CO-OP GROWERS ACCUSE OWN CEO OF LOWERING PURCHASE PRICE IN SALE TO RIVAL ADM

GEOFF DOUGHERTY, CHICAGO TRIBUNE: Two years ago, farmers who owned the massive ethanol plant on the edge of Marshall, Minnesota had no idea the company was for sale.

But the chief executive running the Minnesota Corn Processors co-operative knew different.

L. Daniel Thompson had met secretly with a top official at rival Archer Daniels Midland Co. to discuss a sale of the company. Thompson told his ADM contact that he might be able to convince the farmers to accept a lower price for their co-op than at least some of them had in mind.

"My thoughts are that I am the only person that could get them to accept a lower number," Thompson said in a handwritten letter faxed to ADM, the agribusiness giant based in Decatur, Illinois.

As part of the transaction, Thompson said, he would expect ADM to buy out his $1.5 million contract. He also wanted "some ADM shares of a reasonable amount once the deal is completed," Thompson wrote.

On September 6, 2002, ADM bought the company for $396 million in cash, boosting its position as the dominant player in the market for ethanol, the widely used fuel additive made from corn. As ethanol has soared along with oil prices, recriminations followed, culminating in a bitter court fight alleging bad faith on the part of Thompson.

The case has fed long-standing resentments among independent-minded farmers against the consolidation of agriculture in the hands of a few global titans, such as ADM.

"It makes my blood boil every time I think about it, to think of the money everyone could be making if we still owned the company," said former co-op director Steve Lipetzky.

For the farmers who started the co-op two decades ago, selling out was bittersweet. Many were getting on in years and welcomed a chance to cash in their holdings. ADM's purchase price represented three times the value the co-op had assigned to their privately held shares.

And partly because of Thompson's lobbying efforts in favor of the buyout, many were convinced the ethanol market was tanking, and it was time to get out.

Thompson, who moved to Texas shortly after the transaction was completed, defended his actions in a recent statement to the Chicago Tribune, noting that 82% of shareholders voted in favor of it.

"There are baseless class-action lawsuits filed in this country every day, and this is just another baseless lawsuit," he said of the suit against him and other co-op officers that is slated to go to trial in February.

Other co-op officers and their lawyer did not return messages seeking comment. ADM, which is not named in the suit, denied any misconduct and declined to answer questions about the transaction.

Minnesota Corn Processors started operations in Marshall, a town of 13,000 near the South Dakota border, in 1983. The goal of the plant was to produce products from corn with higher profit margins, such as ethanol.

"We thought if we could take our corn and process it into syrup and ship it, we'd have a better margin," said Richard Jurgenson, one of its founders.

By 2001 the co-op's products were used in a range of things, from Coors beer to de-icing fluid. The company employed 913 workers, operated plants in Minnesota and Nebraska and raked in $600 million in sales. "As far as what it generated in the economy, it was tremendous," said Lipetzky. "What we built in 20 years made everybody's head spin."

In the late 1990s, however, there was talk of bank foreclosure after the co-op had taken on $300 million in debt to expand its milling operations. Thompsonwas recruited as its chief financial officer and fended off the banks by helping to put together a transaction in which ADM purchased a 30% non-voting stake for $120 million.

A key provision, however, was that ADM could not increase its ownership of the co-op.

But on March 27, 2002, Thompson and Martin Andreas, a cousin and assistant to ADM's chief executive, G. Allen Andreas, met at a trade conference in Chicago.

The pair discussed how much ADM might be willing to pay for the co-op, according to a proxy filed with the Securities and Exchange Commission on August 9, 2002. Thompson previously had engineered mergers as the chief executive at two vegetable oil-makers.

After that meeting, Thompson wrote his letter.

"Dear Marty," it began. "Excuse the handwritten note, but I wanted this to be an informal communication from me as an individual instead of a formal position of MCP.

"The board has indicated that it would take $3 per share before they could sell any deal," Thompson wrote. "My thoughts are that I am the only person that could get them to accept a lower number. It would not be significantly lower, perhaps $2.80."

Thompson also addressed his own finances.

"For me personally, I have a three-year contract that I would like honored in all terms, except that the pay could be adjusted to a flat $500,000 per year salary, instead of the base and formula that will pay me currently between $400,000 and $600,000 over the next three years," he wrote.

Thompson's contract actually was due to expire in March 2003, according to SEC documents. Over the previous three years, he had never made more than $330,000 in salary and bonuses.

That would change, though.

The evening of April 22, the co-op board convened at its low-slung headquarters. The first order of business: Thompson wanted his contract renewed.

The board complied, according to its minutes, extending his year contract through 2005, giving him a raise and agreeing that Thompson would receive his full three-year salary if the company were sold.

Then, Thompson offered some news: He was in negotiations to sell the company. Further, he proposed that he and other key executives be rewarded with incentive bonuses for staying on at the co-op until the deal was completed.

The board agree to proceed with talks with ADM and also approved incentive bonuses amounting to $20.1 million in cash and benefits--an amount equal to five times the officers' annual salary and benefits --- if the company were sold.

Over the next two months, ADM and Thompson went back and forth on the deal's terms, finally agreeing that ADM would exchange $2.80 in its stock for each co-op share.

On June 26, the deal was sweetened to $2.90, but payment would be in cash instead of ADM shares.

Co-op officials portrayed the cash deal as advantageous to members, because holding ADM shares would expose farmers to risk when they really needed liquidity.

That change would have major implications because the farmers would have to pay taxes, reducing their payout by about 20% If they had received ADM stock, they wouldn't pay taxes until they sold the shares. ADM shares have risen by more than 60% in the two years since the deal, closing Friday at $19.84.

Appearing at a series of meetings in August with the co-op's farmers, Thompson urged them to approve the sale because the co-op was unprofitable in the first six months of the year and because the future for ethanol appeared grim.

"September 11 happened, and it led to a different fuel market," Thompson said at one gathering, according to an account of the meeting contained in an SEC filing. "Ethanol began a free fall. ... This is a huge hit for us."

He highlighted projections showing that the price for ethanol would average $1 a gallon for the rest of 2002 and then rise slowly to $1.20 a gallon by 2006. The company, he said, likely would lose money in 2002 and 2003.

Thompson's forecasts were more pessimistic than the company's internal projections. The co-op's accountants, in a newsletter dated summer 2002, said, "The potential for ethanol is enormous."

ADM had the same opinion. During a November 2001 conference call with industry analysts, a top ADM official said: "I think right now all the stars are aligned properly for ethanol. With the situation in the Middle East now, people in the United States are going to be looking for more renewable fuels like ethanol and biodiesel."

Douglas Albin, a local farmer and lead plaintiff in the class-action suit against Thompson and other executives, said co-op members were spooked into approving the deal.

"I was standing there talking to an elderly gentleman. He said: `This is terrible. ... We've got to sell,'" Albin recalled in a deposition. "He [Thompson] was basically setting up the membership to panic and take and sell the company."

The co-op's shareholders voted on the merger on September 5, 2002. Many struggled with the notion of giving up a community institution that they'd poured so much work, and hope, into.

"I didn't want to sell. It was part of us," said Jurgenson. "It's something we built from ground up."

But others wanted to cash out. With shares trading so thinly, ADM's offer seemed like a good one.

"The main reason for voting for it was that I thought these guys had the right to a little bit of income to live a better life in retirement," said board member Duane Adams.

Adams, though, said the co-op's officers pushed the merger through too fast and didn't explore their options.

"I don't think management did anything illegal," he said. "But I think it could have been handled a hell of a lot better."

Farmers have been especially riled by Thompson's letter, which was filed in connection with the lawsuit. The personal interests of executives in merger talks rarely are stated as plainly as Thompson did.

"It sounds like he was caught red-handed," said B. Espen Eckbo, director of the Center for Corporate Governance at Dartmouth College's Tuck School of Business. "I've never heard a story like this."

How did Thompson come up with the $3 a share figure mentioned in his letter?

Some former board members say at one point co-op members discussed how much the shares might be worth, and that they considered but then dropped the idea of sending out a survey that would have asked that question. There was little discussion of share price until the ADM offer was on the table, Adams said.

More than two-thirds of the members approved the sale, and ADM took control on September 6, 2002.

It is unclear whether Thompson, 63, ever received shares from ADM, as he proposed in his letter.

In a court filing, Thompson acknowledged that he received more than $4 million from his severance and retention agreements upon sale of the co-op.

In retrospect, farmers accuse Thompson of greed.

"The first thing he did, before we even heard about the deal, was get that golden parachute," said Lipetzky.

Shortly after Thompson's departure, ADM closed the co-op's administrative office in Marshall, putting more than 100 people out of work.

For ADM, the purchase of the co-op was timely. Since the merger, ethanol prices have soared, selling on the spot market in October for $2.05 per gallon, the highest level in three years.

John McMillin, an analyst at Prudential Securities, said the acquisition "has been, if not a home run for ADM, at least a double or triple."

Profits from milling corn now go to Decatur instead of back into the Marshall area.

"That's what was really lost," said Dean Buesing, a former co-op board member. "We came in here as dirt farmers, and now it's gone back to the way it was then." [November 7, 2004]