

## ARTICLE I—PURPOSE AND PRINCIPLES

**Section 1.01. Purpose.** Purpose and mission. The Co-op is organized to provide food and other household products to its members and others. It is organized primarily for the mutual benefit of its members as patrons and is operated on a cooperative basis. The mission of the Co-op is to provide healthful, earth-friendly, and affordable products, offer excellent customer service and consumer education, provide a quality work experience and contribute to the local economy.

**Section 1.02. Cooperative principles.** The Co-op will operate consistent with cooperative principles. These principles include (1) voluntary and open membership; (2) democratic member control; (3) member economic participation; (4) autonomy and independence; (5) education, training and information; (6) cooperation among cooperatives; and (7) concern for community.

**Section 1.03. Nondiscrimination.** The Co-op will not engage in or tolerate discrimination or harassment based on any legally protected classes or characteristics or any other non-merit factor in membership, employment or other activities.

**Section 1.04. Co-op mission report.** The Co-op will furnish members with an annual report addressing the Co-op's mission and goals and its efforts to achieve them

## ARTICLE II—MEMBERSHIP

**Section 2.01. Eligibility for membership.** Any natural person willing to accept the responsibilities of membership and abide by the policies and conditions adopted by the Board of Directors may become and remain a member. The Board of Directors may specify additional eligibility requirements to ensure that any membership would be in the best interests of the Co-op.

**Section 2.02. Application for membership.** An applicant eligible for and desiring admission to membership in the Co-op must do the following, each on such terms as determined by the Board of Directors:

- (a) submit required information;
- (b) pay any administrative and membership fees; and
- (c) make any required equity investment.

**Section 2.03. Admission to membership.** Applications for membership will be reviewed by or at the direction of the Board of Directors. Before membership admission, the Co-op will provide an applicant a disclosure document containing the information required by applicable law and will furnish the applicant a copy of these Bylaws and Articles of Incorporation upon written request. An application for membership will be presumed accepted unless rejected within 30 days for reasons satisfactory to the Board of Directors.

### **Section 2.04. Member status.**

(a) An “active member” is a member who has met the equity investment obligation and who regularly patronizes the Co-op. “Regularly patronizing” the Co-op means making at least one purchase during a calendar year. A member becomes inactive when that member becomes delinquent in meeting the equity investment obligation or fails to patronize the Co-op for more than 12 consecutive months. An inactive member will automatically regain active status when that member fully satisfies the requirements for active membership, including bringing current any equity investment obligation and patronizing the Co-op.

- (b) Only active members have the following rights of membership:

- (1) to vote on matters submitted to members and to receive notice of and attend meetings of members; to attend meetings of the Board of Directors;
- (2) to serve as a member of the Board of Directors;
- (3) to serve as an officer;
- (4) to receive discounts and other benefits offered to members from time to time;
- (5) to receive distributions to members if and when made; and
- (6) to have one household shopper.

**Section 2.05 Community Service Program.** The Board of Directors may provide a financially sustainable program allowing members to provide community service to the Co-op Board of Directors or a designated non-profit community organization. Incentives for participation in the program may be offered. Participation is at the option of the member and is not a requirement of Co-op membership.

### **ARTICLE III—SHARES**

**Section 3.01. Issuance of shares.** Membership shares (or common stock) and preferred/investment stock may be issued for money paid in an amount determined from time to time by the Board of Directors. Such shares may also be issued as stock dividends, patronage refunds, or by other changes affecting the total value of outstanding shares. The Co-op may issue stock certificates, but it is not required to do so.

**Section 3.02. Membership Shares (Common stock).**

(a) Each applicant admitted as a member will be issued a membership share. Ownership of a membership share entitles a member to one vote in the affairs of the Co-op, regardless of the total number of shares, including preferred or investment shares, a member owns, and to all the rights of membership as described by statute, the Articles of Incorporation, and these Bylaws.

(b) The Co-op may require holders of membership shares to invest additional equity for the reasonable capital needs of the Co-op.

(c) Membership shares are redeemable at the option of the holder upon termination of that holder's membership as provided by statute, the Articles of Incorporation, and these Bylaws.

**Section 3.03. Preferred stock.**

(a) Shares of preferred or investment stock may be issued to members who have met their equity investment obligation, and as provided in the Articles of Incorporation. Ownership of preferred stock does not entitle the holder to any voting rights in the affairs of the Co-op, except as provided by law. Only members who are California residents may purchase preferred stock.

(b) Shares of preferred or investment stock are only redeemable as provided by law or by any share purchase agreement. The Co-op shall redeem any shares of preferred stock upon termination of membership or expulsion as set forth in Section 4.04.

**Section 3.04. Prohibition on transfer of stock.** There shall be no transfers or assignments of the Co-op membership shares or preferred stock.

(a) Upon the death of an individual, the Co-op shall redeem any membership shares and may reissue those shares to a member of that person's immediate family, following receipt of the share purchase price.

(b) Upon the death of an individual shareholder of preferred stock, the Co-op shall redeem the outstanding shares pursuant to the redemption provisions in the share purchase agreement.

(c) Any attempted assignment or transfer in contravention of this section will be void and will confer no rights on the intended assignee or transferee.

#### **ARTICLE IV—TERMINATION OF MEMBERSHIP**

**Section 4.01. Voluntary termination.** Any member may resign from and terminate membership in the Co-op at any time by providing written notice to the Co-op's Secretary. The termination of the membership will become effective immediately without any action by the Co-op.

**Section 4.02. Termination on death.** A membership will immediately terminate upon the death of the member, except as provided in subsection 3.04.

**Section 4.03. Expulsion or Suspension.** Any member may be expelled or suspended in accordance with board policy, for failing to comply with the Bylaws, rules and regulations of the Co-op, or for any other justifiable reason, upon a 2/3 vote of the Board of Directors. The member will be provided at least 15 days prior notice of the reason for expulsion or suspension. The member will also be given the opportunity to respond, orally or in writing, not less than five days before the effective date of the expulsion or suspension.

**Section 4.04. Settlement of stock interest.** If a membership is terminated for any reason, any proprietary interest held by the member will be subject to redemption or transfer as provided in the Co-op's Bylaws, California law or any share purchase agreement in effect between the Co-op and the member. Purchasers of preferred or investment shares whose membership status is terminated may continue to hold such shares according to the terms of the relevant share purchase agreement.

#### **ARTICLE V—MEMBERSHIP MEETINGS**

##### **Section 5.01. Annual meetings.**

(a) An annual meeting of members is to be held each year for the election of directors and to conduct such other business as may properly come before the meeting. At any annual meeting, an item of business may be conducted only if it is a matter properly before members. A matter is properly before members if it is brought before the meeting by or at the discretion of the Board of Directors, or by an active member who complies with the procedures specified in subsection 5.01(b).

(b) For a matter to be brought before an annual meeting by an active member, the member must deliver written notice to the secretary of the Co-op no later than 90 days before the meeting. That notice must describe the matter in reasonable detail and bear the physical signatures of at least 5% of all active members as of that date if it is a matter for vote. The notice must also comply with any other procedural and content guidelines and limitations the Board of Directors adopts in its written Election Policy.

**Section 5.02. Special meetings.** Special meetings of members may be called by the Board of Directors or the President. A special meeting of members may also be called by members if the members deliver to the Secretary of the Co-op a written request describing the purpose for which the meeting is called, pursuant to the Election Policy. That request must bear the physical signatures of at least 5% of all active members as of that date, and conform to all other requirements of the Board of Directors Election Policy. No business other than that within the purpose specified in the meeting request may be transacted at a special meeting.

**Section 5.03. Time and place.** The date, time, and place of all meetings of members are to be determined by the Board of Directors. Special meetings will be held at a time fixed by the Board of Directors not less than 10 days nor more than 90 days after receipt of a written request pursuant to the Election Policy.

**Section 5.04. Conduct of meetings.** Meetings of members are to be conducted in accordance with the Board of Directors rules of parliamentary procedure.

**Section 5.05. Notice of meetings.**

(a) The Co-op will give written notice of any meeting of members not less than 10 nor more than 90 days before the meeting to each member who is entitled to vote on the record date for the meeting. The Co-op will also post meeting notices in the Co-op's store(s).

(b) Notices of annual meetings will be given not less than 10 nor more than 90 days before the meeting to each member who is entitled to vote on the record date for the meeting.

(c) Each meeting notice will state the date, time and place of the meeting. Notices of annual meetings will state any matters that the Board of Directors, at the time of giving the notice, intends to present for action by the members. Notices of special meetings will state the general nature of the business to be conducted. Notices of any meetings at which directors are to be elected will include the names of all nominees at the time of giving notice.

**Section 5.06. Record Dates.** The record date for determining members entitled to vote at a member meeting shall be at least 15 days and not more than fifty days preceding the meeting date. Only persons who are active members on that day shall be entitled to notice of the meeting and to vote at that meeting. In the case of a written ballot, only persons who are active members on the date set as the record date will be mailed a ballot, solicited to vote and entitled to cast a written ballot.

**Section 5.07. Quorum.**

(a) A quorum of the greater of (a) 100 active members; or (b) active members representing 2% of the voting power, is required to transact business at any meeting of members, except as otherwise required by applicable law or these Bylaws. "Voting power" means the number of members eligible to vote on the Record Date, as fixed by the Board of Directors (section 5.06).

(b) A quorum of active members representing at least 5% of the voting power is required at a meeting to act on any matter brought before that meeting by an active member as specified in subsection 5.01(b) or section 5.02.

(c) If less than 1/3 of the voting power is represented at any meeting, the only matters that may be voted on at that meeting include those matters described in the meeting notice.

**Section 5.08. Voting.**

(a) Each active member has one vote on each matter submitted to a vote of members.

(b) Unless otherwise required by law or by these bylaws, action on any matter, which can be decided at a meeting of the members, is approved by members if a quorum is present and (1) a majority of all active members vote in favor of the matter, or (2) a majority of those active members voting on the matter vote in favor of the matter and the matter is confirmed by a 2/3 vote of the Board of Directors. Elections of directors by members are decided by affirmative vote of the required percentage of votes of all active members, at an election conducted pursuant to the board's Election Policy. Removal of directors by members shall be done by petition as specified in the board's Election policy and section 6.04 of these bylaws.

**Section 5.09. Action by ballot without meeting.** Any action that may be taken at any meeting of members, including the election of directors, may be taken without a meeting through distribution of a written ballot to every active member entitled to vote on the matter as set forth in Section 5.06. In this case, once a quorum is established per section 5.07(a), through the return of ballots, the vote of the required percentage of those active members voting on the matter shall

determine the action.

**Section 5.10. Electronic communications.** The Board of Directors may authorize members to participate in any meeting by electronic communications if the Co-op implements reasonable measures to provide members a reasonable opportunity to participate in the meeting and to vote on matters submitted to members, in accordance with applicable law and any other procedural guidelines and limitations the Board of Directors adopts.

**Section 5.11. Member engagement.** In addition to member meetings, the Board of Directors will hold at least three member engagement gatherings per year designed to provide regular opportunities for communicating the activities of the Board of Directors to members, soliciting the feedback of members, and maintaining a participatory relationship between members and the Board of Directors.

## **ARTICLE VI—Board of Directors**

### **Section 6.01. Powers and Duties**

Except as to matters reserved to members by law or by these bylaws, the activities and affairs of the Co-op will be conducted and all corporate powers will be exercised by or under the direction of the Board of Directors. Such powers reside exclusively in the Board as a deliberative body; they may reside in individual directors only to the extent explicitly so delegated by the Board. The duties of the board include the following:

- (a) overseeing the operations and finances;
- (b) establishing policies to govern operational decisions;
- (c) engaging a general manager and monitoring and evaluating his or her performance; and
- (d) assuring that the purpose and mission are properly carried out through policies established by the Board of Directors that are regularly reviewed.

### **Section 6.02. Number and qualifications.**

- (a) The number of directors constituting the Board of Directors is nine.
- (b) Only individual members are eligible to serve as directors. To be eligible to serve as a director, an individual:
  - (1) must be at least 18 years old
  - (2) must have been an active member for at least six months immediately prior to board service;
  - (3) must be in compliance with the Co-op's code of conduct and any other written policies; and
  - (4) must satisfy any other reasonable eligibility requirements set by the Board of Directors.
- (c) Neither the person serving as the Co-op's general manager nor any of that person's direct reports is eligible to serve as a director.
- (d) Only one employee of the Co-op may serve as a director at any one time.
- (e) No person may serve as a director if that person's service as a director would result in two or more related persons being directors at any one time. The term "related person" means the spouse, child, grandchild, sibling or parent of the person, domestic partner and any individual sharing the household of the

person.

### **Section 6.03. Vacancies.**

(a) Any vacancy occurring on the Board of Directors may be filled by a majority vote of the directors then in office, whether or not less than a quorum, except as otherwise provided by law or these bylaws.

(b) A vacancy created by the removal of a director by members may only be filled by the approval of members as specified in subsection 5.08(b).

(c) A person chosen to fill a vacancy will hold office for the remainder of the term of the person for which the vacancy occurred.

### **Section 6.04. Removal of directors.**

(a) Any director may be removed by affirmative vote of a majority of active members voting at a meeting of members if the request for removal is made pursuant to a Petition, and the removal request bears the physical signatures of at least 20% of all active members as of the petition date.

(b) Any director may be removed by the Board of Directors upon the affirmative vote of at least 2/3 of the disinterested directors under the following circumstances:

- (1) the director no longer meets the eligibility requirements for service on the Board of Directors;
- (2) the director has missed three Board meetings within a period of six months without being excused by the Chair of the Board for good cause; or
- (3) for other cause as set forth under state or federal law.

**Section 6.05. Committees.** The Board of Directors may appoint special or standing committees to advise the Board of Directors, or to exercise such authority as the Board of Directors may designate. Standing committees will include Nominations, Elections and Education. All committees must include at least two directors. A committee exercising any authority of the Board of Directors must consist exclusively of directors, but otherwise a committee may include any active members.

**Section 6.06. Chair and Vice Chair(s) of the board.** The Board of Directors shall appoint directors to serve as officers of the Board of Directors. These officers shall be the chair of the board, and up to two vice chairs of the board. The board chair and vice chair(s) are to perform such duties and possess such powers as are assigned by the Board of Directors and these bylaws.

**Section 6.07. Board policies.** The Board of Directors is to develop written policies, including an Election Policy, necessary to carry out the duties of the Board of Directors and the functions of the Co-op. The Election Policy shall require that elections comply with California Cooperative Corporations Law.

**Section 6.08. Meetings.** Meetings of the Board of Directors are to be held monthly. Meetings may be cancelled by the board chair if there is no business requiring a meeting. Meetings may be called by the board chair or any three directors.

### **Section 6.09. Notice of board meetings.**

(a) Meetings of the Board of Directors may be held, or cancelled, if notice of the time and place of the meetings, or cancellation, is given to directors and members at least seven days before the time at which the meeting is to be held, except that notice for emergency meetings must be given at least 48 hours before the time at which the meeting is to be held.

(b) Meeting notices may be given to directors in any manner permitted by law, including orally, in writing or via electronic transmission. Notice of the time and place of any meeting of the Board of Directors must also be posted in a timely manner at the Co-op's website and in a conspicuous place in the Co-op's store(s). The inadvertent failure to post the meeting notice will not affect the validity of any meeting, provided a quorum of the board is present.

**Section 6.10. Quorum and voting.** Except as otherwise required by law, a majority of the number of directors in office is necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board of Directors. Decisions at meetings of the Board of Directors are to be made by majority voting unless a greater number is required by law or these bylaws.

**Section 6.11. Meetings by remote communication.** Directors may participate in a meeting of the Board of Directors by conference telephone, electronic video screen communication, or other electronic transmission if all directors participating can hear one another. The Co-op will provide reasonable means for members to hear and/or view remote or virtual meetings, and provide a means for member comment to the Board.

**Section 6.12. Action without a meeting.** Any action required or permitted to be taken at a meeting of the Board of Directors may be taken by unanimous consent without a meeting if all directors individually or collectively consent in writing or by electronic transmission to the action.

**Section 6.13. Open meetings.** Meetings of the Board of Directors are to be open to active members, except that sessions of a meeting may be closed as to matters of a confidential or sensitive nature. Examples of these matters include:

- (1) labor relations or personnel issues;
- (2) negotiations of contracts;
- (3) discussions of real estate matters, strategic goals or business plans, the disclosure of which would adversely impact the Co-op's position in the marketplace; and
- (4) discussions of matters that may, by law or contract, be considered confidential.

**Section 6.14. Emergency meetings.** An emergency meeting of the Board of Directors may be called if there are circumstances that require possible action by the Board of Directors and which make it impracticable to provide regular notice. During an emergency meeting, the board may not take any action that requires the vote of the members. The board also may not take any action not in the corporation's ordinary course of business, unless the required vote of the members was obtained prior to the emergency meeting.

## **ARTICLE VII—ELECTION OF DIRECTORS**

**Section 7.01. Nominations.** Nomination of candidates for election as directors may be made by one of the two methods listed below. The members must also comply with any other procedural guidelines and limitations the Board of Directors adopts.

(a) The Board of Directors shall nominate candidates for election, pursuant to the Board's Election Policy.

(b) An active member may deliver to the Secretary of the Co-op written notice of the active member's nomination before the annual meeting, according to the timeline established in the election policy. That notice must include all information reasonably requested by the Co-op and bear the physical signatures of at least 5% of all active members as of that date.

**Section 7.02. Election.** In each election of directors, if the number of candidates exceeds the number of directors to be elected, the candidates receiving the most votes will be elected to the Board of Directors until all board seats are filled.

Only one board seat may be filled by an employee. If any employees are among the candidates receiving the most votes, only the top vote getting employee will be elected to that seat. If the number of candidates does not exceed the number of directors to be elected, all of the candidates will be deemed to be elected by members upon the approval of a majority of the disinterested members of the Board of Directors. Directors may be elected by written or electronic ballot under applicable law.

**Section 7.03. Terms of office.** The Board of Directors will be divided into three cohorts, as nearly equal in number as reasonably possible, with one cohort to be elected each year. The term of each cohort will expire when the results for the election held in the third year following that cohort's election are certified by the Secretary of the Co-op. Directors will hold office until their successors are elected or until their offices are sooner terminated under these bylaws.

**Section 7.04. Term limits.** No person may be elected to serve as a director for more than three consecutive full terms. For purposes of this term limit, a person who has been chosen to fill a vacancy will be considered to have been elected for the term of the person for which the vacancy occurred, and may only serve for two consecutive full terms thereafter. A person who has been elected for three consecutive full terms may again be elected after a period of at least one year has elapsed since the person's last service as director.

## ARTICLE VIII—OFFICERS

**Section 8.01. Titles.** The officers of the Co-op include a president or chief executive officer, a treasurer or chief financial officer, a secretary, and any other officers with such titles and duties as the Board of Directors may determine. Only active members of the Co-op may serve as officers, and the same person may not hold more than two offices at any one time.

**Section 8.02. Appointment and resignation.** Officers are appointed by the Board of Directors and serve at the pleasure of the Board of Directors. Any officer may resign at any time upon written notice to the Co-op. Any officer may be removed by the Board of Directors at any time, with or without cause.

**Section 8.03. Duties.** In addition to signing or attesting to formal documents on behalf of the Co-op as authorized by the Board of Directors, officers have the duties as are determined by the Board of Directors.

## ARTICLE IX—PATRONAGE DISTRIBUTIONS

**Section 9.01. Patronage dividends.** The Co-op will allocate and distribute to active members the net surplus from business done with them in such a manner as to qualify such allocations and/or distributions as patronage dividends consistent with cooperative principles, applicable state and federal laws and generally accepted accounting principles. The Board of Directors shall determine when and how such allocations and distributions will be made.

**Section 9.02. Consent of members.** By obtaining or retaining membership in the Co-op, each member consents to take into account any patronage dividend received as required by federal and state tax law. Each member also agrees that if the member does not use or redeem any patronage dividend by the expiration deadline established by the Board of Directors, pursuant to California Cooperative Law § 12446, in lieu of escheatment to the state of California, and after following the requirements of California Cooperative Law § 12446, the Board of Directors may declare that the unused or unredeemed dividend will revert to the Co-op, or the Co-op may use those funds to make a contribution to support other organizations aligned with the Co-op's purposes.

**Section 9.03. Retained amounts.** A portion of any allocated patronage dividends, not to exceed 80% of the allocation, may be retained for the reasonable capital needs of the Co-op as determined by the Board of Directors. Such retained amounts will be allocated to active members on the books on a patronage basis. Retained patronage dividends will accrue no dividend or interest or other monetary return on capital.

Retained patronage dividends may be redeemed when determined by the Board of Directors to be no longer needed for capital purposes. If the Board of Directors determines to redeem any retained amounts, they will be redeemed in the



order of the oldest outstanding amounts and on a pro rata basis among such amounts, except that redemptions will be payable only to active members.

Any retained amounts may be subject to being offset by amounts otherwise due and payable to the Co-op.

## **ARTICLE X—FISCAL AND MISCELLANEOUS MATTERS**

**Section 10.01. Fiscal year.** Unless otherwise determined by the Board of Directors, the fiscal year of the Co-op will begin on October 1 and end on September 30.

### **Section 10.02. Audit, records and reports.**

(a) The Board of Directors will require an annual audit of the Co-op's annual financial statements. The audit must be conducted by independent public accountants.

(b) The Co-op will prepare an annual financial report not later than 120 days after the close of the Co-op's fiscal year and will provide a copy of that report to active members, as required by law. The annual financial report will contain a balance sheet as of the end of that fiscal year, an income statement and a statement of cash flows for that fiscal year, and any other information required by applicable law. The report will be accompanied by any pertinent report by independent public accountants.

(c) An active member may inspect the accounting books and records and minutes of proceedings of the members and the Board of Directors at any reasonable time upon written request. The purpose of the inspection must be reasonably related to that person's interests as a member, as defined by law, and inspections of the member roster are not permitted where the Co-op can provide an alternative that reasonably meets the purposes for the inspection.

### **Section 10.03. Transfer of proprietary interests to the Co-op.**

(a) A "proprietary interest" means any membership, membership certificate, membership equity, membership share, share certificate or any share certificate of any class representing a proprietary interest in and issued by the Co-op together with all accrued and unpaid dividends and related patronage distributions.

(b) Any proprietary interest in the Co-op that would otherwise escheat to the state will instead become the property of the Co-op, as provided in California Cooperative Law §12446. The Co-op will give the affected member at least 60 days prior notice of the proposed transfer by mail to the last address of the member shown on the Co-op's records and by publication in a newspaper of general circulation in the county in which the Co-op has its principal office. No proprietary interest will become the property of the Co-op if written notice objecting thereto is received from the affected member prior to the date of the proposed transfer. If there is no objection to the transfer of the proprietary interest from the member prior to the date of the proposed transfer, then that proprietary interest will become the property of the Co-op on the transfer date.

### **Section 10.04. Loans.**

(a) The Co-op may not make a loan to, or guarantee the obligation of, any director or officer.

(b) The Co-op may borrow money and mortgage, pledge or otherwise grant interest in property of the Co-op. The Board of Directors must approve any loan secured by a mortgage, or which in the aggregate principal amount exceeds the net worth of the Co-op as provided in the California Cooperative Law § 12520, and shall obtain member approval of any such loan, unless the delay caused by seeking member approval could jeopardize the financial viability of the Co-op.

**Section 10.05. Indemnification.** The Co-op will indemnify and advance expenses to its directors and officers, and may indemnify and advance expenses to its other employees and agents, to the fullest extent permitted by applicable law.

Indemnification payments will be made on a priority basis but only in such increments and at such times as will not jeopardize the ability of the Co-op to pay its other obligations as they become due. The Co-op may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Co-op against any liability asserted against and incurred by that person in such capacity, or arising out of that person's status as such, whether or not the

Co-op would have the authority to indemnify that person against such liability.

**Section 10.06. Amendment of bylaws.** These bylaws may be amended or repealed, or new bylaws may be adopted once a quorum is established per section 5.07, upon the affirmative vote of at least 2/3 of those active members voting on the matter. Changes or new bylaws may be proposed by (1) the Board of Directors, or (2) an active member who complies with the procedures specified in subsection 5.01(b). The proposed changes or new bylaws must be stated or fully described in the notice of the meeting at which the bylaws are proposed to be amended, repealed or adopted.

**Section 10.07. Savings Clause.** If any provision of these bylaws constitutes a violation of any law, is unenforceable, or void, then such provision, to the extent only that it is in violation of law, unenforceable or void, will be deemed modified so that it is no longer in violation of law or unenforceable or void. If such modification is not possible, said provision, shall be severed from the remaining provisions of these bylaws, which provisions will remain binding on the members and the Co-op.

#### **Section 10.08 Explanation of Patronage Refund Consent Provision**

The Internal Revenue Code generally requires each person receiving a patronage refund to include the amount of such distribution in his or her gross income in the taxable year in which it is received. Under bylaw section 9.02, mere acceptance or retention of membership in the Co-op constitutes consent to such inclusion in taxable income, including the portion of the patronage refund that is credited to the share purchase requirement. This general rule for inclusion in income of patronage refunds is subject to an exception that is applicable to consumer cooperatives. Under that exception (referred to in bylaw section 9.02), a patronage refund is not required to be included in gross income if the member's purchases from the Co-op related to "personal, living or family items." This exception would apply to all consumer members whose purchases from the Co-op were for personal or household use. The other exception (referred to in bylaw section 9.02) applies only to depreciable property purchased from the Co-op for use in a trade or business or in other income producing activities. The patronage refund would therefore be taxable to a member only if the member's purchases from the Co-op related to the operation of a trade or business or other income-producing activities, and only to the extent that such purchases were not of depreciable property.

**SNFC ARTICLES OF INCORPORATION** We, the undersigned residents of the State of California, have voluntarily associated ourselves together for the purpose of forming a cooperative corporation under and by virtue of the laws of the State of California and particularly under the provisions of Title I, Division III, Part II of the Corporations Code and do hereby certify to the following:

I. The name of this corporation shall be Sacramento Natural Foods Cooperative, Inc.

II. This corporation is formed for the purpose of:

- (a) Conducting lawful business in accordance with the principles of consumer cooperation for the mutual benefit of the corporation's members through production, purchase, sales, storing, and distribution of merchandise or services, primarily sales of foodstuffs to the membership.
- (b) Conducting such other activities as will serve the economic, educational, recreational, and cultural welfare of the members of the corporation.

III. The total number of shares which the cooperative corporation is authorized to issue is four million (4,000,000) shares, one million (1,000,000) shares of which shall be Membership or Common Stock (the "Common Stock") having no par value, and three million (3,000,000) shares of which shall be Preferred Stock (the "Preferred Stock") having no par value. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, within the limitations and restrictions stated in these Articles of Incorporation, to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them; and

to increase or decrease the number of shares of any series prior or subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding.

IV. The rights, preferences, privileges and restrictions granted to and imposed on the Membership Shares are as set forth below in this Article IV.

(a) Membership Shares are not entitled to a dividend or other monetary return on investment.

(b) Membership Shares are redeemable at the option of the holder only upon termination of the holder's membership. In the event the holder elects to redeem all or any portion of its

Membership Shares upon termination of its membership, this corporation shall redeem such Membership Shares, provided that it may lawfully do so, by paying in cash therefore a sum equal to the paid up value of such Membership Shares at the time of termination, within one year after termination occurs. Any redemption payments to be made by this corporation may be offset against any and all indebtedness of the recipient to this corporation.

(c) Each holder of a Membership Share shall have the right to one vote only, regardless of the number of Membership Shares such holder holds, and shall be entitled to notice of any membership meeting in accordance with the Bylaws of this corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by the Bylaws and by law.

V. The amount of capital with which this Association will begin business is four hundred and fifty dollars (\$450.00).

VI. The principal office for the transaction of the business of the corporation is in Sacramento County in the State of California.

VII. The number of Directors of this corporation shall be nine (9).

VIII. The names and post office addresses of the persons who shall serve as directors until the first annual meeting of the members are:

Alexia Vogel, 2010 Capitol Avenue, Sacramento, CA Bill Mueller, 2021 N Street, Sacramento, CA Leo Younger, 1520 23rd Street, #8, Sacramento, CA Bob Lupei, 3915 43rd Street, Sacramento, CA Stan Muther, 1708 South Avenue, Sacramento, CA Burton Shanoff, 2522 17th Street, Sacramento, CA Michael Savino, 6050 Land Park Drive, Sacramento, CA

IX. Each subscriber to this certificate agrees to take one membership share and the names and addresses of the subscribers are the same as above.

IN WITNESS WHEREOF, the undersigned, being the directors of Sacramento Natural Foods, the unincorporated cooperative association which is being incorporated, have signed these Articles of Incorporation on this 25th day of September, 1973.