

**BYLAWS
OF
SACRAMENTO NATURAL FOODS COOPERATIVE, INC.**

Article I—PURPOSE AND PRINCIPLES

Section I.01. Purpose. Sacramento Natural Foods Cooperative, Inc. (the “Co-op”) is a consumer cooperative organized under the Cooperative Corporation Law of the State of California. The purpose of the Co-op is to [_____].

Section I.02. Cooperative principles. The Co-op will be operated consistent with cooperative principles adopted by the International Cooperative Alliance. 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 I.03. Nondiscrimination. Membership in the Co-op is open to all persons able to use the Co-op’s services and willing to accept the responsibilities of membership without regard to any characteristic that does not directly pertain to a person’s eligibility.

Section I.04. Stewardship report. The Co-op will furnish members with an annual stewardship report. This report will address the Co-op’s mission and goals and its efforts to achieve or promote the mission and goals.

Article II —MEMBERSHIP

Section II.01. Eligibility for membership. Any individual or entity who is 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 of the Co-op. 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 II.02. Application for membership.

(a) 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:

- (1) submit required information;
- (2) pay any administrative and membership fees; and
- (3) invest equity in required amount.

(b) An entity applying for membership must name a single individual as its authorized representative.

Section II.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 upon written request. An application for membership will be presumed accepted unless rejected by the Co-op within 30 days for reasons satisfactory to the board of directors.

Section II.04. Automatic employee membership.

(a) Any person who becomes an employee of the Co-op will automatically become an active member for the duration of that person's employment without needing to invest equity or to comply with the other provisions of section 2.02.

(b) All rights and interests in the Co-op of the person who automatically became a member as provided in this section will automatically cease upon termination of employment for any reason and that person will have no right to any return of equity.

(c) Any employee may also become a member independent of employment status if that person complies with the provisions of section 2.02.

Section II.05. Member status.

(a) A member who is current in meeting the equity investment obligation, regularly patronizes the Co-op and complies with these bylaws and the policies and decisions of the Co-op is considered an "active member."

(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;
- (2) to attend meetings of the board of directors;
- (3) to be nominated to and, if elected, serve on the board of directors;
- (4) to receive discounts and other benefits offered to members from time to time; and
- (5) to receive distributions to members if and when made by the Co-op.

(c) A member is no longer an active member when that member:

- (1) becomes delinquent by three months in meeting the equity investment obligation;
- (2) fails for more than 12 consecutive months to patronize the Co-op; or
- (3) fails to comply with these bylaws or any policies or decisions of the Co-op.

(d) An inactive member will again become an active member if that member fully satisfies these requirements for active membership.

Section II.06. Prohibition on transfer of membership. No member may transfer a membership or any rights of membership.

Article III —SHARES

Section III.01. Issuance of shares. Common (or membership) shares and preferred shares may be issued for money paid in an amount determined from time to time by the board of directors and as share dividends, patronage refunds, or other changes affecting outstanding shares. The Co-op may issue share certificates, but it is not required to do so.

Section III.02. Common shares.

(a) Each applicant admitted as a member will be issued one common share. Ownership of common shares entitles a member to one vote in the affairs of the Co-op, regardless of the total number of shares a member owns. Ownership of common shares also entitles a member to all the rights of membership as described by statute, the articles of incorporation of the Co-op, and these bylaws.

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

(c) Common shares are redeemable at the option of the holder upon termination of that holder's membership as provided in the articles of incorporation of the Co-op.

Section III.03. Preferred shares.

(a) Preferred shares may be issued to members as provided in the articles of incorporation of the Co-op. Ownership of preferred shares does not entitle the holder to any voting rights in the affairs of the Co-op.

(b) Preferred shares are only redeemable as provided by the board of directors. Termination of membership or expulsion from the Co-op does not provide holders of preferred shares any redemption rights.

Section III.04. Prohibition on transfer of shares.

(a) Common shares may only be assigned or transferred upon the death of an individual to a member of that person's immediate family.

(b) Preferred shares may only be assigned or transferred as provided by the board of directors or by will or the laws of descent and distribution.

(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 IV.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. The termination of the membership will become effective immediately without any action by the Co-op.

Section IV.02. Termination on death or dissolution. A membership will immediately terminate upon the death of an individual member or the dissolution of a member that is an entity.

Section IV.03. Expulsion. Any member may be expelled for any 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. 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.

Article V —MEMBERSHIP MEETINGS

Section V.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 matter must be a proper matter for member action and the member must deliver written notice to the secretary of the Co-op no later than three months 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. The notice must also comply with any other procedural guidelines and limitations the board of directors adopts.

Section V.02. Special meetings. Special meetings of members may be called by the board of directors, the board chair 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 proper purpose for which the meeting is called. That request must bear the physical signatures of at least 5% of all active members as of that date. No business other than that within the purpose specified in the meeting request may be transacted at a special meeting.

Section V.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 35 days nor more than 90 days after receipt of a proper written request.

Section V.04. Conduct of meetings. Meetings of members are to be conducted using reasonable rules of procedure and in a manner that is fair and equitable under the circumstances. The board chair presides at every meeting of members at which the board chair is present. If the board chair is not present at a meeting of members, the directors present at the meeting are to designate one director to be the meeting chair.

Section V.05. Notice of meetings.

(a) The Co-op will give written notice of any meeting of members in a manner authorized under applicable law. The Co-op will also post meeting notices in the Co-op's store.

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

special meetings will be given within 20 days after receipt of a proper written request for a special meeting to each member who is entitled to vote at that 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 V.06. Record dates. Only persons who are active members as of 5:00 p.m., Pacific Time, on the tenth day immediately preceding the date notice is given will be entitled to notice of a meeting and to vote at that meeting.

Section V.07. Quorum.

(a) A quorum of the greater of (1) 100 active members or (2) 2% of all active members must be present in person or by ballot to transact business at any meeting of members, except as otherwise required by applicable law or these bylaws.

(b) A quorum of at least 5% of all active members must be present in person or by ballot 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 fewer than 1/3 of all active members are present in person or by ballot at any meeting, the only matters that may be voted on at that meeting include those matters described in the meeting notice.

Section V.08. Voting.

(a) Each active member has one vote on each matter submitted to a vote of members. Only the authorized representative of an entity may vote with respect to that entity's membership.

(b) Unless otherwise required by law or by these bylaws, action on any matter (other than the election of directors) 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.

(c) Neither voting by proxy nor cumulative voting is permitted for any purpose.

Section V.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.

Section V.10. Meetings by electronic communications. The board of directors may authorize any meeting of members to be held by means of electronic communications in accordance with applicable law and any other procedural guidelines and limitations the board of directors adopts.

Section V.11. Member engagement. In addition to member meetings, the board of directors is to establish practices 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 VI.01. Number and qualifications.

- (a) The number of directors constituting the board of directors of the Co-op 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 principal executive officer or 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. 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, and any individual sharing the household of the person.

Section VI.02. 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 VI.03. Removal of directors.

- (a) Any director may be removed by members if the request for removal is properly brought before a meeting of members and the removal is approved by members as specified in subsection 5.08(b). That request must bear the physical signatures of at least 20% of all active members as of that 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 consecutive meetings of the board of directors without being excused for good cause; or
- (3) for other cause permitted under state law.

Section VI.04. 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. 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. Each committee is to follow procedures applicable to meetings of the board of directors.

Section VI.05. Chair and vice chairs of the board. The board of directors is to appoint directors to serve as board chair and two vice chairs. The board chair and vice chairs are to perform such duties and possess such powers as are assigned by the board of directors and these bylaws. Unless otherwise determined by the board of directors, the board chair presides at every meeting of the board of directors at which the board chair is present. If the board chair is not present at a meeting of the board of directors, a vice chair will preside at the meeting. If neither the board chair nor a vice chair is present at a meeting of the board of directors, the directors present at the meeting may appoint a director to be the meeting chair.

Section VI.06. Board policies. The board of directors is to develop written policies necessary to carry out the duties of the board of directors and the functions of the Co-op. The Co-op will make a copy of these policies accessible to active members through the Co-op's website.

Section VI.07. Meetings. Meetings of the board of directors are to be held regularly. Meetings may be called by the board chair, the president or any three directors.

Section VI.08. Notice of board meetings.

(a) Regular meetings of the board of directors may be held without notice if the time and place of the meetings are fixed by the board of directors. Special meetings of the board of directors may be held if notice of the time and place of the meetings is given to directors at least 24 hours before the time at which the meeting is to be held.

(b) Meeting notices may be given 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 address and in a conspicuous place in the Co-op's store. The inadvertent failure to post the meeting notice will not affect the validity of any meeting.

Section VI.09. Quorum and voting. A majority of the authorized number of directors 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.

Section VI.10. 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 persons participating can hear one another.

Section VI.11. Action without a meeting. Any action required or permitted to be taken at a meeting of the board of directors may be taken without a meeting if all directors individually or collectively consent in writing or by electronic transmission to the action.

Section VI.12. 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.

Article VII —ELECTION OF DIRECTORS

Section VII.01. Nominations. Nominations of candidates for election as directors may be made by the board of directors or by an active member who delivers to the Co-op written notice of the nomination no later than three months before the annual meeting. 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. The members must also comply with any other procedural guidelines and limitations the board of directors adopts.

Section VII.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. 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 VII.03. Terms of office. The board of directors will be divided into three classes, with the term of each class expiring when the results for the election held in the third year following the class 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 VII.04. Term limits. A person is not eligible for election or appointment as a director if, by the end of the term to which that person would be elected or appointed, that person would have served as a director for more than twelve years.

Article VIII

Article IX —OFFICERS

Section IX.01. Titles. The officers of the Co-op include a president, a treasurer or chief financial officer, a secretary, and any other officers with such titles and duties as the board of directors may determine. The same person may hold any number of offices.

Section IX.02. Appointment and resignation. Officers are chosen by the board of directors and serve at the pleasure of the board of directors. Any officer may resign at any time on written notice to the Co-op. Any officer may be removed by the board of directors at any time, with or without cause.

Section IX.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 X —PATRONAGE DISTRIBUTIONS

Section X.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 them as patronage dividends consistent with cooperative principles, applicable state and federal laws and generally accepted accounting principles. The board of directors will determine when and how such allocations and distributions will be made. Any allocations of such a nominal amount as not to justify the expenses of distribution may, as determined by the board of directors, be excluded from distribution on condition that those allocations are not then or later distributed to other members.

Section X.02. Consent of members. By obtaining or retaining membership in the Co-op, each member consents to take into account any patronage dividend received from the Co-op 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, the board of directors may declare that the unused or unredeemed dividend will revert to the Co-op or the Co-op may make a contribution to support other organizations aligned with the Co-op's purposes.

Section X.03. Retained amounts. A portion of any allocated patronage dividends, not to exceed 80% of the allocation, may be retained by the Co-op 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 of the Co-op 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 XI —FISCAL AND MISCELLANEOUS MATTERS

Section XI.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 XI.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 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. The annual 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.

Section XI.03. Transfer of proprietary interests to the Co-op.

(a) Any proprietary interest in the Co-op that would otherwise escheat to the state will instead become the property of the Co-op. 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 by the Co-op 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 to the Co-op prior to the date of the proposed transfer, then that proprietary interest will become the property of the Co-op on the transfer date.

(b) 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.

Section XI.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 at the discretion of the board of directors. The board of directors will inform active members of any such proposal and provide a reasonable opportunity to provide feedback in connection with any mortgage of the Co-op's real property.

Section XI.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 XI.06. Amendment of bylaws. These bylaws may be amended or repealed, or new bylaws may be adopted, 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. No amendment, repeal or new bylaws may alter in an adverse manner or reduce or diminish the rights and benefits of any current or former director, officer, employee or agent under section 11.05 except with that person's advance written consent.
