

Bylaws

*The Homestead Exchange Cooperative, Inc.
(DBA Ukiah Natural Foods Co-op)*

*General Revision Approved October 2005
Sections 6.11 & 11.01 Amended April, 2007
Sections 4.4 & 5.16 Amended April, 2011
Article 10 Amended October 2011*

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ARTICLE 1. PLACE OF BUSINESS AND GOVERNING PRINCIPLES

Section 1.01 - Place of Business

The principal offices of this Corporation (the “Cooperative”) shall be located in Mendocino County, California.

Section 1.02 - Governing Principles

The business of the Cooperative will be guided by the following principles:

The Cooperative is a member-owned-and-operated business, dedicated to serving the entire community and conducted primarily for mutual benefit of the shareholders. The primary purpose is to engage in the business of providing high-quality food and other products and services to members, who shall be the ultimate consumers of such products. Irrespective of any inconsistencies with the Articles of Incorporation of the Cooperative, these Bylaws, and any applicable law, the Cooperative generally supports the cooperative principles adopted in 1995 by the International Cooperative Alliance and subsequent revisions thereof:

1st Principle: Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary Cooperatives members have equal voting rights (one member, one vote) and Cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

6th Principle: Co-operation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

ARTICLE 2. MEMBERSHIP

Section 2.01 - Membership Rights and Qualifications

- (a) Membership entitles a Member to one (1) vote in the affairs of the Cooperative, irrespective of the total number of shares a Member owns, and to all the rights of Membership as described by applicable law, the Articles of Incorporation, and these Bylaws.
- (b) All meetings of the Board of Directors shall be open to all Members, except those meetings (or portions of meetings) provided for in Section 6.11.

Section 2.02 - Membership Qualifications

Any natural person may become and remain a Member of this Cooperative by:

- (a) Complying with such uniform conditions as may be prescribed by the Board of Directors, including any required purchases of Sustaining ("B") shares;
- (b) Making full payment of any non-refundable Membership fee as set forth in Section 2.04;
- (c) Making full payment for one Membership ("A") share of the Cooperative; and
- (d) Being a resident of California.

Each Membership shall consist of one natural person.

Section 2.03 - Membership Application

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

Section 2.04 - Membership Fee

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

Section 2.05 - Acceptance of Members

Applications for Membership shall be reviewed by the Board of Directors or by a Executive Committee (pursuant to Section 6.17 of these Bylaws) duly authorized by resolution to admit Members. The application shall be accepted unless rejected in writing within thirty (30) days for reasons satisfactory to the Board of Directors. 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 and all amounts paid for Membership fees and shares.

Section 2.06 - Transfers Prohibited

No Member may transfer his or her Membership or any right arising therefrom.

Section 2.07 - Bylaws and Articles to Prospective Members

Each prospective Member, upon application for Membership, shall receive a copy of the Articles of Incorporation, Bylaws, and Disclosure Document of the Cooperative.

Section 2.08 - Shareholders and Members

The terms "Shareholder" and "Member", and their plurals, shall be synonymous terms throughout these Bylaws.

ARTICLE 3. SHARES

Section 3.01 - Share Issuance and "Fair Share" Status

Shares may be issued for money paid in an amount to be determined from time to time by the Board of Directors, subject to the following requirements:

- (a) Each Member may own only one Membership ("A") share, and such Membership ("A") share may be acquired only by cash purchase;
- (b) The Board of Directors may require the Members to acquire, through purchase or allocation, Sustaining ("B") shares in the amount of \$10.00 each as a condition of achieving "Fair Share" Membership status. The Board of Directors shall determine from time to time the minimum monetary amount of Sustaining ("B") shares that shall constitute such "Fair Share" Membership status. Sustaining ("B") shares may be used to distribute all or a portion of dividends on such shares, patronage refunds (if and when such are distributed), or to effect other changes related to share holdings;
- (c) Any Sustaining ("B") shares acquired by or distributed to a Member pursuant to subsection (b) of this Bylaw section shall be counted in determining the Member's total investment toward his or her "Fair Share" amount; and
- (d) Once a Member reaches his or her "Fair Share" amount, he or she may make further purchases of, or receive distributions in additional sustaining "B" shares, only at the discretion of the Board of Directors.

Section 3.02 - Share Certificates and Disclosure Document

- (a) The Cooperative shall not issue share certificates. Nothing in this section shall restrict the Cooperative from issuing identity cards or similar devices to Members that serve to identify Members qualifying to use the facilities or services of the Cooperative.
- (b) Except as provided in subsection (d) of this Bylaw section, prior to issuing a share, the Cooperative shall provide the purchaser of a share with a Disclosure Document. The Disclosure Document shall contain the information required by section 12401 of the California Corporations code.
- (c) If the Articles of Incorporation or these Bylaws are amended so that any information required by subsection (b) of this Bylaw section in the Disclosure Document is no longer accurate, the Board of Directors shall cause the Disclosure Document to be revised to conform to such amendments of the Articles of Incorporation or these Bylaws.
- (d) The Cooperative shall issue a receipt or other written advice of purchase to anyone purchasing a share upon the Member's first purchase of a share. No Disclosure Document need be provided to an existing Member prior to the purchase of additional shares if that Member has previously been provided with a Disclosure Document that is accurate and correct as of the date of the purchase of additional shares.

Section 3.03 - Prohibition and Transfer of Shares

No shares of this Cooperative may be assigned or transferred. Any attempted assignment or transfer shall be wholly void and shall confer no rights on the intended assignee or transferee.

Section 3.04 - Partial Withdrawal

A Member having a monetary amount in his or her Sustaining ("B") share account in excess of the "Fair Share" amount to be determined from time to time by the Board of Directors may cause the Cooperative to purchase his or her excess share amount upon written request to the Directors. Subject to Section 3.05 of these Bylaws, the Directors 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 Directors.

Section 3.05 - Insolvency Delay

The Cooperative shall delay the purchase of shares as described in Sections 3.04 and 4.04 of these Bylaws if the Cooperative, in making such purchase is, or as a result thereof would be, likely to be unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature.

Section 3.06 - Unclaimed Equity Interests

Any share of a Member, together with any accrued and unpaid dividends and patronage distributions related to that Member, that would otherwise escheat to the State of California as unclaimed personal property shall instead become the property of the Cooperative if the Cooperative gives at least sixty (60) days prior notice of the proposed transfer to the affected Member by

- (1) first-class or second-class mail to the last address of the Member shown on the Cooperative's records, and
- (2) by publication in a newspaper of general circulation in the county in which the Cooperative has its principal office.

No shares or amounts shall become the property of the Cooperative under this section if written notice objecting to the transfer is received by the Cooperative from the affected Member prior to the date of the proposed transfer.

ARTICLE 4. TERMINATION OF MEMBERSHIP**Section 4.01 - Voluntary Withdrawal**

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

Section 4.02 - Death or Dissolution

A Membership shall immediately terminate upon the death of a Member.

Section 4.03 - Expulsion

- (a) A Member may be expelled from the Cooperative by resolution adopted by a two-thirds (2/3) vote of all Directors for:
 - (1) Failure to comply with the Bylaws, rules or regulations of the Cooperative;
 - (2) Failure to pay the required Membership fees;
 - (3) Failure to timely purchase the required Membership ("A") and Sustaining ("B") shares;
 - (4) Failure to patronize the Cooperative during the immediately preceding fiscal year of the Cooperative in the amount of at least \$50.00.
 - (5) Any other justifiable reason.
- (b) Expulsion shall become effective immediately unless the Board of Directors shall, in the resolution, fix another time. On expulsion, the name of the Member expelled shall be stricken from the Membership register and all of his or her rights shall cease except as provided in Section 4.04 of these Bylaws.
- (c) Prior to expulsion of a Member, the Board of Directors shall give such Member at least fifteen (15) days notice prior thereto and the reasons therefore. Such Member shall have the opportunity to be heard, orally or in writing not less than five (5) days before the effective date of expulsion by the Board of Directors.
- (d) The notice required, pursuant to subsection (b) of this section of these Bylaws, may be given by any method reasonably calculated to provide actual notice. Any notice given by mail must be given by first-class or registered mail sent to the last known address of the Member shown on the Cooperative's records.

Section 4.04 - Settlement of Share Interest

If a Membership is terminated for any reason set forth in this Article of these Bylaws, the share interest held by

the Member may be purchased by the Cooperative, subject to Section 3.05 of these Bylaws, within one (1) year of the date of termination to the extent of the paid-up value of the Member's shares on such date. The Board of Directors, in so settling the Member's share interest, shall have the right to set off any and all indebtedness of the Member to the Cooperative. The paid-up value of the Member's share interest is the monetary amount of such interest (including fractional shares) that the Member has been issued in accordance with Section 3.01 of these Bylaws.

ARTICLE 5. MEMBERSHIP MEETINGS AND MEMBERS

Section 5.01 - Location

- (a) Meetings of Members shall be held at the principal office of the Cooperative, or at a place designated by the Board of Directors.
- (b) If authorized by the Board of Directors in its sole discretion, and subject to the consent requirement of clause (b) of Section 20 of the California Corporations Code and such guidelines and procedures as the Board of Directors may adopt, members not physically present in person at a meeting of Members may, by electronic transmissions by and to the Cooperative (as defined in sections 20 and 21 of the California Corporations Code) or by electronic video screen communication, participate in a meeting of Members, be deemed present in person, and vote at a meeting of members whether such meeting is to be held at a designated place or in whole or in part by means of electronic transmissions by and to the Cooperative or by electronic video screen communication.
- (c) A meeting of the members may be conducted, in whole or in part, by electronic transmission by and to the Cooperative or by electronic video screen communication (1) if the Cooperative implements reasonable measures to provide Members a reasonable opportunity to participate in the meeting and to vote on matters submitted to the Members, including an opportunity to read or hear the proceedings of the meeting concurrently with such proceedings, and (2) if any Member votes or takes other action at the meeting by means of electronic transmission to the Cooperative or electronic video screen transmission, a record of such vote or action is maintained by the Cooperative. Any request by the Cooperative to a Member pursuant to clause (b) of Section 20 of the California Corporations Code for consent to conduct a meeting of the Members by electronic transmission by and to the Cooperative, shall include a notice that absent consent of the Member pursuant to the foregoing clause, the meeting shall be held at a physical location in accordance with subsection (a) of this section of the Bylaws.

Section 5.02 - Regular Annual Meetings

A regular meeting of Members shall be held annually on a Saturday in April, in the Cooperative's principal place of business, or at a place and time to be designated by the Board of Directors, for the purpose of transacting any proper business, including the election of Directors, that may come before the meeting. If the day fixed for the regular meeting falls on a legal holiday, the meeting shall be held at the same time and place on the following Saturday.

Section 5.03 - Special Meetings

Special meetings of Members for any lawful purpose may be called by the Board of Directors, the President, or by a petition signed by at least five (5) percent of the Members.

Section 5.04 - Time for Notice of Meetings

Whenever Members are required or permitted to take action at a meeting, a written notice of the meeting shall be given not less than ten (10) nor more than ninety (90) days before the date of the meeting to each Member who is entitled to vote on the record date for notice of the meeting. In the case of a specially called meeting of Members, within twenty (20) days after receipt of a written request, the Secretary shall cause notice to be given to the Members entitled to vote that a meeting will be held at a time fixed by the Board of Directors not less than thirty-five (35) nor more than ninety (90) days after receipt of the request.

Section 5.05 - Method of Giving Notice

- (a) Notice of a meeting of the Members or any report shall be given personally, by electronic transmission by the Cooperative, or by mail or other means of written communication, addressed to the Member at the address of such Member appearing on the books of the Cooperative or given by the Member to the Cooperative for purpose of notice; or if no such address appears or is given, at the place where the principal office of the Cooperative is located or by publication at least once in a newspaper of general circulation in the county in which the principal office is located.
- (b) Notice given by electronic transmission by the Cooperative shall be valid only if it complies with Section 20 of the California Corporations Code. Notwithstanding the foregoing sentence, notice shall not be given by electronic transmission by the Cooperative if the Cooperative is unable to deliver two consecutive notices to the Member by such means or if the inability to so deliver the notices to the Member becomes known to the Secretary, any Assistant Secretary, or other person responsible for the giving of such notice.
- (c) If any notice or report addressed to a Member at the address of such Member appearing on the books of the Cooperative is returned to the Cooperative by the United States Postal Service marked to indicate that it is unable to deliver the notice or report to the Member at such address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the Member upon written demand of the Member at the principal office of the Cooperative for a period of one year from the date of the giving of the notice or report to all other Members.

Section 5.06 - Record Date for Notice

The record date for determining the Members entitled to notice of any meeting of Members is thirty (30) days before the date of the meeting.

Section 5.07 - Contents of Notice

- (a) The notice shall state the place, date, and time of the meeting as well as the means of any electronic transmission by and to the Cooperative (pursuant to Sections 20 and 21 of the California Corporations Code) or any electronic video screen communication by which Members may participate in such meeting.
- (b) The notice of a regular meeting shall state any matters that the Board of Directors, at the time of giving notice, intends to present for action by the Members.
- (c) The notice of a special meeting shall state the general nature of the business to be transacted.
- (d) The notice of any meeting at which Directors are to be elected shall include the names of all nominees at the time of giving notice.

Section 5.08 - Waivers, Consents, and Approvals

The transactions of any meeting of the Members, however called and noticed, and wherever held, are as valid though had at a meeting duly held after regular call and notice, if a quorum is present and if, either before or after the meeting, each person entitled to vote, not present in person, provides a waiver of notice or consent to the holding of the meeting, or an approval of the minutes thereof in writing. All waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

A Member's attendance at a meeting shall constitute a waiver of notice of and presence at the meeting, unless the Member objects at the beginning of the meeting. However, attendance at a meeting is not a waiver of any right to object to the consideration of matters required to be included in the notice but not included, if an objection is made at the meeting.

Section 5.09 - Quorum at Meeting

Members representing five (5) percent of the voting power shall constitute a quorum at a meeting of Members. Any amendment to these Bylaws to increase or decrease the quorum may be adopted only by approval of the Members. When a quorum is present, the affirmative vote of the majority of the voting power represented at the meeting and entitled to vote shall be the act of the Members, unless provided otherwise by these Bylaws or

applicable law. The only matters that may be voted upon at any regular or special meeting actually attended by less than one-third of the voting power, but where a quorum is present, are matters for which notice of their general nature was given pursuant to the first sentence of Section 5.04 of these Bylaws.

Section 5.10 - Loss of Quorum at Meeting

Members present at a duly called or held 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 the action taken, other than adjournment, is approved by at least a majority of the Members required to constitute a quorum.

Section 5.11 - Adjournment for Lack of Quorum

In the absence of a quorum, any meeting of the Members may be adjourned by the vote of a majority of the votes represented in person, but no other business may be transacted except as provided in Section 5.10 of these Bylaws.

Section 5.12 - Adjourned Meetings

When a meeting of the Members is adjourned to another time or place, the time and place (or the means of any electronic transmission by and to the Cooperative or any electronic video screen communication by which members may participate) shall be announced at the original meeting and posted at the Cooperative's principle place of business. The Cooperative may transact any business at an adjourned meeting that has been resumed that could have been transacted at the original meeting. If the adjournment is for more than forty-five (45) days or if a new record date is fixed, a notice of the adjourned meeting shall be given to each Member of record entitled to vote at the meeting.

Section 5.13 - Voting of Memberships

- (a) Each Member of the Cooperative is entitled to one (1) vote on each matter submitted to a vote of the Members.
- (b) If two or more persons have the same fiduciary relationship respecting the same Membership, unless the secretary is given written notice to the contrary and furnished with a copy of the instrument or order appointing them or creating the relationship, the vote of one joint holder will bind all, when only one votes, and the vote of the majority will bind all, when more than one joint holder votes.
- (c) The record date for determining the Members entitled to vote at a meeting or cast written ballots is thirty (30) days before the date of the meeting or the day on which the first ballot is mailed or solicited.
- (d) Cumulative voting shall not be permitted for any purpose.
- (e) Voting by proxy shall not be permitted for any purpose.

Section 5.14 - Use of Written Ballots at Meetings

A combination of written ballot and personal voting may be used at any regular or special meeting of Members, and may be used for the election of Directors. Prior to the meeting, the Board of Directors may authorize distribution of a written ballot to every Member entitled to vote. The ballots shall be distributed in a manner consistent with the provisions of Sections 5.05, 5.17(b), and 5.19 of these Bylaws. When ballots are distributed, the number of Members voting at the meeting by written ballot shall be deemed present at the meeting for purposes of determining a quorum but only with respect to the proposed actions referred to in the ballots.

Section 5.15 - Contents of Written Ballot Used at Meeting

Any written ballot used at a meeting shall set forth the proposed action to be taken, provide an opportunity to specify approval or disapproval of the proposed action, and state that unless revoked by the Member voting in person at the meeting, the ballot will be counted if received by the Cooperative on or before the time of the meeting.

Section 5.16 - Action by Ballot Without Meeting

Any action that may be taken at any regular or special meeting, including election of Directors, may be taken without a meeting through distribution of a written ballot to every Member entitled to vote on the matter. If approved by the Board of Directors, such ballot and any related material may be sent by electronic transmission by the Cooperative (as defined in Section 20 of the California Corporations Code) and responses may be returned by electronic transmission to the Cooperative (as defined in Section 21 of the California Corporations Code). All Shareholders must receive a minimum of 21 days advance notice of a proposed action so that a shareholder may participate in an election through retrieval of a paper ballot at a Ukiah Natural Foods retail location and return the same by U.S. mail or by hand delivery in the store. Share holders may also retrieve and return electronic transmissions by the cooperative at the store. The Secretary shall cause a vote to be taken by written ballot on any action or recommendation proposed in writing by at least twenty (20) percent of the Members.

Section 5.17 - Written Ballot Used Without Meeting

- (a) Any ballot used without a meeting shall set forth the proposed action, provide an opportunity to specify approval or disapproval of any proposal, and provide a reasonable time within which to return the ballot to the Cooperative.
- (b) The form of written ballot distributed to Members shall afford an opportunity to specify a choice between approval and disapproval of each matter or group of related matters intended, at the time of distribution, to be acted on by the ballot. The form must also provide that whenever the person solicited specifies a choice with respect to any matter, the vote will be cast in accordance with that choice.
- (c) A written ballot cannot be revoked. Approval by written ballot shall be valid only when the number of votes cast by ballot within the time period specified equals or exceeds the quorum required to be present at a meeting authorizing the action, and the number of approvals equals or exceeds the number of votes that would be required to approve at a meeting at which the total number of votes cast was the same as the number of votes cast by ballot.

Section 5.18 - Solicitation of Written Ballots

Ballots shall be solicited in a manner consistent with sections 5.05, 5.17(b), and 5.19 of these Bylaws. The solicitations shall indicate the number of responses needed to meet the quorum requirement and specify the time by which the ballot must be received to be counted. Ballots other than for the election of Directors shall state the percentage of approvals necessary to pass the measure.

Section 5.19 - Withholding Vote

In an election of Directors, any form of written ballot which names the candidates for Director and which the Member has marked "Withhold" (or otherwise indicated that the authority to vote in the election of Directors is withheld) shall not be used for voting in that election.

Section 5.20 - Appointment of Inspectors of Election

In advance of any meeting of Members, the Board of Directors may appoint inspectors of election to act at the meeting and any adjournment. If inspectors are not appointed or if any appointed persons fail to appear or refuse to act, the chairperson of the meeting may, and, on the request of any Member, shall, appoint inspectors at the meeting. No person may serve as an inspector in the same election in which he or she is a candidate for election.

Section 5.21 - Duties of Inspectors of Election

The inspectors shall determine the number of Memberships outstanding and the voting power of each, the number represented at the meeting, and the existence of a quorum. They shall receive votes, ballots, and consents, hear and determine all challenges and questions regarding the right to vote, count and tabulate all votes and consents, determine when the polls will close, and determine the result. They may do those acts

which are proper to conduct the election or vote with fairness to all Members. The inspectors shall perform these duties impartially, in good faith, to the best of their ability, and as expeditiously as is practical.

ARTICLE 6. DIRECTORS

Section 6.01 - Number and Nomenclature

The Cooperative shall have nine (9) Directors, collectively known as the Board of Directors. "Board" means the Board of Directors collectively, while "Director" and "Directors" refer to Members of the Board of Directors

Section 6.02 - Qualifications

- (a) Directors shall be residents of California.
- (b) Any natural person who is and has been a Member as an individual natural person for at least the one-hundred-eighty (180) days immediately preceding the first day of elections, including the month of the elections, and who is not disqualified by any other provisions of these Bylaws, is eligible to be a candidate for the Board of Directors.
- (c) A maximum of one (1) eligible Member who is a paid employee of the Cooperative may serve as on the Board of Directors at any one time, if not disqualified by any other provisions of these Bylaws.
- (d) The following persons are excluded from serving on the Cooperative's Board of Directors at the same time they are also one of the following:
 - (1) The General Manager and any manager of the Cooperative;
 - (2) Persons of the same household or immediate family of a Director or of the General Manager or of any manager of the Cooperative;
 - (3) More than one person of a household or family unit.

Section 6.03 - Nomination

- (a) The Board of Directors shall prescribe reasonable nomination and election procedures for the election of Directors given the nature, size, and operations of the Cooperative. The procedures shall include:
 - (1) A reasonable means of nominating persons for election as Directors, including a Member who is otherwise eligible may nominate himself or herself for election as a Director;
 - (2) A reasonable opportunity for a nominee to communicate the nominee's qualifications and the reasons for the nominee's candidacy to the Members;
 - (3) A reasonable opportunity for all nominees to solicit votes;
 - (4) A reasonable opportunity for all the Members to choose among the nominees.
- (b) Where the Cooperative distributes any material soliciting a vote for any nominee for Director in any publication owned or controlled by the Cooperative, it shall make available to each other nominee, in the same material, an equal amount of space with equal prominence to be used by the nominee for a purpose reasonably related to the election.

The Cooperative shall within ten (10) days either mail to all Members any material related to the election which a nominee for Director has furnished upon written request and payment of reasonable mailing costs (including postage) by the nominee, or allow the nominee to obtain the names, addresses and voting rights of Members within five (5) business days after the request.

Section 6.04 - Election

The Directors shall be elected by written ballot or at the annual meeting in accordance with Sections 5.16 through 5.19 of these Bylaws. The candidates receiving the highest number of votes up to the number of Directors to be elected shall be elected.

Section 6.05 - Terms of Office

The terms of office for Directors shall be three (3) years. Terms shall be structured such that three (3) Directors shall be elected each year. Each Director shall hold office until the expiration of the term for which elected and until the election and qualification of a successor.

Section 6.06 - Compensation

The Directors and Officers shall be reimbursed for actual and necessary expenses incurred in the performance of their duties as Directors and Officers of the Cooperative. Directors and Officers may receive nominal stipends, the amount of which shall be determined by a two-thirds vote of a quorum of the Board of Directors.

Section 6.07 - Call of Meetings

Meetings of the Board of Directors may be called by the President, any Vice-President, the Secretary, or any two Directors.

Section 6.08 - Place of Meetings

Except as provided in subsection (a) of Section 6.10 of these Bylaws, meetings of the Board of Directors may be held at any place designated in the notice of the meeting, or, if not stated in such notice, by resolution of the Board of Directors..

Section 6.09 - Presence at Meetings

Directors may participate in meetings of the Board of Directors through the use of conference telephone, electronic video screen communication, or electronic transmission by and to the Cooperative (pursuant to Sections 20 and 21 of the California Corporations Code). Participation in a meeting through use of conference telephone or electronic video screen communication constitutes presence in person at such meeting as long as all Directors participating in the meeting can hear one another. Participation in a meeting through the use of electronic transmission by and to the Cooperative, other than conference telephone and electronic video screen communication constitutes presence in person at such meeting if both (1) each Director participating in the meeting can communicate with all of the other Directors concurrently; and (2) each Director is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Cooperative.

Section 6.10 - Regular Meetings

- (a) Immediately following the annual meeting of Members, as provided in Subsection 5.02 of these Bylaws, a regular meeting of the Board of Directors shall be held without call or notice set forth in Section 5.02 of these Bylaws.
- (b) Other regular meetings of the Board of Directors may be held without notice to the Board of Directors or Members provided that the time and place of such meetings are fixed by the Board of Directors.

Section 6.11 - Special Meetings; Notice

- (a) Special meetings shall be held on four days' notice by first class mail or forty-eight (48) hours notice delivered personally or by telephone, including a voice messaging system or by electronic transmission by the Cooperative (as defined in Section 20 of the California Corporations Code).
- (b) Notice of regular or special meetings of the Board of Directors need not be given to any Director who provides a waiver of notice or consent to holding the meeting or an approval of the minutes thereof in writing, whether before or after the meeting, or who attends the meeting without protesting, prior to such meeting or at its commencement, the lack of notice to such Director. All waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meetings.
- (c) Subject to the limitation provided by this subsection related to attendance, members of this Cooperative may attend any meeting of the Board of Directors, unless the Board by the affirmative vote of at least two-thirds of the Directors present, where a quorum exists, approves of limiting attendance to only Directors and

specially approved other persons, where there is a finding by the Board that such limitation protects the interests of the members. Such approval may apply to any portion of the meeting at which the limitation is approved or to one or more future meetings

Section 6.12 - Quorum at Meetings

A majority of the authorized number of Directors constitutes a quorum for the transaction of business.

Section 6.13 - Acts of Board of Directors at Meetings

Unless provided otherwise in the Articles of Incorporation, these Bylaws, or by law, every act or decision done or made by a majority of the Directors present at a duly held meeting at which a quorum is present is the act of the Board of Directors. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for the meeting or a greater number required by the Articles of Incorporation, these Bylaws, or applicable law.

Section 6.14 - Adjournment of Meetings

A majority of the Directors present, whether or not a quorum is present, may adjourn to another time and place. If the meeting is adjourned for more than twenty-four (24) hours, notice of the adjournment shall be given prior to the time the adjourned meeting is resumed to the Directors who were not present at the time of adjournment.

Section 6.15 - Action Without Meetings

Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all Directors individually or collectively consent in writing to the action. The consents shall be filed with the minutes of the proceedings of the Board of Directors. Action by written consent has the same force and effect as a unanimous vote of the Directors.

Section 6.16 - Board Policy and Procedures

The Board of Directors shall develop and maintain written policies and procedures necessary to execute the duties of the Board of Directors and the functions of the Cooperative. A copy of these policies shall be available to any Member upon request.

Section 6.17 - Standing Committees - Executive Committees

- (a) The Board of Directors has the authority to appoint Standing Committees to deal with the management and operation of the Cooperative. Standing Committees may be composed of any Member of the Cooperative but shall be only advisory in nature.
- (b) The Board of Directors may create one or more Executive Committees to serve at its pleasure by resolution adopted by a majority of the number of Directors then in office when a quorum is present. Each Committee shall consist of two or more Directors, appointed by a majority vote of the Directors then in office.
- (c) Any Executive Committee, to the extent provided in the resolution of the Board of Directors, shall have all the authority of the Board of Directors, except with respect to the following actions:
 - (1) The approval of any action for which the approval of the members or a majority of all members is required by law;
 - (2) The filling of vacancies on the Board or on any committee that has the authority of the Board;
 - (3) The fixing of compensation of the Directors for serving on the Board or on any committee.
 - (4) The amendment or repeal of Bylaws or the adoption of new Bylaws.
 - (5) The amendment or repeal of any resolution of the Board with by its express terms are not amendable or repealable.
 - (6) The appointment of committees of the Board or the members of such committees;
 - (7) The expenditure of corporate funds to support a nominee for Director after there are more people nominated for Director than can be elected.

Section 6.18 - Resignation of Directors

Any Director may resign effective upon written notice to the President, the Secretary, or the Board of Directors, unless the notice specifies a later time for the effectiveness of the resignation. If a resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Section 6.19 - Removal of Directors

Any or all Directors may be removed without cause by the Members. If the Cooperative has fewer than fifty (50) Members, the removal shall be approved by an affirmative vote or written ballot of a majority of all the votes entitled to be cast. If the Cooperative has fifty (50) or more Members, the removal shall be approved or ratified by the affirmative vote of a majority of all the votes represented and voting at a duly held meeting at which a quorum is present, or by the affirmative vote or written ballot of any greater proportion of the votes as required in these Bylaws or by applicable law.

Section 6.20 - Cause of Vacancies on Board of Directors

Vacancies on the Board of Directors shall exist on the death, termination of Membership, resignation, or removal of any Director; whenever the authorized number of Directors is increased; whenever the Board of Directors declares an office vacant pursuant to Section 6.21 of these Bylaws; and on the failure of the Members to elect the full number of Directors authorized.

Section 6.21 - Declaration of Vacancies

The Board of Directors may declare vacant the office of any Director whose eligibility for election has ceased, who has been declared of unsound mind by an order of court, who is convicted of a felony, or who has not attended four or more regular or special meetings of the Board of Directors in the 12 months preceding the declaration of the vacancy.

Section 6.22 - Filling Vacancies on Board of Directors

Except for vacancies created by removal of a Director pursuant to Section 6.19 of these Bylaws, vacancies may be filled by a vote of the majority of the Directors then in office, whether or not less than a quorum, or by a sole remaining Director. Vacancies created by the removal of a Director may be filled only by approval of the Members pursuant to Section 12224 of the California Corporations Code. The Members may elect a Director at any time to fill any vacancy not filled by the Directors. Any such election shall be subject to all provisions in these Bylaws related to voting by the Members.

ARTICLE 7. OFFICERS**Section 7.01 - Titles**

The officers of the Cooperative shall be a President, a Secretary, a Chief Financial Officer, and any other officer with the titles and duties as determined by the Board of Directors and as may be necessary to enable it to sign instruments. The same person may hold any number of offices. The President is the Chief Executive Officer of the Cooperative. The President shall be chosen from among the Board of Directors Members elected by the Membership of the Cooperative.

Section 7.02 - Appointment and Resignation

The officers shall be chosen by the Board of Directors and serve at the pleasure of the Board of Directors, subject to the rights, if any, of an officer under any contract of employment. Any officer may resign at any time on written notice to the Cooperative without prejudice to the rights, if any, of the Cooperative under any contract to which the officer is a party.

ARTICLE 8. CORPORATE RECORDS AND REPORTS

Section 8.01 - Required Records

The Cooperative shall keep adequate and correct books and records of account and minutes of the proceedings of its Members, Board of Directors, and committees of the Board of Directors. It shall also keep a record of the Members, including the names, addresses, and number of shares held by each. Such minutes and other books and records shall be kept either in written form or in any other form capable of being converted into clearly legible tangible form or in any combination of the foregoing.

Section 8.02 - Annual Report

- (a) For fiscal years in which the Cooperative has, at any time, more than twenty-five (25) Members, the Cooperative shall notify each Member yearly of the Member's right to receive an annual financial report. The Board of Directors shall promptly cause the most recent annual report to be sent to a Member on written request. If approved by the Board of Directors, the annual report and any accompanying material may be sent by electronic transmission by the Cooperative (as defined in Section 20 of the California Corporations Code).
- (b) The annual report shall be prepared no later than one hundred twenty (120) days after the close of the Cooperative's fiscal year.
- (c) The annual report shall contain in appropriate detail all of the following:
 - (1) A balance sheet as of the end of the fiscal year, an income statement, and statement of changes in financial position for the fiscal year;
 - (2) A statement of the place where the names and addresses of the current members are located; and
 - (3) The statement required by Section 8.03 of these Bylaws.
- (d) The annual report shall be accompanied by any pertinent report by independent accountants, or, if there is no such report, by the certificate of an authorized Officer of the Cooperative that the statements were prepared without audit from the books and records of the Cooperative.

Section 8.03 - Annual Statement of Transactions and Indemnification

In addition to the annual report described in Section 8.02 of these Bylaws, the Cooperative shall furnish annually (pursuant to section 12592 of the California Corporations Code) to its Members and Directors a statement of the transactions and indemnifications to interested persons as required by law. If the Cooperative does not issue an annual report pursuant to Section 8.02 of these Bylaws, the statement shall be mailed or delivered to Members within one hundred twenty (120) days after the close of the fiscal year. If approved by the Board of Directors, such statement may be sent by electronic transmission by the Cooperative (as defined in Section 20 of the California Corporations Code).

ARTICLE 9. INSPECTION RIGHTS

Section 9.01 - Articles and Bylaws

The Cooperative shall keep at its principal office in California the original or a copy of its Articles of Incorporation and Bylaws as amended to date, which shall be open to inspection by the Members at all reasonable times during office hours. The Cooperative shall furnish on the written request of any Member a copy of the articles or Bylaws as amended to the date of such request.

Section 9.02 - Books and Records

The accounting books and records and minutes of proceedings of the Members, the Board of Directors, and committees of the Board of Directors, with the exception of meetings held under the provisions of Section 6.11, subparagraph (c), shall be open to inspection on the written demand of any Member at any reasonable time, for

a purpose reasonably related to that person's interests as a Member. Every Director shall have the absolute right at any reasonable time to inspect and copy all books, records, and documents of every kind, and to inspect the physical properties of the Cooperative.

Section 9.03 - Inspection of Membership List

(a) Subject to the Cooperative's right to set aside a Member's demand for inspection pursuant to Section 12601 of the California Corporations Code and the power of the court to limit inspection rights pursuant to Section 12602 of the California Corporations Code, and unless the Cooperative provides a reasonable alternative pursuant to Subsection 9.03(b) of these Bylaws, any Member or Members possessing five (5) percent or more of the voting power may do either or both of the following:

- (1) Inspect and copy the record of all the Members' names, addresses, and voting rights, at reasonable times, on making a written demand five (5) business days in advance which states the purpose for which the inspection rights are requested;
- (2) Obtain from the Secretary, upon written demand and tender of a reasonable charge, a list of names, addresses, and voting rights of those Members entitled to vote for the election of Directors, as of the most recent record date for which it has been compiled, or as of a date specified by the Member or Members subsequent to the date of demand. The demand shall state the purpose for which the list is requested. The Membership list shall be made available on or before the later of ten (10) business days after the demand is received or after the date specified as the date of which the list is to be compiled.

The rights set forth in subsection (a) of this section of the Bylaws may be exercised by any Member or Members possessing five (5) percent or more of the voting power for a purpose reasonably related to the Member or Members' interests as Members. The Cooperative may deny access if it reasonably believes that the information shall be used for another purpose or if it provides a reasonable alternative pursuant to Subsection 9.03(b) of these Bylaws.

(b) The Cooperative may, within ten (10) days after receiving a demand, deliver a written offer of an alternative method of achieving the purpose identified in the demand without providing access to or a copy of the Membership list. An alternative method, which reasonably and in a timely manner accomplishes the proper purpose set forth in a demand made pursuant to Subsection 9.03(a) of these Bylaws, shall be a reasonable alternative, unless the Cooperative fails to do the things which it offered to do within a reasonable time after acceptance of the offer. Any rejection of the offer shall be in writing and indicate the reasons the proposed alternative does not meet the proper purpose of the demand.

ARTICLE 10. SURPLUS ALLOCATIONS AND DISTRIBUTIONS

Section 10.01 - Fiscal Year

The fiscal year of the Cooperative shall end at the close of the business day on the last day of December of each year.

Section 10.02 - Capital Reserve

The Board of Directors shall cause to be created a reasonable capital reserve for necessary purposes of the Cooperative. Such a reserve may be funded by income from patronage (Member) and non-patronage (Non-member) Surplus, as defined below.

Section 10.03 - Surplus Defined

"Surplus" shall be defined as the excess of revenues and gains over expenses and losses for a fiscal year. Such Surplus shall be determined in accordance with generally accepted accounting principles and shall be computed without regard to any patronage dividends, capital allocations, other dividends, or income taxes.

Notwithstanding this provision of the Bylaws, the Board may modify the accounting basis, in its discretion before the beginning of the fiscal year, to avoid inequity or to comply with national or international accounting standards and procedures.

Surplus is allocated between Members and Non-members in proportion to the amount of business each group has done with the Cooperative during such period as the Board of Directors shall determine to be reasonable.

Surplus allocated to the Members shall be defined as the Surplus of the Cooperative multiplied by the ratio of Member patronage to total patronage. Surplus allocated to the Non-members shall be defined as Non-member Surplus or Retained Earnings

Section 10.04 - Surplus Distribution Obligation

The Surplus of the Cooperative attributable to the patronage of Members shall be allocated and distributed among Members as patronage dividends in proportion to their patronage.

The Surplus allocated to each Member shall be distributed to each Member in cash, store credit vouchers, check or any combination thereof, as qualified or nonqualified notices of allocation as designated by the Board of Directors. The non-cash portion of a patronage dividend distribution, in whatever form issued, shall conform to the requirements of, and shall constitute a written notice of allocation as defined in 26 U.S.C.A § 1388.

Any distributable Member Surplus of such a nominal amount as not to justify the expenses of distribution may, as determined by the Board, be excluded from distribution.

If the Cooperative's operations encompass more than one location or division, such locations or divisions shall be netted into a single unit unless otherwise necessitated to achieve an equitable allocation.

Section 10.05 - Written Notice of Allocation

Payment of a portion of patronage dividends, not to exceed eighty percent of the allocation, may be deferred for the reasonable capital needs of the Cooperative, as determined by the Board of Directors. Such amounts shall be represented by a Written Notice of Allocation as defined in section 1388 of the Internal Revenue Code and shall be credited to revolving capital accounts in the names of recipient members and shall accrue no dividend or other monetary return on capital.

Written Notices of Allocation may be redeemed when the Board determines such amounts are 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. Written Notices of Allocation may also be redeemed under compelling circumstances as determined by the Board. They shall be subject to being offset by amounts otherwise due and payable to the Cooperative and by assessments resulting from tax audit adjustments or other losses.

Written notices of allocation may be paid in whole or in part at such time, in such manner, and in such order as shall be determined by the Board of Directors in its sole discretion. The Board of Directors shall not be required to, but may establish policies for the payment of written notices of allocation upon the member's death. No transfer or assignment of written notices of allocation shall be binding upon the Cooperative without its consent.

Section 10.06 - Consent of Members

By obtaining or retaining Membership in the cooperative, each Member 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 10.07 - Dividend Allocation Rule

The Co-op, at the discretion of its Board of Directors, may declare and pay a regular corporate dividend. The corporate dividend shall come out of Retained Earnings and in the event Retained Earnings are not sufficient to pay such a corporate dividend, the Corporation may then pay such a dividend from other earnings.

Section 10.08 - Net Losses, Patronage Sourced or Other

In the event the Cooperative incurs a net operating loss in any fiscal year, whether patronage sourced or from other transactions, the Board of Directors, in its sole discretion, shall prescribe the basis on which said loss shall be treated, including but not limited to: carry forward or carry back; reduction of preferred stock, if applicable; book credits; capital funds; or allocated reserves with or without regard to patronage and/or allocation to members and collection of the same from members as determined by the Board of Directors

ARTICLE 11. BYLAW CHANGES**Section 11.01 - Bylaw Changes by the Board of Directors**

The Bylaws shall be adopted, amended, or repealed by the approval of two-thirds of the Directors present at two consecutive meetings where quorums exist, unless the action would:

- (a) Materially and adversely affect the rights or obligations of Members as to voting, dissolution, redemption, transfer, distributions, patronage distributions, patronage, property rights, or rights to repayment of contributed capital;
- (b) Increase or decrease the number of Members authorized in total or for any class;
- (c) Effect an exchange, reclassification or cancellation of all or part of the Memberships or shares;
- (d) Authorize a new class of Memberships or shares;
- (e) Change the number of Directors or establish a variable number of Directors;
- (f) Extend the term of a Director beyond that for which the Director was elected or increase the terms of the Directors;
- (g) Allow all or any portion of the Directors to hold office by virtue of designation or selection rather than by the election by the Members;
- (h) Allow the Board of Directors to fill vacancies occurring on the Board of Directors by reasons of removal of Directors pursuant to Section 6.19 of these Bylaws.

Section 11.02 - Bylaw Changes by the Members

Where the Board of Directors is denied the right to adopt, amend, or repeal the Bylaws pursuant to Section 11.01 of these Bylaws, the Bylaws shall be adopted, amended, or repealed by approval of the Members.

APPENDIX:**EXPLANATION OF PATRONAGE DIVIDEND CONSENT PROVISION**

The Internal Revenue Code generally requires each person receiving a patronage dividend 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 10.9, mere acceptance or retention of membership in the Cooperative constitutes consent to such inclusion in taxable income, including the portion of the patronage dividends that is deferred by the Cooperative for its capital needs.

The Cooperative has been advised by legal counsel, however, that the general rule for inclusion in income of patronage dividends is subject to an exception that is applicable to consumer cooperatives. Under that exception, a patronage dividend is not required to be included in gross income if the member's purchases from the Cooperative relate to "personal, living or family items." The patronage dividend would thus be taxable to a member 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 members of the Cooperative, except as to

organizational members and except where the purchases of members who are natural persons are for business or income producing purposes.

EXPLANATION OF SECTION 10.3

The Board of Directors is given discretion to utilize the accounting basis best suiting the interests of the members and the cooperative, or which circumstances may require. For example, if federal or state legislation mandates a particular accounting basis, the board has the flexibility, pursuant to this provision, to utilize that method. Similarly, if the facility is sold, the board may choose to allocate the income from the sale to the patrons in more than one year and must be able to use an appropriate accounting basis to do so.