Appendix H: Sample Sections of a Co-Op's Articles and Bylaws, Based on Minnesota Law

The bylaws of the corporation state how the corporation will operate, how meetings will be held, how many directors will serve on the board, the structure of membership meetings, and other rules of the corporation. The bylaws are the basic blueprint for how the co-op will operate, and the place where the members of the co-op really define for themselves the institution they are creating. The bylaws generally can be amended by a majority vote of the membership, but given **fundamental elements of an employee cooperative** the importance of the document and the elements it contains, many co-ops set the standard for changing the bylaws much higher, at 75 percent or more.

Amendment procedures are outlined in the bylaws. Board members, in particular, should be familiar with the bylaws, which should be reviewed on an annual basis.

The following are sample sections of a co-op's bylaws:

Article I Name and Location of Corporation
Article II Purpose and Powers
Article III Membership and Membership Shares
Article IV Internal Capital Accounts
Article V Member Meetings Article
VI Directors Article
VII Officers Article
VIII Committees Article
IX Financial Regulations Article
X Seal Article
XI Waiver of Notice Article
XII Repeal or Amendment of Bylaws Article
XIII Dissolution and Property Interests of Members Cooperative bylaws spell out the particulars of cooperative functioning.

Bylaws should do the following:

- **Set voting rights.**
- **Allocate power between the general membership and the board of directors.**
- **Provide details of the cooperative's operations.**
- **Provide guidelines for amending the bylaws.**
- **Define membership, including who is eligible and how much shares will cost.**
- **Set forth the relationship between the individual member and the corporation.**
- **Set forth the distribution of capital account funds at termination from the cooperative and at dissolution of the cooperative.**
- **Provide for the establishment of operating rules, which may be more fluid and easier to change than the text of the bylaws.**

In addition to worker co-ops, employee stock ownership plans (ESOPs) are a common shared ownership strategy. Worker-owned companies can also create their own brand of employee ownership through a conventional vehicle, such as a partnership or limited liability company. A relatively new innovation in cooperative law is the formation of cooperatives that allow for membership based on invested assets, in addition to traditional patron members. In Minnesota, the relevant statute is 308b, so these kinds of co-ops are sometimes called 308b co-ops.

Template for c-op bylaws: institute.coop/resources/sample-worker-cooperative-bylaws

Sample Bylaws from Democracy at Work Institute

BYLAWS OF:

_____ COOPERATIVE, INCORPORATED

ARTICLE I: PURPOSES

The corporation shall be organized and shall conduct its business primarily for the mutual benefit of its members as patrons of the corporation. The earnings, savings, or benefits of the corporation shall be used for the general welfare of the members or shall be proportionately and equitably distributed to its members as patrons, based upon their patronage of the corporation.

The corporation is democratically controlled and is not organized to make a profit for itself, as such, but primarily for its members as patrons.

ARTICLE II: DEFINITIONS

A. Mailing means first-class mail, postage prepaid.

B. The time a notice is given or sent means, unless otherwise expressly provided, (1) the time a written notice by mail is deposited in the United States mails, postage prepaid; (2) the time any other written notice is personally delivered to the recipient, delivered to a common carrier for transmission to the recipient, or actually transmitted by electronic means to the recipient; or (3) the time any oral notice is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

C. Electronic transmission by the corporation means a communication (1) delivered by means of electronic communication, (2) to a recipient who has provided an unrevoked consent to the use of those means of transmission for communications, (3) that creates a record that is capable of retention, retrieval, and review, and that may thereafter be rendered into clearly legible tangible form, and (4) satisfies the requirements applicable to consumer consent to electronic records as set forth in the Electronic Signatures in Global and National Commerce Act (15 U.S.C. Sec.7001(c)(1)).

D. Electronic transmission to the corporation means a communication (1) delivered by means of electronic communication, (2) as to which the corporation has placed in effect reasonable measures to verify that the sender is the person purporting to send the transmission, and (3) that creates a record that is capable of retention, retrieval, and review, and that may thereafter be rendered into clearly legible tangible form.

E. A membership refers to the rights a member has pursuant to the corporation's articles, bylaws, and the law. Memberships may be issued by the corporation for such consideration as is determined by the board.

ARTICLE III: MEMBERS

A. Classification of Members

The corporation shall have one (1) class of members.

B. Membership Qualifications

A natural person may become a member of this corporation by:

- **Being a resident of California;**
- **Making payment of the initial capital contribution as prescribed by the board of directors;**
- **Working twelve months for the corporation (the "Candidacy Period");**
- **Being voted in, as set forth in Section III(C), by the existing members following the Candidacy Period; and**
- **Receiving a copy of the corporation's Disclosure Statement, Bylaws, and a receipt.**

C. Acceptance of Members

The members shall decide by the modified consensus process described in Article VII whether to accept an application for membership. If an application is not accepted, the applicant's employment shall be immediately terminated, unless the members, by the modified consensus process, choose to specify a further Candidacy Period to be followed by a second decision by the members whether to accept the application. Upon acceptance of an application, the applicant shall immediately become a member.

In the case of an application by a former member, the corporation may waive the Candidacy Period and accept back the former member immediately by the affirmative vote of all the members.

D. Member Resignation

A member shall have the right to resign as a member of the corporation by filing with the secretary of the corporation a written notice of resignation. The resignation shall become effective immediately without any action on the part of the corporation. An individual will not be allowed to work for the corporation for one month following voluntary termination of membership unless her or his membership is reinstated by the corporation. Resignation shall not relieve the resigning member from any obligation for charges incurred, dues, assessments, or fees, and this section shall not diminish any right of the corporation to enforce any such obligation or obtain damages for its breach.

E. Removal of Members

No member may be expelled or suspended, and no membership or memberships may be terminated or suspended, except according to procedures satisfying the requirements of this section.

A member may for any lawful reason be expelled from the corporation by a vote of seventy-five percent (75%) or greater of the members at a duly called meeting at which a quorum is present.

The member must be given 15 days' prior notice of the expulsion, suspension, or termination and the reasons therefor and the member shall have an opportunity to be heard, orally or in writing, not less than five days before the effective date of the expulsion, suspension, or termination by a person or body authorized to decide that the proposed expulsion, termination, or suspension not take place.

Any notice required under this section 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 address of the members shown on the corporation's records.

A member who is expelled or suspended or whose membership is terminated shall be liable for any charges incurred, dues, assessments, or fees incurred before expulsion, suspension, or termination or arising from contract or otherwise.

The corporation may direct a member whose expulsion is being considered to refrain from conducting business as a member until the expulsion decision is made, provided the corporation pays the member her or his average weekly wage – calculated based on the three months preceding the date of the notice given pursuant to this section – until the expulsion decision is made. The corporation may also direct a member whose expulsion is being considered to stay away from the corporation's places of business except as necessary to exercise her or his rights under law.

ARTICLE IV: MEMBER MEETINGS

A. Distinction between Membership and Board Meetings

All members of the corporation shall serve on the board of directors and no person other than the members of the corporation shall serve on the board of directors. Any meeting of the members at which attendees neglect to specify whether they are meeting as members or as directors shall be considered a board meeting. All corporate decisions shall be made by the board of directors, except that the following acts require voting as members:

- **Acceptance of members;**
- **Election of directors; and**
- **Bylaw changes that would· 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;**
- **Increase or decrease the number of members authorized in total or for any class;**
- **Effect an exchange, reclassification, or cancellation of all or part of the corporation's memberships;**
- **Authorize a new class of membership;**
- **Specify or change the maximum or minimum number of directors or change from a variable number of board members to a fixed number;**
- **Increase the terms of directors; and**
- **Increase quorum for meetings.**

Meetings of the members in their capacity as members shall be governed by this Article IV. Meetings of the members in their capacity as the board of directors shall be governed by Article V.

B. Member Voting

The voting power of the members shall be equal.

Whenever members are disqualified from voting on any matter, they shall not be counted for the determination of a quorum or the required vote to approve an action.

There shall be no voting by proxy.

There shall be no cumulative voting.

Unless otherwise specified, all votes shall be conducted using the procedures in Article VII.

C. Annual Meeting

An annual meeting of members shall be held on the first Thursday in November at 11:00 a.m. at the principal office of the corporation. If the day fixed for the annual meeting falls on a legal holiday, the meeting shall be held at the same time and place on the following business day.

In the event that elections are required due to any change in the provision that the directors shall be the members, board elections shall be held at the annual meeting; in the absence of such change, the members shall vote to set the number of directors as equal to the number of members and elect all of the members to the board at each annual meeting (unless there are fewer than three members in which case the members shall elect the number of non-member directors required to bring the number of directors to three). Any other proper business may be transacted at the meeting.

D. Special Meetings

Special meetings of members for any lawful purpose may be called by the board, the president, or by 5 percent or more of the members. The procedure for calling a special meeting shall be as follows: (1) when the board, the president, or 5 percent or more of the members decide to call a special meeting, he/she/they shall submit a request in writing to the corporation addressed to the attention of the president or secretary and (2) the officer that receives the request, within 20 days after receipt, 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 not less than 35 nor more than 90 days after the receipt of the request.

E. Participation by Electronic Transmission

If authorized by the board of directors in its sole discretion, and subject to the consent of any members so participating, members not physically present in person at a meeting of members may, by electronic transmission by and to the corporation or by electronic video screen communication, participate in a meeting, be deemed present in person, and vote at a meeting of members, provided that the corporation implements 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 those proceedings, and a record of any vote or action of any members participating by electronic transmission is maintained by the corporation.

Any request by the corporation to a member for consent to conduct a meeting of members by electronic transmission by and to the corporation shall include a notice that absent consent of the member, the meeting shall be held at a physical location.

F. Notice

Whenever the members are required to take any action at a meeting, a written notice of the meeting shall be given not less than 10 nor more than 90 days before the date of the meeting to each member who, on the record date for notice of the meeting, is entitled to vote thereat; provided, however, that if notice is given by mail, and the notice is not mailed by first-class, registered, or certified mail, that notice shall be given not less than 20 days before the meeting.

The notice shall state the place, date, and time of the meeting, the means of electronic transmission by and to the corporation or electronic video screen communication, if any, by which members may participate in that meeting, and (1) in the case of a special meeting, the general nature of the business to be transacted, and no other business may be transacted, or (2) in the case of the regular meeting, those matters which the board, at the time the notice is given, intends to present for action by the members. The notice of any meeting at which directors are to be elected shall include the names of all those who are nominees at the time the notice is given to members.

Notwithstanding the foregoing, any of the following decisions, other than by unanimous approval by those entitled to vote, shall be valid only if the general nature of the proposal was stated in the notice of meeting or in any written waiver of notice:

- **Removal of directors;**
- **Election of a director to fill a vacancy;**
- **Approval of a contract or other transaction between the corporation and one or more of its directors, or between a corporation and any corporation, firm, or association in which one or more of its directors has a material financial interest or is a director;**
- **Amendment of the articles of incorporation; and**
- **Approval of a plan of distribution upon winding up of the corporation.**

Notice of a members' meeting or any report shall be given personally, by electronic transmission by the corporation, or by mail or other means of written communication, addressed to a member at the address of such member appearing on the books of the corporation or given by the member to the corporation for purpose of notice; or if no such address appears or is given, at the place where the principal office of the

corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal office is located.

If any notice or report addressed to the member at the address of such member appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate the United States Postal Service 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 for the member upon written demand of the member at the principal office of the corporation for a period of one year from the date of the giving of the notice or report to all other members.

Notice shall not be given by electronic transmission by the corporation under this section after either of the following:

- **The corporation is unable to deliver two consecutive notices to the member by that means**
- **The inability to so deliver notices to the member becomes known to the secretary, any assistant secretary, or other person responsible for the giving of notice.**

G. Waiver of Notice

The transactions of any meeting of members however called and noticed, and wherever held, are as valid as 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 of the persons 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 such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance of a person at a meeting shall constitute a waiver of notice of and presence at such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that 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 so included, if such objection is expressly made at the meeting.

Neither the business to be transacted at nor the purpose of any regular or special meeting of members need be specified in any written waiver of notice, consent to the holding of the meeting, or approval of the minutes thereof.

H. Adjourned Meetings

When a members' meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof (or the means of electronic transmission by and to the corporation or electronic video screen communication, if any, by which members may participate) are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each member of record entitled to vote at the meeting.

I. Written Ballot

Prior to any regular or special meeting of members, the board may authorize distribution of a written ballot to every member entitled to vote at the meeting. Such ballot shall set forth the action proposed to be taken at the meeting, shall provide an opportunity to specify approval or disapproval of the proposed action, and shall state that unless revoked by the member voting in person at the meeting, the ballot will be counted if received by the corporation on or before the time of the meeting with respect to which it was sent. If ballots are so distributed with respect to a meeting, the number of members voting at the meeting by unrevoked written ballots shall be deemed present at the meeting for purposes of determining the existence of a quorum but only with respect to the proposed action referred to in the ballots.

Written ballots may be distributed for the election of directors.

J. Quorum

A majority of the members shall constitute a quorum at a meeting of members. If a quorum is present, the affirmative vote of the majority of the members entitled to vote shall be the act of the members unless the vote of a greater number is required by the articles or bylaws.

The 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 any action taken (other than adjournment) is approved by at least a majority of the members required to constitute a quorum or, if required by the articles or the bylaws, the vote of the greater number so required.

In the absence of a quorum, any meeting of members may be adjourned from time to time by the vote of a majority of the votes represented in person, but no other business may be transacted, except as provided in the preceding paragraph.

K. Action Without a Meeting

Any action which may be taken at any regular or special meeting of members may be taken without a meeting if the corporation distributes a written ballot to every member entitled to vote on the matter. That ballot and any related material may be sent by electronic transmission by the corporation and responses may be returned to the corporation by electronic transmission to the corporation. That ballot 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 corporation.

Approval by written ballot pursuant to this section 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.

All such ballots shall indicate the number of responses needed to meet the quorum requirement and, with respect to ballots other than for the election of directors, shall state the percentage of approvals necessary to pass the measure submitted. The solicitation must specify the time by which the ballot must be received in order to be counted.

Directors may be elected by written ballot under this section.

The secretary shall cause a vote to be taken by written ballot upon any action or recommendation proposed in writing by 20 percent of the members of the corporation.

L. Record Date

The board may fix, in advance, a date as the record date for the purpose of determining the members entitled to notice of any meeting of members. Such record date shall not be more than 60 nor less than 10 days before the date of the meeting. If no record date is fixed, members at the close of business on the business day preceding the day on which notice is given or, if notice is waived, at the close of business on the business day preceding the day on which the meeting is held are entitled to notice of a meeting of members. A determination of members entitled to notice of a meeting of members shall apply to any adjournment of the meeting unless the board fixes a new record date for the adjourned meeting.

The board may fix, in advance, a date as the record date for the purpose of determining the members entitled to vote at a meeting of members. Such record date shall not be more than 60 days before the date of the meeting. Such record date shall also apply in the case of an adjournment of the meeting unless the

board fixes a new record date for the adjourned meeting. If no record date is fixed, members on the day of the meeting who are otherwise eligible to vote are entitled to vote at the meeting of members or, in the case of an adjourned meeting, members on the day of the adjourned meeting who are otherwise eligible to vote are entitled to vote at the adjourned meeting of members.

ARTICLE V: DIRECTORS

A. Directors and Board Composition

All members of the corporation shall serve on the board of directors and no person other than the members of the corporation shall serve on the board of directors (except as provided in the following paragraph).

The number of directors shall be not less than three or more than forty with the exact number of directors to be fixed, within the limits specified, by a vote of the members. If there are fewer than three members, the member(s) shall elect the minimum required number of directors to bring the total number of directors to three.

Should the number of members ever exceed forty, the members shall immediately meet to amend the bylaws to require that the board be elected from among the members.

Meetings of the members in their capacity as the board of directors shall be governed by this Article V. Meetings of the members in their capacity as members shall be governed by Article IV.

B. Terms of Office

The term of office of the directors shall be one year.

Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

Notwithstanding the foregoing, a person whose membership is terminated shall immediately cease to be a director of the corporation.

C. Voting

The vote of a majority of the directors present at a duly called and noticed meeting at which a quorum is present is the act of the board. [NEED TO MAKE THIS CONSISTENT WITH ART VII]

D. Notice of Board Meetings

Regular meetings will be held the first Thursday of every month at 11:00 a.m. at the principal office of the corporation. 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 next business day.

Special meetings of the board shall be held upon four days' notice by first-class mail or 48 hours' notice delivered personally, by telephone, including a voice messaging system, or by electronic transmission by the corporation. A notice, or waiver of notice, need not specify the purpose of any regular or special meeting of the board.

E. Waiver of Notice

Notice of a meeting 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 thereto or at its commencement, the lack of notice to that director.

All waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meetings.

F. Participation by Electronic Transmission

Members of the board may participate in a meeting through use of conference telephone, electronic video screen communication, or electronic transmission by and to the corporation. Participation in a meeting through use of conference telephone or electronic video screen communication pursuant to this section constitutes presence in person at that meeting as long as all members participating in the meeting are able to hear one another.

Participation in a meeting through use of electronic transmission by and to the corporation, other than conference telephone and electronic video screen communication pursuant to this subdivision constitutes presence in person at that meeting if both of the following apply:

1. Each director participating in the meeting can communicate with all of the other members concurrently; and
2. Each director is provided the means of participating in all matters before the board, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the corporation.

G. Quorum

A majority of the number of directors then in office constitutes a quorum of the board for the transaction of business.

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 as is required by the articles or bylaws.

H. Adjournment

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

I. Action Without a Meeting

Any action required or permitted to be taken by the board may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the board.

The action by written consent shall have the same force and effect as a unanimous vote of the directors.

J. Board Vacancies

Given that all members constitute the board, vacancies will not occur on the board. Therefore, this section applies only if the provision requiring that all members constitute the board is amended to provide for election of directors (or if there are fewer than three members).

"Vacancy" when used with respect to the board means any authorized position of director which is not then filled, whether the vacancy is caused by death, resignation, removal, change in the number of directors authorized in the articles or bylaws, or otherwise.

The board may declare vacant the office of a director whose eligibility for election as a director has ceased, or who has been declared of unsound mind by a final order of court, or convicted of a felony.

Except for a vacancy created by the removal of a director, vacancies on the board may be filled by approval of the board or, if the number of directors then in office is less than a quorum, by (1) the unanimous written consent of the directors then in office, (2) the affirmative vote of a majority of the directors then in office at a meeting held pursuant to notice or waivers of notice, or (3) a sole remaining director.

Vacancies occurring on the board by reason of the removal of directors may be filled only by the members.

The members may elect a director at any time to fill any vacancy not filled by the directors.

K. Resignation

So long as all members constitute the board, the only way that a director may resign is by ceasing to be a member (or if there are fewer than three members). Should the provision by which all members constitute the board be amended, any director may resign effective upon giving written notice to the president, the secretary, or the board of directors of the corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

L. Removal

So long as all members constitute the board, directors may not be removed except if they cease to be members. Should the provision by which all members constitute the board be amended, any or all directors may be removed without cause by the members.

Any reduction of the authorized number of directors does not remove any director prior to the expiration of the director's term of office.

ARTICLE VI: COMMITTEES

The board may, by resolution adopted by a majority of the number of directors then in office, provided that a quorum is present, create one or more committees, each consisting of two or more directors, to serve at the pleasure of the board. Appointments to such committees shall be by a majority vote of the directors then in office. The board may appoint one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board or in the bylaws, shall have all the authority of the board, except with respect to:

1. The approval of any action for which approval of the members is required;
2. The filling of vacancies on the board or in any committee which 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 which by its express terms is not so amendable or repealable;
6. The appointment of committees of the board or the members thereof; and
7. The expenditure of corporate funds to support a nominee for director after there are more people nominated for director than can be elected.

ARTICLE VII: PROCESS OF DECISION MAKING FOR ALL MEETINGS

Matters will be discussed with the goal of seeking decision-making by consensus. If it becomes apparent that consensus cannot be reached on any matter, the members will vote on whether the issue should be tabled for future discussion and decision. If a decision cannot be made by consensus, the members shall vote on the matter, with a three-fourths vote required to carry any decision, except as otherwise provided in these bylaws.

ARTICLE VIII: OFFICERS

A. Offices

The corporation shall have a president, a secretary, a chief financial officer, and such other officers with such titles and duties as shall be determined by the board.

B. Qualifications

Any number of offices may be held by the same person.

The officers of the corporation shall be elected from among the board members.

C. Election of Officers

The officers shall be elected by the board for one year terms at the annual meeting by written ballot. The candidate receiving the highest number of votes for an office shall be elected.

Officers may be removed by a vote of the board.

D. Resignation

Any officer may resign at any time upon written notice to the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

E. Vacancy

A vacancy in any office resulting from an officer's death, resignation, removal, or disqualification, or from any other cause, will be filled by the board.

F. Duties of President

The president shall preside at board and membership meetings and will exercise and perform such other powers and duties as may be assigned from time to time by the board of directors.

G. Duties of Secretary

The secretary will keep, or cause to be kept, at the principal executive office or such other place as designated by the board of directors, a book of minutes of all meetings and actions of the members, of the board of directors, and of committees of the board.

The secretary will keep, or cause to be kept, at the principal executive office, the records of the corporation required to be kept as described in Article XII.

The secretary will give notice, or cause notice to be given, of all members' meetings, board meetings, and meetings of committees of the board for which notice is required by statute or by the bylaws. If the secretary or other person authorized by the secretary to give notice fails to act, notice of any meeting may be given by any other officer of the corporation.

The secretary will have such other powers and perform other duties as prescribed by the board of directors or by the bylaws.

H. Duties of Chief Financial Officer

The chief financial officer will keep, or cause to be kept, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares.

The chief financial officer will (1) deposit corporate funds and other valuables in the corporation's name and to its credit with depositaries designated by the board of directors; (2) make disbursements of corporate funds as authorized by the board; (3) render a statement of the corporation's financial condition and an account of all transactions conducted as chief financial officer whenever requested by the president or the board of directors; and (4) have other powers and perform other duties as prescribed by the board of directors or the bylaws.

The chief financial officer will be deemed to be the treasurer for purposes of giving any reports or executing any certificates or other documents.

ARTICLE IX: ALLOCATIONS AND DISTRIBUTIONS

A. Fiscal Year

The fiscal year of the corporation shall end on the last day of December of each year.

B. Definitions

"Surplus" shall be defined as the excess of revenues over Expenses for a fiscal year attributable to member labor.

"Profit" shall be defined as the excess of revenues over Expenses for a fiscal year attributable to non-member labor.

"Loss" shall be defined as the excess of Expenses over revenues for a fiscal year.

Surplus, Profit, and Loss shall be determined on a tax basis. Surplus and Profit shall not include cash contributions by members to capital.

"Expenses" shall include Distributions paid pursuant to Section IX(K), payments of any interest and principal on any debts of the corporation, and reasonable reserves as determined by the board of directors.

The "Collective Account" shall be Surplus, Profit, and reserves that are retained in the corporation and not distributed to members.

"Patronage" shall be defined as hours worked by each member for the corporation.

"Patronage Dividends" shall have the definition contained in Internal Revenue Code Section 1388(a) (dividends paid to members based on Patronage).

"Member Account" shall be defined as each member's capital account in the corporation (initial capital contribution plus written notices of allocation minus Distributions minus Losses plus/minus any other item that affects the balance in the member's capital account).

"Distribution" means the distribution of dividends, but does not include Patronage Dividends.

C. Allocations

Any Profit shall be credited to the Collective Account.

Any Surplus shall be credited to the Collective Account as necessary to bring the year's contribution to the Collective Account up to twenty-five percent (25%) of the year's combined Profit/Surplus. All other Surplus shall be paid as Patronage Dividends in direct proportion to Patronage during the fiscal year.

Any Loss shall be allocated seventy-five percent (75%) to Member Accounts in direct proportion to Patronage during the fiscal year and twenty-five (25%) to the Collective Account, with the exception of Losses occurring and/or carried over from the corporation's first two fiscal years which shall be allocated 100% to the Collective Account.

The percentages referred to in this section can be changed for a coming fiscal year by the board.

D. Patronage Dividends

Patronage Dividends shall be made fifty percent (50%) in cash and fifty percent (50%) to each individual Member Account as a written notice of allocation, unless different proportions are approved by the board within eight-and-a-half months of the fiscal year's close – however, at least twenty percent (20%) must be distributed in cash.

Patronage Dividends may be by qualified or non-qualified written notices of allocation or a combination of the two.

E. Member's Covenant to Declare Income for Tax Purposes

Each member shall take into account on his or her income tax return the amount of any Patronage Dividends which are made in qualified written notices of allocation (as defined in 26 U.S.C. Section 1388) at their stated dollar amounts in the manner provided in 26 U.S.C. Section 1385(a) in the taxable year in which such written notices of allocation are received by the member.

F. Payment Rights Regarding Member Accounts

When a member's membership in the corporation is terminated for any reason, the amount in her or his Member Account will automatically be redeemed in exchange for debt. The corporation shall repay the debt within five years of the membership termination, with interest accruing at the discount rate – as set by the Federal Reserve Bank of San Francisco – plus two percent (2%), on the amount outstanding at the end of each fiscal year.

The corporation, in settling a Member Account, shall have the right to set off any and all indebtedness of the former member to the corporation.

G. Periodic Redemption of Member Accounts

The corporation shall aim to pay out in cash to the members all funds credited to their Member Accounts within three (3) years of the date they were first credited. As a general rule, written notices of allocation credited to Member Accounts (including notices now converted to debt) will be paid out in the order

in which they are credited, with the oldest paid out first; however, the board can decide to accelerate the repayment of debt owed to former members on a case by case basis. If the corporation does not have sufficient funds to pay out all funds credited to Member Accounts for a given fiscal year, then funds will be paid out in proportion to the balance in the Member Accounts.

H. Unclaimed Equity Interests

Any proprietary interest in the corporation held by a member that would otherwise escheat to the State of California as unclaimed personal property shall instead become the property of the corporation if the corporation gives at least 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 corporation's records, and (2) by publication in a newspaper of general circulation in the county in which the corporation has its principal office. No property or funds shall become the property of the corporation under this section if written notice objecting to the transfer is received by the corporation from the affected member prior to the date of the proposed transfer.

I. Dissolution Distributions

Upon liquidation, dissolution, or sale of the assets of the corporation, any assets left after payment of all debts and Member Account balances shall be distributed to all persons who were members, or to their heirs, in proportion to such members' relative paid labor with the corporation. No distribution need be made to any person who fails to acknowledge the receipt of notice of liquidation in a timely manner. Said notice shall be deemed sufficient if sent by certified mail, at least 30 days before distribution of any residual assets, to the person's last known business or residence address.

J. Maintaining Equitable Membership Contributions

In order to insure that membership in the corporation may remain accessible for persons of modest means, the corporation will not raise its initial member capital contribution at a rate greater than the growth of the Consumer Price Index for the San Francisco Bay Area as defined by the Department of Labor. Notwithstanding the foregoing, this provision may be modified as necessary to comply with applicable federal and state tax requirements.

K. Distributions on Member Accounts

Five months following the end of each fiscal year, Distributions shall be paid to each member on the balance in her or his Member Account in excess of his or her original capital contribution. The Distribution may be paid in cash or as an additional credit to the member's Member Account; it will be paid as a credit unless the board decides otherwise prior to the end of the fifth month following the end of the fiscal year. The Distribution shall be the calculated as follows: the balance in the Member Account

in excess of the original capital contribution shall be multiplied by the discount rate as set by the Federal Reserve Bank of San Francisco. Distributions in any fiscal year shall not exceed 15 percent, multiplied by contributions (whether by membership fees, capital credits, or otherwise) to capital.

ARTICLE X: CHECKS AND CONTRACTS

A. Authorized Signatories for Checks

All checks, drafts, other orders for payment of money, notes, or other evidences of indebtedness issued in the name of or payable to the corporation will be signed or endorsed by the person or persons in the manner authorized from time to time by resolution of the board of directors.

B. Executing Corporate Contracts and Instruments

The board of directors by resolution may authorize any officer, officers, agent, or agents to enter into any contract or to execute any instrument in the name of and on behalf of the corporation. This authority may be general or it may be confined to one or more specific matters. No officer, agent, employee, or other person purporting to act on behalf of the corporation will have any power or authority to bind the corporation in any way, to pledge the corporation's credit, or to render the corporation liable for any purpose or in any amount, unless that person was acting with authority granted by the board of directors as provided in these bylaws, or unless an unauthorized act was later ratified by the corporation.

ARTICLE XI: TRANSFER OF MEMBERSHIPS

No member may transfer her or his membership or any right arising therefrom. Any attempted assignment or transfer shall be wholly void and shall confer no rights on the intended assignee or transferee. All rights as a member of the corporation cease upon the member's death.

ARTICLE XII: RECORDS

A. Records Required to Be Kept

The corporation shall keep at its principal office:

- **the original or a copy of its articles and bylaws as amended to date;**
- **adequate and correct books and records of account;**
- **minutes of the proceedings of its members, board, and committees of the board; and**
- **a record of its members giving their names and addresses.**

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.

B. Inspection Rights

The corporation's bylaws and articles shall be open to inspection by the members at all reasonable times during office hours.

Any such inspection may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts.

The accounting books and records and minutes of proceedings of the members and the board and committees of the board shall be open to inspection upon the written demand on the corporation of any member at any reasonable time, for a purpose reasonably related to such 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 corporation.

C. Annual Report

So long as the corporation does not have more than 25 members at any time during the fiscal year, it shall not be required to prepare an annual report.

ARTICLE XIII: INDEMNIFICATION

The corporation shall have power to indemnify its officers, directors, employees, and agents to the fullest extent permitted by law.

ARTICLE XIV: BYLAW AMENDMENT

Bylaws may be adopted, amended, or repealed by approval of 75% of the members.