

Disclosure Document

(REVISED 9/2014)

1. Cooperative Status

The Homestead Exchange Cooperative, Inc., DBA Ukiah Natural Foods is a cooperative corporation organized under the Consumer Cooperative Corporations Law of California.

2. Copy of Articles and Bylaws

A copy of the Cooperative's Articles of Incorporation and its Bylaws will be furnished without charge to each Member upon written request. Requests should be sent to Ukiah Natural Foods, 721 South State Street, Ukiah, CA 95482, the Cooperative's office address.

3. Assignment or Transfer

No share or membership 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.

Bylaw Section 2.06 Transfers Prohibited

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

Bylaw 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.

4. Membership Fee

Bylaw 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.

5. Partial Withdrawal of Shares

Bylaw 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.

Bylaw Section 3.05 Insolvency Delay

The Cooperative shall delay the purchase of shares as described in section 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.

6. Termination of Membership

Bylaw 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.

Bylaw Section 4.02 Death or Dissolution

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

Bylaw 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.

Bylaw 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 shall 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.

7. Proprietary Interests of Members

A Member’s proprietary interest in the Cooperative is equal to the unredeemed (1) total of money received by the Cooperative in exchange for all shares purchased by such Member, and (2) the monetary amount of any shares allocated to a Member by the Cooperative. Each Member shall have one vote in the affairs of the Cooperative regardless of the number of shares owned, and no Member may own more than four percent (4%) of Membership (“A”) shares.

Article V Articles of Incorporation

“RESOLVED: Article V of the existing Articles of Incorporation of this corporation is amended to read as follows:

“This corporation is authorized to issue three classes of non-transferrable shares, to be designated as follows:

Class A - membership shares

Class B – sustaining shares

Class C – preferred investment shares

The total number of authorized Class A shares is 1,000,000.

The total number of authorized Class B shares is 20,000,000.

The total number of authorized Class C shares is 1,000,000.

Class A shares entitle the member to one vote.

Class B shares are non-voting, except as provided by law, and have no preferences.

Class C shares are non-voting, except as provided by law, and have preference to Class A and Class B shares in the event of dissolution or reorganization of the corporation. The Class C preferred investment shares may be issued from time to time in one or more series. The Board of Directors is hereby authorized, within the limitations and restrictions stated in these Articles of Incorporation, to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of preferred shares, and the number of shares constituting any such series and the designation thereof, or any of them.

The rights , preferences, privileges and restrictions granted to and imposed on the Membership and Sustaining shares are as set forth below in this Article V:

- (a) Membership shares and Sustaining shares are not entitled to a dividend or other monetary return on investment.
- (b) Each holder of a Membership Share shall have the right to one vote only, regardless of the number of other shares such a member holds and shall be entitled to notice of any Membership meeting in accordance with the Bylaws of the corporation, and shall be entitled to vote upon such matters and in such a manner as may be provided by the Bylaws and by law.
- (c) Only holders of Membership Shares may purchase Sustaining Shares and Preferred Shares. Neither Sustaining Shares nor Preferred Shares are entitled to vote, except as provided by law.

Bylaw 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.

Bylaw Section 2.02 Membership Qualifications

Any natural person or corporation 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.

Bylaw 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,
- (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. A “Fair Share” Member is defined as a member who has purchased one “A” share plus the number of “B” shares designated as necessary by the Board of Directors for such a 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.
- (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.

Bylaw 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.

Bylaw Section 6.11 Special Meetings

- (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 trans-mission 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

8. Surplus Allocations and Distributions

Bylaw 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.

Bylaw 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.

Bylaw 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

Bylaw 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.

Bylaw 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.

Bylaw 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.

Bylaw 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.

Bylaw 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

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 10.06, 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.