

BYLAWS OF FOOD CONSPIRACY COOPERATIVE

Adopted 3/5/2011

Article I Organization

Section 1.1 - **Identity.** The name of the organization is Food Conspiracy Cooperative (referred to in these bylaws as "the Co-op"). The Co-op is a cooperative corporation organized under the laws of the State of Minnesota.

Section 1.2 - **Purpose.** As more fully stated in its articles of incorporation, the purpose for which the Co-op is organized is to furnish groceries and other consumer goods and services to its owners and other patrons, and to conduct its operations exclusively on a cooperative and nonprofit basis.

Section 1.3 - **Cooperative principles.** The Co-op shall be operated in accordance with the cooperative principles adopted by the 1995 General Assembly of the International Co-operative Alliance, such principles being:

- (a) voluntary and open ownership without arbitrary discrimination;
- (b) democratic governance with owners having equal voting rights and the opportunity for participation in setting policies and making decisions, and with their elected representatives being accountable to owners;
- (c) economic participation by owners with owners equitably contributing to and democratically controlling the capital of the Co-op, with a limited, if any, return on capital, and with earnings being equitably applied to the benefit of owners in proportion to their patronage, to the development needs of the Co-op, and to the provision and extension of common services;
- (d) autonomy and independence of the Co-op as a self-help organization controlled by its owners being strictly maintained;
- (e) providing education and training at all levels of the Co-op so that participants can contribute effectively to the development of the Co-op, and informing the general public about the nature and benefits of cooperation;
- (f) cooperation with other cooperatives to better serve owners and to strengthen the cooperative movement; and
- (g) concern for community by, in addition to focusing on owner needs, working for sustainable development of the community of which the Co-op is a part.

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

Section 1.5 - **Principal office.** The principal office of the Co-op shall be located in Tucson, Arizona.

Section 1.6 - **Fiscal year.** The fiscal year of the Co-op shall begin on the first day of October in each year and end on the last day of September of the succeeding year until changed by the Board of Directors.

Article II Ownership

Section 2.1 - **Eligibility.** Ownership in the Co-op shall be voluntary and open to any household and, if authorized by the Board of Directors, to any organization, provided its purpose is to use the services of the Co-op and it is willing to accept the responsibilities of ownership. Ownership status may be acquired by more than one adult in a household. In case of doubtful eligibility, ownership shall be subject to approval by the Board at any time within six months after the date of application.

Section 2.2 - **Admission.** Applicants will be admitted to ownership upon submitting required information and purchasing or subscribing to purchase not less than one nor more than ten shares, at a price determined by the Board of Directors. Ownership shall be in the name of an individual as the primary owner and not more than one designated secondary owner. On or before admission, each owner shall be provided a copy of these bylaws, including the appended explanation of patronage rebates. Subscribers shall be considered owners for all purposes.

Section 2.3 - **Rights.** Each primary and designated secondary owner shall be entitled to make purchases from the Co-op on terms generally available to owners. Unless otherwise stated in these bylaws, each primary owner shall be entitled to participate in the governance of the Co-op as set forth in these bylaws. Rights of owners shall be personal rights and not property rights.

Section 2.4 - **Responsibilities.** Each owner shall keep reasonably current in payment of the share purchase requirement described in this Article, shall patronize the Co-op on at least an occasional basis, and shall notify the Co-op of any change to the owner's name or address. An owner who becomes delinquent in meeting his or her share purchase obligation to an extent determined by the Board, or who fails to patronize the Co-op for a period of time determined by the Board, shall be placed into inactive status. The owner's participation rights shall then be suspended. An owner in inactive status may attain good standing upon recommencing current payment of financial obligations or a patronage relationship with the Co-op. References herein to the rights and entitlements of owners shall be understood to refer only to owners in good standing. Each owner shall refrain from conduct that disrupts any lawful activity or function of the Co-op, brings the Co-op into disrepute, presents a danger to the safety of persons or property or otherwise constitute cause for expulsion.

Section 2.5 - **Access to information.** Owners shall be provided reasonably adequate and timely information as to the operational and financial affairs of the Co-op. An owner shall, upon request, be provided any other information concerning the operational and financial affairs of the Co-op that is necessitated by and directly related to a proper purpose, subject to such reasonable restrictions or conditions as is determined by the Board to be necessary to protect confidential or sensitive information. Any proper request necessitating 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. No 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 may not be transferred except to the Co-op. 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 one or more shares or deferred patronage rebates to the credit of another person designated by the requesting owner, provided that the person so designated has acquired ownership status in the Co-op and the requesting owner certifies that s/he has not and will not receive consideration for the transaction in excess of the carrying value of the interests on the books 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 - **Termination.** An owner may withdraw from ownership at any time upon notice to the Co-op. An owner may be expelled by the Board for knowingly, intentionally, or repeatedly violating these bylaws after the owner is provided fair notice of the charges and an opportunity to respond in person or in writing. 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 within the second quarter of each fiscal year to receive reports on the operations and finances of the Co-op, to elect directors, and to conduct such other business as may properly come before the meeting.

Section 3.2 - **Special meetings.** Special meetings of owners may be called by the Board. Special meetings shall be called by the President as soon as possible after the receipt of petitions signed by ten percent of owners, such petitions stating any 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 time and place convenient to owners.

Section 3.4 - Notice. Written notice of the time, place, and purpose or purposes of any meeting of owners shall be mailed to each owner or included in a Co-op publication that is circulated generally among owners. The notice must be mailed or published not less than fifteen nor more than one hundred days before the date of the meeting. Any business conducted at or in connection with a meeting of owners other than that specified in the notice of the meeting shall be of an advisory nature only. The Secretary shall execute a certification of compliance containing a correct copy of the notice, the date of its mailing or publication, and statement of compliance with governing law, and such certificate shall be made a part of the records of the meeting.

Section 3.5 - Record dates. Unless otherwise determined by the Board, only persons who are owners at the close of business on the day immediately preceding the date of distribution of notices shall be entitled to notice of any meeting of owners and to vote at or in connection with such meeting.

Section 3.6 - Quorum. The presence in person or by absentee ballot at the opening of the meeting of fifty owners if the Co-op has more than five hundred owners, or ten percent of all owners if the Co-op has five hundred or less owners, shall be necessary and sufficient to constitute a quorum for the transaction of business at or in connection with 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 irrespective of the number of shares held. 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 —Absentee ballots. Owners may, as authorized by the Board, vote by absentee ballots delivered to the Co-op by mail, in person at the store, or, if the Co-op is able to authenticate that it is the owner who is casting the vote, by electronic means. Voting by absentee ballots may be for directors or upon any issue properly submitted to a vote of owners. Ballots, together with the exact text of an issue for decision shall be included in the notice of the meeting to which they relate. In the case of voting by mail or in person in the store ballots shall be submitted in a sealed plain envelope inside another envelope bearing the owner's name and any other required identifying information. When submitted in conformity with instructions contained in the notice. Absentee ballots shall be counted together with votes cast at the meeting.

Section 3.9 - Issues submitted by owners. Notices of a meeting of owners shall include any proper issues submitted by petition of at least five percent of owners. Petitions must be received

by the Co-op not less than one hundred and twenty days before the date of the meeting at which or in connection with 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 business and affairs of the Co-op shall be managed under the direction and supervision 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 guide operational decisions, engaging a general manager and monitoring and evaluating his or her performance, securing good conditions of employment and reasonable employee benefits, 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 nine individuals. To be qualified as a director, a person shall be of the age of eighteen or more years, shall have been a primary or designated secondary owner for six months prior to the commencement of the election of directors, and shall not have any overriding conflict of interest with the Co-op. Two members of the same household shall not be eligible to simultaneously serve as directors. No employee shall be eligible to serve as a director.

Section 4.3 - Nominations, election and terms. Directors may be nominated 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 one hundred twenty days before the date of the annual meeting. Directors shall be elected by owners at or in connection with the annual meeting. Periodically as may be necessary, directors shall be elected for specific one, two or three year terms in order to assure that no more than three terms expire in each year. At other times directors shall be elected for terms of three years. Candidates receiving the highest number of votes shall be given the longest available terms. Directors shall hold office until their successors are elected or until their offices are terminated sooner in accordance with these bylaws.

Section 4.4 - Staff representative. A staff representative to the Board, who shall be an owner, may be selected by the staff prior to the annual meeting of owners to serve as an observer, advisor and liaison with the staff for a term of one year.

Section 4.5 - Compensation. Directors and the staff representative may be compensated only as approved by the Board in advance of the performance of services to be compensated. Directors may be reimbursed for reasonable expenses incurred in connection with the performance of authorized business of the Co-op.

Section 4.6 - Standards of conduct. Directors shall be responsible at all times for discharging their duties in good faith, in a manner that they reasonably believe to be in the best interests of

the Co-op and with the care that an ordinarily prudent person in a like position would use under similar circumstances.

Section 4.7 - Conflicts of interest. Directors shall be under an affirmative duty to disclose their actual or potential conflicts of interest in any matter under consideration by the Board, and such interest shall be made a matter of record in the minutes of the meeting. Directors having such an interest shall be permitted to make a statement with regard to the matter and shall then be required to leave the meeting room. A transaction in which a director has an interest shall be prohibited unless the transaction is fair to the Co-op and is approved by no less than a two-thirds majority of all disinterested directors.

Section 4.8 - Indemnification. In order to attract and retain qualified people to serve in positions of responsibility, the Co-op shall as required by, and may as permitted by, Minnesota law indemnify its directors, officers, general manager, staff representative and other responsible agents. 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 4.9 - Committees. The Board may appoint special or standing committees to advise the Board or to exercise such authority as the Board shall designate. Such committees shall include at least one director. The appointment of any committee shall not relieve the Board of its responsibilities in the oversight of the Co-op.

Section 4.10 - Termination. The term of office of a director or the staff representative may be terminated prior to its expiration in any of the following ways: (i) voluntarily upon notice to the Secretary; (ii) automatically upon termination of ownership in the Co-op; and (iii) for cause by the Board or by owners, provided the accused person is accorded fair notice of the charges and an opportunity to respond in person or in writing, subject to appeal to or in connection with a meeting of owners. A director who is absent from any two Board meetings in a one-year period, unless excused by the Board for good cause, shall be presumed to have resigned.

Section 4.11 - Vacancies. Any vacancy among directors occurring between annual meetings may be filled by the Board until the next meeting of owners at which time owners shall elect a director to fill the remainder of the unexpired term.

Article V Meetings of the Board

Section 5.1 - Meetings. Meetings of the Board shall be held no less frequently than once in each two-month period. Special meetings not called by the Board may be called by the President. Special meetings shall be called by the Secretary upon request of any three directors.

Section 5.2 - Notice. Meetings called by resolution of the Board shall require no notice to directors, 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 and the

staff representative. Written notice shall be delivered at least five days before the date of the meeting and oral notices shall be given in person or by a telecommunications device at least forty-eight hours before the time 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 decision making. The presence in person at the opening of the meeting of a majority of directors shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board. Unless otherwise required by law or by these bylaws, decisions at meetings of the Board shall be made by majority vote. Meetings of the Board shall be conducted generally in accordance with reasonable and accepted rules of parliamentary procedure.

Section 5.5 - 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.

Section 5.6 - Referendum. Any action of potentially serious consequence taken by the Board shall be referred to a meeting of owners for approval or disapproval if demanded within ten days of such action by any three directors or by five percent of owners. Such meeting shall be called by the Secretary within twenty days of such demand.

Section 5.7 - Open meetings. Meetings of the Board and all committees 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. The Board may designate other officers or assistant officers.

Section 6.2 - Election, terms and removal. Officers shall be elected by the Board at its first meeting following the annual meeting of owners. Officers shall serve for terms of one year or until election of 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 assuring the orderly conduct of all meetings, coordinating the activities of the Board, and maintaining effective communication with the general manager, and shall present a report of operations at the annual meeting of owners.
- (b) The Vice President shall be responsible for performing the duties of the President in his or her absence or disability and assisting the President in the performance of his or her duties.
- (c) The Secretary shall be responsible for 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 the filing of all required reports and returns, and shall present a financial report at the annual meeting of owners.

Article VII Capital Shares

Section 7.1 - **Issuance and terms.** To evidence capital funds provided by owners, the Co-op shall issue shares. 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 in cash or cash equivalent of their par value of one hundred eighty dollars. Shares shall be entitled to no dividend, and shall not be evidenced by certificates. 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. Shares shall be redeemable 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 when such payment would impair the ability of the Co-op to meet its other obligations as they become due. Reapplications for ownership after full or partial redemption shall be subject to full repayment of redemption proceeds.

Article VIII Patronage Rebates

Section 8.1 - **Distribution of net earnings.** The realized net earnings of the Co-op, to the extent attributable to the patronage of owners, shall be allocated and distributed among owners as patronage rebates in proportion to their patronage and in such a manner and at such a time as to constitute patronage dividends within the meaning of federal income tax law. The Co-op may set aside only such reserves as are authorized in this article. To the extent permitted under federal income tax law all of the operations of the Co-op shall be netted into a single allocation unit.

Section 8.2 - **Exceptions.** Net earnings may be reduced by such reasonable reserves for necessary business purposes as is determined by the Board. 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 owners. Owners shall retain the right to waive in whole or in part, by action at or in connection with a meeting of owners, any patronage rebates to which they may be entitled.

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 rebates, 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 monetary return on capital. They shall 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 made 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 at all times to being offset by amounts otherwise due and payable to the Co-op and by assessments resulting from tax audit adjustments.

Section 8.5 - **Allocation of net loss.** In the event the Co-op shall incur a net loss in any fiscal year, the patronage-sourced portion of such loss shall be carried forward to offset patronage-sourced income in subsequent years, and any remaining loss shall be carried back and forward to offset nonpatronage-sourced income in prior and subsequent years in accordance with federal income tax law.

Article IX Interpretation and Amendment of Bylaws

Section 9.1 - **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 9.2 - **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 9.3 - **Amendment.** These bylaws may be amended or repealed only at or in connection with 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 REBATE CONSENT PROVISION

The Internal Revenue Code generally requires each person receiving a patronage rebate 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 rebates 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 rebates is subject to an exception that is applicable to consumer cooperatives. Under that exception, a patronage rebate 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 rebate 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.