sales, the viability of the Cooperative will be in jeopardy and the value of your investment may suffer.

**Advances in projection technology may render our projectors obsolete.** Digital projectors are becoming increasingly prevalent in movie theatres in the United States. We do not currently intend to purchase digital projectors. It is unclear whether and for what length of time movie studios will continue to distribute their films in a format compatible with non-digital projectors. Although we do not anticipate a near-term abandonment of support for non-digital projectors, the advent of digital projector technology may eventually render our non-digital projectors obsolete.

**The population of rural Minnesota may continue to decline.** The population in rural Minnesota has been declining. If it continues to do so the market for our product may also decline, which may lower our sales, profits, and the value of your investment in us.

**The growth of home theatre may continue to affect cinema attendance.** Our business competes to some degree with home cinema. We may be unable to provide a value proposition to our potential customers over that of home cinema. If we are unable to compete successfully with home cinema, theater attendance and our operating results may suffer.

**Prospective investors must not construe this Memorandum as constituting investment, legal, tax or other professional advice. Before making any decision to subscribe for Units, you should read this entire Memorandum, including each of its Appendices, and consult with your own investment, legal, tax and other professional advisors.**

**Each prospective investor is advised that we will assert that the investor has been advised of and accepted the risks described in this Memorandum if a claim is brought against us or any of our Directors, officers, employees, advisors, agents or representatives in connection with this offering or otherwise.**

### III. DETERMINATION OF OFFERING PRICE

The offering price for the Units do not have any direct relationship to the assets, earnings, book value or other measurable criteria of value of the Cooperative. We make no representations, whether express or implied, as to the value of the Units offered hereby. There can be no assurance that the Units can be sold at either the offering price or any other price in the future.

#### IV. MARKET FOR UNITS; RESTRICTIONS ON TRANSFER

There is no established public trading market for our Units, and we do not expect one to develop in the foreseeable future. The Units are being offered and sold in this offering in accordance with exemptions from registration under federal and state securities laws that require subsequent sales or transfers of the Units be registered or exempt from such registration requirements. Additionally, our Units may not be sold or transferred without the approval of our Board of Directors, whose approval is completely discretionary. As a result, you may not be able to complete a transfer that you wish to make and may be required to assume the risks of an investment in us for an indefinite period of time.

#### V. CAPITALIZATION

The following table sets forth our capitalization at December 10, 2007, on an actual basis, and pro forma basis to give effect to the sale of the target number of Units we are offering pursuant to this Memorandum:

	Actual December 10, 2007	Pro forma
Liabilities	0	0
Contributed Capital		
Class A	0	\$400,000 <sup>(1)</sup>
Paid-in capital	0	0
Offering Expenses	0	\$4000
Retained Earnings	0	0
Total Member's Equity	0	\$396,000
Total Liabilities + Members Equity	0	\$396,000

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(1) Assumes we sell the target number of Units at \$250 per Unit for a total of 1600 Units sold in this offering.

#### VI. SOURCES AND USES OF FUNDS

We intend to engage in a three stage capital-raising program first targeting businesses and other major contributors with a vital interest in the financial and cultural health of the community. Anticipated mid-level contributors will then receive personal appeals. Finally, we plan to cast a wide net for contributors at the basic membership level on the assumption that the more "owners" the theatre has, the more the community as a whole will have a stake in its success.

Our goal is to raise a minimum of \$400,000 and as much as \$500,000. Loans of up to \$250,000 will provide the remaining funds for the project. The table below sets forth our anticipated uses of funds.

	Description of Work	Anticipated Costs	Projected Start and Completion Dates
Phase One	Purchase building, clean up and operate as single screen.	\$175,000	October 1, 2007 to September 1, 2008
Phase Two	Clean and restore; upgrade sound system, seating, paint and ventilation.	\$155,000	8 month time table as soon as and if monies are raised
Phase Three	Add additional auditoriums	\$275,000	1 year time table as soon as and if monies are raised.
	<b>Total</b>	\$605,000	

## VII. BUSINESS OF THE COOPERATIVE

### 7.01 Introduction

For more than sixty years the Streamline Moderne-style Morris Theatre has provided west-central Minnesota with an exceptional community cinema, a rare combination of style and practicality. Time and neglect have left a fading business and a building needing repair and remodeling, both to suit new generations of moviegoers and to regain viability in the face of current practices in the movie industry.

Losing our movie theatre would mean the loss of an important part of the community’s cultural life. Morris would be much diminished if that were to happen. A vibrant downtown cinema would mean regaining the patronage of many residents of all ages who currently leave town to view first-run movies at multiplexes, taking their dining and shopping dollars with them. It is estimated that the cost of a new cinema would be at least \$250,000 per screen. If we lose our theatre, we may never have one again. We need to revive the Morris Theatre to offer area residents a safe, local, attractive, and historically significant place for an afternoon or a night out with multiple viewing options.

When the Morris Theatre came up for sale in the summer of 2007, a diverse group of people came together to save the historic building by devising a plan to fund, restore, and manage this key downtown amenity. This group sought a business structure that would allow for participation by a broad range of the community through varied commitments of time, funds and patronage, and therefore organized the Morris Theatre Cooperative under Minnesota statute 308A.

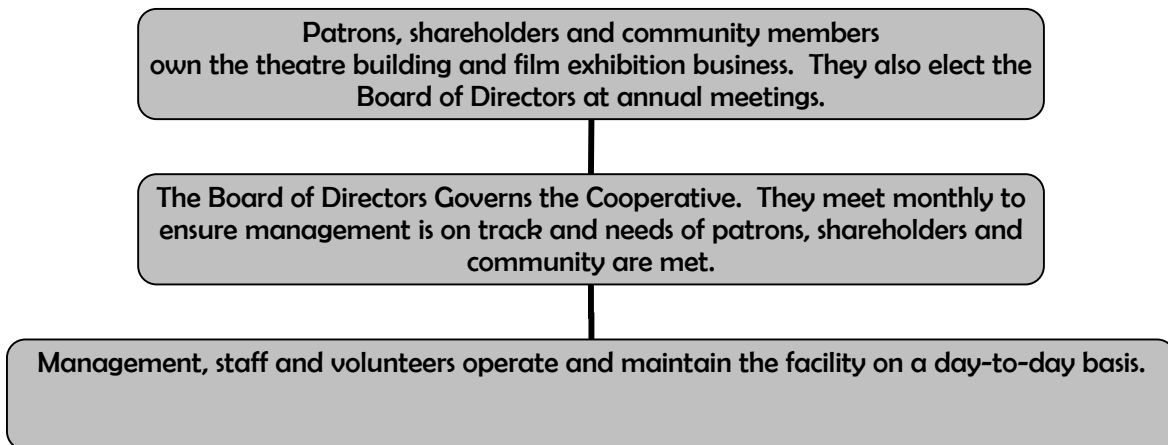
### 7.02 Cooperative Mission

The purpose of the Morris Theatre Cooperative is to own, restore and operate the Morris Theatre and bring a broad range of first run and other films to Stevens County. The cooperative intends to restore the historic Streamline Moderne character of the theatre and the financial stability of the business. To accomplish this goal, funds will need to be raised in order to repair the building to good working order. The members of the Morris Theatre Cooperative believe these goals are most likely to be accomplished by adding additional screens to the present building or to adjacent property.

While the Morris Theatre Cooperative is organized as a for-profit entity, it should be understood that the first purpose of the coop is to maintain an important cultural and social amenity in the community. It is anticipated that all income for some time will go toward financing improvements in the theatre. Purchase of a membership in the coop, therefore, may bring no greater return than the continuing operation of a theatre in Morris.

### 7.03 Cooperative Structure

The business and affairs of the Cooperative will be directed by a seven member volunteer board. The Manager of the Morris Theatre will participate on the board as an ex-officio non-voting member.



The Board of Directors' responsibilities include:

- Determining and monitoring the Morris Theatre's strategic direction
- Providing policy guidelines
- Hiring and evaluation of the Manager
- Self-evaluation and self-governance
- Being "ambassadors" for the Morris Theatre
- Generating revenue for the Morris Theatre
- Capital Management

## 7.04 Cooperative Personnel

We expect that staffing at the Morris Theatre will continue on its small scale. Growth in staffing will occur only if needs, costs and revenues require it. The initial staff for the Morris Theatre will include a Manager, concession operators, ticket sellers and volunteers. In order for this staff configuration to function successfully, all members of the staff must be willing to take on varied responsibilities and expect minimal compensation.

### *(1) Manager*

The Manager is the individual who facilitates the vision of the board of directors. Responsibilities of the Manager include:

- Carrying out the purpose of the organization as created by the board of directors
- Developing and implementing marketing programs
- Developing operational standards and presenting budgets for board adoption
- Maintaining financial controls and reporting systems
- Setting operational policies within the guidelines set by the board of directors
- Scheduling the Morris Theatre
- Negotiation and booking of traveling shows and film presentations

- Contract management and document maintenance
- Hiring and firing of all staff
- Acting as house manager for all productions

In addition, the Manager will be active in community affairs and maintain membership in national organizations serving historic theatres and arts and entertainment agencies.

***(2) Concession and Ticket Selling Employees***

- There are currently several part-time employees that are paid at minimum wage to work during peak concession and ticketing times; this practice will continue and perhaps be supplemented by more staff or volunteers as concession menu and ticketing options are expanded.

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## VIII. GOVERNANCE AND MANAGEMENT OF THE COOPERATIVE

The governance of the Cooperative is vested in a Board of Directors. The Board may make all rules and regulations not inconsistent with law or our governing documents.

### 8.01 Board of Directors

#### *(1) Membership of Board*

We presently have seven Directors on our Board. They are as follows:

<u>Director</u>	<u>Position</u>
Bart Finzel	Director
David Ericksen	Director
Katie Mckenzie	Director
Renee Kannegiesser	Director
David Aronson	Director
Kent Swenson	Director
Kristin Kearns	Director

#### *Bart D. Finzel, Director*

Bart D. Finzel has a PhD in Economics from Cornell University and was the long term coordinator of the economics and management program at the University of Minnesota, Morris. He is currently a member of the "Idea Factory," a business start-up support group; a member of the Stevens Community Medical Center's Board of Directors; the Treasurer of the Morris Area Arts Boosters, and the President of the Church Council of the Federated Church. He believes losing the theater would be a devastating blow to Morris' bid to be a regional center.

#### *David Ericksen, Director*

David Ericksen teaches American Literature and film courses in the English Department at the University of Minnesota, Morris. He currently serves on the Morris Schools Parents' Advisory Committee. He is married and has two children in the Morris Area Elementary School.

*Katie Mckenzie, Director*

Katie Mckenzie has lived in the area for 7 years. She is a 2004 graduate of UMM with a sociology degree. The one time owner of the Grocery store in Herman, she moved back to Morris in 2006 and is currently News Director for KMRS/KKOK here in Morris.

*Renee Kannegiesser, Director*

Renee Kannegiesser is a Certified Public Accountant. She has been employed by Morris & Associates for 16 years and has been a partner for the last 9. Renee has been an area resident since childhood and has been married to a local farmer and businessman for 21 years. The couple has two boys ages 13 and 9. Renee believes there is great importance in preserving a staple of our community for the safe entertainment of our youth and the overall well-being of the Morris Area Community.

*David Aronson, Director*

David has been a Morris resident since 1981 and is an avid movie fan and regular theater attendee. An original member of the ad hoc Morris theatre steering committee, he has served on numerous University and community committees including the elementary school task force, joint UMM/MAHS football facility, board of directors of the Pomme de Terre Golf Club and Morris-Hancock Flying Club. He brings thirty years of facility management experience to this project. David became involved in the theater project because he feels strongly that it is important for the community and our children to maintain and improve the movie theater in our community.

*Kent Swenson, Director*

Kent is a Financial Advisor with Edward Jones in Morris, where he has lived since moving from Fargo, North Dakota in 2003. Kent is married to Erica and they have three children. He attended undergraduate and graduate school at the University of North Dakota and he has 18 years of experience in Financial Services. Kent hopes to help chart a path for the Morris Theatre that will benefit all the families in Stevens and the surrounding counties for generations to come.

*Kristin Kearns, Director*

Kristin Kearns has taught astronomy and physics at the University of Minnesota, Morris since 2003. She holds master's degrees in astronomy from the University of Wisconsin at Madison and Wesleyan University, and was an actual 'rocket scientist' for a brief time after college. She lives just beyond the city limits of Morris with some cats and a guy with occasional oddly colored hair. She hopes to help return the golden days of cinema to Morris by bringing great movies to a beautiful historic theatre.

***(2) Board Compensation***

Other than for expense reimbursement, we do not currently pay our Directors any cash compensation for acting in their capacity as Directors, although we may do so in the future. Directors may be reimbursed for reasonable expenses incurred in carrying out their duties as Directors, including mileage reimbursement for travel to duly held meetings.

We may compensate our Directors for products and services provided to the Cooperative in a capacity other than as a Director, provided that the compensation is equivalent to that provided to others for similar products or services.

### ***(3) Conflicts of Interest***

Conflicts of interest exist and may arise in the future because of the relationships between and among our officers, Directors, affiliates and us, and we may from time to time enter into transactions with our officers, Directors, and affiliates. Conflicts of interest could cause our officers and Directors to put their own personal interests ahead of ours. We intend to conduct any transactions with our officers, Directors and affiliates as if those transactions were negotiated with a third-party on an arms' length basis; however, we cannot assure you that transactions we enter into with related parties will be on terms as favorable to us as those that could have been obtained in an arm's length transaction. Disputes may arise concerning transactions we enter into with related parties, and it is possible that our officers and Directors may receive a more favorable resolution than an unaffiliated third party would receive. Although we intend to examine all conflicts that may arise from time to time, we cannot assure you that conflicts of interest will not harm our business or reduce the value of your Units.

### **8.02 Manager**

The Manager of Morris Theatre Cooperative is Tina Didreckson. Ms. Didreckson has advertising, sales, marketing, tradeshow and management experience as well as a B.A. in History from the University of Minnesota Morris. She is also employed part time at the Stevens County Historical Society & Museum. She became involved in the initial stages of this project by writing the initial business plan with the vision of preserving the historic theatre and to honor the legacy left by Morris Theatre founder St. Boniface "Bonnie" James Benfield.

## **IX. SUMMARY OF OUR GOVERNING DOCUMENTS**

*Statements contained in this and other sections of this Memorandum that describe the contents of our Bylaws are not necessarily complete as the statements only summarize what we consider to be material provisions of our Bylaws. Before deciding to invest in our Units, you should read carefully our Articles of Incorporation and Bylaws, which are attached as Exhibits to this Memorandum, and be sure that you understand the full terms and provisions of those documents.*

Our Articles of Incorporation, our Bylaws and Chapter 308A of the Minnesota Statutes govern us. Our Articles of Incorporation is the document by which we were organized as a Minnesota cooperative. Our Bylaws, certain provisions of which are summarized in this section of the Memorandum, is our principal operating document and sets forth the rights of our Unitholders and members and provides for our management and other matters described below. The Minnesota Cooperative Law will govern in the event of a conflict with our Bylaws and in the case of matters not covered by our Bylaws.

### **9.01 Binding Nature of the Agreement**

Our Bylaws governs your legal relationship with us if you invest in our Units. Our Bylaws contains provisions relating to the rights of our Unitholders and members, member voting, election of directors, restrictions on transfers, distributions and other governance and financial matters.

## **9.02 Term of the Agreement**

Our term of existence as a Minnesota Cooperative is not limited by our Bylaws, our Articles of Incorporation or Minnesota law. We will continue to operate until our members or a court determines that we should dissolve, liquidate and wind up our business.

## **9.03 Purpose**

Our stated purpose is to own, operate, and restore the Morris Theatre, and bring a broad range of first run and other films to the community. We may engage in any activity that is necessary, convenient or incidental to further our purpose.

## **9.04 Management**

Our board of directors has the principal power and responsibility to govern our business and affairs. Our Manager and other officers, who are elected or appointed by the board of directors, manage our operations. Subject to the power to propose and approve amendments to our Articles and Bylaws, elect directors, or to cause us to dissolve, our members have virtually no role in our management.

## **9.05 Governing Law; Disputes**

Our Articles and Bylaws are governed by Minnesota law, particularly the Minnesota Cooperative Law.

## **9.06 Liquidation**

In the event of a liquidation of the Cooperative members who purchase advertising in connection with their subscription for Units in this Offering will be treated as if the amount of their payment for advertising services had been used to purchase units. This liquidation provision operates to the detriment of members who do not purchase advertising in connection with this Offering as non-advertising members will be treated as if their proportionate ownership of units is lower than would otherwise be the case.

## **9.07 Consent**

By investing in Units in this Offering you are consenting to take patronage refunds issued by the Cooperative, if any, into account when calculating your income for tax purposes. This paragraph should not be construed as tax advice. We advise you to consult a qualified tax advisor prior to investing in the Units.

# **X. DESCRIPTION OF UNITS**

## **10.01 Description of Class A Units:**

Ownership of our Class A Units entitles an owner to certain membership, voting and financial rights. Each Class A Unit holder is entitled to membership in the Cooperative and thus has the right to receive patronage dividends. Each member has one vote (regardless of the number of Units held) and certain financial rights, including the right to distributions that may be made with respect to the Units and from the redemption of the Units. Cash distributions will be made at the Board's discretion.

In the event of a liquidation of the Cooperative, Class A Units will be paid off only after the outstanding debts of the Cooperative have been satisfied. Any property remaining after all debts have been satisfied will be distributed on the basis of unit ownership. However, for the sole purpose of determining liquidation rights, members who purchase advertising in connection with their subscription for Units in this Offering will have their unit count increased as if the amount of the advertising payment had been used to purchase units.

The rights and preferences of holders of Class A Units are subject to the rights of the unitholders of any class of Units that we may issue in the future.

Prior to your purchase of Class A Units, you will be required to complete a subscription agreement that will set forth the principal amount of your purchase and certain other information regarding your ownership of the Units.

## **10.02 Authorized and Outstanding Units**

As of December 1, 2007 we have no Class A Units issued and outstanding. There are no outstanding options or warrants for the purchase of any Units.

# **XI. PLAN OF OFFERING**

## **11.01 General Terms of the Offering**

We are offering Class A Units at a purchase price of \$250 per Unit. Investors must purchase at least one Class A Unit to participate. The offering price for the Units were determined by our Board of Directors arbitrarily and were not based on customary valuation procedures. We intend to close the Offering on or about March 31, 2008; however we may extend the Offering one or more times in order to reach our target of raising \$400,000.

Our officers and Directors will sell the Units in this Offering on our behalf directly to investors on a best efforts basis without the assistance of an underwriter. We do not consider our officers and Directors to be brokers under the Securities Exchange Act of 1934 because they have not been, and will not be, in the business of effecting transactions in securities for the accounts of others. Their participation in the Offering of securities is limited to this transaction and not part of a general business of effecting securities transactions. Each of these individuals has substantial operational responsibilities to us during and after the Offering. They have not received, and will not receive, any compensation or commissions based, directly or indirectly, upon the sale of the Units.

Subscriptions by investors will require a cash payment equal to the total subscription amount. Investors will also be required to sign a subscription agreement. All subscriptions are subject to approval by our Board of Directors and acceptance by us, and we reserve the right to reject any subscription in whole or in part for any reason in our sole discretion.

The Offering will close upon the earlier to occur of (1) our termination of the Offering by a resolution of the Board of Directors, or (2) March 31, 2008 subject to the Board's authority to extend the Offering one or

more times. We reserve the right to terminate the Offering at any time, to waive conditions to the purchase of Units, and to reject subscriptions for Units in whole or in part for any reason in our sole discretion.

We estimate that we will incur offering expenses of approximately \$4000 in connection with this offering.

### 11.02 Investor Qualifications and Suitability

The Units are being offered to Minnesota residents who wish to become members of the Cooperative.

An investment in our Units is speculative and involves a high degree of risk. It will be difficult for any investor to sell or otherwise dispose of Units because there is likely to be no public trading market for the Units. Accordingly, the Units are suitable only as a long-term investment for persons who can afford to lose their entire investment. Our Board of Directors reserves the right to reject any subscription, in whole or in part, for any reason, including if the Board determines that an investment in the Units is not suitable for any investor.

### 11.03 Subscription Procedures

In order to purchase Units, investors must: (1) complete and sign the subscription agreement included in Appendix C to this Memorandum; (2) prepare a check payable to "Morris Theatre Cooperative" in the amount of the total purchase price for the Units for which the subscription is made; (3) mail items (1) and (2) to us at:

Morris Theatre Cooperative - Subscriptions, P.O. Box 552, Morris MN, 56267

Investors may not revoke their subscriptions, but each subscription is subject to our acceptance or rejection. Subscriptions will be accepted only when we countersign the related subscription agreements. Copies of countersigned signature pages will be returned to investors promptly after acceptance. Accepted subscriptions will become the property of our Cooperative. Rejected subscriptions, including the cash payment, the subscription agreement, and related documents will be returned to investors promptly after rejection.

Upon acceptance of your subscription by us, your subscription will be immediately at risk. If you have any questions regarding the subscription process, you may contact **David Ericksen on the board of directors, by telephone at (320) 589-2200 option 3 or email us at [joinus@morristheatre.net](mailto:joinus@morristheatre.net)**.

### 11.04 Subscription Agreement

Our subscription agreement, when signed and delivered by an investor to us, will be an irrevocable offer by the investor to purchase Units in the amount provided in the agreement. In the subscription agreement, each investor will be required to make representations to us that the investor has received a copy of this Memorandum, and the Appendices and any supplements to this Memorandum; that the investor understands the risks associated with an investment in the Units; that the investor is purchasing Units for

the purpose of investment and not for resale; that the investor is aware that the Units are subject to significant restrictions on transfer; that the investor has no agreement or arrangement to sell or otherwise transfer or dispose of the Units or any interest in the Units to any other person; that the investor has been encouraged to rely upon the advice of the investor's legal counsel and accountants or other financial advisers with respect to the tax and other considerations relating to an investment in our Units; and that an investment in the Units is suitable for the investor. The subscription agreement also requires information about the registration of the investor's Units, the nature of the investor's ownership, the investor's residence, and the investor's taxpayer identification or social security number. Subscription agreements are subject to approval and acceptance by us, and we reserve the right to reject any subscription in whole or in part for any reason in our sole discretion. Investors should review the representations and other provisions of the subscription agreement carefully before signing it.

## **XII. LEGAL PROCEEDINGS**

From time to time and in the ordinary course of its business, we may be named as a defendant in legal proceedings related to various issues, including worker's compensation claims, tort claims and contractual disputes. We are currently involved in no such legal proceedings and are not aware of any potential claims that could result in the commencement of legal proceedings. We carry insurance that provides protection against certain types of claims.

## **XIII. CONFIDENTIALITY**

**THIS MEMORANDUM IS SOLELY FOR THE OFFERING OF UNITS DESCRIBED HEREIN AND MAY NOT BE REPRODUCED OR DISTRIBUTED TO ANY PERSON. ANY DISTRIBUTION OF THIS MEMORANDUM, IN FULL OR IN PART, OR THE DIVULGENCE OF ANY OF ITS CONTENTS TO ANY PARTY, IS UNAUTHORIZED. BY ACCEPTING POSSESSION OF THIS DOCUMENT, YOU AGREE TO THE FOREGOING TERMS AND ALSO AGREE THAT IF YOU ELECT NOT TO PURCHASE UNITS, YOU WILL IMMEDIATELY RETURN THIS DOCUMENT, AND ALL RELATED MATERIALS, TO THE COOPERATIVE WITHOUT RETAINING ANY COPY OR REPRODUCTION.**

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Supplement No. 1 dated March 27, 2008 to  
Confidential Private Placement Memorandum dated December 10, 2007.

## **MORRIS THEATRE COOPERATIVE**

Morris Theatre Cooperative, a Minnesota cooperative (also referred to as “we,” “us,” “our,” and the “Cooperative”), provides the information contained in this supplement No. 1 (this “Supplement”) to the Confidential Private Placement Memorandum dated December 10, 2007, to amend, modify and supplement certain information contained in the Memorandum. You should examine the Memorandum and this Supplement before deciding whether to invest in us. Capitalized terms not otherwise defined in this Supplement have the meanings ascribed to them in the Memorandum. Our current and proposed activities are described in detail in the Memorandum.

*This Supplement, the Memorandum and the documents referenced in this Supplement and the Memorandum contain forward-looking statements that involve future events, our future performance and our expected future operations and actions. These forward-looking statements are only our predictions and involve numerous assumptions, risks and uncertainties. Our actual results or actions may differ materially from these forward-looking statements for many reasons, including the risks described in this Supplement and the Memorandum, and events that are beyond our control. We are not under any duty to update the forward-looking statements contained in this Supplement or the Memorandum. We cannot guarantee future results, levels of activity, performance or achievements. We caution you not to put undue reliance on any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.*

### **Changes in the Date of Expiration of the Offering**

The Board of Directors has extended the offering. The offering will now close upon the earlier of a resolution of our Board of Directors or on September 30, 2008, subject to the right of our Board of Directors to extend the offering one or more times.

### **Confidentiality**

This Supplement is solely for the offering of the Units described herein and in the Memorandum, and may not be reproduced or distributed to any person other than the recipient. Any distribution of this Supplement or the Memorandum in full or in part, or the divulgence of any of the contents to any party, is unauthorized. By accepting possession of this Supplement, you agree to the foregoing terms and also agree that if you elect not to purchase the Units offered, you shall immediately return this Supplement and the Memorandum, and all related materials, to us without retaining any copy or reproduction.

Supplement No. 2 dated July 22, 2008 to  
Confidential Private Placement Memorandum dated December 10, 2007

## **MORRIS THEATRE COOPERATIVE**

Morris Theatre Cooperative, a Minnesota cooperative (also referred to as “we,” “us,” “our” and the “Cooperative”), provides the information contained in this Supplement No. 2 (this “Supplement”) to the Confidential Private Placement Memorandum dated December 10, 2007, to amend, modify and supplement certain information contained in the Memorandum. You should examine the Memorandum and this Supplement before deciding whether to invest in us. Capitalized terms not otherwise defined in the Supplement have the meanings ascribed to them in the Memorandum. Our current and proposed activities are described in detail in the Memorandum.

*This Supplement, the Memorandum and the documents referenced in this Supplement and the Memorandum contain forward-looking statements that involve future events, our future performance and our expected future operations and actions. These forward-looking statements are only our predictions and involve numerous assumptions, risks and uncertainties. Our actual results or actions may differ materially from these forward-looking statements for many reasons, including the risks described in this Supplement and the Memorandum, and events that are beyond our control. We are not under any duty to update the forward-looking statements contained in this Supplement or the Memorandum. We cannot guarantee future results, levels of activity, performance or achievements. We caution you not to put undue reliance on any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.*

### **Changes in the Date of Expiration of the Offering**

The Board of Directors has extended the offering. The offering will now close upon the earlier of a resolution of our Board of Directors or on September 1, 2009 subject to the right of our Board of Directors to extend the offering one or more times.

### **Confidentiality**

This Supplement is solely for the offering of the Units described herein and in the Memorandum, and may not be reproduced or distributed to any person other than the recipient. Any distribution of this Supplement or the Memorandum in full or in part, or the divulgence of any of the contents to any party, is unauthorized. By accepting possession of this Supplement, you agree to the foregoing terms and also agree that if you elect not to purchase the Units offered, you shall immediately return this Supplement and the Memorandum, and all related materials, to us without retaining any copy or reproduction.

**APPENDIX A**

**ARTICLES OF INCORPORATION  
OF  
MORRIS THEATRE COOPERATIVE, INC.  
A COOPERATIVE ORGANIZED UNDER  
MINNESOTA STATUTES, CHAPTER 308A**

**ARTICLES OF INCORPORATION**  
**OF**  
**MORRIS THEATRE COOPERATIVE, INC.**  
**A Cooperative Organized Under**  
**Minnesota Statutes, Chapter 308A**

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**ARTICLE I.**  
**NAME**

The name of this association shall be Morris Theatre Cooperative, Inc.

**ARTICLE II.**  
**PURPOSE**

The purpose of this association shall be to own, restore and operate the historic Morris Theatre, and bring a broad range of first run and other films to the community.

**ARTICLE III.**  
**PRINCIPAL PLACE OF BUSINESS AND ADDRESS**

The principal place of business and registered office of this association shall be at 12 East 6<sup>th</sup> St., Morris MN 56267.

**ARTICLE IV.**  
**PERIOD OF DURATION**

The period of duration of this association shall be perpetual.

**ARTICLE V.**  
**MEMBERSHIP**

**Section 5.01. Membership Basis.** This association is organized without common stock on a membership basis.

**Section 5.02. Transfer.** A membership is transferable only with the consent and approval of the board.

**ARTICLE VI.  
PARTRONS' NET MARGINS**

Net income in excess of dividends and additions to reserve shall be distributed on the basis of patronage.

**ARTICLE VII.  
VOTING**

Each member shall have one vote in the affairs of the cooperative.

**ARTICLE VIII.  
DIVIDENDS**

Dividends on any interest in the association may not exceed eight percent annually.

**ARTICLE IX.  
DIRECTORS**

The names, addresses, and terms of office of the directors of the board are as follows:

David Aronson	1015 W 4 <sup>th</sup> St, Morris MN 56267	Until second election date
David Ericksen	1013 W 4 <sup>th</sup> St, Morris MN 56267	Until third election date
Bart Finzel	210 Colorado Ave, Morris MN 56267	Until second election date
Renee Kannegiesser	23774 380 <sup>th</sup> Ave, Hancock MN 56244	Until first election date
Kristin Kearns	13 Northridge Dr, Morris MN 56267	Until third election date
Katie Mckenzie	3 N California Ave, Morris MN 56267	Until first election date
Kent Swenson	18073 457 <sup>th</sup> Ave, Morris MN 56267	Until 2011 election date

**ARTICLE X.  
LIABILITY**

No director or officer of this cooperative shall be personally liable to the cooperative or its members for monetary damages for breach of fiduciary duty as a director, except for liability:

- (a) for a breach of the director's duty of loyalty to this cooperative or its members;
- (b) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- (c) for a transaction from which the director derived an improper personal benefit; or
- (d) for an act or omission occurring prior to the date when the provisions of this Article XI became effective.

It is the intention of the members of this cooperative to eliminate or limit the personal liability of the directors and officers of this association to the greatest extent permitted by Minnesota law. If amendments to the Minnesota Statutes are passed after this Article XI becomes effective which authorize cooperative associations to act to further eliminate or limit the personal liability of directors, then the liability of the directors and officers of this cooperative shall be eliminated or limited to the greatest extent permitted by the Minnesota Statutes, as so amended. Any repeal or modification of this Article XI by the members of this cooperative shall not adversely affect any right of or any protection available to a director or officer of this association which is in existence at the time of or such repeal modification.

**ARTICLE XI.**  
**INCORPORATOR(S) (MINIMUM OF ONE PERSON, NO MAXIMUM)**

Name	Signature
Kristin Kearns	

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**APPENDIX B**

**BYLAWS**

**OF**

**MORRIS THEATRE COOPERATIVE, INC.**

**A COOPERATIVE ORGANIZED UNDER  
MINNESOTA STATUTES, CHAPTER 308A**

**BYLAWS**  
**OF**  
**MORRIS THEATRE COOPERATIVE, INC.**  
**A Cooperative Organized Under**  
**Minnesota Statutes, Chapter 308A**

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**BYLAW I.**  
**MEMBERSHIP**

**Section 1.01. Eligibility for Membership.** Persons may, upon the approval of the Board of Directors of this cooperative, become a member of this cooperative by:

- (a) becoming the holder of one Class A Unit (“Membership Unit”) of this cooperative; and
- (b) receiving from this cooperative written acceptance of membership; and
- (c) meeting other membership criteria or requirements established from time to time by the Board of Directors.

**Section 1.02. Termination of Membership.** Membership in this cooperative may be terminated by the Board of Directors at their discretion if the Board of Directors determines that a member has:

- (a) become ineligible for membership for any reason;
- (b) died or ceased to exist as a legal entity and leaves no successor; or
- (c) the Board of Directors by resolution finds that a member has:
  - (1) intentionally or repeatedly violated any provision of the Articles, the Bylaws, or Board policies of this cooperative;
  - (2) taken actions that will impede this cooperative from accomplishing its purposes;
  - (3) taken or threatened actions that adversely affect the interests of this cooperative or its members;
  - (4) willfully obstructed any lawful purpose or activity of this cooperative; or

- (5) breached any contract with this cooperative.

The Board of Directors may terminate the membership of a member only at a meeting of the Board of Directors, having given 20 days prior written notice of which was served upon the last known mailing address of the member alleged to be ineligible by United States Certified Mail. The notice must state with reasonable particularity the grounds upon which the member is alleged to be ineligible and that the member will be entitled to be heard on the matter of termination at the meeting.

### **Section 1.03. Consequences of Membership Termination.**

(a) If the Board of Directors finds that any Membership Units of this cooperative have come into the hands of any person who is not eligible to own Membership Units or who has otherwise become ineligible for membership in this cooperative, the Board of Directors of this cooperative has the right, at its option, (i) to redeem the Membership Units at an amount equal to the value of the consideration for which the Membership Units was issued; or (ii) to convert the Membership Units into a nonvoting certificate of interest or other nonvoting equity credit at an amount equal to the value of the consideration for which the Membership Units was issued. Upon such redemption or conversion, such ineligible holder of Membership Units will cease to be a member of this cooperative and will cease to have voting rights in this cooperative.

(b) In exercising its right to redeem or to convert the Membership Units under the preceding paragraph, this cooperative may cancel the certificate or certificates of such Membership Units on its books if the holder fails to deliver the certificate or certificates evidencing such Membership Units to the cooperative. If this cooperative exercises its right to convert the Membership Units into a nonvoting certificate of interest or other nonvoting equity credit, this cooperative will have no obligation to redeem such nonvoting equity interest, nor shall the holder of such interest have any right to demand the redemption thereof.

(c) Other than as provided in Section 1.03(a), the termination of membership or other action taken by this cooperative with respect to a member or the member's Membership Units will not modify the obligations and liabilities of any holder thereof to this cooperative under any supply contract, service contract, or other contract between the holder and this cooperative, nor impair the rights of this cooperative under such contracts.

## **BYLAW II. MEETINGS OF MEMBERS**

**Section 2.01. Annual Meetings.** The annual meeting of the members of this cooperative shall be held following the close of each fiscal year of this cooperative at such time and place as shall be determined by the Board of Directors. The notice of the meeting shall state the date, place and hour of the meeting. The Secretary shall give notice of annual members' meetings in the manner prescribed herein. The officers of this cooperative must submit reports to the members at the annual meeting covering the business of this cooperative for the previous fiscal year that show the condition of this cooperative at the close of the fiscal year. At the annual meeting, the members shall elect directors of this cooperative for the terms of office and in the manner prescribed by the Bylaws and transact such other business as may properly come before the meeting.

**Section 2.02. Special Member Meetings.** Special meetings of the members of this cooperative shall be held at the place specified in the notice of the meeting. The notice shall state the time, place and purpose of the special members' meeting. A special meeting of the members may be called by a majority vote of the Board of Directors, or upon the written petition of at least 20% of the members submitted to the Chair of this cooperative. The Chair shall give notice of a special members' meeting in the manner prescribed herein. In the event a special members' meeting is called by the written petition of members, the notice of the special members' meeting shall be given within ten (10) days from and after the date of the presentation of the members' petition, and the special members' meeting must be held by thirty (30) days after the date of the presentation of the members' petition. No business shall be considered at a special members' meeting except as covered in the notice of the meeting.

**Section 2.03. Notice.** Notice of all annual and special members' meetings shall be given by at least one of:

- (a) publication in a legal newspaper published in the county of the principal place of business of this cooperative;
- (b) publication in a magazine, periodical, or other publication of this cooperative that is regularly published by or on behalf of this cooperative and circulated generally among members;
- (c) mailing the notice of the meeting to each member personally at the member's last known post office address, which for a member cooperative means notice mailed to the secretary of the member cooperative; or
- (d) otherwise providing notice in a manner prescribed by applicable law.

Failure of a member to receive notice of an annual or special members' meeting shall not invalidate an action that is taken by the members at a members' meeting. The Secretary shall execute a certificate containing a correct copy of the mailed or published notice; the date of mailing or publishing the notice; and a statement that the notices were mailed or published as prescribed by Section 308A.611, subd. 5, or Section 308A.615, subd. 2. The certificate shall be made a part of the record of the meeting.

**Section 2.04. Quorum.** At any annual or special members' meeting, a quorum necessary for the transaction of business shall be ten percent (10%) of the total number of members if the cooperative has 500 or fewer members; or fifty (50) members if the cooperative has more than 500 members. In determining a quorum at a meeting, on a question submitted to a vote by mail, members present in person or represented by mail vote shall be counted. The attendance of a sufficient number of members to constitute a quorum shall be established by a registration of the members present in person or by mail ballot at the meeting. The registration shall be verified by the Chair and Secretary of this cooperative and shall be reported in the minutes of the meeting.

**Section 2.05. Voting.** Each member shall be entitled to only one vote, regardless of the number of Membership Units held by such member. A member's vote at a members' meeting must be in person or may be by mail if a mail vote is authorized by the Board of Directors. Voting by proxy and cumulative voting is not permitted. Members that are not individual persons must designate a representative (and may also designate an alternate representative) authorized to cast their vote in the affairs of this cooperative. The designation must be in writing, must be properly authorized by the member, and must be provided to the Secretary of this cooperative at or before the member meeting. The written designation will remain

effective until it is superseded by a more recent written designation meeting the same criteria. Except where a higher percentage is specified in the Bylaws or required by applicable law, members shall take action on all matters submitted to them by the affirmative vote of a majority of the votes cast at a duly held meeting, either in person or by mail vote if a mail ballot has been authorized by the Board of Directors.

**Section 2.06. Mail Vote.** A member who is absent from a members' meeting may vote by mail on the ballot prescribed hereunder on any motion, resolution, or amendment that the Board of Directors submits for vote by mail to the members. The mail vote must be cast on a ballot that is in the form prescribed by the Board of Directors, that contains the exact text of the proposed motion, resolution or amendment to be acted upon at the meeting, that contains spaces in which the member may indicate an affirmative or negative vote thereon, and that otherwise meets the requirements of Minnesota law. The ballot, when completed by an absent member and received by this cooperative in the manner prescribed by the Board of Directors, shall be counted as the vote of the member at the meeting.

**Section 2.07. Order of Business.** Insofar as practical, the order of business at the annual members' meeting and, where applicable, at all other meetings of the members shall be:

1. Registration of Members
2. Proof of Notice of Meeting
3. Reading of Minutes of Prior Meeting
4. Reports of Officers and Committees
5. Election of Directors
6. Unfinished Business
7. New Business
8. Adjournment

### **BYLAW III DIRECTORS**

**Section 3.01. Number, Qualifications and Terms of Office.** The business and affairs of this cooperative will be governed by the Board of Directors, with the Board of Directors upon the adoption of these Bylaws consisting of seven (7) directors. The number of directors will be established by the Board of Directors, from time to time, provided that the number of directors shall not be less than five directors nor greater than eleven directors, and provided that no resolution shall shorten the term of a director previously elected. All directors must be a member of this cooperative or an elected or appointed representative of a non-individual member of this cooperative, provided, however, that the Board of Directors may, in its discretion, specify that up to one (1) director at any time may be a non-member. Except as otherwise provided herein, all directors shall serve three-year terms and until their successors are duly elected and qualified. In order to preserve continuity of governance and the harmonious transition of the initial Board of Directors to the elected Board of Directors, the terms of the directors of the initial Board of Directors shall be staggered such that one-third of the directors (or as nearly as possible) shall be elected at the annual members' meeting following the date on which the Board of Directors determines that the initial membership in this cooperative has been established and at each annual meeting thereafter. The Board of Directors shall adopt a procedure to achieve the desired staggered effect prescribed by the Bylaws.

**Section 3.02 Election of Directors.** Directors shall be elected by ballot at the annual meetings. Nominations for director may be made by petition signed by at least five (5) members entitled to vote and submitted to the Secretary at least ten (10) days before the annual meeting. The Secretary shall prepare

ballots containing such nominations for distribution at the annual meeting. Nominations shall be open at each annual meeting at which a director is to be elected from nominations from the floor of the meeting. Space shall be provided on the ballots for nominations from the floor.

Members may vote by mail ballot for the election of directors, provided a mail ballot is specifically authorized by the Board of Directors.

The nominees receiving the highest number of votes cast shall be elected and shall take office at the adjournment of the Annual Meeting.

**Section 3.03. Annual Meeting.** Within 30 days after each annual members' meeting, the Board of Directors shall meet for the purpose of electing officers of this cooperative and for the transaction of such other business as shall come before the meeting. The annual meeting of the Board of Directors shall be held at such time and place as may be fixed by resolution adopted by the Board of Directors.

**Section 3.04. Regular Meeting.** Regular meetings of the Board of Directors shall be held from time to time at such time and place as may be fixed by resolution adopted by the Board of Directors.

**Section 3.05. Special Meetings.** Special meetings of the Board of Directors may be called by the Chair, the Secretary or by any three of the directors and shall be held from time to time at a time and place as may be designated in the notice of the meeting.

**Section 3.06. Notice of Meetings.** Notice of each annual, regular or special meeting of the Board of Directors shall be given by the Chair or Secretary who shall give at least five days prior notice of the meeting to each director by mail, telephone, telephonic facsimile transmission, telegram, electronic mail or in person, unless a shorter time period is otherwise agreed to. Notice shall be deemed given upon mailing, if notice is given by mail.

**Section 3.07. Waiver of Notice.** Notice of any meeting of the Board of Directors may be waived either before, at or after the meeting, in writing signed by each director. A director, by attendance at any meeting of the Board of Directors, shall be deemed to have waived notice of such meeting, except when a director attends the meeting and objects to the transaction of business because the meeting was not lawfully convened.

**Section 3.08. Quorum; Board Action.** A majority of the members of Board of Directors shall constitute a quorum for the transaction of business except that, when a vacancy or vacancies exist, a majority of the remaining directors shall constitute a quorum. The Board of Directors shall take action by the affirmative vote of a majority of the directors present at a duly held meeting.

**Section 3.09. Action Without a Meeting.** Any action required or permitted to be taken at a meeting of the Board of Directors may be taken by written action signed by all of the directors. The written action is effective when signed by all of the directors, unless a different effective time is provided in the written action.

**Section 3.10. Electronic Communications.** Any meeting of the Board of Directors may be conducted by telephonic or other electronic means of communication through which the directors may simultaneously communicate with one another.

**Section 3.11. Vacancies.** If a director's position is vacant, the Board of Directors may appoint a member of this cooperative to fill the directors' position until the next annual or special members' meeting. At the next annual or special members' meeting, the members shall elect a director to fill the unexpired term of the vacant director's position.

**Section 3.12. Removal.** Any individual director may be removed from office for cause by a vote of a majority of the members entitled to vote at any annual or special meeting at which said removal of directors is considered. For purposes of this Section, "for cause" shall include failure of a director to attend at least 50% of the meetings of the Board of Directors held in the prior fiscal year, misfeasance or malfeasance. In case any director is so removed at an annual or special meeting, a successor director shall be elected at the same meeting. Any director may also be removed from office by the Board of Directors, but only for cause and only if all the other directors unanimously affirmatively vote in favor of removal.

**Section 3.13. Compensation.** Directors who are not salaried officers of this cooperative shall receive such fixed sum per meeting attended or such fixed annual sum as shall be determined, from time to time, by resolution of the Board of Directors. All directors shall receive their expenses, if any, of attendance at meetings of the Board of Directors or any committee thereof. Nothing in these Bylaws shall be construed to preclude any director from serving this cooperative in any other capacity and receiving proper compensation for the service.

#### **BYLAW IV DIRECTORS**

**Section 4.01. General Powers.** The Board of Directors shall govern the business and affairs of this cooperative and shall exercise all of the powers of this cooperative, except those powers that are conferred upon or reserved to the members by law, the Articles of Incorporation, or these Bylaws. The Board of Directors shall adopt such policies, rules, and regulations and shall take such actions as it may deem advisable, provided that the Board of Directors does not act in a manner inconsistent with law, the Articles of Incorporation, or these Bylaws.

**Section 4.02. Committees.** By resolution, the Board of Directors may designate three or more directors, one of whom shall be the Chair of this cooperative, to constitute an Executive Committee. The Executive Committee shall have and exercise only such authority of the Board of Directors in the management of this cooperative to the extent provided in the resolution. The Board of Directors may establish other such committees from time to time as it deems advisable, having such authority as provided by the Board of Directors. Committees are subject at all times to the direction and control of the Board of Directors.

**Section 4.03. Director Eligibility.** During his or her term of employment an employee of this cooperative shall not be eligible to serve as a voting member of the Board of Directors of this cooperative. However, the Manager of this cooperative is permitted but not required to serve in a non-voting advisory role to the Board of Directors. For purposes of clarification, this section is neither intended to burden the Manager with the additional fiduciary obligations borne by directors nor benefit the Manager with such rights afforded to Directors as voting, notice and counting towards quorum.

**Section 4.04. Financial Matters.** The Board of Directors shall have the power to select one or more banks or other financial institutions to act as depositories of the funds of this cooperative, and to determine the person or persons who shall have authority to sign checks and other instruments.

## **BYLAW V OFFICERS**

**Section 5.01. Officers.** The officers of this cooperative shall be a Chair, a Vice-Chair, a Secretary and a Treasurer, who shall be elected in the manner as provided in Section 5.07 of these Bylaws. The offices of the Secretary and Treasurer may be combined and when so combined shall be termed "Secretary-Treasurer." Except for the Secretary-Treasurer, no offices may be held concurrently by the same person. The Chair and Vice-Chair must be directors and members of this cooperative. The Board of Directors may elect other officers from time to time as it deems advisable or as required by these Bylaws, and in such event shall establish appropriate duties and responsibilities for any such other officers. The Treasurer, Secretary and any such additional officers need not be directors or members.

**Section 5.02. Chair.** The Chair shall see that all orders and resolutions of the Board of Directors are carried into effect and shall preside at all meetings of the members and directors. The Chair shall be the official representative of this cooperative to all outside associations or organizations of which this cooperative is a member, unless another person is appointed by the Chair or other action is taken by the Board of Directors. The Chair shall sign and deliver in the name of this cooperative any deeds, mortgages, bonds, contracts and other instruments pertaining to the business of this cooperative, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the Articles or the Bylaws or the Board to some other officer or agent of this cooperative. This broad signing authority shall not be construed so as to preclude the Board of Directors from authorizing any other officer or agent of this cooperative to sign any deeds, mortgages, bonds, contracts and other instruments pertaining to the business of this cooperative on behalf of this cooperative. The Chair shall have such other duties as may, from time to time, be assigned by the Board of Directors.

**Section 5.03. Vice-Chair.** The Vice-Chair shall have powers and perform duties as may be specified in the Bylaws or prescribed by the Board of Directors or by the Chair. In the event of the absence or disability of the Chair, the Vice-Chair shall perform the duties and exercise the powers of the Chair.

**Section 5.04. Secretary.** Subject to the discretion of the Board of Directors, the Secretary shall attend all meetings of the members and Board of Directors; record all votes at and keep minutes of all the meetings; and record all proceedings of the meetings in the minute book of this cooperative. The Secretary shall give proper notice of meetings of the members and of the Board of Directors. The Secretary shall perform such other duties as may, from time to time, be prescribed by the Board of Directors or by the Chair.

**Section 5.05. Treasurer.** The Treasurer shall be the custodian of all funds, securities and properties of this cooperative and shall perform such other duties with respect to the finances of this cooperative as may be prescribed by the Board of Directors or by the Chair.

**Section 5.06. Compensation.** The officers of this cooperative shall receive compensation for their services as may be determined, from time to time, by resolution of the Board of Directors. No officer who is a director may take part in the vote on his or her salary for services rendered to the cooperative.

**Section 5.07. Election of Officers.** On an annual basis, the Board of Directors shall elect from its members a Chair and one or more Vice-Chairs. Election for persons to fill any other offices established by these Bylaws or by the Board of Directors pursuant to Section 5.01 of these Bylaws shall be held at the annual meeting of the Board of Directors or at any other meeting of the Board of Directors, provided that notice of such election has been given in the notice of such meeting if other than the annual meeting. The officers shall hold their offices until their successors have been elected and have qualified, subject to any removal provisions of these Bylaws.

**Section 5.08. Removal of Officers.** The members may remove an officer at a members' meeting for cause related to the duties of the position of the officer and fill the vacancy caused by the removal. In addition, any officer may be removed by the Board of Directors whenever in its judgment the best interests of the cooperative will be served. Any vacancy among the officers caused by such removal shall be filled by the Board of Directors. No election or appointment to an office of this cooperative shall itself create any contract rights.

## **BYLAW VI INDEMNIFICATION AND INSURANCE**

**Section 6.01. Indemnification.** This cooperative shall indemnify each person who is or was a director, officer, manager, employee or agent of this cooperative, and any person serving at the request of this cooperative as a director, officer, manager, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses, including attorneys' fees, judgements, fines, and amounts paid in settlement actually and reasonably incurred to the extent to which such directors, officers, managers, employees or agents of this cooperative may be indemnified under the law of Minnesota.

**Section 6.02. Insurance.** This cooperative shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, manager, employee, or agent of this cooperative against liability asserted against and incurred by the person in the person's capacity as a director, officer, manager, employee or agent, or arising from the person's status as a director, officer, manager, employee, or agent of the cooperative.

## **BYLAW VII OPERATIONS ON A COOPERATIVE BASIS**

**Section 7.01. Cooperative Operation.** This cooperative shall be operated upon the cooperative basis in carrying out its business within the scope of the powers and purposes defined in the Articles of Incorporation. Accordingly, the net income of this cooperative in excess of amounts credited by the Board of Directors to capital reserves and amounts of dividends, if any, paid with respect to equity capital shall be accounted for and distributed annually on the basis of allocation units (as authorized by the Board of Directors) as provided in this bylaw. In determining the net income or net loss of this cooperative or its allocation units, there shall be taken into account this cooperative's share of the net income or net loss of any unincorporated entity (including without limitation, limited liability companies and partnerships, whether general or limited) in which it owns an equity interest, patronage dividends distributed by other cooperatives of which this cooperative is a patron and, to the extent prospectively determined by the Board of Directors, its share of the undistributed net income or net loss of any corporation in which this cooperative owns an equity interest.

Each transaction between this cooperative and each member is subject to and includes as a part of its terms each provision of the Articles of Incorporation and Bylaws of this cooperative, whether or not the Articles of Incorporation or the Bylaws are expressly referred to in the transaction or the transactions documentation.

**Section 7.02. Patrons; Patronage Business; Nonpatronage Business.** As used in this bylaw, the following definitions shall apply:

- (a) The term “patron” shall refer to any member with respect to business conducted with this cooperative on a patronage basis in accordance with Section 7.01.
- (b) The term “patronage business” shall refer to business done by this cooperative with or for patrons as defined by the board of directors.
- (c) The term “nonpatronage business” shall refer to business done by this cooperative that does not constitute “patronage business.”

**Section 7.03. Establishment of Allocation Units.** Allocation units may be established by the Board of Directors from time to time in its sole discretion on a reasonable and equitable basis and they may be functional, divisional, departmental, geographic, or otherwise. Until different allocation units are established by the Board of Directors, the entire business of this cooperative shall be considered one and the only allocation unit. The Board of Directors shall adopt reasonable and equitable accounting procedures as will, in the Board’s judgment, equitably allocate among the allocation units this cooperative’s income, gains, expenses and losses and, to the extent provided in Section 7.01, patronage dividends received by this cooperative and its share of income, gain, loss and deduction of other entities in which this cooperative owns an interest.

**Section 7.04. Determination of the Patronage Income or Loss of an Allocation Unit.** The net income from patronage business for each fiscal year shall be the sum of an equitably apportioned share of other items of income or gain attributable to this cooperative’s patronage business, less (1) all expenses and costs of goods or services directly attributable to goods or services marketed or procured for patrons of the allocation unit, less (2) an equitably apportioned share of all other expenses or losses attributable to this cooperative’s patronage business, dividends on equity capital and distributable net income from patronage business that is credited to the Capital Reserve pursuant to Section 7.08. The foregoing amounts shall be determined in accordance with the accounting treatment used by the cooperative in calculating its taxable income for federal income tax purposes; provided, however, that the Board of Directors may prospectively adopt a reasonable alternative method. Expenses and cost of goods or services shall include without limitation such amounts of depreciation, cost depletion and amortization as may be appropriate, any unit retentions provided in Bylaw IX, amounts incurred for the promotion and encouragement of cooperative organization, and taxes other than federal income taxes. Such net income or net loss shall be subject to adjustment as provided in Sections 7.06 and 7.09(b) relating to losses.

**Section 7.05. Allocation of Patronage Income Within Allocation Units.** The net income of an allocation unit from patronage business for each fiscal year, less any amounts that are otherwise allocated in dissolution pursuant to Bylaw IX, shall be allocated among the patrons of the allocation unit in the ratio that the quantity or value of the business done with or for each patron bears to the quantity or value of the business done with or for all patrons of the allocation unit. The Board of Directors shall reasonably and

equitably determine whether allocations within any allocation unit shall be made on the basis of quantity or value.

**Section 7.06. Treatment of Patronage Losses of an Allocation Unit.**

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

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

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

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

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

(v) Cancel outstanding Patrons' Equities.

(b) *Allocation of Net Loss Among Patrons of Loss Unit.* Any cancellation of equities and/or establishment of accounts payable pursuant to this Section 7.06 shall be made among the patrons of an allocation unit in a manner consistent with the allocation of net income of the allocation unit.

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

(d) *Board Discretion.* The provisions of this Section 7.06 shall be implemented by the Board of Directors, having due consideration for all of the circumstances which caused the net loss, in a manner that it determines is both equitable and in the overall best interest of this cooperative.

(e) *No Assessments against Members.* There is no right of assessment against members or for the purpose of restoring impairments to capital caused by net losses.

**Section 7.07. Distribution of Net Income.**

(a) *Patronage Refunds.* The net income allocated to a patron pursuant to Sections 7.05 and 7.09 shall be distributed annually or more often to the patron as a patronage refund; provided, however, that no distribution need be made where the amount otherwise to be distributed to a patron is less than a de minimus amount that may be established from time to time by the Board of Directors.

(b) *Form of Patronage Refunds.* Patronage refunds shall be distributed in cash, capital stock, allocated patronage equities, revolving fund certificates, securities of this cooperative, other securities, coupons for goods and services of the cooperatives or any combination thereof designated by the Board of Directors (all except cash and other securities referred to collectively in these Bylaws as "Patrons' Equities"), including, without limitation, the following instruments:

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

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

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

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

(d) *No Voting Rights.* Patrons' Equities shall not entitle the holders to any voting or other rights to participate in the affairs of this cooperative (which rights are reserved solely for the members of this cooperative).

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

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

(g) *Revolverment Discretionary.* No person or entity 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. The redemption or retirement is solely within the discretion and on the terms as described from time to time by the Board of Directors of this cooperative.

**Section 7.08. Capital Reserve.** The Board of Directors shall cause to be created a Capital Reserve and, except as otherwise provided in Section 7.09, shall annually add to the Capital Reserve the sum of the following amounts:

- (a) The annual net income of this cooperative attributable to nonpatronage business;
- (b) Annual net income from patrons who are unidentified or to whom the amount otherwise to be distributed is less than the de minimus amount provided in Section 7.07(a); and
- (c) An amount not to exceed the distributable net income from patronage business. The discretion to credit patronage income to a Capital Reserve shall be reduced or eliminated with respect to the net income of any period following the adoption of a Board of Directors resolution that irrevocably provides for the reduction or elimination with respect to such period.

The Board of Directors shall decide how much to add to the Capital Reserve no later than 8.5 months following the close of the latest fiscal year. Federal income taxes at the cooperative level shall be charged to the Capital Reserve. Such reserves shall be credited to the allocation units and the patrons thereof in the same manner as patronage income is allocated within the allocation unit.

**Section 7.09. Allocation and Distribution of Nonpatronage Income and Loss.**

(a) *Nonpatronage Income.* The Board of Directors shall have the discretion to allocate to allocation units amounts that are otherwise to be added to the Capital Reserve pursuant to Section 7.08. The allocation may be made on the basis of any reasonable and equitable method. Amounts so allocated to allocation units shall be further allocated among the patrons of the allocation units on a patronage basis using a method that the Board of Directors determines to be reasonable and equitable. Amounts so allocated shall be distributed to those patrons in the form of cash, property, Non-Patronage Earnings Certificates, or any combination thereof designated by the Board of Directors.

(b) *Nonpatronage Loss.* If the cooperative incurs a net loss on its nonpatronage business or if a net loss is incurred with respect to the nonpatronage business of an allocation unit, the net loss generally shall be chargeable against Capital Reserve unless and to the extent the Board of Directors, having due consideration for the circumstances giving rise to the net loss, determines that it is reasonable and equitable to allocate all or part of the net loss among one or more allocation units and shall reduce the unit's net income from patronage business to the extent of the allocated loss and the excess, if any, shall be treated generally in accordance with Sections 7.06(a)(ii), (iii), and (v).

**BYLAW VIII  
CONSENT**

**Section 8.01. Consent to Take Patronage Distributions Into Income.** Each person who hereafter applies for and is accepted to membership in this cooperative and each member of this cooperative as of the effective date of this bylaw who continues as a member after such date shall, by such act alone, consent that the amount of any distributions with respect to its patronage which are made in written notices of allocation (as defined in 26 U.S.C. § 1388), and which are received by the member from this cooperative, 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 the written notices of allocation are received by the member.

**BYLAW IX  
MERGER OR CONSOLIDATION; DISSOLUTION**

**Section 9.01. Merger or Consolidation.** If the terms of a merger or consolidation of which this cooperative is a party do not provide the members of this cooperative with an economic interest in the surviving entity that is substantially similar to the economic interest possessed by such members in this cooperative immediately before such merger or consolidation, the value of the consideration received shall be divided among them in the same manner as a comparable amount of net liquidation proceeds would be distributed pursuant to Section 9.02. This shall not be construed to prevent issuance of differing forms of consideration to different groups of members to the extent allowed by law.

**Section 9.02. Liquidation, Dissolution and Winding-Up.** Subject to the Articles of Incorporation, in the event of any liquidation, dissolution or winding up of the affairs of this cooperative, whether voluntary or involuntary, all debts and liabilities of this cooperative shall be paid first according to their respective priorities. The remaining assets shall be distributed in the following manner and order of preference: (1) outstanding membership loans. (2) second to the holders of Membership Units in an amount equal to the value of the consideration for which the Membership Units were issued, without priority and on a pro rata basis if necessary. For purposes of this section only, a Member who makes an advertising commitment to the Cooperative concurrently with subscribing for Membership Units shall have the amount of that commitment added to the value of consideration for which Membership Units were issued. (3) third to payment of the stated dollar amount of all Patrons' Equities (other than Non-Patronage Earnings Certificates), in chronological order of year beginning with the oldest outstanding Patrons' Equities first and on a pro rata basis within a year if necessary; (4) fourth to payment of the stated dollar amount of Non-Patronage Earnings Certificates, in chronological order of year beginning with the oldest outstanding Non-Patronage Earnings Certificates first and on a pro rata basis within a year if necessary; and (5) fifth to the patrons in accordance with their interest in Capital Reserves. Any assets remaining after the foregoing payments have been made shall be allocated among the allocation units in the manner as the Board of Directors, having taken into consideration the origin of the amounts, shall determine to be reasonable and equitable. Amounts so allocated shall be paid to current and former patrons of each such allocation unit in proportion to their patronage of the unit over the period as may be determined to be equitable and practicable by the Board of Directors. The obligation to distribute shall be construed as a preexisting duty to distribute any patronage sourced net gain realized in the winding up process to the maximum extent allowable by law.

**BYLAW X  
UNIT RETENTIONS**

**Section 10.01. Unit Retain.** This cooperative may require investment in its capital in addition to the investments from retained patronage. These investments shall be direct capital investments from a retain on a per unit basis of the patronage business. The unit retention, if required, shall be made on all products delivered, in the same amount per unit and shall at no time become a part of net annual savings available for patronage. Each member, by continuing to be such, agrees to invest in the capital of this cooperative as prescribed in this Bylaw X. Such investments shall be accounted for separately in a unit retention account set up on the books of this cooperative. Only the Board of Directors shall have the authority and power to require investment in the capital of this cooperative as prescribed in this Bylaw X. No receiver, trustee or similar officer of any property of this cooperative shall have the authority or the power to require investment in the capital of this cooperative as prescribed in this Bylaw X, and any assignment for the benefit of creditors or any commencement of any proceeding under any bankruptcy,

insolvency, receivership, dissolution, liquidation or similar law by or against this cooperative shall terminate the authority of the Board of Directors to require investment in the capital of this cooperative as prescribed in this Bylaw X. The power and authority of the Board of Directors to require investment in the capital of this cooperative as prescribed in this Bylaw X shall be subject to the minimum cash payment provisions expressly provided for in any uniform delivery and marketing agreement between this cooperative and its members, if any. The Board of Directors shall have the power to designate any unit retain certificate as a "qualified per unit retain certificate" or a "non-qualified per unit retain certificate" within the meaning of the Internal Revenue Code.

**Section 10.02. Consent to Take Qualified Per Unit Retains Into Income.** Each person who hereafter applies for and is accepted to membership in this cooperative and each member of this cooperative as of the effective date of this bylaw who continues as a member after such date shall, by such act alone, consent that the amount of any per-unit retain certificate authorized by this bylaw and designated by the Board of Directors to constitute a "qualified per-unit retain certificate," and which are received by the member from this cooperative, will be taken into account by the member at its stated dollar amount in the manner provided in 26 U.S.C. §1385(a) in the taxable year in which the qualified per-unit retain certificates are received by the member. The purpose of this consent bylaw is to make a per-unit retain certificate so designated by the Board of Directors a "qualified per-unit retain certificate" within the meaning of 26 U.S.C. § 1388.

**BYLAW XI  
RESTRICTIONS ON SALES AND TRANSFERS**

**Section 11.01. Restrictions on Transfer.** For purposes of this Bylaw, the term "transfer" shall mean, as a noun, any voluntary or involuntary transfer, sale, assignment, or other disposition and, as a verb, to voluntarily or involuntarily transfer, sell, assign or otherwise dispose of. The Membership Units of this cooperative are transferable only with the consent and approval of the Board of Directors and may not be pledged. Any purported transfer other than a transfer in accordance with these Bylaws shall be null and void and of no force or effect whatever.

**BYLAW XII  
FISCAL YEAR**

The Board of Directors may by resolution adopt a fiscal year of this cooperative from time to time.

**BYLAW XIII  
AMENDMENTS**

These Bylaws may be amended as provided by law.

**APPENDIX C**

**MORRIS THEATRE COOPERATIVE**

**CLASS A UNITS**

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**SUBSCRIPTION PACKAGE**

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## NOTICES TO INVESTORS

This package contains execution copies of the documents required to be signed and submitted to Morris Theatre Cooperative (the “Company”) in order to subscribe to purchase Class A Units (“Units”) of the Company in the offering (the “Offering”) made by the Company’s Private Placement Memorandum dated December 10, 2007, as the same may be amended or supplemented subsequent to that date (the “Memorandum”).

You should read the Memorandum, including the Appendices attached and any supplements thereto, carefully and thoroughly for a full description of the Company and the Units.

Please direct any questions regarding the Offering or the subscription process to David Ericksen, one of our Board Members, by telephone at (320) 589-2200 option 3 or email us at [joinus@morristheatre.net](mailto:joinus@morristheatre.net).

We reserve the right to reject your Subscription for any reason in our discretion. If we reject your Subscription, we will return your Subscription materials and check to you.

## INSTRUCTIONS

### TO SUBSCRIBE FOR UNITS IN THIS OFFERING YOU MUST:

A. **Subscription Agreement.** *Review carefully and complete* this Subscription Agreement (pages 42 through 50) as follows:

*Complete* the Subscription and Subscriber Information required on pages 48 through 50 as follows:

- a. *Indicate* the number of Units you are purchasing, the total purchase price for your investment, and the amount of your deposit payment for the Units.
- b. *Print* the name(s) in which the Units are to be registered. Check the appropriate box to indicate form of ownership. If the Subscriber is a corporation, Cooperative, partnership, trust or custodian, please *provide* the additional information and documents requested.
- c. *Provide* the address, telephone number and social security or tax identification number of the Subscriber, including any joint or

additional Subscriber. All individual Subscribers must provide their social security number. Entities must provide their taxpayer identification number. Trustees or custodians must provide the social security number of the beneficiary or taxpayer identification number of the trust or IRA as required by applicable law.

- d. **Fill in** your state of residence if you are an individual Subscriber or, if an entity, the principal place of business.

**Sign and date** the Subscription Agreement where indicated on page 50. Note that each Subscriber (including each joint tenant, tenant in common or other additional Subscriber) must sign.

- B. **Payment.** **Make a check** payable to “**Morris Theatre Cooperative**” in an amount equal to the total purchase price of the Units for which you are subscribing as shown on page 48 of your Subscription Agreement. If you wish to submit funds by wire transfer or other method, please contact us for instructions.

**Return items A and B (listed above) to:**

Morris Theatre Cooperative - Subscriptions, P.O.Box 552, Morris, MN 56267.

[The remainder of this page is left blank intentionally.]

**THE SECURITIES TO WHICH THIS SUBSCRIPTION AGREEMENT RELATES  
ARE NOT OFFERED IN ANY STATE OR JURISDICTION OTHER THAN  
MINNESOTA.**

**MORRIS THEATRE COOPERATIVE**

**SUBSCRIPTION AGREEMENT**

**CLASS A UNITS**

**This Subscription Agreement** (this “Agreement”) by and between **Morris Theatre Cooperative**, a Minnesota cooperative (the “Company”), and the undersigned subscriber (the “Subscriber”) is made effective as of the date on which the Company accepts this Agreement by executing the Acceptance form below.

1. **Memorandum.** Subscriber understands that the offering of Class A Units (the “Units”) of the Company to which this Agreement relates is being made only pursuant to a Memorandum, including the appendices and any amendments or supplements thereto (the “Memorandum”).

2. **Subscription for Units.** Subscriber hereby offers and agrees to purchase from the Company that number of Units set forth on the execution portion of this Subscription Agreement at the purchase price of \$250 per Share on the terms and conditions herein provided. Concurrently with the delivery of this Agreement, the Subscriber must deliver a check for payment of the amount set forth on Line B of the execution portion of this Agreement.

3. **Acceptance of Subscription.** The Company reserves the right to reject this Subscription Agreement, in whole or in part, for any reason, in its sole discretion. If the Company accepts this Subscription Agreement, one of its officers will countersign a copy of this Subscription Agreement and return a copy of the signature page to the Subscriber to confirm the Subscriber’s purchase. This is the only way the Company will accept this Subscription Agreement.

4. **Representations and Warranties of the Subscriber.** In consideration of the Company’s acceptance of this Subscription Agreement, by his, her or its signature on this Agreement, the Subscriber hereby represents and warrants to the Company as follows:

The Subscriber, or the Subscriber's representative, has had an opportunity to obtain, and has received, any information and has had an opportunity to ask such questions of, and receive answers from, the Company or an agent or representative of the Company, to the extent the Subscriber deemed necessary in order to form a decision concerning an investment in the Units. The Subscriber understands that the Memorandum contains important information about this offering, the Company, its proposed operations, and an investment in the Units.

The Subscriber has not relied on any statements not contained in the Memorandum. No person has been authorized to give any information or to make any representation not contained in the Memorandum in connection with the offer and sale of the Units.

The Subscriber certifies, under penalties of perjury, that the Subscriber is NOT subject to the backup withholding provisions of Section 3406(a)(i)(C) of the Internal Revenue Code of 1986, as amended. (Note: You are subject to backup withholding if: (i) you fail to furnish your Social Security number or taxpayer identification number herein; (ii) the Internal Revenue Service notifies the Company that you furnished an incorrect Social Security number or taxpayer identification number; (iii) you are notified that you are subject to backup withholding; or (iv) you fail to certify that you are not subject to backup withholding or you fail to certify your Social Security number or taxpayer identification number.)

The Subscriber acknowledges that the Units are being acquired for the Subscriber's own account and for investment and without the current intention of transferring any rights with respect to or reselling or redistributing the Units. The Subscriber understands that no public market currently exists or is expected to develop for the Units, and that the Units will not trade on any stock exchange or automatic quotation system.

The Subscriber is a resident of or, if an entity, has its principal place of business in, the State of Minnesota.

The Subscriber has such knowledge and experience in financial and business matters that the Subscriber is capable of evaluating the merits and risks of an investment in the Units or the Subscriber has obtained, to the extent the Subscriber deems necessary, the Subscriber's own professional advice with respect to the risks inherent in an investment in the Units, and the suitability of an investment in the Units in light of the Subscriber's financial condition and investment needs. The

Subscriber understands that an investment in the Units is not suitable for the Subscriber if:

(i) The Subscriber cannot afford to lose the Subscriber's entire investment.

(ii) The Subscriber will need to resell or liquidate the Subscriber's investment in the near term (the Units are an illiquid investment because no public trading market exists and the Units are subject to significant transfer restrictions).

(iii) The Subscriber needs to receive an immediate return on the Subscriber's investment (the Company will not be able to pay a dividend for a considerable period of time).

(iv) The Subscriber cannot tolerate the market and industry risk that is inherent in the movie theatre industry.

5. **Securities Law Compliance.** The Subscriber and the Company acknowledge that the offer and sale of the Units has not been registered under the Securities Act nor under the securities laws of any states. Accordingly the Company will not accept subscriptions to purchase Units unless subscribers are members of the Company and residents of the State of Minnesota.

6. **Transferability.** The Subscriber understands and agrees that the Units may not be transferred to any third party except in accordance with the Company's Articles of Incorporation and Bylaws. As a consequence, the Subscriber understands that the Units may be prohibited from sale or transfer for an extended period of time, that the Subscriber must bear the economic risk of an investment in the Units for an indefinite period of time and that the Subscriber may have extremely limited opportunities, if any, to dispose of the Units.

7. **Binding Effect.** Neither this Agreement nor any interest herein shall be assignable by the Subscriber without the prior written consent of the Company. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

8. **Representations to Survive Delivery.** The representations, warranties and agreements of the Company and of the Subscriber contained in this Agreement will remain in full force and effect and will survive the payment of the purchase price pursuant to Section 2

above, the registration of the Subscriber as a holder of Units in the records of the Company and the delivery of any certificates representing the Units.

9. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota, excluding its conflict of laws rules.

10. **Headings.** The section headings in this Subscription Agreement are for convenience of reference only and shall not limit or affect the interpretation of the provisions hereof.

11. **Definitions.** Any capitalized term used herein shall have that meaning accorded to it in the Memorandum, unless otherwise expressly indicated.

### RELIANCE BY COMPANY

The Subscriber understands that the Company is relying on the representations, warranties and other information provided by the Subscriber in this Subscription Agreement with respect to the offer and sale of the Units. By signing below, the Subscriber certifies that all information provided by the Subscriber in this Subscription Agreement is accurate and complete as of the date listed below and, if not an individual, that the Subscriber is duly organized, validly existing and in good standing and has full authority to execute and agree to this Subscription Agreement. The Subscriber understands and agrees that this Subscription Agreement is irrevocable. Subject to the terms of this Subscription Agreement, the Company will return the Subscriber's Subscription Agreement and cash payment only if the Company rejects this Subscription Agreement.

### CAUTION!

This Subscription Agreement is a legal contract between the Subscriber and the Company concerning the purchase of Units. The Company urges the Subscriber to read carefully this entire Subscription Agreement and the Memorandum, including each of its Appendices, for a complete description of an investment in the Units. The Subscriber should obtain the Subscriber's own professional advice with respect to the risks inherent in an investment in the Units, and the suitability of an investment in the Units in light of the Subscriber's financial condition and investment needs.

## SUBSCRIPTION AND SUBSCRIBER INFORMATION AND SIGNATURES

### Subscription for Units

**A. Number of Units Subscribed For:**..... \_\_\_\_\_  
(Minimum subscription is 1 Share, \$250)

**B. Total Purchase Price for Units:**..... \_\_\_\_\_  
(Multiply total on Line A by \$250)

### -and/or- Commitment to Purchase over Time

amt per payment: \$ \_\_\_\_\_ # of payments: \_\_\_\_\_ monthly / quarterly / annually / other \_\_\_\_\_

**TOTAL future commitment: \$** \_\_\_\_\_

### Subscriber Name and Form of Ownership *(Units will be registered as shown in the name(s) printed below)*

Name(s) of Subscriber(s): \_\_\_\_\_

Form of Ownership – check applicable box:

- Individual
- Joint Tenants with Right of Survivorship (all signatures must appear below)
- Tenants in Common (all signatures must appear below)
- Individual Retirement Account (signatures of both account owner and trustee or custodian are required)
- Corporation, Limited Liability Company, Partnership or other entity (corporate or limited liability company resolutions or partnership agreement must be enclosed)
- Trust (title and signature pages of trust agreement and all amendments must be enclosed):  
Trustee Name(s): \_\_\_\_\_  
Date of trust agreement or last amendment: \_\_\_\_\_
- Other: Provide detailed information:  
\_\_\_\_\_  
\_\_\_\_\_

**Subscriber Address and Tax Information**

**Subscriber:**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
City State Zip

(\_\_\_\_\_) \_\_\_\_\_

Telephone Number (include area code)

\_\_\_\_\_  
Social Security or Taxpayer Identification  
Number \*

State of Residence: \_\_\_\_\_

*(Only MN residents or businesses incorporated in MN are eligible for membership.)*

Date of Birth (if under 18 years of age): \_\_\_\_\_

E-mail address (optional): \_\_\_\_\_

(\*Note: If more than one social security number is required to be provided, the Company will deliver notices to the Subscriber and address associated with the first social security number.)

**Joint or Additional Subscriber (or IRA owner or Custodian):**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
City State Zip

(\_\_\_\_\_) \_\_\_\_\_

Telephone Number (include area code)

\_\_\_\_\_  
Social Security or Taxpayer  
Identification Number \*

State of Residence: \_\_\_\_\_

**Signature(s)**

**By signing below each Subscriber represents, warrants and agrees as provided in the foregoing Subscription Agreement and that the information provided in this Subscription Agreement, including the Subscription, Subscriber Information and Signature pages is true, correct and complete.**

**Individuals:**

(Includes joint tenants, tenants in common and individual IRA beneficiaries)

**Entities:**

(Includes corporations, limited liability companies, partnerships, cooperatives, trusts and IRA custodians)

\_\_\_\_\_  
Name of Individual Subscriber

\_\_\_\_\_  
Name of Entity Subscriber

\_\_\_\_\_  
Signature of Individual Subscriber

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Name of Joint Individual Subscriber

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Signature of Joint Individual Subscriber

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

**Acceptance by Company:**

This Subscription Agreement has been accepted and agreed to this \_\_\_\_ day of \_\_\_\_\_, 200\_.

**MORRIS THEATRE COOPERATIVE**

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_