# Fields of controversy

**Joy Powell**
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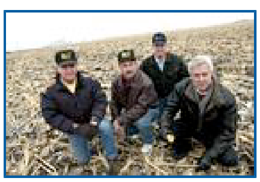
MARSHALL, MINN. -- The farmers who sold their corn-processing company cashed their checks months ago, and Archer Daniels Midland Co. managers have taken over the operation. But the dust hasn't settled in corn country.

The $756 million sale of Minnesota Corn Processors (MCP) to agribusiness giant ADM last September is stirring concerns that reverberate far beyond southwestern Minnesota to the State Capitol and Washington, D.C.

Some Minnesota lawmakers are frustrated that the state provided $33 million in ethanol-producer subsidies to a farmer-owned operation -- only to see it become the biggest acquisition ever for Illinois-based ADM. And a federal judge has yet to review an antitrust challenge before he signs a consent decree approving the sale. ADM said Friday it is confident the deal will be approved.


Opposed sale to ADM
Kyndell Harkness
Star Tribune

Meanwhile, in Marshall, there is bitterness over the way the deal came down. Some directors of Minnesota Corn Processors, including those who voted for the sale, say negotiations and supporting documentation were pushed through quickly, without adequate information.

Dissenters say they were threatened with possible lawsuits and arrest while company executives were poised to reap millions of dollars in golden parachutes and accelerated pension plans.

The 5,400 farmers in Minnesota and other states who sold to ADM may never know whether they got a fair price, say legal experts who reviewed the proxy and other public documents.

But there was always more than money at stake. Two decades ago, these farmers launched a venture to compete with the world's biggest

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They raised a quarter-billion dollars, built plants in southwestern Minnesota and Nebraska and marketed nationwide. They stepped from the fields into the world of big business to gain more control over their economic destiny.

For a while, it worked. They reaped higher corn prices and pushed annual sales to $620 million.

But last September, after being told of dismal prospects, the shareholders voted by a landslide to sell. They had set out to eliminate the middleman by becoming processors themselves. In the end, the middleman eliminated them.

"We're just dirt farmers now," MCP director Dean Buesing said his brother told him after the vote.

### The dream

The dream began 23 years ago on the fertile plains of west-central Minnesota, in high-spirited meetings from Clarkfield to Granite Falls.

In March 1980, Kim Larson, a 27-year-old farmer just starting out with cattle and grain, gathered with 20 other farmers in Willmar to hear a state expert on economic development.

Larson watched the man tape butcher paper on the cafe's walls and scrawl numbers and flow charts showing how the farmers could process corn themselves and move beyond providing grain for the bellies of animals and people. They could cash in on the growing markets for ethanol, or fuel alcohol, and corn-derived sweeteners.

The dream set a fire in Larson, and he and others began selling the vision. Original shares were valued at $2.06, and farmers had to supply at least 5,000 bushels, with a cash investment of of least, $10,300. The more cash they invested, the more bushels they were required to deliver.

The farmers formed a cooperative, and Larson became a director. So did Steve Lipetzky of Springfield. He believed so strongly in the farmer-owned venture that when he encountered financial difficulty years later, he sold land and farm equipment in order to keep his stock and invest more.

From the beginning, Larson pushed to have business experts serve on the board to provide expertise. But that never happened. Farmers instead relied on themselves, making mistakes along the way.

In 1983, they opened a $55 million plant in Marshall, where the city's help included $1.86 million in tax-increment financing. The plant on Marshall's north side would grow over the years into a sprawling complex of silos and buildings, rail cars and grain bins. Above it all, day in and out, rose white plumes of steam.

It was the state's first, and still the only, corn wet mill. The plant collected corn, cleaned and steeped it in tanks of water and sulfur dioxide. Puffed kernels were put into rollers that separated the outside fiber from the white starch inside. The rollers popped out the small germ containing the corn oil.

The dried germ was sold for other products, and the fiber became gluten livestock feed. From the remaining starch, gluten meal was extracted for pet and poultry food. The starch slurry was refined into cornstarch, corn syrup, fructose or ethanol.

At first, the plant made cornstarch and corn syrup for confectionaries, ketchup and other goods. The corn syrup was supposed to be as clear as honey but came out as dark as chocolate milk. The farmers didn't know how to steep corn.

"We just about went out of business when we started because we didn't know anything," Larson recalled. "We were just a bunch of farmers who built this. We had to learn."

By 1987, the farmers had worked out the kinks and were making money.

That year, Minnesota lawmakers approached them about producing ethanol. The cooperative agreed to add an ethanol plant. The state approved subsidies, and Minnesota soon led the nation in blending ethanol into gasoline.

In 1991, the farmers built a state-of-the-art wet-milling plant in Columbus, Neb. More expansions came in 1993 and 1995.

Jerry Jacoby, a Springfield farmer, was chairman of the 24-member board. A former military officer, he is tall, lean and at times intimidating. He also served as the first president of the Minnesota Ethanol Coalition, testifying often before legislators.

For Jacoby, the venture was about farmers taking their future into their own hands. They were becoming a big player in the commodity manufacturing business -- a business dominated by huge competitors such as Minnetonka-based Cargill Inc. and ADM. It was, he would later say, a saga about "the ups and downs."

"We realized that we had to grow or die," he said. "We had to become hard-nosed businessmen, realistically assessing the future of our industry and the role we played in it . . . forgetting all the warm, fuzzy buzzwords of 'farmer-owned,' 'value-added.' . . . We were in a fight for our lives."

The fight escalated in 1996, when corn prices soared. Fructose prices crashed shortly after. The company had already incurred cost overruns in its fast-track expansions.

Corn prices more than doubled to $5 a bushel, and the company was socked because it hadn't locked in prices paid to farmers.

The company was hit with big losses. The situation worsened when Mexico curbed fructose imports to protect its sugar farmers. Processors had expanded production in hopes of selling more to Mexican and U.S. soft-drink makers. Excess fructose glutted the U.S. market, driving down prices.

But the hardest blow had come after another Midwest wet-mill plant was built. In 1995, a consortium of mostly beet farmers in northern Minnesota and North Dakota had built the $261 million ProGold Corn Sweetener Plant in Wahpeton, N.D. ProGold, which later formed an alliance with Cargill, started a price war as it fought for fructose market share. Prices stayed low for two years.

"So there we were, at the end of '96, with the balance sheet upside down," recalled Doug Finstrom, a director and farmer from Kerkhoven who invested heavily. "We owed $410 million. The banks didn't like not being paid."

Local lenders had lost faith in them, and now Minnesota Corn Processors had to find a partner or close the doors. They started a bidding war.

Corporate jets carrying executives from Cargill, ADM and A.E. Staley Manufacturing soared into Marshall. MCP directors were involved in negotiations, along with chairman Jacoby and L. Dan Thompson, president and CEO.

Cargill wanted too much control. A.E. Staley couldn't come up with enough money. ADM executives came in as the friendly saviors. Larson recalls chairman and CEO G. Allen Andreas as a well-spoken, down-to-earth man with a calming manner. ADM did not seek voting shares or control, except to be consulted on major expenditures.

In late August 1997, ADM bought 30 percent of the company for $120 million. Many saw ADM's investment as a rescue by a corporate angel. Others saw it as the first step in a dance with the devil.

### Turnaround

By 1999, Minnesota Corn Processors was turning around. Both revenue and net profit increased. In 2000, the processor switched from a cooperative to a Colorado limited liability corporation, mostly for tax reasons. Everyone's shares were revalued at $1.02.

After gains in 2000 and 2001, profits dipped in 2002. But by then, the company had reduced debt from $410 million to $245 million, largely through ADM's infusion of money and refinancing.

Finstrom and others felt MCP had turned a corner. The processor had bought a dozen other spinoff companies and pushed its grind in Marshall and Columbus to about 130 million bushels a year.

Then a regularly scheduled board of directors meeting on April 22, 2002, turned out to be anything but routine. Larson, Finstrom and other directors gathered at a horseshoe table in a round room with windows overlooking a cornfield. Low ethanol and fructose prices were on the agenda.

MCP executives told Larson and the other directors to shut their briefcases and not take notes. CEO Thompson had an announcement. The company was for sale. Directors were stunned.

Thompson was well-liked and smart, and the directors were used to relying on him. He told them that a month earlier, Martin Andreas, ADM's assistant to the chief executive, had asked whether MCP would entertain an offer to sell, and they discussed prices. Andreas had visited the plants in 1997 and was impressed. "That was MCP's long suit -- designing good low-cost plants with low emissions," Andreas recalled in an interview.

A series of calls followed among Thompson, Martin Andreas and CEO G. Allen Andreas, as well as investment bankers. In April, MCP's attorney, Joe Bennett, and chief financial officer, Dan Stacken, joined the discussions.

Some directors said they were dismayed they had never learned of those discussions until the April 22 meeting -- though they had seen Thompson in March.

To add to their surprise, high-powered attorneys, investment bankers and financial advisers from New York had flown by private jet to address them at the April 22 meeting. Board members were warned to not discuss the potential sale among themselves outside of meetings, nor with anyone else.

"It's just like the whole thing was orchestrated," Finstrom said. "And the board was kept out of it."

Board chairman Jacoby disagrees. "The minority board members had every chance to voice their objections," he said. "They could have made motions to slow down the process."

That same day, directors voted on golden parachutes totaling $6.5 million for eight executives, including Thompson and Bennett. A half-dozen directors said they and others never spotted a clause that accelerated existing pension plans for the executives if the company was sold.

The existing pension plan, voted on more than a year earlier, would provide about $6.5 million more. With other compensation, the eight top MCP executives would get a maximum total of about $20 million if the company changed hands.

Nearly a month earlier, Thompson had received a $55,000 raise, to $330,000, with the entire yearly salary to be paid upon the consummation of any merger.

He and Bennett have moved out of Marshall and could not be reached for comment.

### Shareholders speak

On July 2, the board voted 19-5 to have shareholders vote by mail on whether they wanted to sell their shares at $2.90 each to ADM for $396 million. ADM would assume debt of $240 million.

Twenty days later, directors met for the last time. After usual business, Bennett repeated warnings that directors could be sued and possibly lose their farms if they caused the deal to fall through or made slanderous remarks.

Bennett then individually questioned each director about whether he had consulted an attorney or was working against the merger. He only wanted a yes or no answer. The questioning was intimidating, directors said.

Finstrom, Buesing, Lipetzky and Ron Kirchner answered yes to at least one question and were asked to leave the boardroom. Finstrom had not retained an attorney but had spoken informally to one about the situation.

"I'm out trying to gather information; I'm not working against the merger," Kirchner recalled telling Bennett.

Lipetzky had only missed one meeting in 21 years. "I'm not going to leave," he said. "I'm elected by the stockholders to represent the stockholders."

Lipetzky recalled what Thompson told him: "If I didn't leave, he'd call police and have me arrested for trespassing."

Board chairman Jacoby said later in an interview that the dissenters had opinions with "bits and pieces" that were inaccurate. The concern, he said, was that they might derail the sale for members who hadn't received a decent return for seven years. And, he pointed out, shares had tumbled from a high of $4.50 per share to $1, and now a buyer was offering to nearly triple that value.

The offer from ADM sounded decent to most shareholders. But it was the only one on the table.

Respected investment bankers hired by Minnesota Corn Processors to advise and give opinions to directors on the financial fairness of the deal were working, in large part, on contingency. Under an arrangement common in such deals, the two firms were to receive millions more above their $150,000 fees if the sale took place.

The situation left board directors questioning whether the fairness opinions might have been compromised.

Corporate law experts say those concerns are justified.

"In circumstances where the fairness opinion of the investment banker appears compromised, and the MCP management team may also have compromised their independence, [shareholders] may never know if the . . . merger was fair to them," said Robert Moilanen, a Minneapolis corporate attorney who reviewed the proxy and other public documents.

At informational meetings on the upcoming proxy vote, Larson looked out over a sea of gray heads. He knew many farmers were at retirement age, and their best option was to sell.

Many had been hurt by low commodity prices and had large debts. Many had borrowed to invest in the company. The sale would save some farms.

Market projections weren't favorable, according to Jacoby. More ethanol plants are starting up, for example, he said.

Shareholders voted 3,825 for the sale to 736 against. Seven abstained. Among those who voted for it were Larson and Finstrom.

"In some ways," Finstrom said, "I feel we let the membership down because we didn't feel we could tell the whole story. We were warned about what we could say or not."

Now, he and others are questioning whether they could have gotten a better price. And some wonder whether they should have hung on for better times.

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