

BYLAWS
OF
DURANGO NATURAL FOODS CO-OP

Article I
Organization

Section 1.1 - **Name and status.** The name of the organization is Durango Natural Foods Co-op (referred to in these bylaws as "the Co-op"). The Co-op is a cooperative corporation under the laws of the State of Colorado.

Section 1.2 - **Purpose.** As more fully stated in its amended and restated articles of incorporation, the purpose for which the Co-op is organized is to acquire and distribute food products and related goods and services. The Co-op shall be operated on a cooperative and nonprofit basis for the primary and mutual benefit of its owners as patrons of its goods and services.

Section 1.3 - **Cooperative principles.** The Co-op shall be operated in accordance with the cooperative principles adopted by the 1995 General Assembly of the International Co-operative Alliance, such principles being: (i) voluntary and open membership without arbitrary discrimination; (ii) democratic governance; (iii) economic participation by members; (iv) autonomy and independence of the Co-op; (v) providing education and training; (vi) cooperation with other cooperatives; and (vii) concern for community.

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

Article II
Ownership

Section 2.1 - **Eligibility.** Ownership in the Co-op shall be voluntary and open to any household or organization whose purpose is to purchase goods and services from the Co-op for its own use and who is willing to accept the responsibilities of ownership. In the event that any doubts arise 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 one share in each of five succeeding years at their issuing price of twenty dollars per share. Each household shall designate no more than two adult members of the household as its authorized representatives, and each organization shall designate a person associated with the organization as its authorized representative. 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 and responsibilities.** Except as otherwise provided in these bylaws, each authorized representative shall be entitled to participate in the governance of the Co-op as set forth in these bylaws and, together with other registered members of the household or organization, to make purchases from the Co-op on terms generally available to owners. Each owner shall keep current in payment of the share purchase requirement, shall patronize the Co-op on at least an occasional basis, and shall notify the Co-op of any change to the owner's name or address.

Section 2.4 - **Inactive status.** An owner who becomes delinquent by fifteen days in meeting the share purchase requirement, or who fails to patronize the Co-op for one year, shall be placed into inactive status. The participation rights of such owner shall then be suspended. An owner in inactive status may attain good standing only upon full payment of all arrearages or reestablishment of a patronage relationship with the Co-op. References in these bylaws to the rights and entitlements of owners shall be understood to refer only to owners in good standing.

Section 2.5 - **Access to information.** Owners shall be provided reasonably adequate and timely information as to the operational and financial affairs of the Co-op. An owner shall, upon request that is reasonable and made in good faith, be provided information concerning the operational and financial affairs of the Co-op that is necessitated by and directly related to a proper purpose and that describes with reasonable particularity the information sought, subject to such reasonable restrictions or conditions as is determined by the Board of directors to be necessary to protect confidential or sensitive information. Any proper request necessitating information from the Co-op's records of owners shall be accommodated by means other than direct access to such records.

Section 2.6 - **Settlement of disputes.** In any dispute between the Co-op and any of its owners or former owners which cannot be resolved through informal negotiation, it shall be the policy of the Co-op to prefer the use of mediation whereby an impartial mediator may facilitate negotiations between the parties and assist them in developing a mutually acceptable settlement. 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 2.7 - **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 2.8 - **Termination.** Ownership may be terminated voluntarily by an owner at any time upon notice to the Co-op. Ownership may be terminated

involuntarily by the Board for cause after the accused owner is provided fair notice of the charges and an opportunity to respond in person or in writing.

Upon termination of ownership, all rights and interests in the Co-op shall cease except for rights to redemption of capital pursuant to Articles VII and VIII of these bylaws.

Article III Meetings of Owners

Section 3.1 - **Annual meeting.** A regular annual meeting of owners shall be held each year to receive reports on the operations and finances of the Co-op, to elect directors, and to conduct such other business as may properly come before the meeting.

Section 3.2 - **Special meetings.** Special meetings of owners may be called by the Board and shall be called by the Board or the President within ninety days after the receipt of one or more petitions signed by at least ten percent of owners, such petitions stating any proper issue to be brought before the meeting.

Section 3.3 - **Time and place.** The date, time and place of all meetings of owners shall be determined by the Board or, in the event that the Board fails to so act, by the Secretary. Meetings shall be held at a place convenient to owners.

Section 3.4 - **Notice.** Written notice of the time, place, and purpose or purposes of all meetings of owners, together with ballots and the names of all candidates for director positions and/or the exact text of each issue for decision, shall be provided to each owner not less than fifteen nor more than forty-five days before the date of the meeting. 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.** Unless otherwise determined by the Board, only persons who are owners at the close of business on the day immediately preceding the date of distribution of notices shall be entitled to notice and to vote with respect to the subject of such notice. After record dates have been determined the Co-op shall prepare a list of the names and addresses of owners in good standing that shall be available at the meeting and for the ten days thereafter for the purpose of resolving any questions that may arise about the legitimacy of votes cast.

Section 3.6 - **Quorum.** The presence in person or by ballot at the opening of the meeting of thirty owners or five percent of owners, whichever is lesser, shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of owners. An action at meeting without a quorum may be validated only by subsequent ratification at a duly called and convened meeting of owners.

Section 3.7 - **Voting.** 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 or alternatives receiving the most votes shall be considered approved. Meetings of owners shall be conducted generally in accordance with commonly accepted rules of parliamentary procedure.

Section 3.8 - **Voting by written ballot.** All voting shall be by written ballots submitted at the meeting of owners or to the Co-op's store within ten days thereafter. Ballots shall be submitted in a sealed plain envelope inside another envelope bearing the owner's name and in conformity with instructions contained in the notice. Casting of a written ballot shall be equivalent to presence in person at a meeting, and ballots shall be counted together with votes cast at the meeting.

Section 3.9 - **Issues submitted by owners.** Notices of a scheduled meeting of owners shall include any proper issue submitted by one or more petitions of at least seven percent of owners. Petitions must be received by the Co-op not less than sixty days 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 business and affairs of the Co-op shall be managed under the direction and supervision of the Board of Directors (sometimes referred to in these bylaws as "the Board"). Such powers shall reside exclusively in the Board as a deliberative body; they may reside in individual directors only to the extent explicitly so delegated by the Board. The duties of the Board shall include, but not be limited to, overseeing the operations and finances of the Co-op, establishing policies to 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 not be in competition with the Co-op, nor be associated with interests adverse to the Co-op, nor have any overriding conflict of interest with the Co-op, nor otherwise be disposed to act in a manner that is detrimental to the interests of the Co-op or its owners. No employee or member of the immediate family of an employee shall be eligible to serve as a director. No more than one member of any household or any immediate family shall serve as a director at any one time.

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 sixty days before the date of the annual meeting. Directors shall be elected by owners. Periodically as may be necessary directors shall be elected for specific one-, two-, or three-year terms in order to assure that two or three terms expire in each year. At other times directors shall be elected for terms of three years. Candidates receiving the highest number of votes shall be given the longest available terms. Directors shall hold office until their successors are elected or until their offices are sooner terminated in accordance with these bylaws.

Section 4.4 - **Compensation.** In addition to any discounts on merchandise, 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 discharging their duties in good faith, in a manner that they reasonably believe to be in the best interests of the Co-op and with the care that an ordinarily prudent person in a like position would use under similar circumstances.

Section 4.6 - **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 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, officers, employees, or agents as required under Colorado law, and may indemnify such persons as permitted under Colorado 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 members not later than the next-scheduled meeting of members.

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. Such committees shall include at least one director. The appointment of any committee shall not relieve the Board of its responsibilities in the oversight of the Co-op.

Section 4.9 - **Resignation and removal.** 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 or placement into inactive status, subject to reinstatement upon timely reattainment of good standing; (iii) for failure to meet qualifications by vote of directors not subject to removal; and (iv) with or without cause by vote of owners, which vote, if for cause, may be initiated by petitions pursuant to sections 3.2 and 3.9 of these bylaws. Any removal for cause must be at a meeting called in part for the purpose, and the accused director must be accorded fair notice of the charges and an opportunity to respond in person or in writing. A director who is absent from two consecutive Board meetings or three meetings in any one-year period, unless excused by the Board for cause shown by the director, shall be presumed to have resigned.

Section 4.10 - **Vacancies.** Any vacancy among directors occurring between annual meetings may be filled by the Board until the next annual or special meeting of owners, at which time owners shall elect a director to

fill the unexpired term of the vacant director's position.

Article V
Meetings of the Board

Section 5.1 - **Meetings.** The Board of Directors may determine the times and places of its meetings. Special meetings may be called by the President and shall be called by the Secretary upon request of any three directors. Meetings of the Board shall be held no less frequently than once in each two-month period.

Section 5.2 - **Notice.** Meetings called by resolution of 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 three 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. Except as otherwise provided in these bylaws, decisions at meetings of the Board shall be made by majority voting. Meetings shall be conducted generally in accordance with commonly accepted rules of parliamentary procedure.

Section 5.5 - **Referendum.** Any action of potentially serious consequence taken by the Board shall be referred to a meeting of owners for approval or disapproval if demanded within ten days of such action by any three directors. Such meeting shall be called by the Secretary within twenty days of such demand.

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.

Section 5.7 - **Open meetings.** Meetings of the Board and all committees shall be open to owners, except that sessions of a meeting may be closed as to matters of a confidential or sensitive nature.

Article VI
Officers

Section 6.1 - **Designation and qualifications.** The principal officers

of the Co-op shall consist of President, Vice President, Secretary and Treasurer. The Board may designate other officers or assistant officers.

Section 6.2 - **Election, terms and removal.** Officers shall be elected by the Board at its first meeting following the annual meeting of owners. Officers shall serve for terms of one year or until election of their successors. Officers may be removed and replaced by the Board at any time whenever the best interests of the Co-op would thereby be served.

Section 6.3 - **Duties.** In addition to signing or attesting to formal documents on behalf of the Co-op as authorized by the Board, officers shall have the following duties and such additional duties as are determined by the Board:

(a) The President shall be responsible for 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 operations at the annual meeting of owners.

(b) The Vice President shall be responsible for performing the duties of the President in his or her absence or disability and assisting the President in the performance of his or her duties.

(c) The Secretary shall be responsible for the recording and keeping of adequate minutes of all meetings of the Board and of owners, overseeing the issuance of notices required under these bylaws, attending to the correspondence of the Board, and authenticating records of the Co-op.

(d) The Treasurer shall oversee the maintenance of financial records, issuance of financial reports and the filing of all required reports and returns, and shall present a financial report at the annual meeting of owners.

Article VII Capital Shares

Section 7.1 - **Issuance and terms.** To evidence capital funds provided by owners, the Co-op shall issue shares. Shares may be issued only to persons eligible for and admitted to ownership in the Co-op. Shares shall be issued only upon full payment of no less than their issuing price, such payment including amounts previously paid by lifetime members. Ownership of shares shall be evidenced in the books and records of the Co-op, and no certificates are required to be issued. The share purchase requirement shall be subject to increase for the reasonable capital needs of the Co-op. Shares shall be entitled to no dividend or interest on contributed capital, and may not be pledged as collateral for a loan.

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 it would render the Co-op unable to pay its debts as they become due in the usual course of business or cause the assets to be less than the liabilities. 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 determined at a meeting of owners.

Section 8.2 - **Reductions.** Net earnings may be reduced by such reasonable reserves for necessary business purposes as is determined by the Board. 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. A patronage dividend to which owners are entitled may be waived in whole or in part by vote of owners. Net earnings may not otherwise be reduced.

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 as determined by the Board. Such amounts shall be credited to revolving capital accounts in the names of recipient owners. They shall accrue no dividend or interest on equity capital, and may not be pledged as collateral for a loan. They may be redeemed at no more than their carrying value on the books of the Co-op 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. Deferred amounts may also be redeemed under compelling circumstances as determined by the Board. They shall be subject at all times to being offset by amounts otherwise due and payable to the Co-op.

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 - **Disposition of unclaimed funds.** Any funds held in the name of an owner, including stock and patronage dividends, which have been made payable by the Co-op and have remained unclaimed by the owner for three years shall be forfeited to the Co-op thirty days after notification of such proposed forfeiture has been mailed to the owner's last-known address of record on the books of the Co-op and such funds have not been claimed.

Section 9.4 - **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 deferred patronage dividends, if any, 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, with or without advice of legal counsel, 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.** These bylaws may be amended or repealed only 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.