# Securities Video Transcript

So cooperatives can be either non stock or stock oriented and that's part of your Articles of Incorporation when you organize under state law you decide what type of co-op do we want to be. A non stock co-op you have a membership certificate it's a little more like that nonprofit association or a trade association you might be involved in. You're a member and and that's you operate based on that membership. In a stock cooperative we immediately think of the corporate form of of doing business the investor type business but even in a stock cooperative the stock can simply be an indicia of membership. I own a share of membership stock I'm a member of this co-op. Some co-ops choose to use additional classes of stock as a means to raise capital and another way of looking at that may they may be called preferred shares they're going to be different classes of stock and again those are spelled out in your Articles of Incorporation as far as what are the terms of those. Do they have to be purchased by members, can they be purchased by anyone, how are they redeemed, do they pay dividends, are they cumulative or not? So the all the the characteristics of that class of stock are spelled out in your articles of incorporation and let's talk a little more about about the statutes regarding securities because depending on if you're a stock co-op depending on what you choose to do you may be required to make filings with the division of securities in Ohio if you're in another state whatever their securities office is that oversees the sale of securities. So there are rules you have to follow. There are also exemptions both in the type stock and in the transaction it's in the sale of stock. So it's very states specific. Co-ops agricultural co-ops in Ohio their membership stock is exempt from any filings and membership stock nationwide if you're in multiple states there's a Supreme Court case that says that membership stock in a cooperative is exempt but once you get into preferred stock as a means to raise capital those are not exempt filings typically if it's more than 10 members. So you need to look at some of those things and the cost of those filings can be significant so that's when you're thinking of starting up a co-op and startup cost that's one of the things you need to look at. Of course principles for coop include member ownership and control so if you have an outside investor they're going to want a return on their investment usually of some type. So when you're you have that preferred stock class for that investor you're going to be making some some promises. What is the return on the investment you're offering? Agricultural cooperatives in particular require a limited return on investment. The Capper-Volstead provision for for limited antitrust protection is no more than 8 percent return that sounds great right now right. I'm old enough to remember the 1980s when I purchased my house and it was 13 percent interest rate so you know we don't know what the future brings but someday that limit may come in into play again. Right now what I'm hearing from cooperative boards and CEOs is as it's so inexpensive to borrow money it's much easier than selling stock and many of them have eliminated their preferred stock classes as they go into mergers because then they don't have to worry about securities filings in a merger if if they've redeemed all their preferred stocks. So it depends on the time, the economic circumstances that that were in, which decisions might get made. With an LLC obviously you can have multiple membership classes that outside investor is going to have a class of membership interests and there's going to be promises made as to what the returns going to be and there wouldn't be any limits other than what you can financially manage to do that.