



K E W E E N A W
CO-OP

Reincorporation FAQs

Dear Co-op Members and Patrons,

The majority of the Co-op membership voted on August 1, 2009 to reincorporate and revise the Co-op Bylaws to allow it to operate as a “true” cooperative. The new Bylaws and Articles of Incorporation go into effect on January 1, 2010.

The Board has compiled this document of frequently asked questions to help inform Members and future Member-Owners during the transition period between now and January 1, 2010. The Bylaws and Articles of Incorporation are posted at the Co-op on the bulletin board in the Bulk Food section. They are also available on the Co-op website www.keweenaw.coop

*Thank you,
Keweenaw Co-op Board of Directors*

Member-Ownership

What was the ‘vote’ about?

On August 1, 2009, the Members of the Keweenaw Co-op, Inc. voted “Yes” to become a true Member-Owned food cooperative. Out of a possible 1009 ballots sent out, there were 693 votes returned of which 644 voted “Yes”, 41 voted “No”, and 8 were unsigned and therefore not valid.

Why should I become a Member-Owner?

1. Not only are you a Member of this cooperative, you are part of a world wide movement of cooperation.
2. Cooperatives keep money, jobs and profits in the local community, making it stronger.
3. Joining the Co-op is a way to support the mission of the Co-op. Keweenaw Co-op Incorporated provides: a reliable source of quality goods and services to sustain a healthy community; a center for proactive socioeconomic, environmental, and health concepts; and, a forum for the development and transfer of values and skills within the community.
4. Cooperatives exist to serve Members, not to profit from them.
5. Cooperatives promote equality in relationships with farmers, producers, staff, and owners.
6. Direct Member-Owner benefits to you include:
 - End-of-the-year patronage refund as of January 1, 2010
 - Participate in the Co-op’s governance
 - Special order items
 - Discounts on pre-ordered cases
 - Use of the Co-op Community Room
 - Reduced fees for classes and workshops
 - Quarterly Newsletter (Circumspice)

How do I become a Member-Owner?

It’s easy to join, but, because we are in transition from the old Member structure to the new Member-Owner structure, the answer is not short. You basically have two options:

Option 1:

Pay \$20.00 now and become a Member under the old structure until January 1, 2010 (formally the annual fee). With this membership you will receive a 2% discount at the register along with everyday discounts and special services that non-member customers do not receive (discount and special services details at www.keweenaw.coop). On January 1, 2010 we will be transitioning to the new Member-Owner structure. The 2% discount will no longer be applied to purchases, however, at that time you will be able to invest in the Keweenaw Co-op Inc. as a stock owner (see option 2 below). Your initial equity payment and/or a prorated portion of your annual fee can be applied towards the Common Stock purchase (see option 2 below) or refunded at your request.

Option 2:

Invest in the Keweenaw Co-op, Inc. after January 1, 2010 by buying a share of Common Stock for \$200.00 (a one-time investment, not an annual fee). There will be several payment plans available for this one time investment. If you were a previous member of the Co-op, your initial equity payment and/or a prorated portion of your annual fee can be applied towards the Common Stock purchase or refunded at your request. The new Member-Owner structure entitles you to a refund at the end of each fiscal year based on your patronage and the profitability of the Co-op. You will continue to receive case discounts and other services outlined above and on the web site. Your investment is refundable for the same \$200.00 (the price doesn't fluctuate) if you choose to sell your stock back to the Co-op (timing will be dependent on the availability of funds).

When do I begin receiving Member-Owner benefits?

All the benefits are available upon first payment toward the Common Stock purchase as long as payment plans are kept up to date.

Can I shop here if I am not a Member-Owner?

You don't have to be a Member-Owner to shop here, but you may want to be (see *Why Should I become a Member-Owner*, page 2).

How does a joint (household) membership work?

If two or more persons hold a membership in partnership, joint tenancy, or otherwise, they will be collectively entitled to only one vote on each matter submitted to a vote of the Members. The vote may be cast by any one of these persons.

Common & Preferred Stock

What is Common Stock?

Common Stock is membership stock. To be a Member-Owner of the Co-op, you must own one share of Common Stock. The price of one share will be \$200.

Will I have to pay \$200 every year?

No. Member-Owners will purchase one Common share of stock for \$200. There will be no annual fee. There could be a time in the future in which the Board feels a new Member-Owner's initial capital contribution needs to increase.

What are the payment plans if I cannot pay the entire \$200.00 for a Common Stock share at one time?

Payment Plan 1: Pay the \$200 Common Share of Stock (equity) up front. Accept a thank you gift.

Payment Plan 2: Pay the \$200 Common Share of Stock (equity) in installments of \$50 per quarter year (i.e. spread payments over a year's time).

Payment Plan 3: Pay the \$200 Common Share of Stock (equity) in installments of \$25 per quarter year (i.e. spread payments over two year's time).

What if I just paid my \$20 annual fee?

Your annual fee will be prorated based on when you paid it within the 12 month period before the transition. You will have the option

of having the remainder of the prorated fee refunded to you or applied to purchase of a share of Common Stock.

How do I obtain a share of Common Stock?

You can become a member-owner starting on January 2, 2010 (the Co-op is closed on New Year's Day).

Who owns the Common Stock share?

The Common Stock share is owned by the designated shareholder and the end-of-the-year patronage refund, if applicable, will be to that person. The benefits of being a Member-Owner can be held by joint membership, which means multiple persons who are listed on the application can receive the benefits.

Is the \$200 Common Stock share redeemable if I decide I no longer want to be a Member-Owner?

It is the Board's intention to honor redemption of Common Stock at their discretion based on the well being of the Co-op.

Can a Common Stock share be transferred?

Not without written consent of the Board. This is an important restriction for two reasons: (1) to maintain an accurate record of eligible Member-Owners; and (2) regulation under applicable securities laws.

Didn't I already buy a lifetime membership?

If you ever paid a membership fee to the Co-op, then yes, you have made an initial equity payment into the current organization, referred to as a "lifetime membership". As of January 1, 2010, the Co-op will be a new organization that requires the purchase of a Common Stock to be a Member-Owner. If you have paid for a "lifetime membership" in the Co-op, you will have the option of having that fee refunded or applied to purchase a share of Common Stock.

How will refunds of original (old) member shares be handled (checks in the mail, or available only on site?)

How will partial renewals of annual dues be re-paid?

We are working on those details.

Can I buy more than one share of Common Stock?

No. Each Member-Owner owns one share of Common Stock and is therefore entitled to one vote in the affairs of the Co-op and a Patronage Refund (if the Co-op is profitable).

What is Preferred Stock?

Preferred Stock is a different class of stock from Common Stock. If the Board determines that the Co-op needs to raise capital, an offering of Preferred Stock can be made available for purchase. Purchase of Preferred Stock is optional. No Member-Owner will be required to purchase Preferred Stock. Holders of Preferred Stock will receive annual dividends on this stock.

Who is the contact person for discussing or purchasing Preferred stock?

Please contact Roger Woods, the President of the Board of Directors, for information regarding Preferred Stock. Roger's phone number and email are: (906) 370-2927 and roger@homerproductivity.com

Patronage Refund

What is a Patronage Refund?

This is the portion of the Co-op Net Margins (profits) allocated to a Member-Owner in proportion to their purchases.

Will I still get a 2% discount on my purchases?

No. A Patronage Refund will replace the discount.

How is the Patronage Refund calculated?

At the end of the fiscal year, if there are net profits (Net Margins) from Member-Owner patronage, that net profit is divided among the Member-Owners based on how much each Member-Owner purchased in that year.

What is retained refund?

A retained refund is the non-cash portion of the annual Patronage

Refund that is retained for reinvestment in the Co-op. This, along with your Common Share of stock, is the portion of the Co-op you will own! This equity is recorded by membership and can be returned (redeemed) to Member-Owners at the Board's discretion.

How does the Board decide how much Patronage Refund will be in cash/coupon and how much will be retained?

According to the tax code that allows the Co-op to deduct Patronage Refunds from its taxable income, the Board must return to Member-Owners at least 20% of the Patronage Refund in cash/coupon. The other 80% can be either returned in cash/coupon or retained as Member-Owner equity (retained refund), based on the capital needs of the Co-op at any given time. This could vary by year.

Will Patronage Refunds affect my taxable income?

Not unless you are purchasing items from the Co-op for business purposes and deducting the purchases as business expense.

Shopping

Will shopping at the Co-op be a different experience?

Other than discontinuing the 2% discount, your shopping experience should remain the same immediately after the transition. However, as we grow stronger, it is our hope that your shopping experience will improve!

Will there still be discounts for seniors and students?

Yes. Senior and student discounts can be offered at the General Manager's discretion just as they always have been. There is no plan to change this in the near future.

Will I be able to keep my Member number?

Yes.

Will I still need to use my Member number at the register?

Yes, this is how the Co-op will keep track of your purchases for your Patronage Refund.

Will non-members still be able to shop at the Co-op?

Yes.

Impact of Reincorporation Changes

How does this help make the Co-op stronger?

In the current situation the Co-op is simply a store where Members and non-members shop. There are no owners and no one to whom the Board and Co-op are legally accountable. This change will create true owners with a higher level of economic participation and investment. This increased investment will also allow the Co-op to have a larger capital reserve to invest in the store or to weather difficult economic times. These changes also allow the Co-op to possibly issue Preferred stock in the future to fund relocation or expansion, an option we currently don't have.

What does ownership in the Co-op mean to me?

Your ownership of Common Stock and Capital Credits (retained refunds) in the Co-op will be real equity ownership of the commercial enterprise you do business with. While there will be no ready market for this equity ownership other than the Co-op's ability to redeem it in the future, it is an asset that you can include in your personal financial statement.

Have other consumer grocery co-ops made this change?

Yes, there are many good examples of consumer co-ops that have successfully changed to a similar structure.

Why incorporate in Ohio?

Michigan currently has no cooperative law that suits all of the Co-op's needs and aspirations. The cooperative laws in other states

make it is easier for us to operate as a true cooperative rather than as a for-profit or nonprofit corporation. The Ohio Cooperative Law is particularly adaptable to co-ops like ours. It is not uncommon for consumer cooperatives to incorporate in a state that has a more compatible cooperative law. We will still be paying taxes to the State of Michigan as well as Federal taxes under Sub-Chapter T of the U.S. Internal Revenue Code.

Are there other changes to the Bylaws?

Yes, there are other changes in the new Bylaws. During the 2008 General Membership Meeting, we told the Membership that our Bylaws had many inconsistencies and confusing articles. The reincorporation is an opportunity for us to clean up the documents while keeping the spirit of the original Bylaws. There is additional flexibility included in the Bylaws as well as the inclusion of our new business model. The Board encourages you to read drafts of the Bylaws and Articles of Incorporation carefully. They are written to be clear and accessible to Members and Patrons. Bylaws are available on the bulletin board by the Bulk Food section and on the website www.keweenaw.coop.



www.keweenaw.coop

Visit the Co-op website for up-to-date information on the reincorporation process and other Co-op news, products, and services.



“The Board of Directors is asking you to make a commitment to the future of the Co-op. Educate yourself, ask questions, become involved and together we can create a sustainable, vibrant Keweenaw Co-op for decades to come.”

- Roger Woods, Board President

Email

board@keweenaw.coop

Phone

**Roger Woods, Board President
(906)370-2927**

Visit the Co-op online
www.keweenaw.coop

The Board meets on the third Wednesday of every month in the Community Room at the Co-op. Meetings are open to the general public. Come and participate in the Governance of your Co-op!