

COMMON GROUND FOOD CO-OP BYLAWS

ARTICLE I - ORGANIZATION

Section 1.1 - Name. The name of the organization is Common Ground Food Co-op (referred to in these bylaws as "the Co-op").

Section 1.2 - Principal office. The principal office of the Co-op shall be located Lincoln Square Village, 300 S Broadway Suite 166, Urbana, IL 61801.

Section 1.3 - Fiscal year. The fiscal year of the Co-op shall commence on the first day of January.

ARTICLE II - OWNERSHIP

Section 2.1 - Eligibility and admission. Ownership in the Co-op shall be voluntary and open to any individual whose purpose is to patronize the Co-op and who is willing to accept the responsibilities of ownership. Applicants will be admitted to ownership upon submitting required information and purchasing or subscribing to purchase not less than three-fifths of a share nor more than five shares at their par value of one hundred dollars per share. 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. 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 of Directors.

Section 2.2 - Rights. Each owner shall be entitled to make purchases from the Co-op on terms generally available to owners and to receive a copy of these bylaws. Each owner shall be entitled to participate in the governance of the Co-op as set forth in these bylaws. Rights of owners shall be personal rights and not property rights. Owners may contribute labor or services and thereby be entitled to receive discounts as determined by the Board. Except as otherwise required under these bylaws, subscribers shall be considered owners.

Section 2.3 - Responsibilities. Each owner shall keep reasonably current in payment of the share purchase requirement described in Section 2.1 above and shall patronize the co-op no less frequently than on an annual basis. Subscriptions for shares shall be paid for within one year and in default thereof amounts paid thereon shall be forfeited to the Co-op. An owner who fails to meet such responsibilities shall be placed into inactive status. His or her participation rights shall then be suspended. An owner in inactive status may attain good standing by recommencing current payment of financial obligations or reestablishing a patronage relationship with the Co-op. References herein to the rights and entitlements of owners shall be understood to refer only to owners in good standing.

Section 2.4 - Access to information. 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 2.5 - 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. No 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 2.6 - Nontransferability. Ownership rights and interests, including shares and patronage credits, may not be sold, assigned, or otherwise transferred. Following termination of ownership, or at any time as to shares held in excess of the minimum amount, 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 gratuitous and that the person so designated is an owner 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 2.7 - Termination. Ownership may be terminated voluntarily by an owner at any time upon notice to the Co-op. Ownership may be terminated involuntarily only for cause by the Board after the 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 Article VII & VIII of these bylaws.

ARTICLE III - MEETINGS OF OWNERS

Section 3.1 - Annual Meeting. An annual meeting of owners shall be held within one hundred twenty days after the close of each 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 practicable after the receipt of petitions signed by not less than 10% of the owners, such petitions stating any proper business 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 a meeting of owners shall be delivered by mail or by electronic means not less than fifteen nor more than forty-five days before the date of the meeting. Any business conducted at a meeting of owners 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.

Section 3.6 - Quorum. The presence in person or by ballot at the opening of the meeting of 3% of owners shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of owners.

Section 3.7 - Voting by written ballot. Owners may 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 be submitted in a manner that reasonably secures the privacy of owners and the integrity of the voting process. Written ballots shall be used only in connection with a meeting of owners. Written ballots shall be read at the meeting.

Section 3.8 - Issues Submitted by Owners. Notices of a meeting of owners shall include any proper issues submitted by petition of at least 5% of the 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 - Number, Eligibility. The Co-op shall have a board of directors of 9 members, each of whom shall be an owner of the Co-op. No person shall be eligible for nomination, election or appointment as a

director if that person has an overriding conflict of interest. No director shall be a relative of the Co-op General Manager. For the purposes of eligibility, relatives are defined to include spouses, parents, children, brothers, sisters, brothers- and sisters-in-law, fathers- and mothers-in-law, stepparents, stepbrothers, stepsisters, and stepchildren. No director shall reside with or date the General Manager.

Section 4.2 - Nominations. The Board of Directors may establish a nominations committee to solicit and screen applications for nomination to the Board of Directors. Owners not selected by the nominating committee shall be placed on the ballot upon submitting a petition signed by 10 owners.

Section 4.3 - Election and Terms. Annually, at a meeting of the owners of this Co-op, directors shall be elected for staggered terms. Terms shall be 3 years. All directors shall be elected by secret ballot, and the nominee(s) receiving the greatest number of votes shall be elected. In the event of a tie the winner shall be determined by drawing lots.

Section 4.4 - Conflicts of Interest. Directors are under affirmative obligation to disclose any actual, potential or perceived conflicts of interest. The remaining directors by majority vote shall determine what action if any to take. Directors with conflicts of interests may not participate in the discussion or decision in matters related to the conflict.

Section 4.5 - Termination and suspension. 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) for cause at a meeting of owners, provided the accused director is accorded fair notice of the charges and an opportunity to respond in person or in writing. A director may be suspended by the board for cause until the next scheduled meeting of owners, provided the accused director is accorded fair notice of the charges and an opportunity to respond in person or in writing. A director who fails to attend three meetings of the board within a one-year period shall, unless excused by the board for good cause, will be presumed to have resigned.

Section 4.6 - Vacancies. Any vacancy among directors may be filled by appointment by the Board. A director so appointed shall serve until the next meeting of owners, at which time the owners shall elect a director to complete the pertinent term.

ARTICLE V - MEETINGS OF THE BOARD

Section 5.1 - Meetings. Regular meetings of the Board of Directors shall be held at least monthly at such times and places as the board may determine. The Board of Directors shall meet within thirty days after an election of at least one Director.

Section 5.2 - Special Meetings. A special meeting of the Board of Directors shall be held whenever called by the president, the board or by the secretary upon the request of at least three directors.

Section 5.3 - 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 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 5.4 - Quorum. A simple majority of the Board of Directors shall constitute a quorum at any meeting of the board.

Section 5.5 - Action without a meeting. Decisions of the Board of Directors may be made without a meeting if a consent in writing, stating the action to be taken, is signed by all directors and filed with the minutes.

ARTICLE VI - OFFICERS

Section 6.1 - Election, terms and removal. At the first meeting following an election for at least one Director, the Board of Directors shall elect a President and Vice President from among the directors, and may, in their discretion, combine the office of Secretary and Treasurer. All such officers shall hold office for a term of one year, or until their successors have been elected and qualified. Such officers shall serve at the will of the Board and may be removed by the Board and successors elected at any Board meeting.

Section 6.2 - 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 assuring the orderly conduct of all meetings, coordinating the activities of the Board, and 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, as requested, 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, issuing 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 the filing of all required reports and returns, and shall present a financial report at the annual meeting of owners.

Section 6.3 - General Manager. The General Manager shall be an officer of the Co-op but is not considered a director.

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 their par value of one hundred dollars per share. The minimum share purchase requirement shall be subject to increase by the board for the reasonable capital needs of the Co-op. Shares shall be entitled to no dividend or other monetary return on contributed capital.

Section 7.2 - Certificates. Every holder of fully paid shares shall be entitled to receive a certificate evidencing such holding. All certificates shall be signed by the President or Vice President and the Secretary or Assistant Secretary and shall be numbered and recorded in a stock register maintained by the Co-op. Each certificate shall contain a prominent notation that, in accordance with these bylaws, it is transferable only to the Co-op and that voting rights pertain only to ownership status on a one-owner-one-vote basis. The Co-op may issue a replacement certificate for any certificate alleged to have been lost, stolen or destroyed without requiring the giving of a bond or other security against related losses.

Section 7.3 - 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 of Directors. Redemption proceeds shall be subject to offset by amounts due and payable to the Co-op by the owner. No redemption shall be made when such payment would impair

the ability of the Co-op to meet its other obligations as they become due or would impair the claims of instruments having a higher priority than shares. 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 allocation units shall be netted.

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 of Directors, be excluded from distribution. Net earnings may be reduced by such reasonable reserves for necessary business purposes as is determined by the Board of Directors. 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 as determined by the Board of Directors. 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 contributed capital. They may be redeemed when determined by the Board of Directors 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 of Directors. 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 - INTERPRETATION AND AMENDMENT OF BYLAWS

Section 9.1 - 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 9.2 - 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.

Section 9.3 - 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.

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 retained 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 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 where the purchases of owners are for business or income-producing purposes.