

BYLAWS
OF
QUINCY NATURAL FOODS COOPERATIVE, INC.
Final Draft, Approved by the Board of Directors on September 21, 2010
Article I
Organization

Section 1.1 - **Name and status.** The name of the organization is Quincy Natural Foods Cooperative, Inc. (referred to in these bylaws as "the Co-op"). The Co-op is a cooperative corporation under the Consumer Cooperative Corporation Law of the State of California.

Section 1.2 - **Purpose and mission.** As more fully stated in its certificate of amendment and restatement, the Co-op is organized and shall be operated primarily for the mutual benefit of its owners as patrons of the Co-op. The mission of the Co-op is to provide the community with high quality, affordable foods and products while supporting organic, sustainable agriculture and promoting health awareness.

Section 1.3 - **Cooperative principles.** The Co-op shall be operated in accordance with cooperative principles adopted by the 1995 General Assembly of the International Co-operative Alliance, such principles being: (i) voluntary and open ownership without arbitrary discrimination; (ii) democratic governance by owners with equal voting rights among owners and opportunity for participation in setting policies and making decisions; (iii) economic participation by members with owners equitably contributing to and democratically controlling the capital of the Co-op and with earnings being equitably applied to the benefit of owners in proportion to their patronage of the Co-op, to the development needs of the Co-op, and to the provision and extension of common services; (iv) autonomy and independence of the Co-op as a self-help organization controlled by its owners being strictly maintained; (v) educating and training owners, directors, managers and employees so they can contribute effectively to the development of the Co-op, and informing the general public about the nature and benefits of cooperation; (vi) strengthening the cooperative movement by working with other cooperative organizations at all levels; and (vii) working for sustainable development of the Co-op's community.

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

Article II
Ownership

Section 2.1 - **Eligibility.** Ownership in the Co-op shall be voluntary and open to any individual or organization whose purpose is to use the services of the Co-op and who is willing to accept the responsibilities of ownership. In the event that any doubt arises concerning eligibility within six months after the date of application, an application for ownership shall

be subject to approval by the Board.

Section 2.2 - **Admission.** Applicants will be admitted to ownership upon submitting required information and purchasing or subscribing to purchase one share at its issuing price as determined by the board of directors. On or before admission to ownership, each owner shall be provided a copy of these bylaws, including the appended explanation of the patronage dividend consent provision.

Section 2.3 - **Rights.** Except as otherwise provided herein, each owner shall be entitled to make purchases from the Co-op on terms generally available to owners and to participate in the governance of the Co-op as set forth in these bylaws.

Section 2.4 - **Responsibilities.** To maintain ownership in good standing each owner shall purchase a share at the beginning of each calendar year, and shall notify the Co-op of any change to the owner's name or address. The share purchase obligation shall cease upon reaching an accumulated amount of \$300 or such other amount as is permitted by law and approved by the board of directors.

Section 2.5 - **Inactive status.** An owner who becomes delinquent by one month in meeting the share purchase obligation shall be placed into inactive status. The owner's participation rights shall then be suspended. An owner in inactive status may attain good standing only upon full payment of all arrearages. References in these bylaws to the rights and entitlements of owners shall be understood to refer only to owners in good standing.

Section 2.6 - **Access to information.** Owners shall be entitled to receive a copy of the annual report referred to in section 3.3 below. An owner shall, upon request made in good faith, be provided information concerning the operational and financial affairs of the Co-op for a purpose reasonably related to such person's interest as an owner. 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 2.7 - **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. Neither 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 2.8 - **Nontransferability.** Ownership rights and interests, including shares and deferred patronage dividends, may not be sold, assigned, or otherwise transferred. Following termination of ownership, the Co-op will upon request of the owner transfer the carrying value of such rights and interests, net of any authorized offsets, to the credit of another person designated by the requesting owner, provided that the transfer is for a price that does not exceed the carrying value of such rights and interests and that the person so designated is or becomes an owner 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 2.9 - **Withdrawal and expulsion.** An owner may withdraw at any time upon notice to the Co-op. An owner may be expelled by the Board for cause after being 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 Six (6) months after the end of the Co-op's fiscal year to receive reports on the operations and finances of the Co-op 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 and shall be called by the President as soon as possible after the receipt of petitions signed by five percent of all owners, such petitions stating any lawful and proper business to be brought before the meeting. Meetings of owners shall be conducted generally in accordance with reasonable and accepted rules of parliamentary procedure.

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 place convenient to owners.

Section 3.4 - **Notice.** Written notice of the time, place, and purpose or purposes of all meetings of owners shall be provided to each owner not less than thirty nor more than ninety days before the date of the meeting. The notice of the annual meeting shall advise owners that a copy of the Co-op's annual report containing such information as is required by section 12591 of the Consumer Cooperative Corporation Law will be provided upon request. Notice shall also be posted in the Co-op's store in a place designated for Board or owner matters, but the inadvertent failure to do so shall not affect the validity of balloting procedures. Any business conducted at a meeting other than that specified in the notice of the meeting shall be of an advisory nature only.

Section 3.5 - **Record dates.** 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 a meeting or to vote at the meeting.

Section 3.6 - **Quorum.** The presence in person or by ballot at the opening of the meeting of five percent of all owners or one hundred owners, whichever is lesser, shall be necessary and sufficient to constitute a quorum for the transaction of business at 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. 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.

Section 3.8 - **Voting by written ballot.** Owners may, as authorized by the Board, vote by written ballot delivered to the Co-op. Ballots, together with the exact text of an issue for decision, shall be included in the notice of the meeting to which they relate. Ballots 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 Co-op. Written ballots may be in addition to or in lieu of voting at a meeting of owners.

Section 3.9 - **Issues submitted by owners.** Notices of a meeting of owners shall include any lawful and proper issue submitted by petition of at least three percent of all owners. Petitions must be received by the Co-op not less than four months before the date of the meeting at 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 activities and affairs of the Co-op shall be conducted and all powers shall be exercised by or under the direction 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 govern operational decisions, engaging a general manager and monitoring and evaluating his or her performance, 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 seven individuals. To be qualified as a director, a person shall be an owner for at least six months prior to the commencement of the election of directors and shall not have any overriding conflict of interest with the Co-op. 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 four months before the date of the deadline for director election. 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. Directors shall hold office until their successors are elected or until their offices are sooner terminated in accordance with these bylaws.

Section 4.4 - **Compensation.** Directors may be compensated only as approved at a meeting of owners. Directors may be reimbursed for reasonable expenses incurred in connection with the performance of authorized business of the Co-op.

Section 4.5 - **Standards of conduct.** Directors shall be responsible at all times for performing their duties in good faith, in a manner that they believe to be in the best interests of the Co-op, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Section 4.6 - **Conflicts of interest.** Directors shall be under an affirmative duty to disclose their actual or potential conflicts of interest, either direct or indirect, in any matter under consideration by the Board or by a committee exercising any authority of the Board, and such interest shall be made a matter of record in the minutes of the meeting. A director or committee member having such an interest shall be permitted to make a statement with regard to the matter but shall not be permitted to participate in the discussion or decision of the matter.

Section 4.7 - **Indemnification.** The Co-op shall indemnify its directors and officers as required or permitted under state law. 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 4.8 - **Committees.** The Board may appoint special or standing committees to advise the Board or to exercise such authority as the Board shall designate. All committees shall include at least one director, and a committee exercising any authority of the Board shall consist exclusively of directors and shall follow procedures applicable to Board meetings. The appointment of any committee shall not relieve the Board of its responsibilities in the oversight of the Co-op.

Section 4.9 - **Termination.** The term of office of a director may be terminated prior to its expiration in any of the following ways: (i) voluntarily by a director upon notice to the Secretary; (ii) automatically upon termination of ownership in the Co-op; and (iii) by action at a meeting of owners. A director who is absent from three Board meetings within a period of one year shall, unless excused by the Board for good cause, be presumed to have resigned.

Section 4.10 - **Vacancies.** Any vacancy among directors occurring between regular elections of directors may be filled by the Board for 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 of ten months in a one-year period. Meetings not called by the Board (special meetings) may be called by the President and shall be called by the Secretary upon request of any three directors.

Section 5.2 - **Notice.** Meetings called by the Board shall require no notice, 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. 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 days 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 voting.** The presence in person 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. Decisions at meetings of the Board shall be made by majority voting. Meetings shall be conducted generally in accordance with reasonable and accepted rules of parliamentary procedure.

Section 5.5 - **Meetings by telecommunication.** Directors may participate in a meeting of the Board by conference telephone, electronic video screen communication, or other electronic transmission whereby all persons participating can hear one another.

Section 5.6 - **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. Action by consent shall not be used to avoid the open meeting requirement.

Section 5.7 - **Open meetings.** Meetings of the Board and all committees exercising any authority of the Board 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. Principal officers shall be directors. 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 coordinating the activities of the Board, assuring the orderly conduct of all meetings, maintaining effective communication with the general manager, and shall present a report of Board activities 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 filing of required reports and returns, and shall present a financial report at the annual meeting of owners.

Article VII Shares

Section 7.1 - **Issuance and terms.** The Co-op shall issue shares to evidence capital funds provided by owners. 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 of no less than their issuing price and need not be evidenced by certificates. Shares shall be entitled to no dividend or other monetary return on contributed capital. The 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 if the Co-op is, or as a result of such payment would be, likely to be unable to meet its liabilities as they mature. Reapplications for ownership after full or partial redemption shall be subject to full repayment of redemption proceeds.

Article VIII Patronage Dividends

Section 8.1 - **Distribution obligation.** The realized net earnings of the Co-op attributable to the patronage of owners shall be allocated and distributed among owners as patronage dividends 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. If the Co-op's operations encompass more than one allocation unit, such units shall be netted into a single allocation unit unless otherwise necessitated for reasons of equity.

Section 8.2 - **Reductions.** Any distributable net earnings of such a

nominal amount as not to justify the expenses of distribution may, as determined by the Board, be excluded from distribution. Net earnings may be reduced by such reasonable reserves for necessary business purposes as is determined by the Board. A patronage dividend to which owners are entitled may be waived in whole or in part by vote of owners.

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 dividends, 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 dividend or other monetary return on capital. Deferred amounts may 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 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 to being offset by amounts otherwise due and payable to the Co-op and by assessments resulting from tax audit adjustments.

Section 8.5 - **Net losses.** In the event the Co-op shall incur a net operating loss in any fiscal year, the portion of such loss attributable to the patronage of owners shall be carried forward to offset income of the same character in subsequent years, and any remaining loss shall be carried back and forward to offset income of the same character in prior and subsequent years as required or permitted under federal income tax law.

Article IX Fiscal and Miscellaneous matters

Section 9.1 - **Fiscal year.** The fiscal year of the Co-op shall coincide with the calendar year.

Section 9.2 - **Communication by electronic means.** Unless otherwise required by these bylaws, any notice, consent, ballot, petition, or other document required or permitted by these bylaws may be delivered by electronic means, provided that, in the case where such communication expressly or impliedly requires the signature of the person submitting the communication, means are in place to reasonably assure the authenticity of the signature.

Section 9.3 - **Gift of proprietary interests.** An owner who holds any equity or other interest in the Co-op which becomes subject to unclaimed property laws may make a gift of such interest either by affirmatively so designating in a communication to the Co-op or by failing to claim the interest after the following procedures have been complied with: (i) at any time after the interest would otherwise escheat to the state, the Co-op shall provide at least sixty days prior notice of the proposed transfer to the Co-op by first-class or second-class mail to the last known address of such person

shown on the Co-op's records and by publication in a newspaper of general circulation in the county in which the Co-op has its principal office; and (ii) no written notice objecting to the proposed transfer is received by the Co-op from such person or from someone acting on behalf of such person prior to the date of the proposed transfer. A person who fails to make such claim or provide such notice of objection shall be deemed to have made a gift of such interest to the Co-op as of the effective date of such transfer.

Section 9.4 - **Loans prohibited.** The Co-op shall not make a loan to, or guarantee the obligation of, a director officer.

Section 9.5 - **Liquidation.** Upon liquidation and dissolution of the Co-op, its assets shall be distributed in the following manner and order: (i) by paying or making provision for payment of all liabilities and expenses of liquidation; (ii) by redeeming any deferred patronage dividends which, if they cannot be paid in full, shall be paid in the order of the oldest outstanding amounts and on a pro rata basis among all amounts for each fiscal year; (iii) by redeeming shares at their carrying value on the books of the Co-op which, if they cannot be paid in full, shall be paid on a pro rata basis among all outstanding amounts; and (iv) by distributing any remaining assets among current and former owners in proportion to their patronage during the five years immediately preceding the date of dissolution, or, if so determined by a vote of owners, to one or more cooperative or nonprofit organizations that may best further the purposes and mission of the Co-op.

Article X Interpretation and Amendment of Bylaws

Section 10.1 - **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 10.2 - **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 10.3 - **Amendment by the Board.** These bylaws may be adopted, amended, or repealed by the Board unless the action would: (i) materially and adversely affect the rights or obligations of owners as to voting, dissolution, transfer, patronage dividends, patronage, property rights, or rights to repayment of contributed capital; (ii) authorize a new class of owners; or (iii) effect any other action in violation of state law.

Section 10.4 - **Amendment by owners.** These bylaws may be amended or repealed at 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
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 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 dividends 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 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 owner's purchases from the Co-op related to "personal, living or family items." The patronage dividend 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.