

BYLAWS OF THE SACRAMENTO NATURAL FOODS COOPERATIVE

ARTICLE I—NAME AND HEADQUARTERS

Section 1.01. Name and Location

The name of the cooperative shall be Sacramento Natural Foods Cooperative, Inc. and the headquarters of the cooperative shall be located in Sacramento, California.

Section 1.02. Function and Objectives

- a) The business to be carried on by the Cooperative shall be production, purchase, sale, rental, storage, and distribution of merchandise and services for the mutual benefit of the Members.
- b) Other objectives of the Cooperative shall be:
 - 1) cooperative service for the benefit of the Members as consumers and of the consuming public.
 - 2) promotion of the cooperative ideal and the use of natural food, and
 - 3) conducting such other activities as will serve the economic, educational, recreational and cultural welfare of the Members.
- c) The Sacramento Natural Foods Co-operative shall not discriminate in its employment, purchasing, or any other practices on the basis of race, sex, ethnicity, sexual orientation, age, disability, political opinion, or national origin

ARTICLE II—DEFINITIONS

Section 2.01 Member: a Member is a person who meets all the requirements of membership set forth at Article II of these bylaws, who may or may not also own Preferred Non-voting shares.

Section 2.02. Active/Inactive Member

An active Member is a Member who is paid up to date on his or her fair share. An inactive Member is a Member who is not paid up to date on his or her fair share. An inactive Member has no voting privileges and does not receive a discount on purchases.

Section 2.03 “Fully-vested Member “ shall mean a Member who is fully paid up on a Member's Fair Share as defined in Section 4.05”

Section 2.04. Membership Fee

A one-time nonrefundable Membership Fee, in an amount set, from time to time, by the Board of Directors, may be charged and collected from each prospective Member upon joining the Cooperative.

Section 2.05 “Membership Share” shall mean that share which confers the right to vote on a member and is initially purchased by a prospective member as a prerequisite for membership in the cooperative and any

subsequent shares required by the board to be purchased for membership.

Section 2.06 ”Shareholder” shall mean a Member who has also purchased Preferred Non-voting shares.

Section 2.07 “Preferred Non-voting share” shall mean those shares authorized and issued by the board of directors for purchase by Members.

Section 2.08 "Board" means the Board of Directors and refers to the entire group, while "Director" and "Directors" refer to Members of the Board of Directors.

Section 2.09. Household

Household shall be defined as more than one person residing at the same address where food purchases are shared. Pursuant to procedures established by the Board, any Member of the Cooperative may designate one (1) other person in the same household as a "household shopper," eligible for the same discount privileges as the Member who designated the household shopper. "Household shopper" status shall confer no Member voting rights, nor shall it require any additional fair share payments. Any working Member who designates a "household shopper" must work the same number of hours as a two Member household.

Section 2.10. Writing and Written Notice

Writing means any form of recorded message capable of comprehension by ordinary visual means; and when used to describe communications, including mailed ballots, between the cooperative, its board of directors, and its members, “writing” and “written notice” shall include electronic transmissions by and to a corporation as set forth in Corporations Code Sections 20 and 21.

Section 2.11 Uncontested Election

An uncontested election means an election for a seat on the board of directors where the number of qualified candidate(s) for the vacant board seat (s) is the same as or fewer than the number of available seats as of the deadline for submitting declaration of candidacy forms.

ARTICLE III_ MEMBERSHIP

Section 3.01. Membership Qualifications

Any California resident, irrespective of age, sex, race, nationality, political opinion, sexual preference, handicap, or marital status, who meets membership requirements and is capable of using and enjoying the benefits of membership is eligible to become a Member of the Cooperative. Such person may become a Member of the Cooperative by:

- a) Complying with such uniform conditions as may be prescribed by the Board of Directors;

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- b) Making full payment of any non-refundable membership fee as set forth in Section 2.04; and
- c) Making full payment for one (1) membership share upon joining and additional shares as required by the Board of Directors.

Section 3.02. Application for Membership

Any applicant eligible for and desiring admission to membership in the Cooperative shall file a written application for admission in whatever form and containing whatever information the Board of Directors shall prescribe.

Section 3.03. Acceptance of Applications

Applications for membership shall be reviewed by the Board of Directors or by an agent designated for that purpose by the Board. The application shall be accepted or rejected in writing within thirty (30) days for reasons satisfactory to the Board. If accepted, the applicant shall be admitted to membership and shall be allowed to vote and hold office. If rejected, the applicant shall be entitled to a refund of any amounts paid for membership fees and shares.

Section 3.04. Membership Fee

A one-time nonrefundable membership fee, in an amount set, from time to time, by the Board of Directors, may be charged and collected from each prospective Member upon joining the Cooperative.

Section 3.05. Membership Information

Each person, upon becoming a Member, shall receive a copy of the Articles of Incorporation and the Bylaws of the Cooperative.

Section 3.06. Working Membership

The Board of Directors shall provide a system and the rules whereby Members may provide their labor to the Cooperative in return for a discount on purchases from the Cooperative by such Members or their household shoppers. Members may participate in such system at their option.

Section 3.07. Members with Outstanding Bad Checks

Any Member who has one or more outstanding bad checks shall receive no member or worker discounts until the account has been cleared. After the account has been cleared, the Member may receive the discounts on presentation of cash register receipts from the time period covered.

ARTICLE IV—SHARES

Section 4.01. Issuance of Shares

To evidence capital funds provided by Members, the Cooperative shall issue Membership Shares and Preferred Non-voting shares. Any shares issued by the

Cooperative may only be issued to and purchased by persons eligible for and admitted to membership in the Cooperative. Only Fully Vested Members may purchase Preferred Non-voting shares. Shares shall be issued for a price determined by the Board.

Section 4.02. Membership Shares Ownership

Membership Share ownership entitles a Member to one (1) vote only in the affairs of the Cooperative, regardless of the number of membership and Preferred Non-voting shares a Member owns, and to all the rights of Membership as described by statute, the Articles of Incorporation, and these Bylaws.

Section 4.03. Preferred Non-voting Shares

Ownership: Preferred Non-voting shares are not transferable but are subject to the redemption provisions set forth in the Articles of Incorporation. Any attempted transfer of these shares is void and confers no rights on the attempted transferee.

Section 4.04 Transfer of Memberships

Membership rights and interests may not be transferred, except that, upon the death of a Member, another member or member of the household of such person may succeed to rights and interests of such person, provided that the Cooperative is advised of the transfer. Any attempted transfer contrary to this section shall be wholly void and shall confer no rights on the intended transferee.

Section 4.05. Fair Share Investment

- a) From time to time, the Board shall set a monetary amount of investment in Membership Shares which each Member must purchase. Such minimum investment shall be called the Member's "fair share." The Board shall also, from time to time, set the minimum amount in dollars that each Member must invest toward his or her fair share in each fiscal year of the Cooperative.
- b) Membership Shares shall be subject to assessment for the reasonable capital needs of the Cooperative, provided that the original purchase price plus all assessments does not exceed the fair share amount required of new Members. The Board shall, from time to time, specify the mechanisms by which the annual investments are to be made.
- c) Once a Member reaches his or her fair share amount, he or she may make further purchases of, or receive distributions in, membership shares at his or her option, provided the Board and statute allows this action. Under no circumstances, however, may the Board require a Member to invest in Membership Shares above the current "fair share" requirement.

Section 4.06. Partial Share Withdrawal

A Member having Membership Shares exceeding the current "fair share" requirement may reduce his or her equity by withdrawing property from the Cooperative

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up to the amount of such excess upon written request to the Board. The Board must, within one (1) year of such request, pay the amount the Member requests in cash or other property or both. The exact form of payment is within the discretion of the Board.

ARTICLE V—TERMINATION OF MEMBERSHIP

Section 5.01. Voluntary Withdrawal

A Member shall have the right to resign from the Cooperative and terminate his or her membership by filing a written notice of resignation with the Secretary of the Cooperative. The resignation shall become effective without any action on the part of the Cooperative.

Section 5.02. Death or dissolution

A membership shall immediately terminate upon the death of a Member or the dissolution of a Member that is an organization.

Section 5.03. Expulsion

- a) A Member may be expelled from the Cooperative by resolution adopted by two-thirds (2/3) vote of all the Members of the Board of Directors for any of the following reasons:
 - 1) having failed to comply with the Bylaws, rules or regulations of the Cooperative;
 - 2) having failed to patronize the Cooperative during the immediately preceding fiscal year of the Cooperative in a minimum amount to be set by the Board;
 - 3) being delinquent on the payment of their fair share for one calendar year or more; or
 - 4) any other justifiable reason.
- b) Expulsion shall become effective immediately unless the Board shall, in the resolution, fix another time. On expulsion the name of the Member expelled shall be stricken from the membership register and all his or her rights shall cease except the redemption rights associated with his or her shares provided in the Articles of Incorporation.
- c) Before a Member is expelled, the Board shall give the Member at least fifteen (15) days written notice of the proposed action and the reasons therefore. The Member shall have the opportunity to respond, orally or in writing not less than five (5) days before the effective date of the expulsion by the Board.

Section 5.04. Escheat Shares

- a) Subject to the provisions of paragraph b) of this Section, any Proprietary Interest that would otherwise escheat to the State of California pursuant to the provisions of Chapter 7 (commencing with Section 1500) of Title 10 of Part 3 of the California Code of Civil Procedure shall instead become the property of this corporation in accordance with

Section 12446 of the California Consumer Cooperative Corporation Law.

- b) No proprietary Interest shall become the property of this corporation unless the following requirements are satisfied:
 - 1) At least 60 days prior notice of the proposed transfer of the Proprietary Interest to this corporation is given to the affected Member by first-class or second-class mail to the last address of the Member shown on this corporation's records, and by publication in a newspaper of general circulation in the county in which this corporation has its principal office.
 - 2) No Proprietary Interest shall become the property of this corporation under this Section if written notice objecting thereto is received by this corporation from the affected Member prior to the date of the proposed transfer.
- c) For purposes of the Section, a "Proprietary Interest" shall mean and include any Preferred Non-voting share, membership, membership certificate, Membership Share (including, but not limited to, any Participating Membership Share, Sustaining Membership Share certificate of any class representing a proprietary interest in, and issued by, the Cooperative together with all accrued and unpaid dividends and patronage distributions relating thereto.)

ARTICLE VI—GOVERNANCE OF THE COOPERATIVE

Section 6.01. Control

The control of the Cooperative shall be vested in the Membership.

Section 6.02. Administration

The administration of each enterprise of the Cooperative is vested in a Board of Directors responsible to the Membership.

Section 6.03. Management

The management of each enterprise of the Cooperative shall be vested in a Consultant/Manager selected by and responsible to the Board of Directors.

Section 6.04. Right of Appeal

- a) Any employee or representative of an employee shall have the right to present a grievance directly to the Board of Directors.
- b) Any Member or representative of a Member shall have the right to present any grievance or concern to the Board of Directors.

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ARTICLE VII—MEMBERSHIP MEETINGS

Section 7.01. General

Whenever Members are required or permitted to take any action at a meeting, a written notice of the meeting's date, time, and place shall be posted in the Cooperative Store and mailed to the Members at least twenty (20) days but not more than ninety (90) days prior to the date of the meeting. This Section shall apply to all quarterly and special meetings. No fee shall be charged for attendance at any membership meeting.

Section 7.02. Quarterly Meetings

- a) There shall be four (4) membership meetings per year held on a quarterly basis. The time and date of the quarterly meetings shall be set by the Board of Directors.
- b) One of the quarterly membership meetings shall be a nominating meeting for candidates to the Board of Directors.

Section 7.03. Special Meetings

- a) Special meetings of Members for any lawful purpose may be called by the Board or the President, and shall be called by the Board upon written request to the Board by at least five percent (5%) of the Members.
- b) Any special meeting called by the written request of the Members pursuant to Subsection a) shall be held not less than thirty-five (35) days and not more than ninety (90) days after the Board receives the request.

Section 7.04. Chairperson

Membership meetings shall be chaired by the President of the Board of Directors or his or her designated substitute.

Section 7.05. Quorum

- a) At any membership meeting, the presence, in person, of two percent (2%) of all Members having voting rights or one hundred (100) Members, whichever is less, constitutes a quorum for the transaction of business. If a quorum is present, motions shall be passed by a majority vote of those present and voting on the matter, unless the vote of a greater number is required by statute, the Articles of Incorporation, or the Bylaws. There shall be no voting by proxy.
- b) Quorum requirements and number of votes required to conduct an election or approve a mailed ballot measure shall be the same as those required at a membership meeting.
- c) The Members present at any meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum. If any action is taken, other than adjournment, it must be approved by at least a majority of the quorum.

Section 7.06. Functions of Quarterly Meetings

The functions of the meetings shall be primarily to:

- a) nominate candidates for the Board of Directors
- b) request referendums and initiatives
- c) discuss policies and problems of administration and management
- d) make recommendations to the Board of Directors
- e) provide educational information on matters of interest to Members
- f) introduce the Board of directors
- g) endorse the annual financial report.

ARTICLE VIII—DIRECTORS AND OTHER OFFICERS

Section 8.01. Composition of the Board

- a) The Board of Directors shall be composed of seven (7) persons.
- b) Each Director shall be an active Member of the Cooperative for at least six months prior to the date of his/her election and shall continue to be an active Member for the entire term of office.
- c) Two or more Members who share the same household or who are members of the same immediate family may not serve on the Board simultaneously.
- d) No Director shall be elected for more than three (3) consecutive terms.
- e) No more than one (1) employee may serve on the Board at any one time.
- f) The Manager/Consultant may not be a Member of the Board.

Section 8.02. Vacancies on the Board

In the event of a vacancy on the Board, the remaining Directors shall appoint a qualified Member of the Cooperative to fill the vacant position. However, if such vacancy occurs due to a recall by the Membership as provided in Section 10.04 a), the succeeding Director must be elected by the Membership in accordance with the election code procedures. An appointed Director, or a director elected to fill a vacancy caused by a recall, shall serve the remainder of the term of the Director he or she is replacing.

Section 8.03. Meetings

- a) The Board of Directors shall have regular monthly meetings on a date and at a place of their choosing. All meetings, except for executive sessions, shall be open to the Members. All meetings shall be announced at least seven (7) days prior to the meeting by newsletter and/or an announcement on the Cooperative bulletin board and via electronic means.

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- b) A majority of the number of Directors authorized in the Bylaws constitutes a quorum of the Board for the transaction of business.
- c) Meetings of the Board may be called by the President or the Vice-President or by any two (2) Directors.
- d) The majority vote of those Board Members present and voting shall be required for official action provided there is a quorum. Abstention votes shall not be counted in determining the passage or failure of any measure on which a vote is taken.
- e) All meetings of the Board of Directors shall be conducted according to "Robert's Rules of Order" unless provided otherwise by a majority of the Board of Directors.
- f) A quorum is necessary to call a meeting of the Board to order. In the event that during the course of a duly called meeting less than a quorum is present, an action taken by a majority of the required quorum is an act of the Board, unless a greater number is required by statute or the Bylaws.
- g) Any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent(s) shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such Directors.
- h) The Board may meet in executive session to discuss personnel matters, real estate issues, and legal matters. With the unanimous consent of all the Board Members, the Board may meet in executive session to discuss other matters provided the topics are announced to the Membership and posted with the meeting announcement.

Section 8.04. Vacancies and Removals

- a) The Board may declare vacant the office of a Director whose eligibility for election as a Director has ceased, or who has been declared of unsound mind by a final order of court, or convicted of a felony, or who has failed to attend three (3) regular or special meetings in any six (6) month period. A Director whose seat will become subject to the above described action through his or her absence from a subsequent meeting shall be notified by the Secretary after missing two (2) meetings (Corporations Code 7221).
- b) Any and all Directors may be removed without cause if such removal is approved by the Members in accordance with Section 10.04 c).
- c) Except as provided in this Bylaws Section or by court order, a Director may not be removed prior to the expiration of such Director's term of Office.

Section 8.05. Officers

- a) Within two regular Board meetings after installing the newly-elected Directors, the Directors shall elect, as Officers of the Cooperative, a President and one or more Vice-Presidents from among the Directors; the Directors shall further elect a Secretary and a Treasurer who may, but need not be, a Member of the Board. The same person may be elected both Secretary and Treasurer.
- b) Responsibilities of the Officers shall be those set forth in the Policy Manual of the Board.

Section 8.06. Board Policy

The Board shall develop and state in writing those policies necessary to carry out the duties of the Board and the functions of the Cooperative. A copy of these policies shall be available to the Membership on request. The statements shall include policies on election procedures, personnel, duties of Officers and Directors, and any other matters deemed necessary by the Board.

ARTICLE IX—NOMINATIONS AND ELECTIONS

Section 9.01. Length and Limitation of Term

- a) Pursuant to Section 8.01 d), no Member shall be elected as a Director for more than three (3) consecutive terms.
- b) A full term shall be three (3) years.
- c) Directors shall be elected by a schedule established pursuant to Section 9.05.

Section 9.02. Nomination Procedures

A prospective candidate for a seat on the Board of Directors shall secure the nomination by one of the following methods:

- a) Review and recommendation by the nominating committee and nomination by the board.
- b) Petition signed by three percent (3%) of the membership. This petition must be received by the nominating committee pursuant to the timeline established in the Election Code.

Section 9.03. Election and Nominating Committees

- a) The election committee shall be appointed by the Board of Directors to administer elections. The election committee shall be composed of no fewer than three (3) Members. At the request of the Committee, the Board may appoint additional members if necessary.
- b) The nominating committee shall be appointed by the Board of Directors to recruit a slate of candidates for the Board of Directors and to aid in recruitment of Members to serve on committees. The nominating committee shall be composed of no less than two (2) and no more than five (5) Members.

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Section 9.04. Mailed Ballots

Ballots for the purpose of electing Members of the Board of Directors shall be mailed to the Members.

Section 9.05. Schedule of Board Elections

- a) Two (2) Directors will be elected each year for full terms. In years that are evenly divisible by three (3), one (1) additional Director will be elected for a full term.
- b) Installation of the new Board of Directors shall occur at the first Board meeting of the fiscal year and Board members will be introduced to the membership at the first membership meeting following the election.

Section 9.06

In the event of an uncontested election as defined in section 2.11, the cooperative's then-existing board of directors shall unanimously designate the uncontested, qualified candidates as directors on Election Day. The cooperative shall give notice to membership of the names and qualifications of the new directors in conformance with the Election Code.

ARTICLE X—MAILED BALLOTS

Section 10.01. Uses of Mailed Ballots

Mailed Ballots shall be used for votes on the following:

- a) Board of Director elections
- b) Board of Director recall elections
- c) Bylaws amendments
- d) Referenda and initiatives
- e) Advisory surveys

Section 10.02. Election Code

Voting by mailed ballot shall be conducted in accordance with the Election Code. The Election Code shall be established by the Board of Directors and shall be in compliance with the following guidelines:

- a) It is in accordance with the Bylaws and Articles of Incorporation.
- b) It provides for a secret ballot.
- c) It is even handed in its rules in respect to all candidates and subjects.
- d) It forbids the use of money of the Cooperative for campaigning beyond the distribution of candidates' written or recorded statements and pro and con analyses.
- e) It mandates that the ballot shall set forth the proposed action, provides opportunity to specify approval, disapproval, or abstention. The ballot package must specify the time by which the ballot must be received in order to be counted.

- f) All ballot packages shall indicate the number of responses needed to meet the quorum requirement and, for ballots other than the election of Directors or for advisory surveys, shall state the percentage necessary to pass the measure submitted.
- g) Upon adoption of any amendment to the Bylaws, or any other matter by a mailed ballot, a revised copy of such shall be conspicuously posted at the Cooperative, not later than seven (7) days thereafter, and copies shall be made available upon request.
- h) All mailed ballots under this Article may be sent to the Members and returned from the Members in a single envelope. No proxies are allowed.

Section 10.03. Board Elections

- a) The Directors elected for full terms shall be those nominees receiving the highest number of votes, consistent with the number of full term Directors to be elected.

Section 10.04. Recall of Directors

- a) A recall election for a board Member can be initiated by any other active Member with a petition signed by 20 percent of the active Members. A recall election shall be scheduled by the Board to be completed within 40 days of the receipt of the request in the store. The schedule shall be posted in the store. The recall election shall be held in accordance with the provisions outlined in the Election Code.
- b) A Director shall be recalled if a two-thirds (2/3) majority of those voting endorse the action.
- c) A Director may be removed without cause by a vote of a majority of the total Membership of the Cooperative at a duly called meeting as provided under Section 1200 et.seq. of the California Corporations Code, or as hereafter amended.

Section 10.05. Bylaws Amendments

- a) Amendments to these Bylaws may be proposed by :
 - 1) A two-thirds (2/3) vote of the Board of Directors.
 - 2) A petition signed by fifty (50) Members or five percent (5%) of the Membership, whichever is greater.
- b) Proposed Bylaws changes shall be submitted to a committee assigned by the Board. This committee shall:
 - 1) Check the proposed amendment for legality, for conflict with other Sections of the Bylaws, and for proper language.
 - 2) Notify the Membership, in writing, of the proposed amendment.
 - 3) Hold a publicized meeting to discuss the proposed amendment.
- c) Amendments to these Bylaws shall be adopted by a two thirds (2/3) majority of those voting as prescribed in the Election Code.

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Section 10.06. Referendums and Initiatives

a) Any official act, either proposed or taken, at a membership meeting or a Board of Directors meeting, shall be submitted to a referendum or initiative of the Membership under the procedures outlined in the Election Code in any of the following situations:

1) A petition stating the action requested signed by ten percent (10%) of the membership is received by the secretary of the Board.

2) The Board so directs.

b) The results of any referendum and/or initiative shall be binding on the Board and the Membership.

Section 10.07. Advisory Survey

In the event it shall be deemed advisable for any reason, the Board of Directors, or the Board of Directors when directed to do so by a motion approved at a membership meeting, shall conduct a non-binding advisory survey of the Membership by mail on a specific issue or issues. The procedures for conducting such balloting shall be as described in the Election Code.

ARTICLE XI—FINANCES

Section 11.01. Fiscal Year

The fiscal year of the Cooperative shall begin on October 1 and end on September 30 of the following year.

Section 11.02. Mortgage Loans

a) The Board shall not obtain any loan secured by a mortgage unless approved by the Members by either of the following means:

1) By the vote of a membership meeting with at least one (1) week previous notice of the proposed plan.

2) By a mailed ballot.

b) "Mortgage" shall be defined as a pledge of property to a creditor as security against debt.

Section 11.03. Other Loans

a) Except for loans described in Section 11.02 the Board shall not obtain any loans that in aggregate exceed the net worth of the Cooperative unless authorized by either of the following means:

1) By the vote of a membership meeting with at least one (1) week previous notice of the proposed plan.

2) By a mailed ballot.

b) The Board may seek loans from Members and other qualified lenders when insufficient capital is available.

Section 11.04. Bonding of Officers and Employees

a) A bond shall be required of the General Manager and Treasurer.

b) A bond may be required of other Officers and employees as the Board may direct.

Section 11.05. Annual Audit

An annual audit or financial review of accounts shall be made by an auditor selected by the Board of Directors. The audit or financial review shall be presented to the board no later than the 2nd qtr of the subsequent fiscal year and available to the members on request. A summary of the annual audit or financial review shall be mailed to the members no later than the beginning of the 3rd quarter of the subsequent fiscal year.

Section 11.06. Indemnification

To the fullest extent permitted by law, this corporation shall indemnify its directors, officers, employees and other persons described in Section 12377 (a) of the California Consumer Cooperative Corporation Law, including persons formerly occupying any such position, against all expenses, judgments, fines, settlements, and other amounts actually and reasonable incurred by them in connection with any "proceeding," as that term is used in said Section 12377 (a), and including any action by or in the right of the corporation, by reason of the fact that the person is or was a person described in that section. "Expenses" shall have the same meaning as in said Section.

ARTICLE XII—PATRONAGE REFUNDS

Section 21.01. Allocations to Members

The Cooperative shall allocate and distribute to its Members its adjusted net savings from business done with them in the manner set forth in this Article. Any allocations of such a nominal amount as not to justify the expenses of distribution may, as determined by the Board, be excluded from distribution provided that they are not then or later distributed to other Members. Members shall retain the right to waive in whole or in part, by action at a meeting of Members, any patronage refunds to which they may be entitled.

Section 12.02. Adjusted Net Savings

In determining amounts distributable to Members, the net savings of the Cooperative derived from the excess or deficit of revenues over costs and expenses shall first be determined in accordance with generally accepted accounting principles. Such net savings shall then be reduced by amounts not attributable to business done with Members, by other amounts which are not allowable under federal tax laws and by such reasonable reserves for necessary business purposes as may be determined by the Board. Net savings as so adjusted shall be allocated in proportion to the patronage of Members and distributed among Members in such

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manner and at such time as to constitute patronage dividends within the meaning of federal income tax law.

Section 12.03. Distribution

A percentage of each allocation as determined by the Board, which shall not be less than 20 percent, shall be distributed in cash to all recipient Members. The remaining percentage of each allocation shall be credited to recipient Member's share purchase requirement to the extent that such requirement is not fully paid, and any excess shall be distributed in cash to Members whose share purchase requirement is fully paid.

Section 12.04. Consent of Members

Each person who becomes a Member of this Cooperative consents to include in his or her gross income for federal income tax the amount of any patronage refund paid him or her by the Cooperative in money or by written notice of allocation (as defined in the Internal Revenue Code), except to the extent that such a patronage refund is not income to the Member because:

- a) it is attributable to the purchases of personal, living or family items, or
- b) it should properly be treated as an adjustment to the tax basis of property previously purchased.

ARTICLE XIII—COMMITTEES

Section 13.01. Board Committees

The Board of Directors has the authority to appoint standing committees to deal with the management and operation of the Cooperative.

Section 13.02. Mandated Committees

The following committees shall be established by the Board and Members appointed annually to function as needed:

- a) the election committee (pursuant to Section 9.03 a)
- b) the nominating committee (pursuant to Section 9.03 b)
- c) a committee assigned the function of Member and non-member education
- d) a committee assigned the responsibility for consideration of Bylaws changes and development of Board policy.

Section 13.03. Recruitment of Committee Members

The nominating committee shall aid in the recruitment of committee Members, subject to Board approval.

Section 13.04. Member Committees

Any duly called membership meeting, may by the majority vote of those present and voting, appoint a committee to report back at a subsequent meeting.

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 12.04, mere acceptance or retention of membership in the Cooperative 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 12.04(a)), a patronage refund is not required to be included in gross income if the member's purchases from the Cooperative related to "personal, living or family items."

This exception would apply to all consumer members whose purchases from the Cooperative were for personal or household use. The other exception (referred to in bylaw section 12.04(b)) applies only to depreciable property purchased from the Cooperative 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 Cooperative 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.

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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 seven (7).
- 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.