

**Explainer for Proposed Restated Articles of Incorporation
The Co-op Natural Foods
August 29th, 2019**

What's this all about?

The Board of Directors is recommending that Owners vote in favor of adopting the attached, revised and restated Articles of Incorporation for the Co-op. The Board has called a special meeting for Wednesday, September 12th, 2019, at 6 p.m. for owners to formally meet and vote on the Articles. In-person voting will occur at the meeting, which will be held at Our Saviors Lutheran Church 909 West 33rd Street Sioux Falls, SD. Electronic voting will be available from 9/1/2019 to 9/15/2019 via the link that was emailed to you. If you are unable to place an electronic vote, paper ballots are available at the Co-op.

Why are we restating the entire Articles of Incorporation instead of just making specific changes?

The Co-op has amended its Articles of Incorporation many times over the years, and all of those cumulative changes have been collected as a series of attachments to the original Articles. The result is now an unwieldy and somewhat confusing document. By restating our Articles in their entirety, we are able to bring all of the prior changes into a single document, while also making several revisions that will better serve the Co-op as we look ahead to future expansion and growth.

Why are we making these changes now instead of waiting for the annual meeting in November?

We are excited for our future expansion and working diligently to move ahead as quickly and responsibly as possible. Some of the revisions to the Articles are necessary for the Co-op's upcoming capital campaign, which is currently planned to launch this fall, prior to the annual meeting.

So what are the new provisions all about?

The restated Articles contain several revisions:

1. **Article III** simplifies the Co-op's statement of purpose so that it now states "providing healthy products and services to its owners."
2. **Article V** designates three distinct classes of membership: (1) individual, (2) joint, and (3) organizational. The Co-op has long allowed both individual and joint memberships. This change would also allow businesses and other types of organizations to join as members, which is a common practice at other food co-ops. As we look ahead and plan for growth, we want to allow local businesses and other organizations to join the Co-op to show their support, to possibly invest in the upcoming expansion project, and to be able to use the co-op as members, such as when they order catering through our deli. Whether individual, joint, or organizational, all owners will have similar rights, including entitlement to only one vote, under our bylaws.

3. **Article VI** revises our capital stock structure in several ways:
 - a. The value of our Class A common stock (the membership share) is increased to \$200 to align with our new fee structure, which we implemented last year.
 - b. The original Class C nonvoting preferred stock—which we have never used—has been revised to cost \$250 per share, and the number of available shares has been increased. As the Co-op looks ahead to expansion, the plan is to offer owners the opportunity to purchase nonvoting stock as a way of making an additional investment in the Co-op’s growth.
 - c. The Articles authorize a new Class E nonvoting preferred stock, priced at \$1,000 per share, which will also be offered to owners who want to invest in the expansion, at a higher level.
4. **Articles VII and VIII** authorize the board to set terms and conditions for both issuing and buying back nonvoting preferred stock, within certain limitations.
5. **Article IX** sets the order of preference for each current and new class of stock in the (highly) unlikely event that the Co-op were to liquidate someday.
6. **Articles X and XII** fulfill the requirements of South Dakota law to name the current registered agent and board of directors at the time of the reincorporation.

What is nonvoting preferred stock, anyway? Although new to our Co-op, nonvoting preferred stock is a common way for co-ops to raise capital from owners who want to invest in an expansion or other improvements. As you may know, our 2015 move to our current location following the fire was supported by a group of owners who collectively made loans to the Co-op totaling nearly \$500,000. Nonvoting preferred stock is another way for owners to invest in their co-ops, but by purchasing shares rather than making loans. Unlike loans, these shares held by a co-op as equity rather than debt, resulting in a stronger balance sheet. Nonvoting preferred stock typically gives a co-op more flexibility when it comes to repayment, and also demonstrates to outside lenders that owners are financially supportive of the business and the expansion.

Sounds good! What if I want to invest?

You will definitely be invited to learn more about this opportunity to support the expansion! Keep an eye out for the launch of the capital campaign, coming this fall.

What if I have other questions?

We will post more details as they become available on our website at coopnaturalfoods.com and you can direct any questions about this vote to board@coopnaturalfoods.com