

BYLAWS

CHICO NATURAL FOODS COOPERATIVE, INC.

Article I Organization

Section 1.1 - **Name and status.** The name of the organization is Chico Natural Foods Cooperative, Inc. (referred to in these bylaws as "the Co-op"). The Co-op is a cooperative corporation under the Consumer Cooperative Corporation Law of the State of California.

Section 1.2 - **Purpose and mission.** As more fully stated in its articles of incorporation, the Co-op is organized to provide food and other household products to its owners and others. It is organized primarily for the mutual benefit of its owners as patrons and shall be 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, contribute to the local economy, and serve as a resource center for conscious living.

Section 1.3 - **Cooperative principles.** The Co-op shall be operated in accordance with cooperative principles adopted by the 1995 General Assembly of the International Co-operative Alliance, such principles being: (i) voluntary and open ownership without arbitrary discrimination; (ii) democratic governance by owners with equal voting rights among owners and opportunity for participation in setting policies and making decisions; (iii) economic participation by members with owners equitably contributing to and democratically controlling the capital of the Co-op and with earnings being equitably applied to the benefit of owners in proportion to their patronage of the Co-op, or their investment in the coop, to the development needs of the Co-op, and to the provision and extension of common services; (iv) autonomy and independence of the Co-op as a self-help organization controlled by its owners being strictly maintained; (v) educating and training owners, directors, managers and employees so they can contribute effectively to the development of the Co-op, and informing the general public about the nature and benefits of cooperation; (vi) strengthening the cooperative movement by working with other cooperative organizations at all levels; and (vii) working for sustainable development of the Co-op's community.

Section 1.4 - **Nondiscrimination.** The Co-op shall not arbitrarily discriminate on the basis of race, nationality, religion, age, gender, sexual orientation, disability, political affiliation, or otherwise.

Article II Ownership

Section 2.1 - **Eligibility.** Ownership in the Co-op shall be voluntary and open to any household having a bona fide residence in the State of California, or any organization having its primary place of business in the State of California whose purpose is to use the services of the Co-op and who is willing to accept the responsibilities of ownership. The Board may prescribe a maximum number of adult members constituting a single household ownership unit or maximum size or composition of a single organizational ownership unit.

Section 2.2 - **Admission.** Applicants will be admitted to ownership upon submitting required information, purchasing or agreeing to purchase not less than twenty nor more than thirty shares at their issuing price of ten dollars per share, and making an initial payment towards such shares. On or before admission to ownership, each owner shall be provided a copy of the Co-op's disclosure document and a copy of these bylaws, to which all members must agree as a condition of membership. In the event that any doubts arise concerning eligibility within six months after the date of application, the application for ownership shall be subject to approval by the Board.

Section 2.3 - **Rights.** Each adult member of a household ownership unit and each authorized representative of an organizational ownership unit shall be entitled to make purchases from the Co-op on terms generally available to owners. Except as otherwise provided in these bylaws, each primary member shall be entitled to participate in the governance of the Co-op as set forth in these bylaws. Except as otherwise provided in these bylaws, persons who have subscribed but not fully paid for shares shall be considered owners.

Section 2.4 - **Inactive status.** An owner who becomes delinquent by three months in meeting the share purchase obligation, or who fails to patronize the Co-op during a two-year period, shall be placed into inactive status. His or her participation rights shall then be suspended. An owner in inactive status may attain good standing upon full payment of all arrearages or reestablishment of a patronage relationship with the Co-op. References in these bylaws to the rights and entitlements of owners shall be understood to refer only to owners in good standing.

Section 2.5 - **Access to information.** Owners shall be entitled to receive a copy of the Co-op's annual report as referred to in section 3.4 below. An owner shall, upon request made in good faith, be provided information concerning the operational and financial affairs of the Co-

op for a purpose reasonably related to such person's interest as an owner. A proper request signed by at least five percent of all owners and which necessitates information from the Co-op's records of owners shall be accommodated by means other than direct access to such records.

Section 2.6 - **Settlement of disputes.** In any dispute between the Co-op and any of its owners or former owners which cannot be resolved through informal negotiation, it shall be the policy of the Co-op to prefer the use of mediation whereby an impartial mediator may facilitate negotiations between the parties and assist them in developing a mutually acceptable settlement. Neither party with a grievance against the other shall have recourse to litigation until the matter is submitted to mediation and attempted to be resolved in good faith.

Section 2.7 - **Nontransferability.** Ownership rights and interests, including shares and deferred patronage refunds, may not be sold, assigned, or otherwise transferred. Following termination of ownership, or at any time as to shares held in excess of the minimum amount, the Co-op will, upon request of the owner, transfer the carrying value of such rights and interests, net of any authorized offsets, to the credit of another person designated by the requesting owner, provided that the transfer is for a price that does not exceed the carrying value of such rights and interests and that the person so designated is or becomes an owner of the Co-op. Any attempted transfer contrary to this section shall be wholly void and shall confer no rights on the intended transferee.

Section 2.8 - **Withdrawal and expulsion.** An owner may withdraw at any time upon notice to the Co-op. An owner may be expelled for cause upon a two-thirds vote of the Board after being provided at least fifteen days prior notice of the charges and an opportunity to respond in person or in writing not less than five days before the effective date of the expulsion. Upon termination of ownership, all rights and interests in the Co-op shall cease except for rights to redemption of capital pursuant to Articles VII and VIII of these bylaws.

Article III Meetings of Owners

Section 3.1 - **Annual meeting.** An annual meeting of owners shall be held in the second quarter of each year to receive reports on the operations and finances of the Co-op, and to conduct such business as may properly come before the meeting.

Section 3.2 - **Special meetings.** Special meetings of owners may be called by the Board and shall be called by the President as soon as possible after the receipt of petitions signed by

five percent of all owners, such petitions stating any lawful and proper business to be brought before the meeting.

Section 3.3 - **Time and place.** The date, time, and place of all meetings of owners shall be determined by the Board or, in the event that the Board fails to so act, by the Secretary. Meetings shall be held at a place convenient to owners.

Section 3.4 - **Notice.** Written notice of the time, place, and purpose or purposes of all meetings of owners shall be provided to each owner not less than thirty nor more than ninety days before the date of the meeting. The notice of the annual meeting shall advise owners that a copy of the Co-op's annual report will be provided upon request. Notice shall also be posted in a timely manner and in a conspicuous place in the Co-op's store, but the inadvertent failure to do so shall not affect the validity of the meeting or balloting procedures. Any business conducted at or in connection with a meeting other than that specified in the notice of the meeting shall be of an advisory nature only.

Section 3.5 - **Record dates.** Only persons who are owners at the close of business on the tenth day immediately preceding the date of distribution of notices shall be entitled to notice of a meeting and to vote at such meeting.

Section 3.6 - **Quorum.** The presence in person or by ballot at the opening of the meeting of five percent of all owners or fifty owners, whichever is lesser, shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of owners.

Section 3.7 - **Voting.** Unless otherwise required by these bylaws, each owner shall have one and only one vote on each matter submitted to a vote of owners. Voting by proxy shall not be permitted. Unless otherwise required by law or by these bylaws, issues shall be decided by a simple majority of votes cast except where one or more choices are to be made from several alternatives, in which case the alternative(s) receiving the most votes shall be considered approved. Meetings of owners shall be conducted generally in accordance with reasonable and accepted rules of parliamentary procedure.

Section 3.8 - **Voting by written ballot.** Voting by owners as to matters other than the election of directors may, as authorized by the Board, be by written ballot mailed or delivered to the Co-op. As to the election of directors and other matters, ballots, together with the exact text of an issue for decision, shall be included in the notice of the meeting to which they relate. Ballots shall set forth the proposed action, provide an opportunity to specify approval or disapproval of any proposal, and provide a reasonable time within which to return the ballot to

the Co-op. Written ballots may be in connection with or in lieu of a physical meeting of owners. A Board committee shall oversee voting by written ballots.

Section 3.9 - **Issues submitted by owners.** Notices of a meeting of owners shall include any lawful and proper issue submitted by petition of at least five percent of all owners. Petitions must be received by the Co-op not less than four months before the date of the meeting at which they are to be presented to a vote of owners.

Article IV Board of Directors

Section 4.1 - **Powers and duties.** Except as to matters reserved to owners by law or by these bylaws, the activities and affairs of the Co-op shall be conducted and all corporate powers shall be exercised by or under the direction of the Board of Directors (sometimes referred to in these bylaws as "the Board"). Such powers shall 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 shall include, but not be limited to, overseeing the operations and finances of the Co-op, establishing policies to govern operational decisions, engaging a general manager and monitoring and evaluating his or her performance, and assuring that the purpose and mission of the Co-op are properly carried out.

Section 4.2 - **Number and qualifications.** The Board shall consist of seven individuals. To be qualified as a director, a person shall have been an owner for at least six months prior to the commencement of the election of directors, shall be unwaveringly committed to the best interests of the Co-op, and shall not have any overriding conflict of interest with the Co-op. Any member of a household ownership unit shall be eligible to serve as a director. No employee shall be eligible to serve as a director, nor shall any two members or authorized representatives of a single ownership unit or two or more related ownership units simultaneously serve as directors.

Section 4.3 - **Nominations, election, and terms.** A Co-op owner may be nominated as an election candidate by the Board, by a nominating committee, or by petitions signed by at least twenty-five owners and submitted to the Co-op at least eight weeks before the date of the election. Directors shall be elected by written ballots of owners for a term of three years. In order to ensure that no more than three terms are set to expire in any one year, an elected director's term may be adjusted to a one or two year term. A director shall hold office until the first regularly scheduled Board meeting following the month of election of their successor or until their office is sooner terminated in accordance with these bylaws.

Section 4.4 - **Compensation.** Directors may receive reasonable compensation approved by the Board. Directors shall be reimbursed for reasonable and necessary expenses incurred in connection with the performance of authorized business of the Co-op.

Section 4.5 - **Standards of conduct.** Directors shall be responsible at all times for performing their duties in good faith, in a manner that they believe to be in the best interests of the Co-op, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Section 4.6 - **Conflicts of interest.** Directors shall be under an affirmative duty to disclose their actual or potential conflicts of interest, either direct or indirect, in any matter under consideration by the Board or by a committee exercising any authority of the Board, and such interest shall be made a matter of record in the minutes of the meeting. A director or committee member having such an interest shall be permitted to make a statement with regard to the matter but shall not be permitted to participate in the discussion or decision of the matter.

Section 4.7 - **Indemnification.** The Co-op shall as required under state law and may as permitted under state law indemnify its directors and officers. Indemnification payments shall 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. Any indemnification payments or advances shall be reported to owners not later than the next-scheduled meeting of owners.

Section 4.8 - **Committees.** The Board may appoint special or standing committees to advise the Board or to exercise such authority as the Board shall designate. All committees shall include at least one director, and a committee exercising any authority of the Board shall consist exclusively of directors and shall follow procedures applicable to Board meetings. The appointment of any committee shall not relieve the Board of its responsibilities in the oversight of the Co-op.

Section 4.9 - **Termination.** The term of office of a director may be terminated prior to its expiration in any of the following ways: (i) voluntarily by a director upon notice to the Secretary; (ii) automatically upon termination of ownership in the Co-op; (iii) by the office of the director being declared vacant when such person's eligibility for election as a director has ceased, or when such person has missed three Board meetings within a period of six months without being excused by the Board for good cause, or for other cause permitted under state law; and (iv) without cause by action at a meeting of owners.

Section 4.10 - **Vacancies.** Any vacancy among directors occurring between annual Board elections may be filled by a majority of the directors then in office, whether or not less than a quorum, until the next scheduled Board election, at which time owners shall elect a director to fill the unexpired term of the vacant director's position.

Article V Meetings of the Board

Section 5.1 - **Meetings.** Meetings of the Board shall be held regularly. Meetings not called by the Board (special meetings) may be called by the President and shall be called by the Secretary upon request of any three directors.

Section 5.2 - **Notice.** Meetings called by the Board shall require no notice, it being the responsibility of absent directors to inquire as to the time of further scheduled meetings. Special meetings shall require written or oral notice to all directors. Written notice shall be delivered at least seven days before the date of the meeting, and oral notices shall be given in person or by a telecommunications device at least three days before the date of the meeting. Notices of meetings of the Board shall also be posted in a timely manner and in a conspicuous place in the Co-op's store, but the inadvertent failure to do so shall not affect the validity of the meeting.

Section 5.3 - **Waiver of notice.** Any notice of a meeting required under these bylaws may be waived in writing at any time before or after the meeting for which notice is required. A person who attends a meeting other than for the sole purpose of objecting to the adequacy of the notice shall be deemed to have waived any objection to the notice.

Section 5.4 - **Quorum and voting.** The presence of five directors shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board. Decisions at meetings of the Board shall be made by majority voting. Meetings shall be conducted generally in accordance with reasonable and accepted rules of parliamentary procedure.

Section 5.5 - **Meetings by telecommunication.** Directors may participate in a meeting of the Board by conference telephone, electronic video screen communication, or other electronic transmission whereby all persons participating can hear one another.

Section 5.6 - **Action without a meeting.** Any action required or permitted to be taken at a meeting of the Board may be taken without a meeting only if a written consent to the action is

signed by all directors and filed with the minutes of meetings. Action by consent shall not be used to avoid the open meeting requirement.

Section 5.7 - **Open meetings.** Meetings of the Board and all committees exercising any authority of the Board shall be open to owners, except that sessions of a meeting may be closed as to matters of a confidential or sensitive nature.

Article VI Officers

Section 6.1 - **Designation and qualifications.** The principal officers of the Co-op shall consist of President, Vice President, Secretary, and Treasurer. Principal officers shall be directors. The Board may designate other officers or assistant officers.

Section 6.2 - **Election, terms, and removal.** Officers shall be elected by the Board at the first regularly scheduled Board meeting following the month that the Board election is concluded. Officers shall serve for terms of one year or until the Board elects their successors. Officers may be removed and replaced by the Board at any time whenever the best interests of the Co-op would thereby be served.

Section 6.3 - **Duties.** In addition to signing or attesting to formal documents on behalf of the Co-op as authorized by the Board, officers shall have the following duties and such additional duties as are determined by the Board:

(a) The President shall be responsible for coordinating the activities of the Board, assuring the orderly conduct of all meetings, maintaining effective communication with the general manager, and shall present a report of Board activities at the annual meeting of owners. The President shall not be the chief executive officer.

(b) The Vice President shall be responsible for performing the duties of the President in his or her absence or disability and, as requested, assisting other officers in the performance of their duties.

(c) The Secretary shall ensure the recording and keeping of adequate minutes of all meetings of the Board and of owners, overseeing the issuance of notices required under these bylaws, and authenticating records of the Co-op.

(d) The Treasurer shall oversee the maintenance of financial records, issuance of financial reports, and filing of required reports and returns.

Article VII Shares

Section 7.1 - **Issuance and terms.** The Co-op shall issue two classes of shares to evidence capital funds provided by owners. Class A Membership Shares entitle the owner to one vote and all other rights of ownership. Owners may purchase Class B Investment Shares, which are non-voting shares but are entitled to a dividend should a dividend be declared by the Board of Directors. Shares may be issued only to persons eligible for and admitted to ownership in the Co-op. Shares shall be considered issued upon full payment of no less than their issuing price and need not be evidenced by certificates. Class A Membership Shares shall be entitled to no dividend or other monetary return on contributed capital. The minimum share purchase requirement shall be subject to increase for the reasonable capital needs of the Co-op, provided that such increase applies equally to both existing and newly-admitted owners.

Section 7.2 - **Redemption.** Upon request following termination of ownership, shares shall be redeemed when replacement capital is provided by other owners, and the Co-op shall have one year from the termination or notice of redemption to redeem the shares. Shares shall be redeemable pursuant to their terms or at the lesser of their carrying value on the books of the Co-op or their net book value less a reasonable processing fee, if any, as determined by the Board. Redemption proceeds shall be subject to offset by amounts due and payable to the Co-op by the owner. No redemption shall be made if the Co-op is, or as a result of such payment would be, likely to be unable to meet its liabilities as they mature. Reapplications for ownership after full or partial redemption shall be subject to full repayment of redemption proceeds.

Article VIII Patronage Refunds

Section 8.1 - **Distribution obligation.** The realized net earnings of the Co-op attributable to the patronage of owners shall be allocated and distributed among owners as patronage refunds in proportion to their patronage and in such a manner and at such a time as to constitute patronage refunds within the meaning of federal income tax law. Payment of dividends on Class B Investment shares shall be made from non-member sourced income. If the Co-op's operations encompass more than one allocation unit, such units shall be netted into a single allocation unit unless otherwise necessitated to achieve an equitable allocation.

Section 8.2 - **Reductions.** Any distributable net earnings of such a nominal amount as not to justify the expenses of distribution may, as determined by the Board, be excluded from distribution. Net earnings may be reduced by such reasonable reserves for necessary business purposes as is determined by the Board. A patronage refund to which owners are entitled may be waived in whole or in part by vote of owners.

Section 8.3 - **Consent of owners.** By obtaining or retaining ownership in the Co-op, each owner shall thereby consent to take into account, in the manner and to the extent required by Section 1385 of the Internal Revenue Code, the stated dollar amount of any qualified written notice of allocation in the taxable year in which such notice is received.

Section 8.4 - **Deferred amounts.** Payment of a portion of patronage refunds, not to exceed eighty percent of the allocation, may be deferred for the reasonable capital needs of the Co-op, as determined by the Board. Such amounts shall be credited to revolving capital accounts in the names of recipient owners and shall accrue no dividend or other monetary return on capital. Deferred amounts may be redeemed when determined by the Board to be no longer needed for capital purposes. At that time they shall be redeemed in the order of the oldest outstanding amounts and on a pro rata basis among such amounts, except that redemptions shall be payable only to owners who are then in good standing or become so within a six-month period of time. Deferred amounts may also be redeemed under compelling circumstances as determined by the Board. They shall be subject to being offset by amounts otherwise due and payable to the Co-op and by assessments resulting from tax audit adjustments.

Section 8.5 - **Net losses.** In the event the Co-op shall incur a net operating loss in any fiscal year, the portion of such loss attributable to the patronage of owners shall be carried forward to offset income of the same character in subsequent years, and any remaining loss shall be carried back and forward to offset income of the same character in prior and subsequent years as required or permitted under federal income tax law.

Article IX

Fiscal and Miscellaneous matters

Section 9.1 - **Fiscal year.** The fiscal year of the Co-op shall coincide with the calendar year.

Section 9.2 - **Communication by electronic means.** Unless otherwise required by these bylaws, any notice, consent, ballot, petition, or other document required or permitted by these bylaws may be delivered by electronic means, provided that, in the case where such communication expressly or impliedly requires the signature of the person submitting the communication, means are in place to reasonably assure the authenticity of the signature.

Section 9.3 - **Gift of proprietary interests.** An owner who holds any proprietary interest in the Co-op which becomes subject to unclaimed property laws may make a gift to the Co-op of such interest either by affirmatively so designating in a communication to the Co-op or by failing to claim the interest after the following procedures have been complied with: (i) at any time after the interest would otherwise escheat to the state, the Co-op shall provide at least sixty days prior notice of the proposed transfer to the Co-op by first-class or second-class mail to the last known address of such person 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; and (ii) no written notice objecting to the proposed transfer is received by the Co-op from such person or from someone acting on behalf of such person prior to the date of the proposed transfer. A person who fails to make such claim or provide such notice of objection shall be deemed to have made a gift of such interest to the Co-op as of the effective date of such transfer.

Section 9.4 - **Loans prohibited.** The Co-op shall not make a loan to, or guarantee the obligation of, a director or officer.

Section 9.5 - **Liquidation.** Upon liquidation and dissolution of the Co-op, its assets shall be distributed in the following manner and order: (i) by paying or making provision for payment of all liabilities and expenses of liquidation; (ii) by redeeming any outstanding preferred shares, which, if they cannot be paid in full, shall be paid in the order of the oldest outstanding shares first, and on a pro rata basis among all outstanding shares purchased in each fiscal year; (iii) by redeeming any deferred patronage refunds which, if they cannot be paid in full, shall be paid in the order of the oldest outstanding amounts and on a pro rata basis among all amounts for each fiscal year; (iv) by redeeming shares at their carrying value on the books of the Co-op which, if they cannot be paid in full, shall be paid on a pro rata basis among all outstanding amounts; and (v) by distributing any remaining assets among current and former owners in proportion to their patronage during the five years immediately preceding the date of dissolution, or, if so determined by a vote of owners, to one or more cooperative or nonprofit organizations that may best further the purposes and mission of the Co-op.

Article X

Interpretation and Amendment of Bylaws

Section 10.1 - **Interpretation.** The Board of Directors shall have the power to interpret these bylaws, apply them to particular circumstances, and adopt policies in furtherance of them, provided that all such actions are reasonable and consistent with these bylaws.

Section 10.2 - **Severability.** In the event that any provision of these bylaws is determined to be invalid or unenforceable under any statute or rule of law, then such provision shall be

deemed inoperative to such extent and shall be deemed modified to conform with such statute or rule of law without affecting the validity or enforceability of any other provision of these bylaws.

Section 10.3 - **Amendment by the Board.** These bylaws may be amended by the Board unless the action would: (i) materially and adversely affect the rights or obligations of owners as to voting, dissolution, redemption, transfer, distributions, patronage refunds, patronage, property rights, or rights to repayment of contributed capital; (ii) authorize a new class of owners or effect an exchange, reclassification or cancellation of all or part of ownership interests; (iii) change the number or terms of directors; or (iv) effect any other action in violation of state law.

Section 10.4 - **Amendment by owners.** These bylaws may be amended or repealed at a meeting of owners, provided that the proposed amendments are stated or fully described in the notice of the meeting at which the amendments are to be adopted.

Appendix:

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 8.3, mere acceptance or retention of ownership in the Co-op constitutes consent to such inclusion in taxable income, including the portion of the patronage refunds that is deferred by the Co-op for its capital needs.

The Co-op has been advised by legal counsel, however, that the general rule for inclusion in income of patronage refunds is subject to an exception that is applicable to consumer cooperatives. Under that exception, a patronage refund is not required to be included in gross income if the owner's purchases from the Co-op related to "personal, living or family items." The patronage refund would thus be taxable to an owner only if his or her purchases related to the operation of a trade or business or other income-producing activities. In effect, the consent provision is of no significance to owners of the Co-op, except as to organizational owners and except where the purchases of owners who are natural persons are for business or income-producing purposes.