

BUSINESS PLAN FOR

Foremost Brewing Cooperative *Minnesota's First Brewpub Cooperative*



Prepared by: The Foremost Brewing Cooperative Interim Board of Directors

Version Date: 11/25/19

CONFIDENTIAL

This corporate overview is being furnished on a confidential basis solely to a limited number of prospective investors and may not be used for any other purpose. Any reproduction or distribution of this corporate overview, in whole or in part, or the disclosure of its contents, without the prior written consent of the company, is prohibited.

This corporate overview does not purport to contain all of the information necessary to evaluate an investment in the company and it is understood that each investor will make his, her or its own independent investigation into the merits and risks of investing in the company to arrive at an independent evaluation of such investment.

Certain statements made in this corporate overview contain “forward-looking statements”. Investors should not rely on forward-looking statements in our corporate overview. Such forward-looking statements are subject to risks, uncertainties and other factors, many of which are beyond the control of the company, which could cause actual results and developments to differ materially from future results and developments expressed or implied by such forward-looking statements. As a result, all such forward-looking statements are qualified by this cautionary statement and there can be no assurance that the actual results or developments anticipated by the company and its management will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the company. Actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors.

The company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements include those relating to future events, performance and/or achievements. Nothing contained in this corporate overview is, or should be relied upon as, a promise or representation as to the future.

Table of Contents

EXECUTIVE SUMMARY	6
SECTION 1 – THE BREWPUB ADVANTAGE	8
SECTION 2 – THE COOPERATIVE ADVANTAGE	10
THE SEVEN COOPERATIVE PRINCIPLES	12
SECTION 3 – THE CONCEPT	13
OVERVIEW	13
UNIQUE SELLING PROPOSITION	13
BUSINESS HOURS	13
GUEST EXPERIENCE.....	13
MENU AND SIGNATURE ITEMS	14
PRICING.....	14
SAMPLE MENU.....	15
SECTION 4 – THE ORGANIZATIONAL TEAM.....	16
SECTION 5 – THE ORGANIZATIONAL STRUCTURE.....	21
COOPERATIVE ASSOCIATION	21
MEMBERSHIP.....	21
BOARD OF DIRECTORS.....	21
GENERAL MANAGER	22
FOREMOST PROPERTIES, LLC.	22
SECTION 6 – THE MARKET ANALYSIS.....	23
CRAFT BREWING INDUSTRY	23
CRAFT BREWING INDUSTRY GROWTH	23
TARGET MARKET	26
MARKET SEGMENTS	26
COMPETITIVE ANALYSIS.....	26
COMPETITIVE STRENGTHS AND WEAKNESSES	28

SECTION 7 – THE MARKETING STRATEGY	29
OVERVIEW	29
EDUCATIONAL PROGRAMS AND EVENTS	29
PROMOTIONAL PLANS.....	29
MEMBER BENEFITS.....	30
COMMUNITY SUPPORT.....	30
SECTION 8 – THE OPERATIONAL STRATEGY	31
EMPLOYEES	31
MANAGEMENT PRACTICES AND CONTROLS	31
PURCHASING/SUPPLY CHAIN STRATEGY	32
SCHEDULE	32
SECTION 9 – THE LOCATION.....	33
THE SITE & NEIGHBORHOOD.....	33
PROPOSED LAYOUT	34
BUILDING ARCHITECT	34
CHARLES SCHATZ, LEED AP BD+C, REPRISE DESIGN	34
KEY DESIGN FEATURES	34
SECTION 10 – THE FINANCIALS	35
PROJECTED USES OF CAPITAL	35
SUMMARY INCOME STATEMENT FOR FIRST YEAR	35
BREAK EVEN CASH FLOW PROJECTION	35
SUMMARY INCOME STATEMENT FOR YEARS 1-5.....	35
SALES PROJECTION	36
FINANCIAL PROJECTION ASSUMPTIONS	37
SECTION 11 – THE OFFERING	38
FUNDS REQUIRED.....	38
DIVIDENDS PAID TO PATRON AND NON-PATRON MEMBERS	40
PROJECTED RETURNS	41
APPENDICES	42

POSITION DESCRIPTION FOR GENERAL MANAGER42
BREWERY VS. BREWPUB BUSINESS MODEL47
MINNESOTA STATUTES CHAPTER 308B50

Executive Summary

Foremost Brewing will be a restaurant, bar, and craft beer brewery that will provide guests in Owatonna, MN with an upscale, casual, beer-centric dining experience featuring locally-produced craft beers paired with fresh, gourmet pub food using locally sourced ingredients.

As a brewpub and a cooperative, Foremost Brewing is statistically poised for long term success. While 60% of restaurants close within 3 years of opening, only 40% of the 3,269 brewpubs that have opened in the past 38 years have closed. Similarly, while only 5% of traditional businesses are still operating after 5 years, 90% of cooperatives are still operating after 5 years.

“Forged in Community” is a guiding principle that will set Foremost Brewing apart from all other establishments in the area and provide a competitive advantage. Foremost Brewing Cooperative is the result of local people coming together to achieve a common goal of making Owatonna a more desirable place to live and visit by creating, from the ground up, what will become a local treasure and community pillar. Through the cooperative business model, Foremost Brewing will continue to engage the community through democratic control and direction by its members.

Organized under Chapter 308B of Minnesota Statutes, Foremost Brewing Cooperative is formed for the benefit of its members and is based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. Its members believe in the ethical value of honesty, openness, social responsibility, ecological responsibility, and caring for others.

There are two classes of members. Patron Members join the cooperative with the intent of consuming products produced by the cooperative. Refunds (dividends) are received on the basis of business done with the cooperative. The Patron Member investment is \$150 for an individual and \$250 for a household (two adults living together). Non-patron Members own a membership interest and receive investment returns in proportion to their share of the investment. Non-patron Member investment levels for non-accredited investors are between \$750 and \$10,000. Members that hold both a Patron Membership and a Non-patron Membership are referred to as “Patron Plus” members.

Foremost Brewing will be located at 131 West Broadway in Owatonna, MN. The building is owned by Foremost Properties, LLC and will be leased to Foremost Brewing under a 10-year triple-net lease agreement. Foremost Properties is a local company that was organized for the exclusive purpose of restoring and renovating the building and leasing it to the Foremost Brewing Cooperative. This arrangement provides stability for Foremost Brewing.

Additionally, Foremost Properties will purchase brewing and kitchen equipment and lease it to Foremost Brewing Cooperative under a 7 year lease-to-own agreement. The cost of this equipment is \$243,000.

The combined start-up costs for both entities (Foremost Properties & Foremost Brewing), including funds for working capital and contingency are \$2,019,225.

The building is a contributing structure in a historic district, and we will be leveraging both federal and state historic rehabilitation tax credits. The federal tax credit is estimated to be \$268,597 and will be distributed to the individual owners of Foremost Properties through their federal income tax filings. We will take advantage of the State of Minnesota's "Grant in Lieu of Credit" program; we will receive 90% of the credit (\$241,737) as a lump sum payment in Year One rather than spreading it over five years. Foremost Properties will hold this money in reserve to cover debt service even if Foremost Brewing has difficulty making its lease payments.

We also plan to leverage TIF (Tax Increment Financing) through the City of Owatonna. We have identified \$389,500 of the building improvements which are eligible to be reimbursed through TIF. The hearing date is set for December 17, 2019. If approved by the Owatonna City Council, the TIF will return the difference between the current taxes and the taxes based on a higher assessed value to Foremost Properties. This will benefit Foremost Brewing since it will be paying lower taxes as passed through from Foremost Properties. It benefits Foremost Properties (as well as its lenders) by reducing the risk that Foremost Brewing will be unable to make its lease payments.

Equity funding includes \$540,000 invested in Foremost Properties by its owners, and \$326,500 invested in Foremost Brewing Cooperative by its members. We also plan to leverage \$20,000 in forgivable loans from the Owatonna EDA and \$12,500 in energy efficiency rebates from Owatonna Public Utilities.

Foremost Properties seeks \$1,132,240 in debt financing with the break-down being \$200,000 from the Southern Minnesota Initiative Foundation, and \$932,240 from a commercial lender.

To help assure Foremost Brewing's start-up success, the lease agreement is structured so that the lease is lower in the first two years of operation. With this ramp-up approach DSCR (Debt Service Cover Ratio) will be 1.05 in Year 1, 1.14 in Year 2, and 1.23 in Year 3

An as-of-yet untapped source of funding for Foremost Brewing Cooperative is loans from its members. While it is a fairly common practice for cooperatives to receive funding from promissory notes issued to its members, the current business plan assumes no member loans. This is being held as reserve measure in case it becomes necessary.

Sales projections for Foremost Brewing Cooperative assume a modest 1,053 customers per week resulting in sales of approximately \$19,200 per week, or just under \$1,000,000 per year. Cashflow before taxes is expected to be approximately 13% of sales during the first five years of operation.

In closing, we believe the business plan for Foremost Brewing represents a realistic expectation of success, and we look forward to securing the necessary financing to bring this exciting opportunity forward.

Section 1 – The Brewpub Advantage

The basic concept of the brewpub, pairing beer and food made onsite, is neither new nor particularly novel—taverns have been making their own beer for centuries. Even so, the modern crop of American brewpubs has managed to put a new spin on the concept of beer and food, and in doing so have created economic value that extends beyond the two components independent from each other.

That value can be seen clearly in the historical success rate of brewpubs. Since the Brewers Association started tracking in 1980 through 2017, 3,269 brewpubs opened in the United States and only 1,3011 closed. That calculates to a historical success rate of 60 percent (a bit inflated by the faster-than-usual opening rate the last few years). In contrast, a study at Ohio State found that 60 percent of restaurants close in a three-year period¹.

To restate, 60 percent of restaurants close in the first three years, whereas only 40 percent of the 3,269 brewpubs that have opened in the past 38 years have closed. That type of disjuncture can only occur when there is something fundamentally different about the categories in question.

It's worth noting up front that some of the advantages of brewpubs stem from their ability as the manufacturer to sell a high-value-added product (aka beer) at better margins than a typical restaurant. In the latest Brewery Operations and Benchmarking Survey, smaller brewpubs (fewer than 1,000 barrels) derived 26.8 percent of their sales from house beers, and larger brewpubs (more than 1,000 barrels) derived 46.3 percent of their sales from house beers. In 2010, those percentages were closer to 35 percent for both groups. Regardless of the specific percentage, that means roughly a third of sales stems from a product that averages gross margins that can reach more than \$800 per barrel depending on the business model and beer style.

These benefits don't come without risk. Brewpubs are betting heavily on their ability to sell their own beers, and not surprisingly, typically have a much lower percentage of their sales come from guest beers and other bar sales. Most people come to brewpubs looking to try the house beers, so if those beers don't meet the ever-increasing quality standards, there may be challenges. In addition, running a brewery inside a restaurant requires additional capital, expertise, staff, and more. So, brewpubs are a step beyond the average restaurant on the classic risk-reward scale, with more invested, but greater potential benefits. Given this basic tradeoff, what are the additional advantages that have allowed so many brewpubs to keep that balance firmly pointed toward reward?

Exclusive Experiences

The American beer lover craves variety and novel beer experiences. The on-premise is where this experimental spirit is the strongest. In a recent Nielsen survey commissioned by the Brewers Association², a majority (51 percent) of craft beer drinkers said that when selecting a beer to order at a restaurant or bar, it was very or somewhat important that "it's a craft beer product that I have not tried before." Brewpubs have a tremendous advantage in this regard, in that not only can they serve whatever they can

think up, they can also choose to have exclusive rights to that beer, offering the beer lover a novel experience they can't get anywhere else.

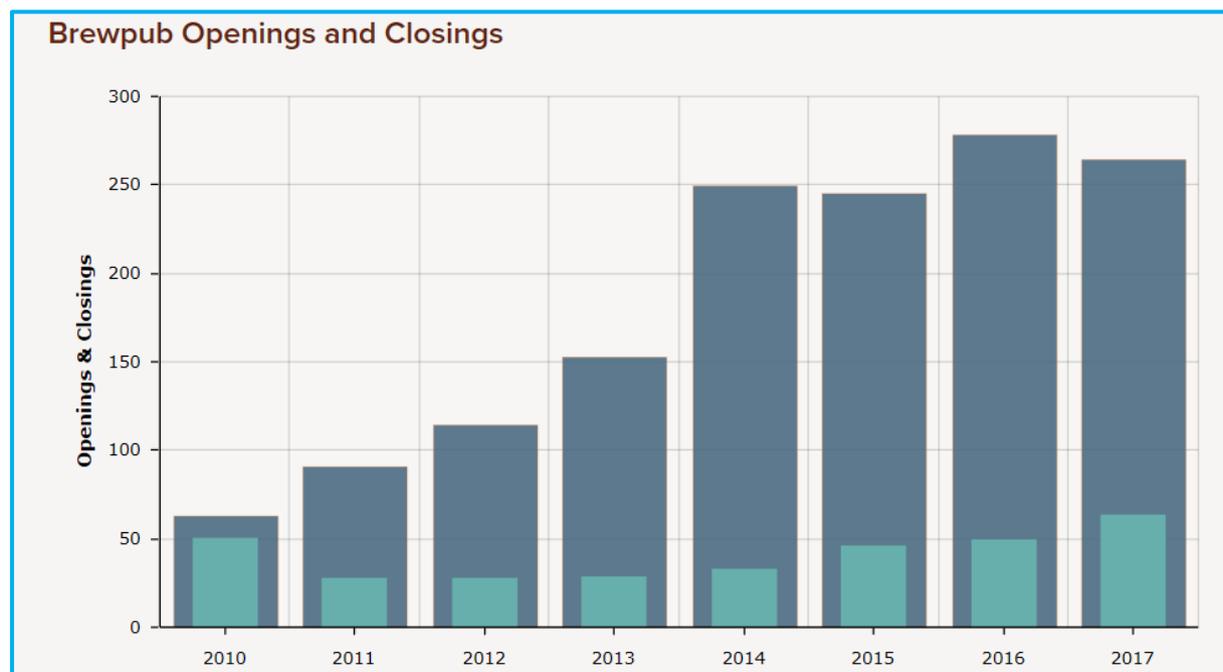
Complementary DNA

In the same Nielsen survey, 71 percent of craft beer purchasers gave “complements my meal” as a very or somewhat important selection criteria in their beer choice. More than ever, beer lovers are thinking beer and food pairing, and in increasingly sophisticated ways. Pairing beer with food is in the DNA of brewpubs, and they have additional advantages in their ability to create beers with specific pairings in mind, use special ingredients like spent grains to enhance the pairing experience, and more easily integrate beer throughout the menu development and cooking process. This isn't to say that a restaurant can't accomplish many of these components; it's simply that brewpubs are more likely to do it as a part of their natural process.

Built-in Beer Knowledge

A recent CraftBeer.com survey of its readers asked them to decide among the “5 Cardinal Sins” of beer service. While several sins rose to the top (including limited diversity on the beer list and dirty beer lines), the number one response was “unknowledgeable servers,” with 27 percent of respondents picking that as their biggest red flag. While there's nothing about brewpubs that makes servers inherently more knowledgeable, the reservoir of brewing knowledge, presence of a brewing culture, and physical presence of brewing makes training staff more accessible.

Source: The Brewpub Advantage by Bart Watson. This article was originally published in the January/February 2016 issue of The New Brewer—a bi-monthly journal published by the Brewers Association. Downloaded from www.brewersassociation.org 4/26/17.



Source: www.brewersassociation.org, downloaded 6/12/18

Section 2 – The Cooperative Advantage

A cooperative is a specialized form of business. Having more in common with a traditional business than, say, a nonprofit organization, a cooperative distinguishes itself by a member ownership, benefits, and control model which puts power in the hands of the customers rather than a single owner or small group of partners. More than 47,000 cooperatives operate in the United States alone, boasting more than 100 million member-owners. To begin understanding how cooperatives differ from traditional businesses, it helps to first look at who owns the assets.

Ownership

Traditional businesses concentrate the power of ownership in a single individual or a small group of partners. This idea is turned completely on its head with the cooperative model, where every member is part owner. Cooperative member owners share equally in control of the organization. They meet regularly to analyze operations reports and elect members from among themselves to a board that hires administrators to tend to day-to-day operations.

Control

It would be hasty to equate cooperative members directly to shareholders in a traditional company. A single person can seize control of a stock-issuing company by buying a majority of shares, thus gaining superior voting power. With a cooperative, no member can buy or control the share of another. Each member has equal voting power and decisions must be made in conjunction with the wishes of the majority. Power truly rests in the hands of lowest common denominator -- the customer.

Benefits

Most traditional businesses operate with the primary goal of turning a profit. There's nothing wrong with that, but a cooperative offers benefits to members that go beyond that. By pooling their money, a group of like-minded individuals can form a cooperative that offers higher quality products at lower prices. That's increased buying power in action. But beyond simple monetary rewards, a cooperative allows individuals to have a direct say in business operations, something often lacking in the retail world in general.

Considerations

Often, a business begins as an idea in the head of a single person, who then runs with it. A cooperative might be similar in the very beginning, but soon diverges because it requires a group of people with similar goals and needs to band together in order to progress the idea. One way to think about the differences between traditional businesses and cooperatives is that the first puts capital at the center of the model while the other places people there.

Source: *Differences Between Cooperatives & Traditional Businesses* by Derek Dowell, downloaded from <http://smallbusiness.chron.com/differences-between-cooperatives-traditional-businesses-23270.html> 4/26/17

Startup Success

Cooperative businesses have lower failure rates than traditional corporations and small businesses, after the first year of startup, and after 5 years in business. About 10% of cooperatives fail after the first year while 60-80% of traditional businesses fail after the first year. After 5 years, 90% of cooperatives are still in business, while only 3 - 5% of traditional businesses are still operating after 5 years. This is often because of the many people involved in starting a cooperative and the high level of community support for cooperatives (World Council of Credit Unions study in Williams 2007).

Improving Communities

Cooperative businesses stabilize communities because they are community-based business anchors; and distribute, recycle, and multiply local expertise and capital within a community. They pool limited resources to achieve a critical mass. They enable their owners to generate income, and jobs, and accumulate assets; provide affordable, quality goods and services; and develop human and social capital, as well as economic independence (Gordon Nembhard 2002, 2004b, 2008a, 2014; Fairbairn et al 1991; Logue and Yates 2005; WAGES no date; Yes! Magazine 2013). In addition, co-op enterprises and their members pay taxes, and are good citizens by giving donations to their communities, paying their employees fairly, and using sustainable practices (Gordon Nembhard 2013; Iowa Association of Electrical Co-ops. 2011).

Source: The Benefits and Impacts of Cooperatives by Jessica Gordon Nembhard. Downloaded from <http://www.geo.coop/story/benefits-and-impacts-cooperatives> 4/26/17

Cooperative Brewing

Foremost Brewing is not the first to recognize the synergy inherent in community brewing and the cooperative business model. Black Star Co-op became the first cooperatively owned craft brewer when it opened its doors in Austin, TX in 2010 after raising \$500,000 from its members.

Black Star has inspired and assisted a number of other efforts across the country. As of this writing, there are at least 18 cooperatives in operation or in the planning stages in the U.S.:

Open for Business

4th Tap (Austin, TX)
 Artisan Beverage Cooperative (Greenfield, MA)
 Bathtub Row Brewing Co-op (Los Alamos, MN)
 Black Star Co-op (Austin, TX)
 Bluetick Brewery (Maryville, TN)
 Broken Clock Brewing (Minneapolis, MN)
 Cherry Street Brewing Cooperative (Cumming, GA)
 Fair State Brewing Cooperative (Minneapolis, MN)
 Fifth Street Brewpub (Dayton, OH)
 Flying Bike Cooperative Brewery (Seattle, WA)

In Planning Stages

Barley Grail Brewing Cooperative (Hudson, OH)
 Bluenose Gopher (Granite Falls, MN)
 Burlington Beer Works (Burlington, NC)
 Full Barrel Cooperative Brewery and Taproom (Burlington, VT)
 High Five Co-op Brewery (Grand Rapids, MI)
 Foremost Brewing Cooperative (Owatonna, MN)
 Umunhum Brewing (San Jose, CA)
 Yellow City Co-op Brewpub (Amarillo, TX)

The Seven Cooperative Principles

Co-ops worldwide share a common creed. They share a fundamental respect for all human beings and a belief in people's capacity to improve themselves economically and socially through mutual help. This basic philosophy has been developed into a list of seven principles:

1. **Open and voluntary membership** Co-ops are open to all who can make use of their services and are willing to accept the responsibilities involved.
2. **Member economic participation** Members provide the basic capital (money) to start and operate the co-op. If co-ops pay dividends to their member-owners, the rate must be limited. Surplus, or profit, resulting from operations belongs to the members and they control how it will be distributed. If a co-op's surplus is returned to members, it is distributed in proportion to the amount of business each member has conducted with the cooperative.
3. **Democratic member controls** All co-op members have equal voting and decision-making power in the governance of the business, on the basis of one vote per member.
4. **Autonomy and Independence** Cooperatives are independent, self-help organizations controlled by their members. They limit the influence of outside agencies or business partners to ensure their independence.
5. **Education, training, and information** Co-ops have an obligation to educate members about cooperative business. This mandate also encompasses educating the general public, young people, and community leaders about the nature and benefits of cooperation.
6. **Cooperation among cooperatives** To bring the theory of working together full circle, co-ops recognize the vital importance of working with other co-ops—locally, regionally, nationally, and internationally. Through these efforts, co-ops try to help each other—to strengthen their economic positions and to contribute to the co-op movement.
7. **Concern for community** While member needs are their primary concern, cooperatives also work for the sustainable development of their communities.

Additionally, the International Co-operative Alliance (ICA) defines the standards by which all co-ops should operate:

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Section 3 – The Concept

Overview

Foremost Brewing is a restaurant, bar, and craft beer brewery that will provide guests in Owatonna, MN with an upscale, casual, beer-centric dining experience featuring locally-produced craft beers paired with fresh, gourmet pub food using locally sourced ingredients.

In addition to brewing better beer, Foremost Brewing will offer an alternative to the typical bar scene by providing great beer in a comfortable atmosphere which lends itself to drinking responsibly. Foremost Brewing will provide a distinct alternative to the choices presently available in Owatonna and will appeal especially to people reacting against the impersonal nature of large corporations and mass production.

Unique Selling Proposition

“Forged in Community” is a guiding principle that will set Foremost Brewing apart from all other establishments in the area. It will be the place where local professionals hang out and visitors put on their “must experience” list. Foremost Brewing will pay tribute to Owatonna’s rich history and celebrate its vibrant future. Not only will customers be able to enjoy delicious food and beverage in an authentically local brewhouse; they will be able to say they own the place!

Business Hours

Monday - Tuesday	Closed
Wednesday-Thursday	3 pm – 10 pm
Friday-Saturday	11 am – 11 pm
Sunday	11 am – 8 pm

Guest Experience

When guests enter, they will feel welcomed into a beloved community gathering place housed in a historic building with a rustic-industrial décor. They will experience a vibrant, energetic-yet-relaxed atmosphere, exceptional service and hospitality, and extraordinary food and drink.

Guests will easily identify the wait staff by the matching polo shirts worn and they will soon learn that every staff member they encounter is knowledgeable about the beer.

They will leave in a mood better than when they arrived and feel a sense of satisfaction for supporting this community treasure.

Menu and Signature Items

The food menu will be intentionally small and will be rotated seasonally to keep the choices interesting for loyal, returning guests. The seasonally rotating menu will also provide opportunities to market new menu offerings which will be available for a limited time. We will specialize in unique appetizers, toasted sandwiches, fresh salads, and flatbread style pizzas.

The beers brewed at Foremost Brewing will evolve over time based in response to our members' preferences and input. In the beginning, we will focus primarily on traditional styled ales such as India Pale Ale, American Pale Ale, Cream Ale, Dry Irish Stout and Belgian Golden Ale. Experimental styles might include Kettle Soured Ales, Fruit-Nuanced Hazy IPA's and beers using experimental hop breeds. Seasonal beers may include Winter Warmers (spiced Holiday Ale), Russian Imperial Stouts and American Wheat Beers. Foremost Brewing Cooperative will also have the ability to occasionally brew German Lagers such as Bock, Maibock and Oktoberfest.

In time, we will have a core group of mainstays which customers can expect to always be on tap. Rotating taps will include our patrons' favorite beers from craft breweries located in Minnesota, Iowa, and Wisconsin. There will always be at least one beer inspired by one of our members on tap.

Pricing

Tap Beer:	
Pint or Tulip	\$6.00
8 oz	\$4.00
Flight of 3 4 oz glasses	\$6.00
Flight of 4 4 oz glasses	\$8.00
Growler	\$20.00
Crowler	\$12.00

Appetizers	\$5.00 to \$15.00
Salads	\$12.00
Entrees	\$8.00 to \$16.00
Desserts	\$6.00
Kid's Entrée	\$5.00
Homemade Sodas & Rootbeer	\$3.00
Glass of Wine	\$6.00 - \$9.00

Sample Menu

Appetizers

- Charcuterie and Cheese Board, Olives with Bread and Crackers
- Giant Pretzel and Dips
- Spinach and Artichoke Dip with Toasted Baguette Slices
- Chips and Salsa (seasonal salsas)
- Maple Seasoned Mixed Nuts

Flatbreads

- Prosciutto Pear
- Pesto Chicken with Red Onion
- Margherita
- Italian Meats

Salads

- Apple Cranberry Bacon Candied Walnut Salad with an Apple Poppy Seed Vinaigrette
- Roasted Sweet Corn Harvest Salad with a Chili Lime Vinaigrette

Wraps

- Chicken, Bacon and Avocado
- Roasted Veggie with Sundried Tomato Hummus

Sandwiches and Paninis

- Cuban
- Slow Roasted Beef with Caramelized Onions and Swiss Cheese
- Roasted Chicken with Caramelized Apples and Brie Panini
- Caprese Panini

Brats

- Elk
- Bison
- Venison

Section 4 – The Organizational Team

Several talented and dedicated people are working to bring this vision to reality. Members of the interim board of directors are:

Roger Warehime – Chair

As an Owatonna Forward Steward and team leader of the Public Input Team, Roger Warehime repeatedly heard Owatonna citizens express their desire to see a brewpub come to downtown as well as see downtown revitalized. He, along with fellow stewards Reid Stranksy and Seth Madole, envisioned a grass-roots, citizen-lead initiative to create a cooperatively-owned brewpub. Since January 2017, Roger has been involved in all aspects of bringing the vision to reality including extensive research, planning, and organizing of activities.

Roger Warehime holds a Bachelor of Science in Mechanical Engineering from the University of Minnesota and an MBA from St. Thomas University. He has been employed at Owatonna Public Utilities for 15 years and is currently the General Manager and CEO. Throughout his career, he has gained extensive experience in leading and managing a variety of teams and projects.

Sue Tuma – Financial Officer

Sue Tuma was born and raised in Owatonna, left for Minneapolis and Chicago for a few years, and has been back in her beloved hometown for 30 years. She retired early from Truth Hardware three years ago and has been devoting a good amount of her time to getting Foremost Brewing up and running over the past year or so. She is an inactive-licensed CPA and has worked in accounting and finance her entire life. She is an Owatonna Arts Center board member and has served on the United Way Grant Review Panel for the past four years.

Sue and her husband Tom love to visit new breweries and brewpubs and have over 80 notches on their "beer-post" to date, most of which are located in Minnesota. Sue & Tom have two adult sons still living at home, Dylan and Ryan.

Molly Kerr – Records Officer

Molly Kerr received her Bachelor of Science in Music Industry with a minor in Marketing from Minnesota State University, Mankato. She was employed with Ticketmaster for 10 years as an Event Support Specialist. As an Event Support Specialist, she worked closely with venues to ensure a seamless event from start to finish.

Molly relocated with her family to Owatonna in 2017 and has become involved with several community organizations.

Terrence Flynn – Head Brewer

Terrence Flynn brings a wide range of life experiences to the Foremost Brewing Team; from commercial sales to working as a Police Officer for the City of Owatonna for more than ten years. During those ten years of serving Owatonna, Terrence grew to love the community and wants to be a part of its continued success. Terrence has been brewing beer for approximately 10 years after learning the craft from his father, who had been brewing for nearly twenty years. Terrence has won multiple local Homebrew Awards, most recently winning Brewers and People's Champion at Brew-Fest and People's Champion at Hops for Habitat. Terrence brings a consistent, yet creative touch to brewing traditional, well-balanced beers. Terrence is one of the Superintendents of the Homebrew Competition at the Steele County Free Fair and is working on attaining Brewing and Beer Steward Certification.

Beth Wall – Director

Beth moved to Owatonna with her husband Chris and 3 boys in the summer of 2007. She is grateful to have raised her sons in such an awesome community and is passionate about continuing its vitality.

Beth has extensive experience in marketing and product management and holds a Bachelor of Science in Industrial Engineering from the University of Minnesota Duluth and an MBA from St. Thomas University. Most recently, she was employed as a co-owner of Mindful Fork a local meal delivery startup. Presently she spends her time volunteering in many local non-profit organizations.

Key advisors to the board of directors include:**Korey Borchert**

Korey Borchert was born and raised in Owatonna, Minnesota. He received degrees in Business management, Recreation Management and Graphic Arts. He started and is the CEO of Legacy Signs located in downtown Owatonna. Korey is married with 2 children. He has been an avid home brewer for 5 years and is the Superintendent of the Homebrew Competition at the Steele County Free Fair.

Matt & Deb Gillard

Matt and Deb Gillard are business and building owners of RE/MAX Venture at 118 N. Cedar Avenue in downtown Owatonna. Matt is involved with the community through Owatonna Business Partnership, Main Street Advisory Committee, and has served on both the Owatonna and Steele County Planning and Zoning Committees. He is also a member of State and regional real estate boards.

Deb's community involvement includes Owatonna Business Partnership and on the committees for Steele County Historical Society Marketing and Owatonna Walk to End Alzheimer's. Deb and Matt are passionate about the revitalization of downtown

Owatonna and maintaining the great quality of life that our Owatonna & Steele County area provides.

David Einhaus

David L. Einhaus was born and raised in Austin, Minnesota and is a 1970 graduate of Austin High School. David graduated Cum Laude from the William Mitchell College of Law in 1978. He began practicing as an associate with his firm in 1979. In 1982, he became a shareholder of what is now Einhaus, Mattison, Carver & Haberman, P.A. David practices extensively in areas of Estate and Incapacity Planning, Business Formation and Planning, Agricultural Law, Real Estate and Civil Litigation.

Dave and Cathy Effertz

In Owatonna since 1999 Cathy has worked for the Chamber of Commerce and is currently a long-term employee with LTC Professionals. She has given up her time to chair the Night of Knights auction committee for St. Mary's School, the Andrew Lawrence Scholarship Committee and other various committees.

Dave has been with the TPS Insurance Agency since 1999 and is currently the President and Owner.

Dave has a passion for community involvement. He has been the Chair of Owatonna Chamber of Commerce, Rotary President, Civil Service Commissioner, a Leadership Owatonna alumnus along with involvement in other local organizations.

As nearly a lifelong resident of Owatonna Dave is especially excited to be part of project involving the revitalization of downtown Owatonna.

Mark Schultz & Daun Resler-Schultz

Mark and Daun have been married for 25 years and have one daughter that recently graduated from OHS. Daun grew up in Steele County on a diversified family farm, she currently works at Syngenta. Mark has lived in Steele County for over 30 years. He works for the Owatonna Post Office and is close to retirement. Mark served on the Steele County Board of Commissioners from 2006-2016. Their family is very community minded and has been actively volunteering within the community for many years.

Ben Einhaus

Ben Einhaus grew up in Owatonna playing hockey and helping his dad, Dave, with his homebrewing hobby. Ben graduated from Owatonna high school in 2001 and then graduated from the University of Montana in 2004 with a business administration degree. In 2013 he was accepted into the University of California-Davis Master Brewer's Certificate program. After completing the program he was hired by Sierra Nevada Brewing Company in Chico, CA to work in the fermentation and cellaring department; he has run the department for the past three years. He is a member of the institute of Brewing and Distilling and the American Society of Brewing Chemists. Ben received special permission from Sierra Nevada to provide consulting and advice to our brewing team.

Dann & Sarah Kleeberger

Dann was born and raised in Steele County, and has served as a teacher with ISD761 since his graduation from Winona State University nearly 20 years ago. Sarah is a graduate of Drake University and has called Owatonna home for the past 16 years. Her role as a senior executive with Ruffalo Noel Levitz (consulting and higher education services firm based in Washington, D.C.) often takes her outside of the Midwest. While they enjoy traveling across the country and abroad, Dann and Sarah also appreciate the hometown community feel that Owatonna offers. Family is a priority, and Owatonna has been a great place to raise their two sons, Jack and Samuel. The Kleebergers are committed to the Foremost Brewing project and share an excitement with fellow investors about the revitalization of downtown.

Tom Tuma

Tom was born and raised in Northfield, MN, but has lived in Owatonna since college, working in accounting and finance, and holds an inactive CPA license. He is currently VP of Finance for Hometown Credit Union, with offices in Owatonna and Faribault. He is a current board member and past president of Habitat for Humanity, Steele-Waseca area and a past treasurer for United Way. He faithfully follows his wife Sue on "research" trips to breweries and brewpubs whenever they can, and even drags their boys along from time to time.

Jordan Lofgren

Jordan is a current resident of Owatonna and lives with his fiancée, Laurie. He works for Gopher Sport as a Product Marketer. Before moving to Owatonna, Jordan lived and worked in the Twin Cities for a few years after graduating college. He attended the University of Minnesota (SKI-U-MAH!) and graduated with a degree in Recreation Administration and Marketing, so he literally went college and majored in the business of fun!

In his free time, he enjoys going to state parks and the North Shore with Laurie and his chocolate lab, Easton, hanging out with their friends and playing yard games, playing hockey and skating during the winter, homebrewing, and enjoying good craft beer. He has been homebrewing for five years after helping a friend brew a few times. He was then hooked on the hobby and the entire craft beer scene. Along with homebrewing, he enjoys going to different breweries all over the Midwest and has been to over 75 breweries in Minnesota alone.

Kristin Warehime

After nearly 20 years as a middle and high school English teacher and reading specialist, Kristin decided it was time for a change. Once her youngest child graduated from OHS, she returned to college to study graphic arts. She now works as

an instructional designer at Federated Insurance and volunteers her new skills creating publications for several local non-profits.

Since moving to Owatonna in 2004, Kristin has served as a board member and then president of Transitional Housing of Steele County and St. Paul's Episcopal church and the board secretary of the Owatonna Arts Center. She is currently serving as the president of the Women of St. Paul's. In her free time, Kristin enjoys making pottery which she sells at craft fairs a few times a year with other members of her pottery club.

Section 5 – The Organizational Structure

Cooperative Association

Foremost Brewing is a cooperative association organized under Chapter 308B of Minnesota Statutes. It is formed for the benefit of its members and based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. Its members believe in the ethical value of honesty, openness, social responsibility, ecological responsibility, and caring for others.

Membership

There are two classes of members:

Patron Members join the cooperative with the intent of consuming products produced by the cooperative. Refunds received are on the basis of business done with the cooperative.

Non-patron Members own a membership interest in the cooperative. Investment returns received are in proportion to their share of the investment.

A member may be both a Patron Member and a Non-patron Member. Each member will have one vote in the affairs of the cooperative. The membership holds the following powers:

1. election and removal of directors
2. passage of advisory resolution for consideration by the Board
3. and all other rights given to them in the bylaws

Board of Directors

Board members are the fiduciaries who steer the organization toward a sustainable future by adopting sound, ethical, and legal governance and financial management policies.

The Board is responsible for setting policy, issuing membership certificates, member capital certificates, investment certificates, and investment bonds; creating and amending Operating Rules for the Cooperative and ensuring that all actions taken by the cooperative are both lawful and consistent with the bylaws. The Board has authority to create standing committees or ad hoc committees that may include board members or other co-op members that are not board members.

General Manager

As Chief Executive Officer, the General Manager will oversee the general operations of Foremost Brewing Cooperative and will have authority to execute contracts and other documents on behalf of the cooperative as delegated by the Board of Directors. The General Manager will have authority to hire and fire employees not appointed directly by the Board of Directors. The General Manager will be accountable for all aspects of the business and its operations and will be responsible for delivering exceptional guest experiences while meeting financial performance metrics. The General Manager will be hired approximately 3 months before opening. The complete position description is included in the appendices.

Foremost Properties, LLC.

Foremost Properties is a local company that was organized for the exclusive purpose of purchasing the building located at 131 West Broadway and renovating it so that it can be leased to the Foremost Brewing Cooperative. The owners of Foremost Properties are:

Roger & Kristin Warehime
Sue & Tom Tuma
Mark Schultz & Daun Resler-Schultz
Matt & Deb Gillard
Sarah & Dann Kleeberger
Dave & Lynn Olson
Dave & Cathy Effertz
Scott & Anna Perkinson
Jack & Diane Spitzack

Foremost Properties and Foremost Brewing will enter a ten-year lease agreement which will provide stability for Foremost Brewing. A copy of the lease agreement is included in the Appendices.

Section 6 – The Market Analysis

Craft Brewing Industry

There are four distinct craft beer industry market segments: brewpubs, microbreweries, regional craft breweries and contract brewing companies. Foremost Brewing Cooperative will fall under the brewpub market segment.

A brewpub is a restaurant-brewery that sells 25 percent or more of its beer on site. The beer is brewed primarily for sale in the restaurant and bar. The beer is often dispensed directly from the brewery's storage tanks. In Minnesota, brewpubs may sell beer "to go" and may sell beer from other breweries (as well as wine and spirits) on premise.

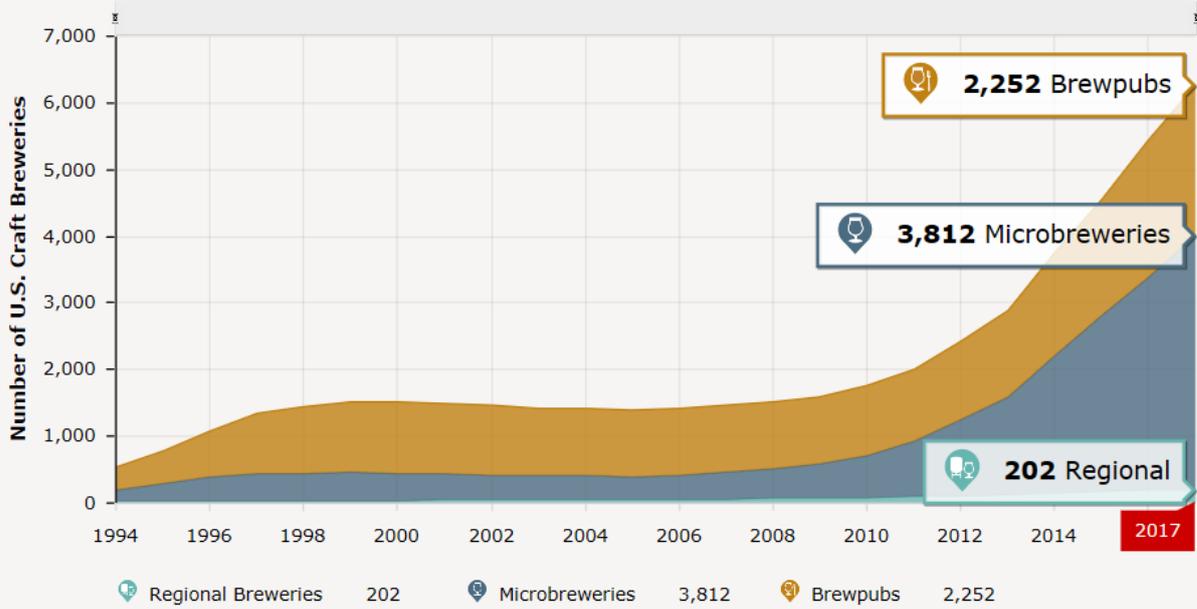
Source: Craft Beer Industry Market Segments, by Bart Watson, <https://www.brewersassociation.org/statistics/market-segments/>

Craft Brewing Industry Growth

While the growth in the craft beer industry over the past few years has been nothing short of phenomenal, in many respects it has really just been a return to our roots. In 1873, there were 4,131 breweries operating in the United States. The decline of breweries began in 1892 when "cork crown" was patented. Beer could now be bottled and shipped reliably, and by 1910 only 1,568 breweries remained. The decline continued with Prohibition, and by 1930 there were only 231 operating breweries. Upon repeal of Prohibition, thirty-eight states (including Minnesota) adopted the 3-tier distribution system (manufacturer-distributor-retailer), making it illegal for the manufacturer to also be the retailer. The brewpub became history.

In 1982 the legislature in the state of Washington approved a bill allowing a brewery to sell beer directly to the customer in a restaurant environment; the brewpub was reborn. Laws in other states were soon updated. Now, small scale "microbreweries" and "brewpubs" are reviving a cherished and historic tradition, the brewing of specialty beers. In 1983 there were only 12 microbreweries and brewpubs in the United States; just 35 years later in 2017 there are more than 6,000!

U.S. Craft Brewery Count by Category

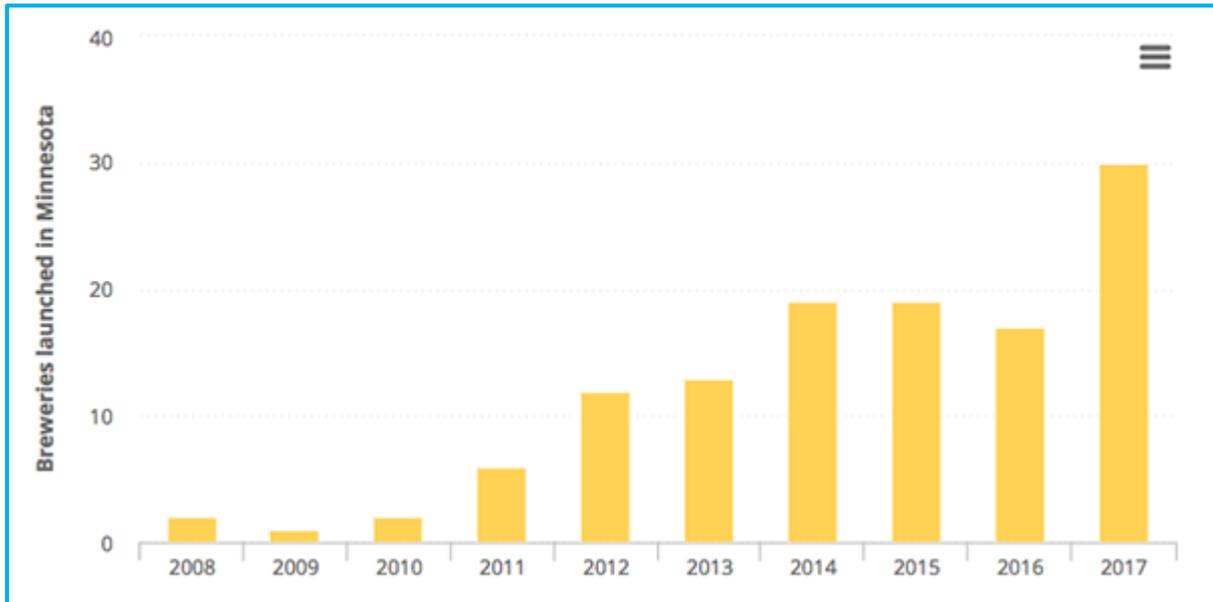


U.S. Brewery Count

	2012	2013	2014	2015	2016	2017	'16 to '17 % Change
CRAFT	2,420	2,898	3,739	4,544	5,424	6,266	+ 15.5
Regional Craft Breweries	97	119	135	178	186	202	+ 8.6
Microbreweries	1,143	1,471	2,076	2,626	3,196	3,812	+ 19.3
Brewpubs	1,180	1,308	1,528	1,740	2,042	2,252	+ 10.3
LARGE NON-CRAFT	23	23	26	30	51	71	
OTHER NON-CRAFT	32	31	20	14	16	35	
Total U.S. Breweries	2,475	2,952	3,785	4,588	5,491	6,372	+ 16.0

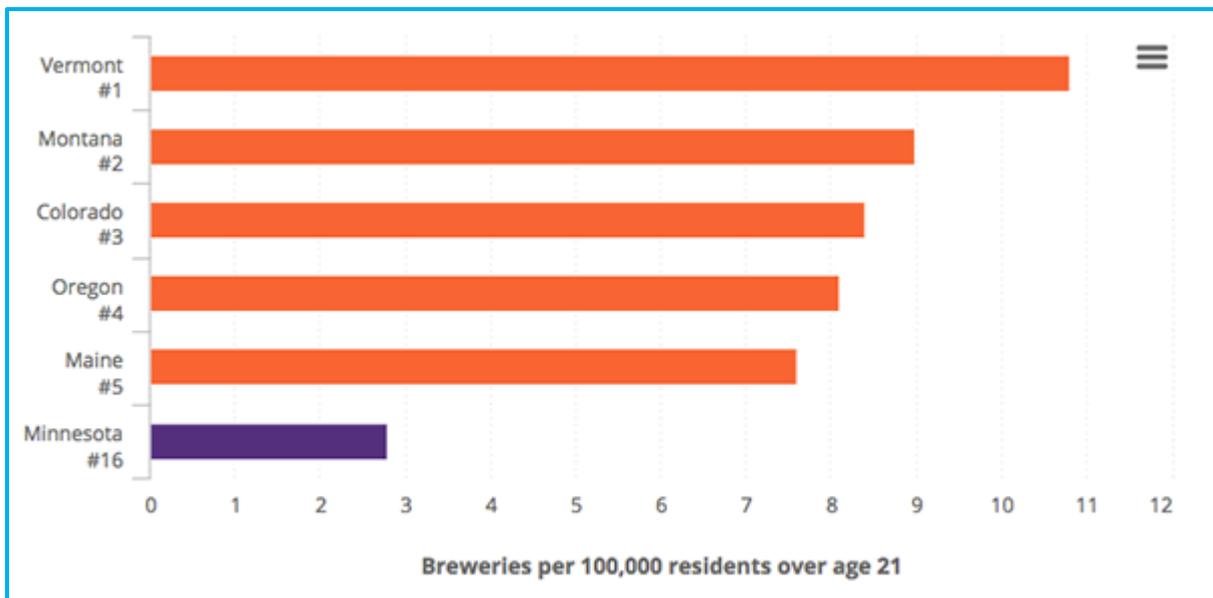
Source: www.brewersassociation.org, downloaded 6/12/18

Of the 150 breweries open in Minnesota, 30 of them opened in 2017. Of these 30 breweries, the majority were located outside of the Twin Cities metro. This was a departure from 2016 when about half of the 17 breweries that opened were located in the metro.



Source: Growler, MNBeer.com

Although Minnesota has seen growth in its craft beer scene, it is far from being a brew-saturated state. In 2015, Minnesota ranked 14th for breweries per capita, with 2.7 for every 100,000 residents over age 21. Despite upping its density of breweries by 0.1, it slipped to 16th in breweries per drinking age capita in 2016.



Source: www.brewersassociation.org, downloaded 6/12/18

Target Market

Foremost Brewing Cooperative will target the corporate and working class who appreciate a high-quality beer and dining experience. The average craft beer drinker in America today is aged between 21 and 54. The anticipated age range for the majority of our guests will be between ages 25 and 48 years, with an emphasis on working professionals. The customers we seek will be beer enthusiasts that are looking for a unique dining experience in Owatonna and comfortable with spending \$15.00 for an entrée. This target market tends to live in households that have young children and that enjoy spending their free time out in the community.

We are targeting this market specifically because of the of the brewpubs proximity to local companies. Within the downtown area there are approximately 2,000 workers and 1,000 residents. The workforce for Federated Insurance and Jostens are within three blocks of the Foremost Brewing Cooperative location. These two companies help to attract a younger workforce to the downtown area. The Foremost Brewing Cooperative will provide a welcoming space for people to gather after work and on weekends. The brewpub will be an attractive location for both business and family diners by providing a diverse menu with many drink options including soda and wine in addition to the craft beer.

Market Segments

We have identified four distinct market segments.

1. [Home Brewers](#) - A number of home brewers have been involved with the development of Foremost Brewing and will continue to be supportive. This group will be our most discerning group of customers and will value the ability to get involved in the brewing process, educational programs, and information sharing.
2. [Craft Beer Enthusiasts](#) - This rapidly growing segment will be drawn by high quality beer, warm atmosphere, and the ability to sample beers available nowhere else. This group includes out of town visitors who travel the state and region to visit microbreweries and brewpubs. We can count on this group to spread the word through social media, blogs, and craft brewing websites.
3. [Cooperative Supporters](#) - There is a growing segment of people who value “buying local”, participatory management, supporting the community, and similar values which the cooperative business model embraces. The opportunity for ownership will be particularly important to this group.
4. [Couldn't-Care-Less-about-Craft-Beer](#) - We acknowledge that not everyone is as excited about craft brewing as we are. Some of these non-enthusiasts will be brought to Foremost Brewing by friends and family. For these folks, we will have available lighter beers, wine, and non-alcoholic beverages.

Competitive Analysis

Foremost Brewing Cooperative will offer an experience that differs greatly from other restaurants in the area. There are 4 restaurants in Owatonna that offer at least 3 craft beers on tap:

- **Torey's Restaurant & Bar:** 6 craft beers, casual dining experience with a large family friendly menu.
- **SpareTime Entertainment:** 5 craft beers, bar setting, menu includes: burgers, wraps and pizzas
- **Lava Burger and Wings:** 5 craft beers, quick food setting with a large variety of burgers and wings
- **Wings Tavern and Grille:** 5 craft beers, bar setting, menu includes: appetizers, burgers and sandwiches

Torey's Restaurant & Bar moved to their new location at 208 North Cedar Avenue in 4th quarter, 2018. They provide a family dining experience with a space for large events. Torey's new event space will help create extra foot traffic to the downtown area. Wedding reception and other event attendees will be looking for additional places to visit while in the area. Foremost Brewing Cooperative is located just two blocks from Torey's new location and an easy walk. In addition, the location of Foremost Brewing Cooperative will be beneficial to Torey's. We will attract customers from all over Minnesota and Torey's will give our customers an additional place to visit while enjoying downtown Owatonna.

While we recognize that we have some stiff competition from Torey's Restaurant & Bar, we understand that the customer base that we share is relatively large and growing. Foremost Brewing Cooperative will provide costumers an otherwise unfound unique dining experience in Owatonna. By offering beer brewed onsite with food options prepared with local ingredients, the Foremost Brewing Cooperative will provide options that cannot be found anywhere else in Owatonna.

Mineral Springs Brewing (MSB) is a brewery with a taproom which opened November 2019 and is located near the Straight River less than two blocks from Foremost Brewing. While MSB can be considered a direct competitor to Foremost, they can also be viewed as a great complement. Having two brewing entities in close proximity increases the appeal of Owatonna as a destination for craft beer enthusiasts. As a brewery, MSB can distribute their beer, and can sell their own beer on-site in their taproom. MSB can not sell wine or beer from other breweries. They plan to have food trucks sell food on the weekends, and they will allow outside food to be brought in. In contrast, as a Brewpub, Foremost cannot distribute beer, but can sell wine and beer from other breweries.

Competitive Strengths and Weaknesses

STRENGTHS	WEAKNESSES
Core group of organizers is community minded, of like-mind but with different expertise, and has tenacity.	Operations managers not yet identified.
The Cooperative model will allow input from members of the community and will give them a sense of ownership.	All major decisions will be made by a vote from the board.
Will be a small menu made from fresh, locally sourced ingredients	The menu will be seasonal, so customer favorites may not always be available.
Able to provide a quality product at a fair price.	Products may be higher in price than some customer are accustomed to paying for beer.
In the heart of downtown Owatonna with many new businesses planned for the area.	The building will need major renovations.
A large number of local people have ownership and share in the financial success.	It is difficult to obtain loans from traditional lenders because they require personal guarantees.

Section 7 – The Marketing Strategy

Overview

It almost goes without saying that at the foundation of the marketing strategy is excellent food, drink, and service. While every establishment claims to provide great food, drink, and service, Foremost Brewing will implement operational strategies to assure that these claims are actually true. With the popularity of sites such as Yelp and Trip Advisor, as well as social media in general, “word of mouth” marketing is as important as it has ever been. That said, providing excellent products and service is not enough.

Our marketing strategy has three major phases: 1) initial membership and capital drive, 2) pre-opening buzz, 3) on-going community engagement. The initial phase will focus on sharing the vision and educating potential members about the benefits Foremost Brewing will bring to the community. The second phase will focus on keeping our new members engaged and our Foremost Brewing brand top-of-mind while the build-out occurs. Finally, on-going communication and involvement with the community will be woven into the day-to-day operations and aligned with the seven cooperative principles. Key messages will include the benefits of cooperative ownership, community involvement, local pride and support, fresh taste, and originality.

Educational Programs and Events

Educational events, focusing on beer and brewing, will attract both home brewers and people interested in learning more about how beer is made. Events centering on beer (e.g. food and beer pairings, brewing competitions, etc.) will be aimed at the same groups, while cultural events (e.g. musicians, stand-up comedy, speakers/films on topics of community interest) will appeal to the larger target market.

Foremost Brewing will take advantage of its local presence to tie into all festivals and celebrations, as well as create a few of its own. Special celebration ales will be brewed for most holidays and appropriate tank tapping ceremonies will announce these specialty beers. Foremost Brewing will sponsor the home brewer competition at the Steele County Free Fair, as well as holding some of its own home-brewing competitions throughout the year.

Promotional Plans

Press and Media Coverage

Although there are two cooperatively-owned breweries in Minnesota, Foremost Brewing will be the first cooperatively-owned brewpub in our state. The uniqueness of the cooperative model as well as being “the first” are factors that lend themselves to media coverage. We will keep our local media aware of key milestones such as our capital

offering, building construction start, brewing license received, delivery of brewing equipment and so on. Trade journals and industry-oriented publications (e.g. The Growler) will also be sent press releases.

Social Media

Social media will play a key role in all phases of our marketing strategy. Through Facebook, Twitter, and Instagram we will post events, news, and updates and have contests to encourage more likes and shares to create online buzz.

Website

Initially our website will serve primarily as a landing page to direct potential member-investors to and from the Silicon Prairie MNvest Portal. Once we become operational, the website will become more interactive and serve as hub for news and information.

Member Newsletter

Member-owners will be kept up to date on all aspects of our operations through a twice-monthly electronic newsletter.

Member Benefits

A customer loyalty program is essentially baked-in to the cooperative business model. In addition to having a say in the operation of the business and receiving a dividend, members will receive perks such as member-only happy hour pricing, a free pint on their birthday or anniversary, and access to special, member-only events. “Patron Plus” members (members who are both a patron and non-patron member) receive additional perks (See the Offering section for details)

Community Support

“Concern for Community” is the seventh cooperative principal. In addition to encouraging its employees and members to be involved in activities and organizations that support sustainable development of our community, Foremost Brewing will provide financial support to some number of non-profit organizations that will be selected by a committee created for that purpose. For example, a different organization might be highlighted each month. On one day of the month a specified percentage of sales will be donated to the organization and one dollar from each growler sale throughout the month will be donated as well.

Section 8 – The Operational Strategy

Employees

In order to provide a high-touch, quality experience for our guests, Foremost Brewing will need to have a versatile, knowledgeable and skilled staff. Staff will primarily be recruited by referrals and direct recruiting by the general manager. All staff will initially be paid 90% relative to the prevailing wage for their roles and will be eligible for merit raises based on performance after 6 months and then annually. All staff, after one year of employment, will participate in the profit sharing program in which 10% of profits will be distributed amongst the employees of the Foremost Brewing Cooperative.

Foremost Brewing will employ approximately 20 employees, with a full-time-equivalent (FTE) of 8-10 employees. Management will use an effective competency-based interview and on-boarding process.

Because there is usually some error in hiring during the first weeks of any operation, we intend to slightly overstaff initially to account for staff that may not work out, and to make sure we have adequate numbers of trained personnel to provide a strong first impression.

Customer service will be given special emphasis throughout the operation. Training programs will include specific material to teach employees about service attitudes, customer perceptions, and how to deal with guest complaints.

Management Practices and Controls

Management will establish sound operating guidelines by which to conduct the day to day operations. Policies, systems, and procedures will be adopted, documented, and utilized.

The management team will develop detailed operations manuals for front- and back-of-house staff. These manuals will be used for training, for ongoing assessment of operations, and will be adapted as the brewpub matures to reflect best practices.

Management controls will include a POS system, scheduling system, operations checklists, order guides, weekly and daily inventory, cash audits, safety reviews, and liability reviews. Administrative systems will include daily cash control, weekly prime cost reporting, purchasing controls, and a bookkeeping service. Financial reports will be generated every four weeks (13 periods per year) rather than monthly; this method provides more consistent reporting periods as there are same number of weekdays and weekends in each reporting period.

Purchasing/Supply Chain Strategy

Our primary brewing ingredient vendor will be Brewer's Supply Group (BSG) located in Shakopee, MN. To the extent possible, we will purchase hops from local hop growers.

Guest beers will be sourced from craft breweries located in Minnesota, northern Iowa, and western Wisconsin. We will also source beer from other cooperatively-owned breweries throughout the country.

We will incorporate and feature in our dishes local food suppliers such as those shown below. This strategy will result in better quality, support of local economies, and marketing appeal.

<u>Vendor</u>	<u>Products</u>	<u>Location</u>
Hope Creamery	Butter	Hope, MN
Hastings Co-op Creamery	Dairy products	Hastings, MN
Hilltop Greenhouse & Farm	Produce	Ellendale, MN
Revol	Lettuce	Owatonna, MN
Bushel Boy	Tomatoes	Owatonna, MN
Sorenson Honey Farm	Honey	Owatonna, MN
Open Hands Farm	Produce	Northfield, MN
Faribault Cheese Cave	Cheese	Faribault, MN
Larry Schultz Organic Farm	Eggs,	Owatonna, MN

Schedule

Our goal is to open by Fall 2020:

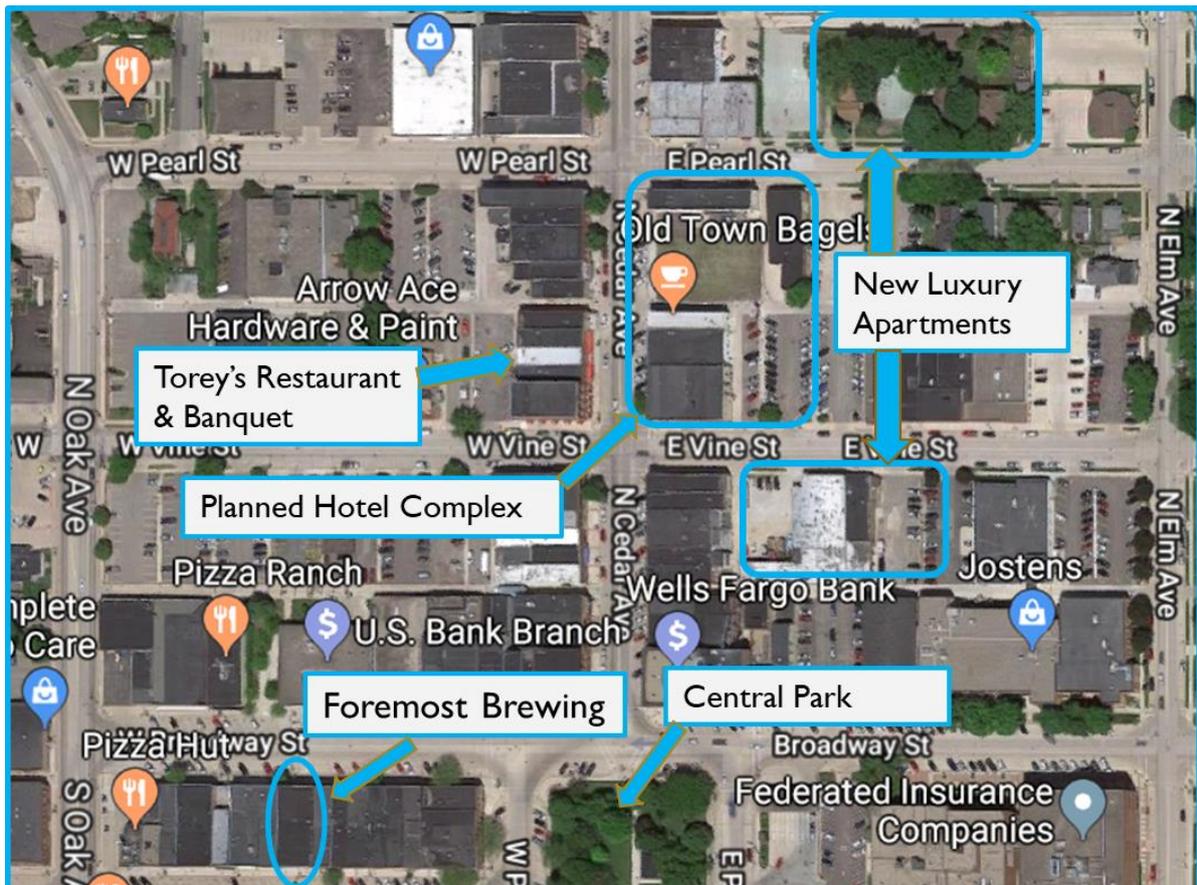
	Start (Week Ended)	Duration (weeks)	End (Week Ended)
<u>Foremost Properties LLC</u>			
TIF Process - Development Agreement With City	8-Nov-19	7	20-Dec-19
Historic Tax Credit Approval	22-Nov-19	14	21-Feb-20
Building Renovation	28-Feb-20	16	12-Jun-20
<u>Steele Tap Cooperative</u>			
Brewer's License	20-Dec-19	24	29-May-20
Brew Equipment - Shipping Schedule	20-Dec-19	20	1-May-20
Brew Equipment - Installation	8-May-20	2	15-May-20
Recruit and Onboard General Manager	31-Jan-20	13	24-Apr-20
Move in to Building & Prepare to Open	12-Jun-20	6	17-Jul-20
Front of House - Soft Open	24-Jul-20	2	31-Jul-20

Section 9 – The Location

The Site & Neighborhood

Foremost Brewing Cooperative will be located at 131 West Broadway, Owatonna. This site is near the headquarters of Federated Insurance, Jostens, 1 major apartment complex and 2 planned high-end apartment complexes. Foremost Brewing Cooperative's location will also be in walking distance from Owatonna's Central Park. The Central Park is the site of many summer events which include a Thursday night concert series and a Saturday Farmers' Market. Both events attract a large number of people to the downtown area. The downtown is currently undergoing a revitalization with an event space and shop fronts currently in the planning stages.

The total space is 8,000 square feet and has entrances on Broadway and Bridge Streets. An additional 4,000 square feet is available on the second level for a future expansion.



Proposed Layout

The space will accommodate approximately 157 dining seats on the main level and 24 seats on the lower level in a total front-of-house area of 2,950 square feet. The back-of-house areas, including kitchen, storage and administrative areas, brew equipment will be a total of 3,215 square feet. Stairwells, elevator, bathrooms, and utility space will occupy 1,835 square feet. In 2021 we will apply for a conditional use permit to allow for construction of parklets to be used for outdoor seating annually from April 15th to October 15th, providing an additional 28-40 seats in the summer months.

Architectural drawings are available upon request.

Building Architect

Charles Schatz, LEED AP BD+C, Reprise Design

Charles is an accomplished architect, particularly strong in restaurant and retail design. With a degree in Architecture from the University of Minnesota and over 20 years of experience, he has a broad, yet firm foundation in architectural design and the real estate development process. His knowledge of the development process (from site acquisition to facilities management), artistry as a designer, skill at engaging environmentally sensitive and sustainable LEED AP standards, and commitment to client service have given him a loyal following. Charles understands what clients want, how developers think, and how inspired design drives results.

Charles is a respected, highly-valued employee of Reprise Design. His enthused association with the restaurant and retail sector has allowed his firm to broaden its client base and strengthen its interior design breadth and portfolio. Charles currently works with Dunn Brothers, Erbert & Gerbert's, Qdoba, Caribou Coffee, Noodles and Company, Chedd's and Papa Luna's Empanadas.

Key Design Features

The overall design for Foremost Brewing Cooperative is intended to be rustic-industrial. Key elements of the design will be original exposed brick, rustic wooden bar and table tops with steel accents. The decor will include elements reminiscent of Owatonna's rich history of manufacturing and agriculture. Articles from years past along with historical photos will adorn the walls.

Section 10 – The Financials

Projected Uses of Capital

Please see the document “Proforma Financial Statements for Lenders” dated 11/25/19. This document shows the projected sources and uses of capital for Foremost Brewing Cooperative and Foremost Properties, LLC as well as the financial relationships between the two entities.

Summary Income Statement for First Year

Please see the document “Proforma Financial Statements for Lenders” dated 11/25/19.

Break Even Cash Flow Projection

Please see the document “Proforma Financial Statements for Lenders” dated 11/25/19.

Summary Income Statement for Years 1-5

Please see the document “Proforma Financial Statements for Lenders” dated 11/25/19.

Sales Projection The sales projection makes several conservative assumptions, including that we will be closed on Monday and Tuesday and that diners will have appetizers only. The average check is \$17.50 per person. The sales projection also assume 130 seats with an average daily turn of 1.6 even though the space is designed for 181 seats.

Foremost Brewing Cooperative Sales Projection Worksheet - Typical Week

Number of Seats **130**

		Daily Sales By Category								% of Week
		Table Turns	Covers	Food	Liquor	Beer Onsite	Beer Offsite	Wine	Total	
Monday	Bev Only	0.0	0	0	0	0	0	0	0	
	Lunch	0.0	0	0	0	0	0	0	0	
	Dinner	0.0	0	0	0	0	0	0	0	
	Day Totals			0	0	0	0	0	0	0
Tuesday	Bev Only	0.0	0	0	0	0	0	0	0	
	Lunch	0.0	0	0	0	0	0	0	0	
	Dinner	0.0	0	0	0	0	0	0	0	
	Day Totals			0	0	0	0	0	0	0.0%
Wednesday	Bev Only	0.9	117	644	0	1,123	281	2,048	0	
	Lunch	0.0	0	0	0	0	0	0	0	
	Dinner	0.0	0	0	0	0	0	0	0	
	Day Totals			644	0	1,123	281	2,048	0	10.7%
Thursday	Bev Only	1.1	143	787	0	1,373	343	2,503	0	
	Lunch	0.0	0	0	0	0	0	0	0	
	Dinner	0.0	0	0	0	0	0	0	0	
	Day Totals			787	0	1,373	343	2,503	0	13.0%
Friday	Bev Only	2.5	325	1,788	0	3,120	780	5,688	0	
	Lunch	0.0	0	0	0	0	0	0	0	
	Dinner	0.0	0	0	0	0	0	0	0	
	Day Totals			1,788	0	3,120	780	5,688	0	29.7%
Saturday	Bev Only	2.6	338	1,859	0	3,245	811	5,915	0	
	Lunch	0.0	0	0	0	0	0	0	0	
	Dinner	0.0	0	0	0	0	0	0	0	
	Day Totals			1,859	0	3,245	811	5,915	0	30.8%
Sunday	Bev Only	1.0	130	715	0	1,248	312	2,275	0	
	Lunch	0.0	0	0	0	0	0	0	0	
	Dinner	0.0	0	0	0	0	0	0	0	
	Day Totals			715	0	1,248	312	2,275	0	11.9%
WEEK TOTALS (restaurant only)	Totals in \$		5,792	0	10,109	750	2,527	19,178		
	Sales Mix %		30.2%	0.0%	52.7%	13.2%	100.0%			
Special Events (banquets, parties, catering)	Ave. # of Banquets, Parties/ Week		0.0							
	Ave. # of Guests		0							
	Per Person Average \$		\$0.00							
	Sales Mix %		80%	10%	3%	7%	100%			
Special Event Sales Per Week		0								
WEEK TOTALS - All Sales	Totals in \$		5,792	0	10,109	2,527	19,178			
	Sales Mix %		30.2%	0.0%	52.7%	13.2%	100.0%			

RECAP: Key Sales Numbers:	
Annual Sales	\$997,230
Average Monthly Sales	\$83,103
Annual Sales Per Square Foot	\$125
Annual Sales Per Seat	\$7,671

Growler Sales	
Weekly #	50
Price per	\$15
Weekly Sales	\$750

REALITY CHECK	
1,053	Total Customer visits per week
54,756	Total Customer visits per year
25%	% of visits from individuals outside the trade area
41,067	Total annual visits by individuals in the trade area.
19,803	Total Individuals in trade area age 25-64 with Household income >\$40,000 ("Target market")
40%	% of Target Market that will visit at least once per year
5.2	Average # of visits per year by customers in trade zone that visit

Financial Projection Assumptions

These operating statements assume an annual sales growth rate of 4%. We project our busiest days to be Fridays and Saturdays with 332 covers on average and our quietest periods to be Sundays and Wednesdays with less than 125 covers on average. We project an average check of \$17.50 per person.

Revenue from food is estimated to be 30% of sales and beverage revenue is projected to be 70% of sales. This ratio of beverage to food is considerably higher than what would generally be expected for a brewpub because Foremost Brewing's focus is primarily on the beer and we are intentionally keeping the menu small. We assume the cost of goods sold percentages will remain relatively stable as we will alter our menu to accommodate changes in individual item costs.

Labor costs including management salaries are projected to be 36% of sales. Together with food and beverage costs, this gives the operation a proposed prime cost percentage of 62%.

Occupancy cost is based on a triple-net, monthly rent of \$7,100 in the first year, \$8,000 in the second year, and \$9,000 each year thereafter; this is based on the agreement with Foremost Properties and assumes Foremost Properties will invest the amount as shown in the included financial statements in the build out. Additional occupancy costs include taxes, insurance and maintenance.

Operating costs have been estimated both from the ground up as well as being compared with industry averages and area norms. The break-even sales point is \$15,000 per week.

The capital budget includes just under \$200,000 for brewing equipment. The vast majority of building renovation costs will be borne by Foremost Properties. Leasehold improvements by Foremost Brewing will primarily be finishes and modifications required for the brewing and restaurant equipment.

Section 11 – The Offering

Funds Required

Foremost Brewing Cooperative expected sources of capital are \$87,500 from Patron Members, \$239,000 from non-Patron Members and \$206,538 for equipment purchased by Foremost Properties and leased to Foremost Brewing Cooperative.

Foremost Properties seeks \$1,132,240 in debt financing with the breakdown being \$200,000 from the Southern Minnesota Initiative Foundation and \$932,240 from a commercial lender.

Patron Members

The investment level for patron members who become members before we open our doors for business is \$150 for an individual membership and \$250 for a joint membership (two people of the same household). Members who become members before we open our doors for business are considered “founding” members and will receive a founding member T-shirt and pin. After we open our doors for business, memberships will increase to \$200 for an individual membership and \$300 for a joint membership. The patron membership investment is a one-time fee. In addition to voting rights and dividends (refunds) based on purchases made, patron members receive the following financial benefits:

- Your name on the Founders tribute wall
- Member-only happy hour pricing
- A free pint the week of their birthday
- A free pint the week of their membership anniversary
- An exclusive Foremost Brewing Founders t-shirt
- An exclusive Founders pin

Non-Patron Members

Non-patron members own a membership interest in the cooperative and have the same voting rights as patron members. The state imposed deadline for non-patron investment ended August 14, 2019. A total of \$248,350 was pledged by 116 individuals. Of this, \$226,000 has been funded; the \$239,000 estimate assumes \$9,350 of the funds pledges do not get funded.

Patron Plus Members

Member who hold both a patron membership and a non-patron membership are called “Patron Plus” members. Patron Plus members receive additional benefits corresponding to increasing levels of investment:

Level	Investment	Beer Perks *, **	Additional Perks ***
Mosaic	\$10,000	One free pint per day and two growler fills per month	<ul style="list-style-type: none"> • Host a fundraising event**** • Complimentary patron membership • Brewer for a Day with a namesake beer • Local artisan created wooden Foremost Brewing coasters • Exclusive personalized Foremost Brewing Founders brewer shirt • Foremost Brewing growler carrier • Exclusive Foremost Brewing Founders hooded sweatshirt • Exclusive Foremost Brewing Founders hat • Your name on the Foremost Brewing Cooperative Founders tribute wall
Cascade	\$7,500 - \$9,750	One free pint per week and two growler fills per month	<ul style="list-style-type: none"> • Brewer for a Day with a namesake beer • Local artisan created wooden Foremost Brewing coasters • Exclusive personalized Foremost Brewing Founders brewer shirt • Foremost Brewing growler carrier • Exclusive Foremost Brewing Founders hooded sweatshirt • Exclusive Foremost Brewing Founders hat • Your name on the Foremost Brewing Cooperative Founders tribute wall
Eldorado	\$5,000 - \$7,450	One free pint per week and one free growler fill per month	<ul style="list-style-type: none"> • Local artisan created wooden Foremost Brewing coasters • Exclusive personalized Foremost Brewing Founders brewer shirt • Foremost Brewing growler carrier • Exclusive Foremost Brewing Founders hooded sweatshirt • Exclusive Foremost Brewing Founders hat • Your name on the Foremost Brewing Cooperative Founders tribute wall
Citra	\$2,500 - \$4,950	One free pint and one free growler fill per month	<ul style="list-style-type: none"> • Exclusive personalized Foremost Brewing Founders brewer shirt • Foremost Brewing Growler carrier

			<ul style="list-style-type: none"> • Exclusive Foremost Brewing Founders hooded sweatshirt • Exclusive Foremost Brewing Founders hat • Your name on the Foremost Brewing Cooperative Founders tribute wall
Amarillo	\$2,000 - \$2,450	One free growler fill per month	<ul style="list-style-type: none"> • Foremost Brewing Growler carrier • Exclusive Foremost Brewing Founders hoodedsave as sweatshirt • Exclusive Foremost Brewing Founders hat • Your name on the Foremost Brewing Cooperative Founders tribute wall
Liberty	\$1,000 - \$1,950	One free pint per week	<ul style="list-style-type: none"> • Exclusive Foremost Brewing Founders hooded sweatshirt • Exclusive Foremost Brewing Founders hat • Your name on the Foremost Brewing Cooperative Founders tribute wall
Simcoe	\$750- \$950	One free pint per month plus one free pint the week of birthday and week of membership anniversary	<ul style="list-style-type: none"> • Exclusive Foremost Brewing Founders hat • Your name on the Foremost Brewing Cooperative Founders tribute wall

* For a joint membership, free pints are per person; free growler fills are per household.

** All pint and growler fills must be Foremost Brewing Cooperative brewed beers.

*** For a joint membership, all Additional Perks are per household.

****A list of Foremost Brewing Cooperative sponsored local charities will be provided by the Board of Directors. The Patron Plus member will receive the opportunity to select a charity from the list provided and host an event in the charity's honor. Foremost Brewing Cooperative will donate 10% of the events proceeds to the selected charity.

Dividends Paid to Patron and Non-Patron Members

Each year, the board of directors will determine what portion, if any, of the profits will be paid out to the members as dividends. The percentage paid to the patron membership and the portion paid to the non-patron membership will be in proportion to the investment level of the two groups. For example, if the total patron membership investment is \$100,000 and the total non-patron membership investment is \$300,000, the non-patron membership will receive 75% of the dividends and the patron membership will receive 25% of the dividends. However, in accordance with Minnesota law, the portion paid to the patron membership cannot be less than 15% even if the non-patron membership investment is greater than 85%.

Each patron member's share of the dividend will be in proportion to the amount of business they did with the cooperative that year. Each non-patron's dividend will be in proportion to their share of the investment held by the non-patron membership.

Projected Returns

Cashflow for Foremost Brewing before taxes is expected to be approximately 13% of sales during the first five years of operation. Annual return on investment for non-patron members is anticipated to be 10-12% after the first two years of operations, while dividends for patron members are anticipated to be 5-6% of purchases. It is likely that the board of directors will decide to not pay dividends in the first one to two years of operations in order to build up adequate cash reserves.

It is important to note that all project cost estimates and performance assumptions stated or implied are not guarantees.

Not including the State Historic Tax Credit Grant in Lieu of Credit to be received in Year 1, return on equity for Foremost Properties will be 25-28% while return on capital will be 10-11%. Debt Service Coverage Ratio will be greater than 1.2 after the first two years. The State Historic Tax Credit Grant is expected to be approximately \$242,000 representing two years of debt service. This amount will be held in reserve during the first two years of operation.

Appendices

Position Description for General Manager

Job Title: General Manager

Reports to: Board of Directors

Position Summary

As Chief Executive Officer, the General Manager will oversee the general operations of Foremost Brewing Cooperative and will have authority to execute contracts and other documents on behalf of the cooperative as delegated by the Board of Directors. The General Manager will have authority to hire and fire employees not appointed directly by the Board of Directors.

As Foremost Brewing is a new venture, the General Manager will have the opportunity to build a successful business from the ground up. The General Manager is accountable for all aspects of the business and its operations and is responsible for delivering exceptional guest experiences while meeting financial performance metrics.

Essential Pre-Opening Duties and Responsibilities

- Finalize menu and establish vendor relationships
- Develop standard operating procedures for front-of-house and kitchen operations
- Create staffing plan and human resources budget
- Design and implement the employee selection process
- Develop and implement all training materials and processes
- Create employee development, performance management, engagement, and retention methods
- Establish employee, health, and safety policies

Essential On-Going Duties and Responsibilities

- Oversee guest satisfaction and ensure that all quality and service standards are adhered to at all times.

- Ensure highest standards of food, beverage, and service
- Create an employee culture where employees are cheerful and highly engaged in assuring a consistently high standard of excellence
- Maintain satisfactory business relationships with vendors and suppliers
- Collaborate with Head Brewer on quantity, type, and timing of house brews
- Collaborate with Head Brewer to assure servers have a high level of craft brew knowledge
- Achieve company objectives in sales, service, quality, appearance of facility and sanitation and cleanliness through training of employees and creating a positive, productive working environment
- Ensure compliance with all federal, state, county and municipal regulations that pertain to health, safety and labor requirements of the restaurant, employees, and guests
- Review financial statements, sales or activity reports, and other performance data to measure productivity and goal achievement or to identify areas needing cost reduction or program improvement
- Control cash and other receipts by adhering to cash handling and reconciliation procedures in accordance with policies and procedures
- Maintain food and equipment inventories, and keep inventory records
- Assess staffing needs and recruit staff
- Schedule staff hours and assign duties
- Establish and enforce standards for personnel performance and customer service
- Provide regular performance feedback to employees and administer prompt, fair and consistent corrective action for any and all violations of company policies, rules and procedures
- Fill-in for employees where needed to ensure guest service standards and efficient operations
- Review work procedures and operational problems to determine ways to improve service, performance, or safety
- Keep Board of Directors appropriately informed of key performance indicators, state of the business, and on-going or potential issues
- Translate strategy and general direction from Board of Directors into action
- With input and assistance from the Marketing Committee, generate sales growth, excitement, and customer loyalty

Competencies

- Service Orientation—actively looking for ways to help people
- Attention to Detail—careful about detail and thorough in completing work tasks
- Leadership—willingness to lead, take charge, get results through others, create an environment where employees can excel and be engaged, build a sense of team
- Critical Thinking—using logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions or approaches to problems
- Integrity—honest and ethical
- Dependability—reliable, responsible, and dependable, and fulfilling obligations
- Cooperation—pleasant with others on the job and displaying a good-natured, cooperative attitude
- Stress Tolerance—accepting criticism and dealing calmly and effectively with high stress situations
- Self-Control—maintaining composure, keeping emotions in check, controlling anger, and avoiding aggressive behavior, even in very difficult situations
- Adaptability/Flexibility—open to change (positive or negative) and to considerable variety in the workplace
- Concern for Others—sensitive to others' needs and feelings and being understanding and helpful on the job
- Social Orientation—preferring to work with others rather than alone, and being personally connected with others on the job
- Initiative—willingness to take on responsibilities and challenges
- Persistence—persistence in the face of obstacles
- Active Listening—giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times
- Oral Expression—communicating information and ideas in speaking so others will understand
- Oral Comprehension—listening to and understanding information and ideas presented through spoken words and sentences

Typical Experience

- 3 or more years table-serve restaurant experience
- 5 or more years supervision and management experience
- Strong computer skills and knowledge of a range of business software programs
- Business skills including P&L management and building sales
- Entrepreneurial spirit and ability to build a winning team

The duties listed above are intended as illustrations of the various work that may be performed. The omission of specific statements of duties does not exclude them from the position. The position guide does not constitute an employee agreement between employer and employee and is subject to change as the needs and requirements of the position change.

Brewery vs. Brewpub Business Model

The article below was downloaded from <http://growlermag.com/the-increasingly-blurry-line-between-brewpubs-and-taprooms/> on February 1, 2017.

Foremost Brewing will be a brewpub rather than a brewery for the following reasons:

- The goal is to be a gathering place for the community rather than a production facility
- The ability to serve wine and beers from other breweries will allow us to appeal to a broader audience.
- Although breweries may also serve food, most choose not to recognizing that the competencies for a restaurant and a brewery are different. To be successful, Foremost Brewing will recognize that it is a restaurant and hire management accordingly.
- There is a concern about the long-term viability of a brewery since so many are being opened at the current time and the novelty may wear off. Foremost Brewing will be a place that customers will return to again and again.

The increasingly blurry line between brewpubs and breweries

JANUARY 21, 2016 BY [LOREN GREEN](#)

Brewpubs and breweries both have “brew” in their titles and both places serve beer; and that’s largely where the similarities between the two business models end—or at least where they used to.

Brewpubs and breweries are separate entities, each with its own definition and set of possibilities and limitations, and each offering owners very different business opportunities. However, the legislation passed in Minnesota in recent years has blurred the line between the two business models. With so many breweries and brewpubs popping up around Minnesota recently, we thought it was high time to finally explain what exactly the separation between a [Surly](#), a [Town Hall](#), and a [Union Pizza & Brewing](#) is, and why the owners of such establishments chose their respective routes.

In short, a Minnesota production brewery makes beer for distribution. Like [Summit](#) or [Lake Superior Brewing Company](#), being a brewery means kegs, bottles, and cans, with the option for the brewery (following passage of the taproom bill in 2011) to sell its own beer onsite in a taproom. Breweries whose annual production is less than 20,000 barrels can also sell their beer directly to consumers in growlers and 750ml bottles.

A Minnesota brewpub, on the other hand, is a restaurant-plus-brewery that can pour its own beer as well as operate a full bar, including non-house beers, wine, and hard liquor. Brewpubs cannot distribute or package their beer (except for onsite growler and 750ml bottle sales for offsite consumption), but they can operate multiple locations and serve their beer at them, whereas a production brewery can only operate one taproom. Brewpubs are also capped at brewing no more than 3,500 barrels per year.

Seems clear cut, right? But don’t forget, some production breweries like [Dangerous Man](#) choose to forego distribution altogether and only sell their beer exclusively onsite in their taproom and [in growlers](#). Oh, and did we mention production breweries can also operate restaurants at their brewerie

For a long time, the presence of a restaurant served as the key indicator that a place was a brewpub and not a brewery. When the first generation of Minnesota brewpubs opened in the 1990s, the only avenue available to brewers who wanted to sit across the bar from their customers was to go the brewpub route. But now that breweries can operate kitchens onsite—think Surly, [Urban Growler](#), [Brau Brothers](#), and more—the difference between the two models has become less distinct.

“There was more of a community aspect to brewpubs,” says Town Hall owner Pete Rifakes. “I don’t think that’s true today.” He chose the brewpub model when he was planning Town Hall in 1995 because it’s what he knew and loved. In graduate school, he was a regular at Seattle’s [Big Time Brewery & Alehouse](#), and when he moved to Minneapolis and started his own business plan, he frequented [Rock Bottom](#). The social aspect was something production breweries couldn’t provide back then. “If we were to reopen...I’m not in that situation, but I would probably lean toward opening a taproom,” Rifakes says of today’s marketplace. “The only reason to do [a brewpub] is if you’re going to have a full bar.”

Brewpubs are restaurants first, Rifakes adds. The beer is important, but “Your competition is other restaurants and the majority of your labor costs are on the restaurant side,” he says. Being known first and foremost as a restaurant with a full bar are marketing tools for brewpubs to draw different clientele and drinkers than production breweries. “Not everyone who walks in our door is a craft beer lover like we are,” says Steven Finnie, co-owner of Rochester, Minnesota, brewpub [Grand Rounds](#). “It allows us to appeal to a wide variety of people.” Downtown Rochester’s bar scene is already crowded, so being a restaurant helps distinguish their business, he says.

Brau Brothers has held both brewpub and production brewery licenses over the years. “We actually opened as a restaurant first,” says co-owner and brewer [Dustin Brau](#). “To be honest, we added the brewery to the restaurant simply to get people to drive to Lucan for food. It was never meant to be the focus of the business originally; it was developed to give us identity and draw the then-limited craft beer crowd out of the woodwork.” Due to growth, they changed direction in 2006 and began distributing their beer.

In some cases, the community dictates which business model brewers choose to run with. With the Mayo Center drawing travelers to Rochester, food sales are a key aspect to the survival of a business, says Grand Rounds chief operating officer Tessa Leung. A full bar and the ability to sell lagers, sours, cider, and other beverages they don’t make in-house is an extra bonus. The taproom limitations just don’t make sense for a downtown Rochester business, Leung says.

Farther outstate, away from Minnesota’s population-dense metropolitan areas, owners have to take stock of their town’s dynamics when deciding between the models. “If you didn’t have any food I think you’d have a hard time making it a full-time deal,” says Ben Schierer, owner of Union Pizza & Brewing in Fergus Falls, Minnesota (population 13,351). He and his wife run the brewpub as their primary employment, and the restaurant gets customers seven days a week.

Bob Nihart of [Reads Landing Brewing Co.](#), located in Reads Landing, Minnesota, just north of Wabasha, chose to open a brewpub because of space limitations. He already owned a historic building along the Mississippi River, and a production facility in the small building would be impractical. “My wife and I do a lot of beer tours, and have realized ambiance is key,” he says. “Some are a big empty restaurant space that somebody took over that don’t have atmosphere at all. Even if the beer is good, it feels stale and sterile.”

Nihart says he knew he could offer something unique with a building pushing 150 years of age that’s located a stone’s throw from the river. “Being on the water is a big draw,” he says. “The main reason I ended up here is because I already owned the building. Of course, had the building been in the middle of a field, I don’t think I would have converted that into a brewery/restaurant.”

Reads Landing and Union both use small three-barrel systems; Grand Rounds operates with a seven-barrel system. The small size of these and other such brewpubs means that even if distribution were an option, it would be a challenge. As such, brewpubs tend to feature more limited-edition beers, which increases their draw as a destination for craft beer enthusiasts.

“I think the brewpubs that open don’t expect large growth,” Town Hall’s Rifakes says about the new wave of openings. “Maybe they’re content with that.” He points to Town Hall as an example. He used to be more hands-on with bar work in the early years, but bartending and brewing are hard, physical work—better suited for younger employees. Eventually, he had to adopt a new strategy and bring on more workers. “You hire people that grow with the business,” he explains. “As a brewpub you’re constantly going to be turning over your young guys because they want to grow.”

With Mike Hoops holding down the head brewer role at Town Hall, Rifakes says there is no place to promote his assistant brewers. That makes retention a problem—one he believes would be solved were he able to distribute; distribution offers more room for internal promotions. The “satellite” system of distribution that allows brewpubs to sell their beer at restaurants owned by the parent company (e.g. Town Hall beers at Town Hall Tap, Fitger’s beers at Burrito Union, Freehouse beers at Groveland Tap) has helped the issue a little, Rifakes says, but it still doesn’t solve the retention issue. Another consideration is that every satellite location requires investments in real estate and kitchen equipment. “It gets costly,” he says. The bottom line? “I think if you’re selling a legal product and there’s demand for that product, you should be able to sell it,” he says.

John Moore of Barley John’s circumvented brewpub restrictions by opening a new production brewery (as a like-named but separate legal entity from the brewpub) in Wisconsin. Moore agrees with Rifakes’ frustration with the dueling models and regulations. “When you have four walls to a restaurant there’s a limit,” he says. “With a brewery, there are only the limitations of your space.”

When Rifakes, Moore, or Tim Nelson—one of the founders of Fitger’s Brewhouse in Duluth—chose to open brewpubs, it was the early 2000s—a different marketplace for Minnesota craft beer. Like Rifakes, Nelson says he’s seen the pendulum swing, but given industry dynamics he refuses to say one is a better business model than the other. Asked what he would open today: “Two years ago, I would have said the taproom, no question,” he says. “But today, as the competition increases, it becomes a question again.”

As for where a brewpub stands in comparison to a production brewery today, Nelson says it’s the differing definitions and limitations that are most tricky. “It creates a lot of confusion with consumers, that’s the biggest hurdle,” he says.

The lines will continue to blur as the beer scene develops in Minnesota and the state faces more and more people requesting to adjust regulations. Different communities and individuals have different goals and needs, and the fact remains that some people just don’t want to go to a place that only serves beer. “I think there’s room on both sides,” Nelson says. “I think it still is viable, it just depends on what the individual wants to do.”

Minnesota Statutes Chapter 308B

Following is a June 5, 2003 memo from the Minnesota Association of Cooperatives providing information about the advantages of a cooperative structuring itself under MN Statute 308B.



Minnesota Association of Cooperatives

Blair Arcade West, Suite Y, 400 Selby Avenue, St. Paul, MN 55102
 Phone: 651.228.0213
 Toll Free (in MN, WI and ND only) 1.877.MNCOOPS
 Fax 651.228.1184 www.wfcmac.coop

DATE: June 5, 2003

TO: Minnesota Cooperative Leaders

FROM: Bill Oemichen, President & CEO *Bill Oemichen*
 Maura Schwartz, Managing Director *Maura Schwartz*

RE: New Minnesota Statutes Chapter 308B - Minnesota Cooperative Associations Act

I. Introduction.

A. The Chapter 308B Statute Was Proposed to Provide Flexibility to Minnesota Cooperatives Attempting to Raise Equity for Modernization or Expansion.

The recently concluded Minnesota Legislative Session ended with a major milestone for the Minnesota Association of Cooperatives (MAC). The Legislature passed, and Governor Pawlenty signed into law, legislation creating a second Minnesota cooperative law that provides significant tools for patron members seeking outside equity capital for the creation, modernization, or expansion of a cooperative. MAC sought passage of the new law because Minnesota cooperatives have experienced difficulty raising equity capital for cooperative creation, modernization or expansion under the current restrictive Minnesota cooperative law and because some cooperatives are converting to non-cooperative forms like LLC's to gain greater access to equity.

New Chapter 308B essentially authorizes outside equity investment in the cooperative in return for limited voting rights to provide for more flexible financing alternatives for cooperatives. New Chapter 308B does not replace Chapter 308A. Patron members now have two choices when determining what type of Minnesota cooperative they wish to create.

This new law places Minnesota, the leading cooperative state in the nation, at the forefront of the evolution of national cooperative law. Just today, the National Council of Farmer Cooperatives in a press release cited the new Minnesota law as a primary reason why national cooperative law needs to be reformed.

The new law was primarily written by attorneys in the Minneapolis office of Lindquist & Vennum, one of the leading cooperative law firms in the nation. The attorneys drafted the new law following an extensive series of meetings MAC hosted with Minnesota cooperatives across the state in the summer and fall of 2002. Attorneys from Dorsey & Whitney also provided MAC with legal guidance on this issue.

B. Chapter 308B Provides Significant Protections for Patron Members.

It's vital to understand that the new statute creates a number of protections for patron members through mandated minimum levels of voting control within the board of directors, by votes of the membership and in determining financial rights. These protections are established through a series of floors such as a requirement that patron members retain at least 50% voting control of the board of directors. Members, in the bylaws, may set the exact percentage. However, the members do not have the discretion to lower the minimum floors established in the statute.

II. Investment Members Authorized. Unlike current Chapter 308A, Chapter 308B cooperatives may have two classes of members: patron members and investment members. Patron members have the financial right to no less than 60% of the cooperatives' profit allocations and distributions unless patron members vote to reduce their financial rights. Even if they do, non-patron investor members may receive no more than 85% of the cooperative's profit allocations and distributions even if their ownership interest is greater than 85%. Also, it is important to note patron members may also become investment members.

III. Taxation and Conversion. A Chapter 308B cooperative may be taxed as a partnership under Subchapter K of the Internal Revenue Code and receive pass-through treatment, or elect to be taxed as a cooperative under Subchapter T with a deduction from taxable income to the cooperative for patronage-sourced income. Choosing subchapter K tax treatment provides the potential benefit of pass-through treatment of profits from non-member business and the avoidance of double taxation of non-member business under Subchapter T.

It is unlikely existing, profitable Chapter 308A Minnesota cooperatives taxed under Subchapter T would convert to a Chapter 308B cooperative taxed under Subchapter K because the IRS would likely view the conversion as a liquidation of the Chapter 308A cooperative with a sale of assets. According to tax and legal experts, an appraisal of the cooperative's value may result in considerable gain taxed to members without distributed income to pay the tax.

IV. Cooperative Governance. The statute provides flexibility in governance through reliance on the cooperative's bylaws, with certain mandated minimum levels of governance rights for patron members. This flexibility allows the cooperative's members to determine the appropriate governance structure through bylaws rather than having the Legislature determine all of the key governance issues.

Chapter 308B requires the patron-members to hold at *least* 50% of the voting powers on "general matters of the cooperative." This means patron-members retain considerable influence over cooperative decisions, particularly when combined with a Chapter 308B provision that provides that patron-members generally vote as a bloc in board decisions or decisions by the general membership.

The new statute sets a minimum patron member voting rights floor. Patron members of a cooperative can set significantly higher levels of patron member control in the bylaws.

A Chapter 308B cooperative must establish an Audit Committee which may consist of the entire Board.

V. Patron Member Financial Rights. A Chapter 308B cooperative has the flexibility to determine patron and investor member financial rights. Unless modified at the cooperative's inception, patron members are entitled to at least 60% of the cooperative's financial rights to profit allocations and distributions. This number may only be later reduced if the patron members affirmatively vote for the reduced patron member financial rights. Significantly, the statute mandates an absolute 15% floor on patron member financial rights. This means that even if patron members vote for a change that reduces their financial rights to less than 60%, the patron members must still receive at least 15% of the cooperative's profits even if investor members (who do not patronize the cooperative) own more than 85% of the equity. This provision is intended to ensure a minimum level of distribution for patron members.

The new statute sets a floor. Patron members of a cooperative can set significantly higher levels of patron member financial rights in the bylaws.

VI. Why Cooperatives Might Organize Under the New Chapter 308B. Many Minnesota cooperatives have expressed interest in utilizing a cooperative form of governance for a joint venture. Minnesota cooperatives have noted that the limitations of Chapter 308A meant they had to choose to organize related businesses as LLC's. Under Chapter 308B, two cooperatives and an outside investor can form a new Chapter 308B cooperative, be taxed like an LLC and still potentially qualify for Capper-Volstead Act antitrust immunity protection.

Minnesota agricultural producers have pointed out that the current law limits their ability to obtain debt financing because of the difficulty raising equity through preferred stock offerings and their inability to raise equity capital from non-patron investors or even from patron members who want to further invest in the cooperative. Chapter 308B allows for the ability to raise equity from non-patron investors and patron members to meet minimum equity requirements and pay more than 8% return on the investment.

Several electric cooperatives have asked for a new cooperative statute that allows them to create joint ventures with other electric cooperatives, or other cooperatives, in a cooperative form, rather than as an LLC. Chapter 308B provides significant flexibility for joint ventures. For example, two electric cooperatives can join with a non-cooperative business in a Chapter 308B cooperative for the purpose of conducting joint right-of-way maintenance, security services, etc.

Chapter 308B also allows non-agricultural businesses such as senior housing, electric, telecommunications, health care, and purchasing cooperatives to be more freely created and have the equity provided by members and non-members. For example, a telecommunications cooperative could raise non-patron member equity to help finance the installation of cable in their community.

VII. Potential Issues to Consider.

A. Antitrust Protection May Be An Issue for New Chapter 308B Cooperatives Marketing Agricultural Products. Minnesota cooperatives should carefully consider how the new Chapter 308B might apply to existing and future cooperative business activities. For example, existing agricultural cooperatives marketing agricultural products enjoy antitrust immunity protection under Capper-Volstead. Generally, antitrust immunity protection applies to

“[p]ersons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers.” Furthermore, no member may be allowed more than one vote or dividends on preferred stock may not exceed 8% per year, and the cooperative may not market more products produced by non-members than members. Allowing non-patron investor members into the cooperative may place this immunity at risk and should be carefully considered by the cooperative’s legal and tax experts.

More than several Minnesota agricultural cooperatives have argued this is not a significant issue if the cooperative cannot raise enough equity capital to get started or is involved in a non-agricultural production or marketing activity. Furthermore, since antitrust immunity is generally limited to the marketing of agricultural products, a majority of Minnesota’s cooperatives currently do not currently enjoy this antitrust immunity protection.

B. Patron Member Decision-Making and the Need for Continuing Education. Patron members, at the cooperatives’ creation, have the flexibility to determine what levels of control they wish to have relative to non-patron investor members. Therefore, it’s important that patron members carefully consider such important issues as member voting, board of director voting and financial rights when incorporating as a cooperative. Certainly these issues should be carefully considered throughout the life of the cooperative as well. This suggests the importance of continuing education of patron board directors and members so that patron members fully understand their rights and responsibilities within the cooperative and make decisions based on full information.

C. Securities Issues Should be Carefully Analyzed. Finally, anyone exploring creation of a Section 308B cooperative should also closely examine federal and state securities laws. Minnesota law generally exempts cooperative securities from state securities registration requirement. Depending on how the new cooperative is set up, the cooperative may not be eligible to receive the benefits of the securities exemption.

VIII. MAC Education Conferences on New Chapter 308B Planned for this Summer.

MAC is scheduling a series of educational conferences on new Chapter 308B for this summer. Notices will be mailed to MAC members and updates will be posted on MAC’s website:

www.wfcmac.org/coops/mac/mac.html

This memorandum is offered by the Minnesota Association of Cooperatives to members for the purpose of generally summarizing new Minnesota Chapter 308B and not for the purpose of offering legal advice. Members should consult competent legal or tax counsel for guidance.