

Article I

Organization

Section 1.1 - Name. The name of the organization is First Alternative Cooperative, referred to in these bylaws as "the Co-op."

Section 1.2 - Purposes. The purpose of the Co-op is to provide groceries and related consumer goods to its owners and to others and to engage in other lawful activities. The Co-op is organized and shall be operated on a cooperative and nonprofit basis.

Section 1.3 - Principal office. The principal office of the Co-op shall be located at 1007 S.E. Third Street in the City of Corvallis, Oregon 97333.

Section 1.4 - Fiscal year. The fiscal year of the Co-op shall coincide with the calendar year.

Article II

Ownership

Section 2.1 - Eligibility and Admission. Ownership in the Co-op shall be voluntary and open to any individual whose purpose in seeking ownership is to use the services of 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 one common share at a price determined by the Board of Directors that is not less than seventy dollars nor more than three hundred dollars or such higher amount as may be authorized under Oregon law. In case of doubtful eligibility, ownership shall be subject to approval by the Board. Each applicant shall be provided with a copy of these bylaws and the appended Explanation of Patronage Dividend Consent Provision.

Section 2.2 - Share purchase requirement. Each owner shall keep current in payment of the share purchase requirement. Persons in financial need may receive an extended payment plan, as determined by the Board of Directors. An owner who becomes delinquent in meeting the share purchase obligation to an extent determined by the Board shall, no sooner than thirty days after delivery of written notification, be placed into inactive status. An owner in inactive status may attain good standing only upon full payment of all delinquent amounts and a processing fee, if any, as determined by the Board. References in these bylaws to the rights and entitlements of owners shall be understood to refer only to owners in good standing.

Section 2.3 - Rights. Each owner shall be entitled to make purchases from the Co-op on terms available to owners and to participate in the governance of the Co-op as set forth in

these bylaws. Owners may also contribute labor or services and thereby be entitled to receive pay for store operations support or discounts for community service or governance support.

Section 2.4 - Access to information. Owners shall be provided reasonably adequate and timely information as to the organizational and financial affairs of the Co-op. Owners shall have access to other information that is directly related to a legitimate interest of the owner and is not contrary to the best interests of the Co-op. To protect the privacy of owners, employees and others and to prevent potential harm to the business interests of the Co-op, it shall be the policy of the Co-op to provide such additional information by the least intrusive means.

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 - Non-transferability. Ownership rights and interests may not be transferred except by will or by the laws of interstate succession to a person eligible for ownership and with the express permission 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, provided the owner is first accorded an adequate 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 described in Articles VII and VIII of these bylaws.

Article III

Meetings of Owners

Section 3.1 - Annual meeting. An annual meeting of owners shall be held each year to review operations and finances of the Co-op and to announce the results of balloting for director positions.

Section 3.2 - Special meetings. Special meetings of owners may be called by the Board and shall be called by the Secretary as soon as practicable upon receipt of petitions signed by the greater of fifty owners or one percent of all owners, such petitions stating the business to be submitted to owners.

Section 3.3 - Time and place. The date, time and place of all meetings of owners shall be determined by the Board. Meetings shall be held at a time and place convenient to owners.

Section 3.4 - Notice. Written notice of the time and place, and in the case of a special meeting the purposes of the meeting, shall be mailed to each owner not less than seven days nor more than thirty days before the date of any meeting of owners for the purpose of exercising voting rights. Notice of other meetings may be by publication in the Co-op's newspaper or otherwise.

Section 3.5 - Quorum and voting. Those owners who properly submit mail ballots shall constitute a quorum for the transaction of business. Except as otherwise set forth in these bylaws, each owner shall have one and only one vote on each issue submitted to a vote of owners. Voting by proxy shall not be permitted. Unless otherwise required by law or by these bylaws, issues shall be decided by a simple majority of votes cast except where one or more choices are to be made from several alternatives, in which case the alternative(s) receiving the most votes shall be considered approved. A committee of the Board shall oversee voting procedures.

Section 3.6 - Voting by mail ballots. All binding voting by owners shall be by mail ballots. The notice of a vote shall include a copy of the issues to be voted upon, together with a ballot and a voting envelope and notification of the date by which ballots must be returned. Ballots must be returned in a sealed envelope which is authenticated by the owner's signature and owner number. Any business conducted at a meeting of owners shall be of an advisory nature only.

Section 3.7 - Issues submitted by owners. Mail ballots shall include any proper issues submitted by petition by the greater of fifty owners or one percent of all owners. Petitions must be received at the Co-op not less than ninety days before the first date on which ballots may be mailed.

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 corporate powers of the Co-op shall be exercised by or under the authority of the Board of Directors, and the business and affairs of the Co-op shall be managed under the direction of the Board of Directors ("the Board"). The Board shall keep owners apprised of budget-making activities and significant unbudgeted expenditures.

Section 4.2 - Number and qualifications. The Board shall consist of no less than seven nor more than ten directors. All directors shall be owners and shall not have any

overriding conflict of interest with the Co-op. Neither the general manager nor any employees directly supervised by the general manager shall be eligible to serve as directors. No more than one employee shall serve as a director at any time.

Section 4.3 - Nominations, election and terms. Directors may be nominated by the Board or by petitions signed by at least twenty owners and submitted to the Co-op at least forty-five days before commencement of election of directors. Directors shall be elected by mail ballot of owners. Each owner shall have the number of votes corresponding to the number of director positions to be filled. No more than one vote may be cast for each director position to be filled. Terms of directors shall be so staggered that one-third of the terms, or as nearly so as may be practicable, shall expire in each year. Directors shall normally be elected for terms of three years. To facilitate staggering of terms, some directors may periodically be elected for one or two year terms. Candidates receiving the greater number of votes shall be assigned the positions with the longer terms. In the event of a tie vote among candidates that would otherwise result in a nonconformity with any provision of these bylaws, the candidates receiving such a tie vote shall determine among themselves who shall fill the available position or term. Directors shall hold office until their successors are elected or until their terms are terminated sooner in accordance with these bylaws.

Section 4.4 - Standards of conduct. Directors shall be responsible at all times for discharging their duties in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances and in a manner that they reasonably believe to be in the best interests of the Co-op. The Co-op may not lend money to or guarantee the obligation of a director.

Section 4.5 - Conflicts of interest. Directors shall be under an affirmative duty to disclose their actual or potential conflicts of interest in any matter under consideration by the Board. Directors having such an interest may participate in the decision or discussion of the matter in accordance with Board policy, but may not vote on the matter.

Section 4.6 - Committees. The Board may appoint standing or ad hoc committees to advise the Board or to exercise such authority as the Board shall designate. Advisory committees shall include at least one director. Committees exercising any authority of the Board shall consist only of directors and shall conform to all requirements applicable to the Board.

Section 4.7 - Indemnification. Subject to limitations in its Articles of Incorporation, the Co-op shall indemnify its current and former directors and officers against all reasonable expenses to which they may become subject by reason of their position with the Co-op or their service in its behalf to the fullest extent permitted by law. Indemnification payments and advances of expenses 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 ordinary and necessary obligations as they become due. All such payments made shall be reported in writing to owners with or before the notice of the next scheduled meeting of owners.

Section 4.8 - Termination. The term of office of a director may be terminated prior to its expiration in any of the following ways: (i) voluntarily by a director upon notice to the President; (ii) automatically upon termination of ownership in the Co-op; and (iii) for cause by vote of at least two-thirds of all directors, provided that written reasons for removal are included in the notice of the meeting and the director whose removal is sought has had an opportunity to answer the reasons at the meeting. A director who is absent from two consecutive Board meetings, unless excused by the Board for good cause, shall be presumed to have resigned.

Section 4.9 - Vacancies. Whenever the number of directors shall fall below seven for any reason, the Board shall appoint one or more directors necessary to bring the number of directors to seven. Such directors shall serve until the next regularly scheduled election of directors.

Article V

Meetings of the Board

Section 5.1 - Meetings. The Board of Directors will determine the times and places of regular meetings. Special meetings may be called by the President upon request of any three directors. Meetings of the Board shall be held no fewer than four times each year.

Section 5.2 - Notice. Regular meetings shall require no notice other than the resolution of the Board, 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 30 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 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.

Section 5.3 - Quorum. The presence in person of a majority of directors shall be necessary to constitute a quorum for the transaction of business at any meeting of the Board.

Section 5.4 - Decision making. The Board shall strive to make decisions by consensus, attempting to reconcile differing points of view based upon the best interests of the Co-op. Any decision made by consensus shall be deemed to be inclusive of a vote in any required percentage. If, in the opinion of a majority of directors present, efforts that they consider to be reasonable under the circumstances have failed to produce a consensus, then such issue shall be decided by a majority vote.

Section 5.5 - Action without a meeting. Any action required or permitted to be taken at a meeting of the Board may be taken without a meeting if a written consent to the action is signed by all directors and filed with the minutes of meetings.

Section 5.6 - Open meetings. Meetings of the Board and all committees shall be open to owners. Sessions of a meeting may be closed only for issues of a particularly sensitive nature in accordance with Board policy. Such closed session shall be for purposes of discussion only and no decisions shall be made in closed session.

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Officers

Section 6.1 - Designation and qualifications. The principal officers of the Co-op shall consist of the President, Vice President, Secretary and Treasurer. The Board may designate other officers or assistant officers. The offices of Secretary and Treasurer may be held by one director. All principal officers shall be directors. Employees of the Co-op are not eligible to serve as principal officers.

Section 6.2 - Election, terms and removal. Officers shall be elected by the Board at its first meeting following the annual election of new directors. 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 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 assuring the orderly conduct of all meetings and coordinating the activities of the Board;
- (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 other officers in the performance of their 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; and
- (d) The Treasurer shall oversee the maintenance of financial records, reporting of financial information and filing of required reports and returns.

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Capital Shares

Section 7.1 - Issuance. To evidence capital funds provided by owners, the Co-op shall issue common shares. Common shares may be issued only to persons eligible for and admitted to ownership in the Co-op, and no more than one share shall be issued to each

owner. Such shares shall be issued only upon full payment of the stated value of the shares, as determined by the Board of Directors.

Section 7.2 - Terms. Common shares shall be entitled to no dividend or other monetary return on investment. Shares shall be subject to assessment insofar as it may become necessary to increase the required capital investment of owners by reason of the current or prospective capital needs of the Co-op.

Section 7.3 - Redemption. Upon written request following termination of ownership, the share of the requesting owner shall be redeemed as soon as replacement capital has been secured by the Co-op from other owners. Shares may also be redeemed under other compelling circumstances as determined by the Board. Shares shall be redeemable at the lesser of their carrying value on the books of the Co-op or their net value on the books of the Co-op or their net book value. Reapplication for ownership after redemption shall be subject to full repayment of redemption proceeds and a reasonable reprocessing fee, if any, as determined by the Board.

Section 7.4 - Lien and offset. The Co-op shall have a first lien on common shares for amounts owed by owners to the Co-op. The Co-op may, at any time after such amounts remain due and payable for thirty days, offset such amounts against the carrying value of the share. Such offset may not be effected by an owner or by anyone acting in the right of an owner.

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Patronage Dividends

Section 8.1 - Mandatory distributions. Except as otherwise provided in this article, the realized net savings of the Co-op, to the extent attributable to the patronage of owners, shall be allocated and distributed among owners in proportion to their patronage and at such time and in such a manner as to constitute patronage dividends within the meaning of federal income tax law. In determining and allocating net savings, the Co-op shall use a single allocation unit except to the extent that, subsequent to the adoption of these bylaws, it shall engage in any new and distinct line of business.

Section 8.2 - Exceptions. Net savings may be reduced by such reasonable reserves for necessary business purposes as is determined by the Board. Any allocations of such a nominal amount as not to justify the expenses of distribution may, as determined by the Board, be excluded from distribution provided that they are not then or later distributed to other owners. Owners shall retain the right to waive in whole or in part, any patronage dividends to which they may be entitled.

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 - Retained amounts. A portion of patronage allocations, not to exceed eighty percent, may be retained for the reasonable capital needs of the Co-op. Such retained amounts shall be credited to revolving capital accounts in the names of recipient owners. They shall accrue no monetary return on investment, and shall be redeemed generally 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. Retained amounts may also be redeemed under compelling circumstances as determined by the Board. Retained amounts shall be subject at all times to being offset by amounts otherwise due and payable to the Co-op.

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Unclaimed Distributions

Section 9.1 - Forfeiture. Any redemption of stock, distribution of patronage dividends or redemption of retained patronage dividends which remains unclaimed four years after the date authorized for payment may be forfeited by action of the Board. Any amount so forfeited shall revert to the Co-op if, at least six months prior to the declared date of forfeiture, notice that the payment is available has been mailed to the last known address of the person shown by the Co-op's records to be entitled thereto, or, if the address is unknown, is published at least once a month for four months in a newspaper of general circulation in the county in which the registered office of the Co-op is located.

Article X

Interpretation and Amendment of Bylaws

Section 10.1 - 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 10.2 - Amendment. These bylaws may be amended or repealed only by a vote of the owners, provided that the proposed amendments are stated or fully described in the notice of the ballot by which the amendments are to be adopted.

LAWS APPROVED BY A VOTE OF THE OWNERS ON: April 13th, 2004

PRESIDENT, BOARD OF DIRECTORS: Gerald E. Heilman

SECRETARY, BOARD OF DIRECTORS: Charlie Tomlinson

Explanation of Patronage

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 the Co-op's 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 dividend that is retained by the Co-op for its capital purposes.

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 therefore 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.