

2INFORMATION STATEMENT 1.2021
Relating to an Offering of Membership Interests In

Happy CoOp

Managed By



A Minnesota 308B Cooperative Association

Information Statement

Happy CoOp ("the Cooperative" or "CoOp" or "Happy"), a Cooperative Association organized under Chapter 308B of the Minnesota statutes as hybrid Producer and Consumer Cooperative, is formed to unite the producer and consumer interests (manufacturing, small businesses, independent contractors, freelancers, resellers, employees, employers, farmers, and entrepreneurs) in the buying and selling of products and services that enable Members to save on goods and services and to otherwise further their common interests of all Members.

As a Chapter 308B Cooperative Association, the CoOp will initially have two Member Classes¹ called the 1) Free Member – a Patron non-Share Member Class (both Consumer and Producers) and 2) Share Member – a Patron Share Member Class (both Consumer and Producers). The Cooperative may, without necessarily a vote of the Share Member Class create one or more additional classes of Membership; however, if future share classes have voting rights; they shall not be superior to the Share Member Class.

Happy CoOp operates on a Cooperative Association basis. It is owned and controlled by the Share Members of the CoOp and its **net earnings** are distributed to the Share Members ONLY each year or sooner if directed by the Manager/President and/or the Board of Directors. The distributions, in the form of **called Patronage Refunds (may also referred to as Revenue Share or Profit Share but means Patronage Refund or Patronage Dividend), are paid pro-rata in accordance with Member Patronage and the Bylaws. The Share Member Class are the "voting" Members of the Cooperative.** If a "Group Name" Share Class is created, it may have separate Patronage Refunds, but must always contribute to the Share Member Patronage Refund in a mutually agreed percentage of the "Group Name" Share Class. **The CoOp is not designed grow in value or to make a profit**, rather it distributes its net profit to its Share Member as in the custom for all cooperatives.

The Membership Interests (of any Patron Share Class) WILL NOT appreciate in value and ARE NOT deemed an Investment Share Class. No investment dividends will be paid on the interests and the interests are non-transferable. Patronage Refunds will only be allocated or distributed to qualified Share Members (or possibly "Group Name" Share Members) pro-rata who patronize the CoOp and only to the extent that the CoOp earns a profit. **Members SHALL NOT own more than ONE SHARE and cast more than ONE VOTE in any Share Class.**

The voting Class is called Share Member (see Class 2 above). Moreover, the Board of Directors (the "Board"), in its discretion, may choose to retain Patronage Refunds if the Board, which is comprised of Share Members, determines that the CoOp requires additional capital to properly support all of the Members.

The only way a Member will obtain an economic benefit from being a Member of the CoOp is by patronizing (buying and selling goods and services through) the CoOp. Patronizing is also defined as assisting in a Membership Drive by referring others to join the Cooperative for which **NO COMMISSIONS ARE PAID.** If a Member fails to patronize the Cooperative for a prolonged period of time the Member may lose his/her/its right to vote, if a voting Member (Share Member), and may cease to be a Member in the CoOp in good standing or qualify for Patronage Refunds.

THE MEMBERSHIP INTERESTS IN THE COOPERATIVE HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES REGULATORY AUTHORITY, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITY REGULATORY AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS INFORMATION STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

NO PERSON HAS BEEN AUTHORIZED BY THE COOPERATIVE TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS CONCERNING THE COOPERATIVE ASSOCIATION OTHER

THAN AS CONTAINED IN THIS INFORMATION STATEMENT OR THE OTHER WRITTEN MATERIALS DELIVERED WITH THIS INFORMATION STATEMENT OR ON RELATED WEBSITES AND PLATFORMS OR VIDEOS CREATED BY THE COOPERATIVE OR ITS MANAGER AND, IF GIVEN OR MADE, MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COOPERATIVE.

EACH PROSPECTIVE MEMBER SHOULD CONSULT HIS OR HER OWN PROFESSIONAL ADVISORS RELATED TO: LEGAL, TAX, AND OTHER MATTERS CONCERNING THE COOPERATIVE. WE DO NOT PROVIDE LEGAL, TAX OR FINANCIAL ADVICE TO MEMBERS UNDER ANY CIRCUMSTANCE.

Please read the remainder of this Information Statement for a more complete description of the CoOp, its plan of operations, insight into the governing documents of the CoOp, and other disclosure regarding purchasing a Share Membership in the CoOp. This is an information document and not an agreement or brochure about Membership – the Bylaws of the CoOp govern Membership and Member rights.

The CoOp does not expect to generate surplus cash flow that will enable the CoOp to redeem any stock or allocated equities to anyone, including Members of the Cooperative. Surplus cash that is generated, if any, will be directed first to enabling the Cooperative to continue and expand its operations and next to Patronage Refunds. **The CoOp does not plan to redeem stock, Membership Shares, or allocated equities unless and until it dissolves, which is theoretically never because the CoOp is organized to exist perpetually.**

This Information Statement is being provided to assist you in evaluating the business decision to become a Member of the CoOp only. The text of the Information Statement is intended only to provide certain facts and highlights regarding the CoOp and its Bylaws. It is not intended to be a complete statement of all material facts and features of the organization and is qualified in its entirety by more detailed information contained in the Articles of Organization (the “Articles”) and the Bylaws which may be requested from the CoOp as per the Bylaws. This Information Statement may contain errors and typos. **See “II. CONSIDERATIONS FOR PROSPECTIVE MEMBERS” to read about factors you should consider before becoming a Member of the Cooperative.**

The CoOp has agreed to make available to representatives of each prospective Member the opportunity to ask questions of and receive answers from the Manager of the Cooperative concerning the organization and to obtain, to the extent the CoOp possesses such or can acquire it without unreasonable effort or expense, any additional information which is necessary to verify the accuracy of the information set forth in this Information Statement.

Questions, inquiries, and requests for information may be directed to Manager, Happy CoOp (the “CoOp”) through the CONTACT US page on the Happy.COOP website.

Each prospective Member must rely on its own evaluation of the Cooperative, including the merits and risks involved, in deciding to join this organization as a Cooperative Member.

I. THE BUSINESS

The CoOp is a hybrid Cooperative Association business owned and controlled by its Share Members. All Members are considered Consumer and/or Producer Members. Producers meaning, they are engaged directly or indirectly in the operation of their own businesses, promotion, purchase, and/or production of products and services for themselves and for their Customers (the Members). Consumers are Members who wish to purchase products and services or wish to engage the CoOp website(s).

The Cooperative has entered a long-term perennial Management Agreement with Happy Neighborhood Project (HNP), as Manager and president of the CoOp, to manage the day-to-day affairs of the CoOp and ensure quality control of the products, services, benefits, and technology offered to all Member Classes.

Earning of Compensation in currency or Patronage Credits (earned by Share Members Only) shall be based on patronage (their use) of the CoOp or as agreed. **No compensation is paid on the Share Fee or Dues, if any, approved by the Board.** Compensation is paid on sales of products and services ONLY purchased directly from CoOp and websites or other methods as specified from time-to-time which is or maybe owned by **HNP as Manager** or third parties and which revenue is shared with the Cooperative per the Management Agreement or CoOp policy. **This compensation is called a Patronage Refund** which is similar to a profit share or revenue share.

Patronage Refunds shall be calculated pro-rata, using Patronage Points or any other agreed method, based on the total usage and transactions with the CoOp (patronage) or as determined by the Manager/President and the Board of Directors for each qualifying purchase or activity for the patronage period. The CoOp has two Patronage Periods: 1) Quarterly and 2) Annually. **The Patronage Year is from January 1 to December 31** of each Annual Patronage Period. This may allow Share Members to earn Patronage Refunds quarterly paid not later than the 15th of the following month and in January not later than the 15th (the annual payment) for the previous Patronage Year, if any.

The Cooperative and/or Manager may earn income from: 1) an agreed portion of the one-time Share Member Fee and the Dues which are not subject to Patronage Refunds, 2) a portion of marketing allowances or advertising fees from third-party vendors, selling Members, or the Manager, and 3) a portion of the shared profits on certain products and services developed by the CoOp, or from third-party vendors, or the Manager and then resold through one or more Member Classes or distribution channels as determined by the Manager under the Management Agreement. The Manager can change these profit allocations at any time, without written notice, to ensure profitability or stability to the Cooperative Association. At this time, the Board has decided to make distributions of Patronage Refund, as earned, in the form of or Patronage Credits (PC) and also redeemable in U.S. Dollars (USD), to Share Members but reserves the right to change the schedule to meet the needs of the CoOp. The CoOp may impose a fee to redeem Patronage Refunds in USD. In the future we may allow the use of PC to make purchases for a different fee or no fee.

The prospective Patron Members of the Cooperative are the Share Members; the Free Member Class are not Share Members. The Cooperative may in the future offer additional classes of Membership to become Share Members (i.e. "Group Name" Share Members, which may be Non-Patron or Patron Members. Patron Members are initially located in the states and territories of the United States, but the CoOp does not restrict international Members where allowed. By collaborating their efforts and purchasing power, the prospective Patron and Non-Patron Members of the CoOp aim to gain better access to business contacts, be socially and environmentally conscious, and enhance the purchasing power or profits for our Members. All payments are made in U.S. Dollars (USD).

As per the Bylaws, except as otherwise provided by applicable law, any Member may, but shall not be obligated to, give or lend money to the CoOp; act as surety for the CoOp; transact other business with the CoOp; and have the same rights and obligations when transacting business with the CoOp as a person or entity who is not a Member. Interest may be fixed or variable depending on the loan type. We do not anticipate any loans from Members.

Cooperative Association Objectives for All Members

By collaborating the Cooperative provides the Members with products and services that may not be available were they to act alone. Many products or services may be found from other distribution methods; **we make no claim as to exclusivity of any product or service as an inducement to become a Member.**

CoOp Principles of Operation include:

- 1) Share Member voting control, (open and voluntary with democratic governance)**
- 2) Return of surplus to Members (also called a Patronage Refund)**
- 3) Group Purchasing Programs for all Members (discounts and savings)**
- 4) Association with third-party Vendors**
- 5) Cooperation with Members and other Cooperatives,**
- 6) Constant education of Members to include happiness and cooperative principles and**
- 7) Other activities to enhance the Member's life and business.**

Note: we promote the seven (7) Cooperative Principles as promoted by the International Co-operative Alliance website: <http://ica.coop/>.

Fundamentally, the function of the CoOp is to increase a Member's quality of life, happiness, net income and improve the ability of all Members to share as an effective member of society. We accomplish these objectives by offering quality products and services and commercially reasonable and competitive prices and sharing our successes with others in need around the world. The Manager has discretion on how giving might be directed with advice from the Board.

The primary activities of the CoOp include:

- Support Happy Neighborhood Networking Events**
- Operation of a Profit-Sharing Strategy (Patronage Refund), On-Demand, in a Sharing Economy**

- Expressing a Member’s VOICE by enabling Share Members to VOTE
- Member Collaboration and Sharing of Ideas (Crowd-Sourcing)
- Education for Families and Businesses
- Savings (Reduce Costs through Group Purchasing Power)
- Promote Entrepreneurship
- Promote Local Relationships
- Promote Community Development
- Membership Drive Campaigns and Membership Services
- Co-Promotion with Third-Party Vendors
- Giving to Socially Conscious Programs
- Direct or Affiliate Distribution of Products and Services to Consumers and Members

II. CONSIDERATIONS FOR PROSPECTIVE MEMBERS

The reason for joining this CoOp is that You, as a Member, may find value in the products and services the CoOp offers. **There is no inducement, compensation, or reward for encouraging others to become Members of this CoOp.** Only when the purchase of products and services, authorized by this CoOp, are made, may compensation in the form of Patronage Refunds be paid.

You do not have to be a Share Member of the CoOp to access products and services; you may join as a Free Member. Members, who wish to earn Patronage Refunds, MUST become Share Members and pay the one-time Share Fee of \$197. You must earn Patronage Points or other criteria to “qualify” for Patronage Refunds. You will be paid pro-rata according to your earning of Patronage Points divided by the total Patronage Points earned for a qualifying Patronage Period (at least quarterly) or as the Manager or Board of Directors may decide or modify without a vote of the Share Members.

The receiver of a Membership Interest in the Share Member Class SHOULD NOT expect an investment return on this Membership Interest. The Membership Interest is non-dividend bearing, non-transferable, and upon withdrawal or termination from the CoOp, the share should have no value, if determined that there is a value, the timing of payment, if any, will be fully at the discretion of the Cooperative’s Board of Directors, who are the Share Members. Do not expect a refund.

Only those who can afford the loss of their entire Share Fee (\$197) for Membership Interest should become Share Members of the CoOp. A prospective Member should consider the following risks and should review carefully this entire Information Statement prior to deciding to become a Member. This list of risk factors is not intended to be complete but is provided for the recipient's reference.

The Board, at its sole discretion, may declare a Patronage Refund from the net profits of the CoOp, but this cannot be guaranteed. You should join the CoOp on the value of the membership activities, products, and services and NOT based on receiving a Patronage Refund. **The products and services should represent value to you and others you might share them with, or DO NOT PURCHASE THEM.**

Changes in Dues and Fees. The CoOp, at the sole discretion of the Manager or the Board of Directors, may impose other fees, decrease or increase fees and/or Dues on Members to provide sustainability of the CoOp. Prior Share Members will not incur an increase in their Share Fee, but future new Share Members may pay a higher Share Fee. **All Share Members will pay the current Dues, if assessed.** Failure to pay Dues assessed may cause your Share Membership to become non-qualified for Patronage Refunds or access Share Member specific Services.

Dependence on Third-Party Vendors. To continue operations, the CoOp must maintain relationships with suppliers (vendors), which may be other Members and non-member (third-party vendors). It is possible that the vendors will discontinue participation in its programs or that the vendors will otherwise respond

unfavorably to the CoOp in ways that will make the CoOp unable to compete in the marketplace. Distribution channels may cease to be effective and thus limit demand on production creating an inventory risk. A pandemic may affect product or service availability or continuance by vendors. Your patronage (personal purchase of products and services offered by the CoOp or sale of products and services to CoOp Members) is essential to the maintaining of value of this CoOp to all Members. Your failure to patronize the CoOp could affect the CoOp's viability. You should shop your CoOp and its third-party vendors first. Failure to support this community can cause the CoOp to cease operations.

Operate at a Loss. The CoOp may experience a net financial loss from operations. This loss may be retained by the CoOp and applied towards future earnings or allocated to Members. Additionally, accumulated losses may require the CoOp to request additional capital investments or loans from Members. **You can choose to decline to contribute such capital and terminate your future Share Membership.** If you terminate your Share Membership, there will not be a refund of your Share Fee, but you can remain a Free Member.

Insufficient Discounts. The discounts, sharing fees, and pricing the CoOp can negotiate are a function of Member Patronage, the failure of Members to patronize the CoOp may not be sufficient to maintain its competitive advantage, and this could make the CoOp of limited benefit to its Members.

Dependence on Management. The success of the CoOp is dependent in a large part on its ability to attract and retain sound management. The Cooperative has entered a Management Agreement with HNP and the Board of Directors has ratified this Management Agreement and does not consider this a conflict of interest. The initial period of this Management Agreement is until December 31, 2042 with automatic 5-year renewable extensions. This Agreement is to be reviewed periodically by the Board of Directors (made up of a majority of Share Members and related third parties) and their decisions are final. The CoOp has agreed that employees, officers, directors, agents, consultants, advisors, and shareholders with greater than 10% equity in the Management Company may be Members of this CoOp and shall not be deemed a conflict of interest, but they may not hold a Board position in the Cooperative. They can be advisors to the Board, but not vote.

Competition. The CoOp may face competition from organizations that exist today or could develop in the future. Failure to compete successfully against current or potential competitors would have a material adverse effect on the Cooperative. The Board and the Members acknowledge that the Manager and Vendors/Suppliers are not exclusive to the CoOp and may have other distribution channels which do not benefit the Members of the CoOp as to Patronage Refund. The Board deems this not to be a conflict of interest as the aggregate volume has the potential to reduce the overall cost of goods to our Members.

Business Cycles and Events. The CoOp may face declining income in a down market cycle that could reduce its benefit to Members. We cannot predict future market performance. Since COVID-19, there could be other events, pandemics, protests, actions by big tech, or governmental mandates which can impact this CoOp or disrupt supply channels, by joining you accept this risk along with the rest of us.

Government Regulation. A Cooperative is subject to local, state, federal, and international laws which may change. These changes may affect your ability to do business with the Cooperative as anticipated. It is our intent to comply with all laws. You should vote for your rights as a Share Member.

Unanticipated Risks. The CoOp is also likely to be subject to risks that have not been anticipated or listed here, and these risks may affect the value of your Membership with the Cooperative Association. Joining as a Member, you agree to accept these risks.

MISCELLANEOUS SECTIONS

III. RESELLER PROGRAM.

The CoOp becomes stronger when it increases its Membership and earns a profit from the non-exclusive sale of products and services. The Board may authorize the contracting of Resellers. Resellers, as independent contractors or freelancers who may or may not be Members may earn a profit when they personally retail one of our products and services.

Resellers do not have to be Share Members of this CoOp to sell for this Cooperative. The CoOp only recognizes Resellers who have contracted directly with the CoOp. There is no restriction on Members also being Resellers of the Cooperative. Resellers or Affiliates who are not Share Members of the CoOp, cannot receive Patronage Refunds. Some resellers may not pay the CoOp an affiliate fee or commissions; in this case you may earn points but the sale of a product or service may not increase the potential Patronage Refund. There may also be transactions which we earn a profit and for which points are NOT awarded to Members, such as advertising, that may increase the Patronage Refund. Neither is or can be guaranteed.

IV. MEMBERSHIP QUALIFICATIONS

Membership in the Cooperative will be limited to those qualifying under a class of Membership:

Free Members: Free Members may or may not be required pay an annual Membership Dues the same or less than Share Members. **Free Members are Consumers/Producers and DO NOT participate as Share Members in Patronage Refunds. They are not Share Members (owners) of the CoOp.** (See Bylaws).

Share Members: All Share Members own one Membership Share and shall pay a one-time Share Fee of \$197. This is not an “Investment Share Interest.” None of the Membership Share Fee is paid as compensation to other Members for referral or as a Patronage Refund to Members; the Manager, will receive a portion of the Share Fee as compensation and expense reimbursement per the Management Agreement and may pay third-parties. All Members may receive Patronage Points for patronage and referral. **All Share Members can only own one share and may cast only one vote** for the election of the Board of Directors and other matters (See Bylaws). Share Members may or may not be Resellers, Vendors, or Affiliates.

Future Classes. The CoOp may, without necessarily a vote of the Share Members and at the discretion of the Manager create one or more additional share classes or incentive bonus of Patronage Points; however, if such share classes have voting rights; they shall not be superior to the Share Member Class. (see references to “Group Name” Share Members).

Section 2.2 of the **Bylaws provides that Members must:**

- purchase and qualify to own one Membership Share, plus any additional capital amount in excess of its par value as the Board may determine at the time of issuance (**Share Member Class only**), and;
- pay Membership Dues, or other fees as per Membership Class, if required, and;
- apply for Membership (which may be online) and be approved (which may be online) for Membership in the Cooperative or by the Board or its designee (the Manager), and;

- consent to the tax treatment of Patronage Refunds and provide all necessary documents such as IRS Form W-9 if a U.S. Citizen or as may be required by law, and;
- execute Membership Agreements (which may be online) with the Cooperative if then required by the Board in the form determined by the Board (which may be online), and
- be committed to the mission of the Happy CoOp, and
- if Member is not a natural person, to designate a Member representative (a business entity) for voting and any other official activities of the CoOp.

The Board may set additional Membership Share requirements or deleted them as are determined necessary or desirable to accomplish the purposes of the Cooperative.

V. MEMBERSHIP INTERESTS

Share Member Interest (Membership Interests) in the CoOp is represented by **one share which shall not be issued by certificate; but held by the Cooperative in electronic form. It is referred to as Membership Common Stock because it may only be owned by Share Members and is not considered Investment Shares which may also be approved by the Cooperative Board, subject to any registration requirements. Each Share Member must own one and only one share.** Since each share of Membership is entitled to one vote, each Share Member will have one vote in all matters that come before the Members of the CoOp. Share Member voting is governed by Section 3 of the Bylaws. **There are unlimited shares of Membership Interest.**

Membership Interests are not entitled to receive dividends as typical shareholders; but holders of this Membership Interest are entitled to receive Patronage Refunds, if qualified, on the participation, buying, and selling (patronage) they do with the Cooperative in accordance with the Articles and Bylaws and is the tradition with all cooperatives. Holders of Membership Interests, one share – one vote (electronic or paper), are entitled to participate in the dissolution and liquidation of the Cooperative as provided in the Bylaws, described below in Section XII. However, because all of the profits of the CoOp are allocated on the basis of Patronage as directed by the Board, no Member should expect any appreciation in the value of their Membership Interest. Indeed, it is likely to be the case that depreciation in the value of their Membership Interest occurs and as such has no cash value. Membership Interests ARE NOT Investment Shares, which might require registration, but qualify under a special exemption with the Securities and Exchange Commission (SEC) for cooperatives which may vary state by state.

Since ownership of Membership Interest is reflective of Share Membership in the Cooperative, these shares are not transferable. Section 7.3 of the Bylaws sets forth the restrictions on transferability. If Membership Interest is transferred in violation of this restriction, it shall be treated as a withdrawal from Membership, and such share shall be distributed in accordance with the termination provisions in Section 10.3 of the Bylaws. Membership Common Stock (Membership Interest) transferred to an ineligible holder shall not entitle such person to do business with the Cooperative or otherwise participate in the organization as a Member. There is no market made, nor will there ever be, for Membership Interest – it is not purchased as an investment, rather a right within the cooperative association.

VI. MEMBERSHIP CAPITAL REQUIREMENTS AND INITIATION FEES

Membership Capital Requirements are one-time payment as follows:

Share Member Class: Each Share Member will purchase one share of Membership Interest Share for \$197 (See Section IV). **There is no requirement of Free Members to become Share Members, but all Share Members must own one share and pay the Share Member Fee. No compensation is paid on the referral of a Free or Share Member, but Members may earn Patronage Points. Compensation is only paid on**

the purchase and/or resale of products and services. We do track referral of other Members via a referral link to award points for recognition.

Other Member Classes: As determined by the Board of Directors, currently NONE.

VII. MATERIAL RELATIONSHIPS

Management Agreement. The Cooperative has entered a Management Agreement with **Happy Neighborhood Project (HNP), a California Company** to provide advice and management services for the Members of the Cooperative. **This Agreement term is until December 31, 2042 and is automatically renewable in 5-year periods** based on a vote of the Board of Directors. This contract was granted based on the initial capital contributed and time expended by HNP, et al for development of products and services and in setting up the Cooperative for our Members. The Board of Directors allows the principals of HNP and its employees and affiliates to be Members of the Cooperative, but they cannot hold any Board positions. A representative of HNP attends Board meetings as President, Advisor, and Manager of the Cooperative, but does not vote. The Management Agreement specifies compensation to HNP which includes a defined portion of the fees charged to Members (if any), a defined portion of Dues (if any), a percentage of new products and services sold to Members (including Free Members), and certain other compensation and expenses for operation of the CoOp as may be approved by the Board of Directors from time-to-time.

Financial Guarantees, Charge back of Credit Cards and Refunds

Should HNP, as Manager, or one of its principals be required to sign signature guarantees for financial services, such as credit card processing, the Cooperative shall indemnify in full Manager, or its principals, for any financial risk associated with these signature guarantees. Member charge backs against credit cards may affect that Share Member's Patronage Refunds and Share Member's "qualified" good standing and as such their right to vote or retain membership. Members are therefore requested to not charge back credit card transactions but to request refunds directly from the Cooperative. Members who cannot resolve dispute among themselves may also be removed from Patronage Refunds until a dispute is settled. The Cooperative and Manager are not a party to any dispute between Members.

Happy CoOp is registered with the Secretary of State of Minnesota as a 308B Cooperative Association and HNP with the Secretary of State of California for banking and operations. It has a registered agent in Minnesota. The Manager is the Registered Agent in California. The President of the CoOp may be an affiliate of Manager and can serve as President under the Management Agreement.

VIII. BOARD OF DIRECTORS

Beginning with the third Annual Meeting of the Members, Share Members shall elect Directors to the Board of Directors. The initial Board of Directors, appointed by Manager as Founder and President from Share Members and related third parties, shall serve up to 36 Months before the Board of Directors will hold elections for the replacement of Board Members. Voting **Board Members must come from Share Members.** This shall provide stability in the decision process in the formative months of the Cooperative.

The initial number of Directors serving the Cooperative for the first thirty-six months of operation shall initially be at least three (3). Thereafter, the Board will expand to be no more than twelve (12) according to the Bylaws. After two years of operation, one new director may be added for each 1000 Share Members, until the number of Board Directors is 12. These Directors will be elected by the Members at the annual meeting. All Directors must be an elected or appointed representative of a Member that is not a natural person. **All Directors will be elected from a Share Member Class ONLY.** In the event of an even number of Directors, the elected Chairman shall be able to cast a tie breaking vote. The Chairman is elected by the Board from its members.

After the initial three years of operation, at the Cooperative's annual meeting, at least 1/3 of current Director Positions will be up for vote (up to 4). Prior to the Annual Meeting, the Board Chairman will identify any Directors not willing to stand for re-election or ineligible for re-election for any reason. If this number is less than 1/3 of the current Board positions, then the remaining Directors will draw lots to determine which Directors will run for re-election at the Annual Meeting.

No Director shall serve more than 6 consecutive years on the Board of Directors. After 6 years, a Director is ineligible for re-election until said Director has been off the Board for at least one full year.

Advisors: The Board or Manager may appoint or consult advisors at its sole discretion. Advisors are not members of the Board and shall not have a vote in Board deliberations but may attend Board meetings at the direction of the Chairman. HNP is approved since inception by agreement.

Biographies of the Directors are available upon request in writing to the Board.

IX. MANAGEMENT OF THE COOPERATIVE

The President/Manager will provide for the day-to-day management of the Cooperative. The President/Manager is appointed by the terms of the Management Agreement. In addition to the day-to-day management provided by the President/Manager, the Board or Manager may elect several officers to oversee the interest of the Cooperative. These officers may include a Secretary and a Treasurer, and any other officers and agents that the Board may designate from time to time by resolution. The Secretary and Treasurer need not be members of the Board. If the Board so decides to designate such officers, any compensation due them will be an obligation of the Cooperative and not a liability of the Management Agreement. If paid by the Manager, then the CoOp shall reimburse Manager.

X. PATRONAGE REFUNDS

Net Patronage earnings of the Cooperative will be returned to the Members each year or sooner in the form of Patronage Refunds in accordance with the Articles and Bylaws. These Patronage Refunds shall be paid in USD or Patronage Credits at the discretion of the Board. A Patronage Refund is an amount paid to the Share Member based on the pro-rata value of business/patronage done during and period of the Patronage Year by the Cooperative.

For example, if a Member did up to 10% of the Patronage business with vendors participating in the Cooperative's program for the fiscal year, the Board may determine that up to 10% of the Patronage Refund for the period be paid to that Member (this is called pro-rata payment of Patronage Refunds). This method of distributing Patronage Refunds can be distinguished from a regular business corporation, in which earnings or profits are paid to investors based on their capital investment, not Patronage qualification. In the Cooperative, Patronage Refunds will be paid based on the amount of business done with the Cooperative Association as determined by the Board, not based on invested capital. The Board or Manager may assign credits or bonuses by any criteria at its sole discretion for the allocation of Patronage Refunds. It is therefore important as a Share Member you put forth your best efforts to promote the success of the Cooperative if you expect to accumulate Patronage Points and potentially receive Patronage Refunds.

Patronage values (often called Patronage Points) are assigned as a function of a Member's engagement with the Cooperative as the Manager may determine from time to time.

Payment of Patronage Refunds. Under the Articles and Bylaws, Patronage Refunds must be paid within 8-1/2 months of the close of the fiscal year, and may be paid in cash, Patronage Credits, property, or written notices of allocation. These written notices of allocation enable the Cooperative to retain certain funds to meet capital needs. Written notices of allocation are redeemed at the discretion of the Board. Currently the Board desires to pay Patronage Refunds "as earned" Quarterly, when possible. Payment of a Patronage Refund cannot be guaranteed.

Federal Income Taxes. From a Federal income tax standpoint, the Cooperative is able to deduct amounts distributed as a Patronage Refund as long as the Patronage Refund is paid in cash, Patronage Credits, property, or qualified written notices of allocation and otherwise meets the requirements of the appropriate Section of the Internal Revenue Code. A written notice of allocation is a written notice which discloses to the recipient the stated dollar amount allocated to the Share Member by the organization and the portion thereof, if any, which constitutes a Patronage Refund. A "qualified" written notice of allocation is generally a written notice of allocation which the recipient has agreed to take into income at its stated amount in the year in which it is received in accordance with Section 1385(a) of the Internal Revenue Code and which is issued as part of a Patronage Refund at least 20% of which is paid in money, Patronage Credits, or by qualified check. Under the Bylaws, the Board will determine the amount of the Patronage Refund, if any, which is paid in qualified written notices of allocation.

A hypothetical example, not a guarantee, for education purposes only, if a Cooperative has \$150,000 in gross Patronage revenues and \$50,000 in expenses of its management agreement and operation for the year, its net Patronage earnings would be \$100,000. If it distributes this \$100,000 in a Patronage Refund within 8-1/2 months of the end of the fiscal year -- 20% in cash or credits and 80% in qualified written notices of allocation, it will be able to take a Patronage Refund tax deduction for the \$100,000. Thus, the Cooperative will have income for the year of \$150,000 and deductions of \$150,000 (\$50,000 in expenses and \$100,000 in Patronage Refund), and it will pay no tax. The Share Members, on the other hand, may have pro-rata taxable income of \$100,000 on the Patronage Refund they received, and they would take it into income in the year in which it was received (typically as a 1099-PATR: Taxable Distributions Received from Cooperatives). Cooperatives file Form 1099-PATR for each person: To whom they paid at least \$10 in patronage dividends and other distributions described in section 6044(b). From whom they withheld any federal income tax under the backup withholding rules regardless of the amount of the payment. Non-profit Members may have other tax benefits not discussed here and should seek accounting advice separate from this document. We do not provide tax advice.

Private Inurement and Unrelated Business Income Tax (UBIT). **If you are not a non-profit this section does not apply to any for-profit or foreign entity.** No part of the Distributions from the Cooperative to the Share Member shall inure to the benefit of or be distributed to its Members, trustees, officers or other private persons, except that the ministry or charity shall be authorized and empowered to pay reasonable compensation for the services rendered and to make payments and distributions in furtherance of its purposes set forth in the purpose clause hereof. If restricted by law, no substantial part of the activities of the receiving organization shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the organization shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office. Notwithstanding any other provision of this document, the ministry or charity shall not carry on any other activities not permitted to be carried on (a) by an organization exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code or similar related Section, or corresponding section of any future federal tax code, or (b) by an organization, contributions to which are deductible under Section 170(c) (2) of the Internal revenue Code, or corresponding section of any future federal tax code. Violation of this section may result in the Board terminating Membership.

Non-Patronage Business. Earnings derived from non-member business may be included in the Patronage Refund paid to Members as determined by the Manager. Earnings of this type are not entitled to the "single tax" benefit of Subchapter T or K, or as further determined by a taxing authority and may be taxed to the Cooperative at a different income tax rate. These taxes will likely affect net income available for Patronage Refunds.

XI. CREDIT GUARANTEES

The Cooperative Members may be purchasing products and services from vendors directly and the Cooperative does not anticipate that it will provide vendors any credit or payment guarantee for these purchases by its Members.

XII. SUSPENSION AND EXPULSION OF MEMBERS

1. Suspension.

The provisions for suspension of Members are contained in Section 10.1 of the Bylaws. As set forth in Section 10.1, suspension may occur for nonpayment of amounts due the Cooperative or a vendor participating in the Cooperative's purchasing program, failure to have as its delegate an officer of the organization (unless excused), failure to submit reports, information requests, and surveys, and failure to abide by the Bylaws, and other undertakings with the organization. Any act, error, commission or omission that the Board solely determines is immoral, unethical, and illegal, in violation of the code of ethics or not in the best interest of the Members or the Cooperative Association may result in Suspension or Expulsion.

Upon such suspension, all Membership privileges will cease, and all business transacted with the Cooperative while Membership is suspended shall not be counted in determining Patronage Refund payments for the year. Upon removal of the cause for suspension, the suspension of Membership shall be automatically lifted, and the previously suspended Member shall be entitled to all Membership privileges from that day forward.

2. Expulsion.

(a) As set forth in Section 10.2 of the Bylaws, the Board may terminate the Membership of a Member for good cause, after notice to the Member and a hearing. Good cause for termination will include, but not be limited to, the following: (i) failure to take appropriate action in a timely manner to remove the cause for suspension, (ii) failure of the Member to Patronize the Cooperative for a period of twelve months or otherwise not actively support the business of the Cooperative, or (iii) activities of the Member against the best interests of the Cooperative. Before voting upon the termination of the Membership of a Member, the Board will provide the Member with a full statement in writing of the charges against the Member alleged to constitute good cause for termination. Such notice will specify the place, date, and hour of a hearing before the Board of the charges, which hearing will not be less than ten days after service of such notice on the Member. At the hearing, the Member may be represented by counsel and will have the privilege of presenting and cross-examining witnesses on his, her or its behalf. All parties agree to Arbitration and waive their rights to these matters being heard in Court or by a Jury and the decision of the Arbitrator is final and binding.

(b) Any act, error, commission or omission that the Board solely determines is immoral, unethical, and illegal, in violation of the code of ethics or not in the best interest of the Members or the Cooperative Association may result in Suspension or Expulsion.

(c) Upon termination, all Membership privileges shall cease, and all business transacted with the Cooperative will not be counted in determining Patronage Refund payments for the year. There is no refund of Share Fees they are deemed earned by the CoOp at payment.

3. Rights Upon Termination of Membership.

In accordance with Section 10.3 of the Bylaws, in the case of withdrawal, retirement, death, or expulsion, or other termination of the Membership of a Member:

(a) For an amount in cash equal to [the par value thereof], plus the additional capital amount paid for such Stock, if any, more than its par value at the time of issuance, but the payment will be made solely at the discretion of the Board of Directors. Further, the Cooperative may retain the amount of any admission fees or other assessments charged at the time of the Member's admission which is nonrefundable.

(b) Repurchase of Written Notices of Allocation. Any written notices of allocation held by such terminating Member will be repurchased at their stated value, in cash, and the payment will be made at the discretion and terms set by the Board of Directors.

(c) Offset. The Board may, in its sole discretion, offset the amount payable for a Member's stock or written notices of allocation against any indebtedness of such Member to the Cooperative. The Member will have no right to offset the amount of such stock or written notices of allocation against any indebtedness it may have to the Cooperative. At times other than the termination of Membership, the Board may, in its sole discretion, apply to any indebtedness of a Member owing to the Cooperative the amount of all or a part of such Member's written notices of allocation or Patronage Refund as shown on the records of the Cooperative, but this provision will confer no obligation upon the Board so to do, nor any right upon the Member to compel or insist upon such offset.

(d) Property Rights. Each Member is received into Membership upon the express agreement on the part of such Member and upon the condition that, in the event of termination, whether by expulsion or otherwise, the Member will not be entitled to be paid anything for the value of his, her or its property interest or other Membership rights, plus the additional capital amount paid for such stock, if any, as well as the stated value of any written notices of allocation issued to such Member.

(e) Duty of Member Following Termination. Immediately after the resignation of a Member from the Cooperative or the termination of a Member's Membership in the Cooperative, the Member will, at Member's sole cost and expense:

(i) cease using the Marks of the Cooperative, and

(ii) promptly deliver at the Member's sole cost to the Cooperative or its agents all Cooperative Information and all samples, sales aids, signage, literature, displays, catalogues, bulletins, price information, discount information, purchase orders, micro-film and other similar information or materials supplied to Member by the Cooperative.

For purposes of the Bylaws, "Marks" will mean all trade names, trademarks, service marks, logos, insignia, collective service marks, and collective trademarks now owned or used by the Cooperative, and all modifications and enhancements thereto.

For purposes of the Bylaws, "Cooperative Information" means the concepts, ideas, know-how and structure of Cooperative, including, but not limited to, marketing methods and concepts, advertising materials (regardless of the communication medium used to create such advertising materials), Cooperative financial information (including, without limitation, any and all financial statements, projections, reports and etc. with respect to any operation of the Cooperative, including revenues, expenses, Patronage Refunds, manufacturers rebates, minimum purchase requirements or any other matter), internal bulletins, correspondence, internal price information, product cross reference information, computer software and hardware developed by or in conjunction with the Cooperative, price discount information, purchasing methods and programs, supply sources, packaging methods and operations, confidential information, books, records, plans, designs, flow charts, drawings, copyrights, techniques, Marks, and any other materials relating to the idea, design, concept, management and operation of the Cooperative, and any and all modifications, improvements, additions and changes thereto.

After termination of a Member's Membership in the Cooperative, the Member agrees to use its best efforts to return all materials bearing Marks of the Company or as the Parties may agree on disposal.

XIII. DISTRIBUTION OF THE COOPERATIVE'S ASSETS UPON DISSOLUTION AND LIQUIDATION

In the event of dissolution, after paying or providing for the debts of the Cooperative, the holders of written notices of allocation shall be entitled to receive cash in the amount of the face amount of such allocations. Thereafter, holders of Membership Common Stock shall receive the par value thereof (assume zero), plus the additional capital paid for such stock at the time of issuance (currently not required). Thereafter, the remaining balance of the assets shall be distributed to the holders of Membership Common Stock upon the basis of the previous 10 years, or the total number of years if the Cooperative has operated less than 10 years, of Patronage business conducted by the Member. Your Membership must be active to receive distribution, if not, there is not value to your Membership.

XIV. DOCUMENTS

The Articles, Bylaws, Management Agreement and other corporate documents are available to be viewed in person, by **Share Members ONLY**, at the corporate offices, or as agreed, with reasonable notice during normal business hours.

Each prospective Member must rely on their/its own evaluation of the Cooperative, including the merits and risks involved, in making a decision to join this organization as a Cooperative Share Member. EACH PROSPECTIVE MEMBER SHOULD CONSULT HIS OR HER OWN PROFESSIONAL ADVISORS AS TO LEGAL, TAX, FINANCIAL, AND OTHER MATTERS CONCERNING THE COOPERATIVE. THE COOPERATIVE DOES NOT RENDER LEGAL, ACCOUNTING, OR FINANCIAL ADVICE.

This document may be updated and changed from time-to-time, you will always have access through our website to the latest version; therefore, you waive any right to have this document sent to you. Also, you agree that the latest version of this document will be the version the Cooperative Association and you shall rely upon without notice to either. Any questions should be directed to the Manager or the Board of Directors via the CONTACT US page on the website. We will make every effort to reply on a timely basis (say 24 to 72 hours), please allow up to 30 days for a response before a second inquiry.