



Dill Pickle Food Co-op

Member Loan Information Packet

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Dill Pickle Food Co-op
Chicago, Illinois
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Appendices available from website

Cooperative bylaws; Board of Directors biographies; Membership application; Committee overview; History; Mission statement; Market assessment; Volunteer positions; Press clips; Co-op principles; Draft initial stock plan

Appendices available upon request

Current financial statement; Board of Directors résumés; Staff biographies; Comparison of financial projections to NCGA benchmarks; Articles of incorporation

Thank you for your interest in the Dill Pickle Food Co-op Member Loan program. For additional information please visit our website at www.dillpicklefoodcoop.org. For specific questions, please contact the Board of Directors at picklepeople@gmail.com.

Summary

Dill Pickle Food Co-op (“the Co-op”) seeks loans from its members to open and capitalize a cooperatively owned specialty grocer at 3039 West Fullerton Avenue in Chicago. Member loans are the most substantive way for our members to participate in opening a one-of-a-kind grocery store in Logan Square. The loans will bear interest at an annual rate of 0–4 percent and mature in 3–5 years; specific terms will be negotiated with each member individually. Although the Co-op anticipates that the retail operation will be successful, it is important to understand that member loans do carry risk. The Co-op recommends that only members of adequate financial means and who understand the risks involved participate in this program. Member loans are not intended as investment vehicles, and should not be considered as such by lenders.

The Co-op

The Co-op will be a consumer-owned retail specialty grocer in the Logan Square neighborhood on Chicago’s west side. Its mission is to offer healthful food choices and the benefits of cooperative practice in building a vibrant local community and a more sustainable world. As a grocer, the Co-op will specialize in foods that are organically and locally grown, and minimally processed and packaged. A commitment to product excellence, affordability, superior customer service, and community-building will define the Co-op. The Co-op will support its diverse community’s needs through member-oriented products, services, and education.

The Co-op began in January 2004 when 60 neighborhood residents gathered at an art gallery to share their vision of opening a storefront food co-op serving the burgeoning desire for sustainable grocery choices in the Logan Square community. In 2005, the Co-op incorporated as an Illinois not-for-profit corporation. In November 2006, the Co-op held its first Board of Directors election and ratified bylaws. In May 2008, the Co-op’s member-owners voted to re-incorporate as an Illinois Cooperative. In 2009, the Co-op welcomed its 400th member, ran a spring Member Loan program which raised \$58,000, hired its first three staff members including an experienced General Manager. We are well on track to open the store’s doors late in the year, and to have 500 members by the end of 2009 – far surpassing our initial goals.

The Member Loan program in spring 2009 exceeded our initial goals. The Co-op seeks additional capital at this time in order to meet its working capital needs and higher than expected equipment costs. Earlier budgets relied more on higher-cost loans from banks and loan funds, and applications for these loans were delayed by since-resolved technical issues regarding certifying prior-year tax returns.

Organizational Structure

The Co-op currently has 452 member-owners. Each has purchased at least one-half share of Co-op common stock, and has subscribed to purchase two and a half shares over five years, for a total equity investment of \$250 per fully vested member. Co-op common stock has a par value of \$100 per share, and members may own five shares. Each member has one vote, regardless of the number of shares they have purchased.

A nine-member Board of Directors, all established Co-op members, governs the Co-op. The Board is elected annually by the Co-op’s members at the fall annual meeting, and meets monthly. The Board’s duties are to set policy, maintain fiduciary responsibility for the organization, and represent the owners in creating the vision guiding the Co-op into the future. The Board currently has eight active members and one vacancy; current Board members are listed below alongside the year their term of office expires.

William Burdett, President – 2011
 Gajus Miknaitis, Vice-President – 2010
 Payton Chung, Treasurer – 2010
 Kevin Monahan, Secretary – 2011
 Kathleen Duffy, Founder – 2009
 Theodore Burdett – 2011
 Kasia Paprocki – 2011
 Jessica Weisbach – 2011

Management Plan

The Co-op hired Vincente Hernandez as General Manager in October 2009. The General Manager is responsible for day-to-day operations at the Co-op, supervises employees and member volunteers, and reports directly to the Board of Directors, which will set direction and provide oversight. Volunteer members are currently setting initial policies regarding product selection, pricing, accounting, equipment, and other aspects of operations.

Location and Space

The Co-op will operate a specialty grocery in 1,600 square feet at 3039 West Fullerton Avenue. The building's owners sought an independent, community-focused business for their building, and the Co-op began lease negotiations in 2007. A three-year lease, with a three-year option, was signed in September 2008; construction of interior improvements began in July 2009, and the Co-op expects to take possession of the space in October or November 2009, contingent on inspections.

The location offers the Co-op a location convenient to its membership base, close to community assets like a public library and many mass transit options, on a highly-visible and recently beautified corridor, in an area under-served by specialty grocers and where supermarkets face high barriers to entry. The location offers a competitive cost structure for a young business, particularly since interior improvements will be reimbursed by the City under its Small Business Improvement Fund (SBIF). The small site may limit the Co-op's inventory, but reduces the Co-op's initial expenses.

Start-up Financing Plan

Projections and **estimates** for start-up expenses have been used to establish the tables below. More detailed financial reports are available upon request. A **Five-Year Projection** is also attached.

SUMMARY STATEMENT

Sources of Capital

Member Equity and Fundraising	69,000
Loans	110,100
Other sources	0
Total Source of Funds	179,100

Uses of Capital

Startup Expenses (net of [1])	155,730
Leasehold improvements	12,000
Capital equipment	42,100
Location/administration expenses	27,800
Opening inventory	30,750
Advertising/promotional expenses	6,900
Other expenses	680
Contingency fund	7,500

Working capital	28,000
Additional working capital available[1]	23,370

[1] We expect that some of the loans will be made in the form of lines of credit.

Financial Management

To ensure financial sustainability, Co-op management will need to react to changing market conditions. Co-op management will evaluate operations performance using the financial benchmarking system developed by the National Cooperative Grocer’s Association (NCGA), a trade association for grocery cooperatives. The Co-op already utilizes NCGA’s technical assistance programs and trade publications, and the Co-op’s close relations with its members will provide local market intelligence. Unlike many other cooperatives, the Co-op will not pay dividends, member rebates, or share buy-backs during its first few years of operation. This will retain member equity during the start-up process.

Membership recruitment for the Co-op has been very successful, met our ambitious goals, and in fact accelerated in recent months. A recent survey of members has demonstrated both strong enthusiasm for the co-op and for our expected product offerings. Given this business environment, we are optimistic that we can turn a profit on operations within the first year, and build substantial positive reserves — a footing for future expansion — within the second year.

The store may be so successful that Co-op management may face the challenges of faster than expected growth. If the Co-op exceeds expectations and requires accelerating our expansion timeframe, management will work with the Board of Directors and the membership to explore expansion options.

Further Information

Thank you for your interest in the Dill Pickle Food Co-op Member Loan program. If you have specific questions, please contact the Board of Directors at picklepeople@gmail.com.

When you are ready to make a loan commitment, please send **two** signed copies of the Promissory Note and Subscription Agreement, along with a check payable to Dill Pickle Food Co-op, to us at P.O. Box 479036, Chicago IL 60647.

Dill Pickle Food Co-op - 5 Year Financial Projections from Operations – Current as of 6 Sep 2009

3039 W Fullerton (approx. 1,815 sqft of which approx 1,380 sqft is retail)

	2009-10	2010-11	2011-12	2012-13	2013-14
Sales¹	\$570,000	\$760,000	\$813,200	\$870,124	\$931,033
Cost of Goods Sold (COGS) ²	356,250	475,000	508,250	543,828	581,895
Member Volunteer Discount	11,400	15,200	16,264	17,402	18,621
Membership Discount/Promo	14,250	19,000	20,330	21,753	23,276
Gross Profit	<u>\$188,100</u>	<u>\$250,800</u>	<u>\$268,356</u>	<u>\$287,141</u>	<u>\$307,241</u>
Operating Expenses³					
Salary (Office & Overhead)	\$129,375	\$175,000	\$185,500	\$196,630	\$208,428
Payroll (taxes etc.)	15,046	23,853	25,284	26,801	28,409
Outside Services (training)	1,000	1,000	1,000	1,000	1,000
Supplies (off and operation)	1,500	2,000	2,000	2,000	2,000
Repairs/ Maintenance	500	1,000	1,000	1,000	1,000
Advertising	1,000	2,000	2,000	2,000	2,000
Accounting and Legal	1,500	1,000	1,000	1,000	1,000
Rent	14,600	17,500	17,500	22,500	22,500
Telephone/Internet	1,750	2,000	2,000	2,000	2,000
Utilities	4,500	6,000	6,000	6,000	6,000
Insurance	1,250	7,500	7,500	7,500	7,500
Interest Expense	2,500	2,000	1,500	1,000	500
Bank Loan	7,000	7,000	7,000	7,000	7,000
Member Loans Payable				38,307	-
Total Expenses	<u>\$181,521</u>	<u>\$247,853</u>	<u>\$259,284</u>	<u>\$314,738</u>	<u>\$289,337</u>
Net Profit Before Tax	6,579	2,948	9,072	(27,597)	17,904
Income Taxes	-	-	-	-	5,550
Net Profit After Tax	6,579	2,948	9,072	(27,597)	12,354
Patronage Rebate (Dividend) ⁴	-	-	-	-	<u>(2,471)</u>
New Equity ⁵	12,500	12,500	12,500	5,500	6,000
Adj. to Owners' Equity⁶	<u>\$19,079</u>	<u>\$15,448</u>	<u>\$21,572</u>	<u>\$(22,097)</u>	<u>\$15,883</u>

¹ Sales and COGS are based on store opening in October 2009. Sales are calculated at an average of \$550/retail sqft annually (Example Co-op, a baseline comparison, budgeted \$1,181/sqft in 2006). Based on approximately 1,380 sqft of retail space, this is an average sales of approx. \$14,600/week. With a projected membership at store opening of 500 members, this is an average of less than \$30/week/member. Additionally, the co-op will be open to the public and projects substantial sales from community members. The member volunteer discount is budgeted at 2% of sales, and the member discounts and promotions is budgeted at 2.5% of sales.

² COGS are 62.5% of Retail Sales based on example Co-op P&L statements

³ Expenses are based on occupancy of the leased space and DPFC wages beginning October 1, 2009. Taxes, Insurance, Utilities, and Interest Paid are calculated with estimate numbers based on research or quotes. Salaries are budgeted at \$150,000 and increase at 6% after the close of the 2010-11 fiscal year. Included in the salary budget line item is an adjustment of 15% for benefits. Payroll processing and taxes are broken out as 11-13% of salaries. Members loans were signed with maturity dates of either 3 or 5 years, and the 3 year loans mature between March and June 30, 2012.

⁴ Member Draw/Dividends are regarded as the "Patronage Rebate" offered to Members annually if the Co-op deems financially viable.

⁵ New Equity is defined as equity raised from additional membership payments from future and current Members.

⁶ Adjustments to Equity are from operations and additional equity from current and future Members.

PROMISSORY NOTE

Dill Pickle Food Co-op
3039 W. Fullerton
Chicago, Illinois 60647
_____, 2009

FOR VALUE RECEIVED, Dill Pickle Food Co-op (the "Co-op") promises to pay to the order of _____, (the "Lender"), its successors and assigns, at its principal office at Chicago, Illinois, or such other place as the holder may designate in writing from time to time, the principal sum of \$_____, in lawful money of the United States, together with interest from the date hereof on the unpaid balance outstanding at the rate of ____% per year (calculated on the basis of the actual number of days elapsed and a 360-day year and compounded annually). The principal under this Note and interest as of such date shall be due and payable on _____, being _____ (____) months from the date hereof. The Co-op agrees to pay on demand all costs and expenses of all present and future holders of this Note in connection with the enforcement of this Note, including but not limited to reasonable attorneys' fees and legal expenses.

1. Subscription Agreement. This Note has been issued pursuant to the terms and provisions of the Subscription Agreement (the "Agreement"), dated as of _____, between the Co-op and the Lender, and this Note and the holder hereof are entitled to all the benefits provided for in the Agreement, or which are referred to therein, to which Agreement reference is made for a statement of the terms and conditions under which this indebtedness was incurred and is to be repaid. The provisions of the Agreement are incorporated herein by reference with the same force and effect as if fully set forth herein.

2. Prepayment. This Note may be prepaid in whole or in part at any time and from time to time without premium or penalty. All prepayments on this Note and all other notes issued to other owners of the Co-op as part of its efforts to obtain unsecured loans from its owners during the period from October 28, 2009 through November 15, 2009 (the "Owner Loans") shall be applied to this Note pro rata on the basis of the proportion that the original principal amount of this Note bears to the aggregate original principal amount of this Note and all notes issued for all Owner Loans, and in the case of this Note, such prepayments shall be applied first to the payment of any costs of collection that may be due hereunder, then to the payment of accrued interest, and the balance shall be applied to principal.

3. Restriction on Transfer. In the event the Lender seeks to transfer this Note, the Lender shall provide the Co-op with written notice of such proposed transfer. Such notice shall specify the name and address of the transferee and the proposed effective date of the transfer. Any such transfer shall become effective only upon approval of such transfer by the Co-op's Board of Directors, which approval may be withheld in the sole discretion of the Co-op's Board of Directors.

4. Notices. All formal demands and notices to be given hereunder shall be delivered or sent by certified mail, return receipt requested; in the case of the Co-op, addressed to its corporate headquarters, and in the case of the Lender, addressed to the address written above, in either case, until a new address shall have been substituted by like notice. Notwithstanding the previous sentence, the Co-op may send payments of interest and principal to the Lender by first class mail, without certification or return receipt.

IN WITNESS WHEREOF, the Co-op has caused this Note to be executed on its behalf by its duly authorized officer on the day and year first above written.

DILL PICKLE FOOD CO-OP

By: _____

Its: _____

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER APPLICABLE STATE SECURITIES LAWS. THIS NOTE HAS BEEN ACQUIRED FOR LOAN PURPOSES ONLY AND MAY NOT BE OFFERED FOR SALE, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SUCH STATE LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT AND SUCH STATE LAWS, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE CO-OP.

IMPORTANT: PLEASE READ CAREFULLY BEFORE SIGNING

SUBSCRIPTION AGREEMENT

Dill Pickle Food Co-op
3039 W. Fullerton
Chicago, IL 60647

The undersigned, _____, hereby subscribes to loan money to Dill Pickle Food Co-op (the "Co-op") pursuant to the terms and conditions of an unsecured promissory note, substantially in the form attached hereto, to be executed by the Co-op upon receipt of an advance of funds by the undersigned. Following appropriate and satisfactory negotiations, the undersigned and the Co-op have agreed that such Note shall specify interest, payable upon maturity, of ___% per annum and a maturity date of _____. In connection with such loan, the undersigned has received and reviewed the Co-op's Information Statement dated October 26, 2009 (the "Member Loan Information").

1. Certain Representations of the Subscriber. In connection with, and in consideration of, the loan and the issuance of the Note to the undersigned, the undersigned hereby represents and warrants to the Co-op that the undersigned:

(a) Has been given access to full and complete information regarding the Co-op (including the opportunity to meet with Co-op officers and review such documents as the undersigned may have requested in writing) and has utilized such access to the undersigned's satisfaction for the purpose of obtaining information in addition to, or verifying information included in, the Memorandum.

(c) Has, either alone or with the assistance of the undersigned's own professional advisors, the knowledge and experience in financial and business matters and is capable of evaluating the merits and risks of providing the loan and has the net worth to undertake such risks;

(d) Realizes that providing the loan represents a speculative loan involving a high degree of risk, can bear the economic risk of the loan for an indefinite period of time, can afford to sustain a complete loss of his or her loan, and has no need for liquidity in connection with the funds loaned to the Co-op.

(e) Recognizes that (i) there is no assurance that the Co-op will be able to repay the loan or to maintain or achieve profitability; and (ii) the Co-op will require additional financing and there are no assurances that additional financing can be obtained.

(f) Realizes that there will be no immediate market for the Note representing the loan, that there are significant restrictions on the transferability of the Note, and that for these and other reasons, the undersigned may not be able to liquidate an loan in the Note for an indefinite period of time.

(g) Realizes that the Note has not been registered for sale under the Securities Act of 1933, as amended (the "Act"), or applicable state securities laws (the "State Laws"), and may be re-sold only pursuant to registration under the Act and State Laws, or an exemption from such registration.

(h) Is experienced and knowledgeable in financial and business matters, capable of evaluating the merits and risks of providing the loan and does not need or desire the assistance of a knowledgeable representative to aid in the evaluation of such risks (or, in the alternative, has a knowledgeable representative whom such investor intends to use in connection with a decision as to whether to purchase the Securities).

(i) Is NOT subject to the backup withholding provisions of Section 3406(a)(i)(C) of the Internal Revenue Code of 1986, as amended (Note: you are subject to backup withholding if (i) you fail to furnish your Social Security number or taxpayer identification number herein; (ii) the Internal Revenue Services notifies the Co-op that you furnished an incorrect Social Security number or taxpayer identification number, (iii) you are notified that you are

subject to backup withholding; or (iv) you fail to certify that you are not subject to backup withholding or you fail to certify your Social Security number or taxpayer identification number.)

2. Loan Intent. The undersigned has been advised that the Note representing the loan has not been registered under the Act or any state securities law but that the Note is being offered, and will be offered and sold pursuant to exemptions from the Act and applicable state laws, and that the Co-op's reliance upon such exemptions is predicated in part on the undersigned's representations contained herein. The undersigned represents and warrants that the loan is being provided for the undersigned's own account, for long-term loan purposes and without the intention of reselling or redistributing the Note. The undersigned represents that the undersigned has made no agreement with others regarding the Note, and that the undersigned's financial condition is such that it is not likely that the undersigned will need to dispose of the Note in the foreseeable future. The undersigned is aware that: (i) there is no public market for the Note, and, in the view of the Securities and Exchange Commission, a purchase of such instruments with an intent to resell by reason of any foreseeable specific contingency or anticipated change in market values, would represent an intent inconsistent with the loan representations set forth above; and (ii) the transferability of the Note is restricted and requires the written consent of the Co-op.

The undersigned further represents and agrees that if, contrary to the undersigned's foregoing intentions, the undersigned should later desire to dispose of or transfer the Note in any manner, the undersigned shall not do so without first obtaining (i) approval of the Co-op's Board of Directors, (ii) an opinion of counsel satisfactory to the Co-op that such proposed disposition or transfer may be made lawfully without the registration of such Note pursuant to the Act and applicable state securities laws, or (iii) registration of such Note (it being expressly understood that the Co-op shall not have any obligation to register the Note).

3. Residence and Ownership. The undersigned represents and warrants that the undersigned is a bona fide resident of (or, if an entity, is organized or incorporated under the laws of, and is domiciled in) and received the offer and decided to provide the loan in the State of Illinois, and that the loan is being provided by the undersigned in the undersigned's name solely for the undersigned's own account and not as nominee for, on behalf of, for the beneficial interest of, or with the intention to transfer to, any other person, trust, or organization. The undersigned further represents and warrants that the undersigned is an owner of the Co-op in good standing.

4. Entities. If the undersigned is an entity, the individual signing on behalf of such entity and the entity jointly and severally agree and certify that:

- (a) the undersigned was not organized for the specific purpose of providing the loan to the Co-op; and
- (b) this Agreement has been duly authorized by all necessary action on the part of the entity and the undersigned, that the undersigned individual is authorized to execute and carry out the terms of this Agreement, and that this Agreement has been duly executed by an authorized officer or representative of the undersigned entity, and is a legal, valid and binding obligation of the undersigned enforceable in accordance with its terms.

5. Miscellaneous.

(a) The undersigned understands the meaning and legal consequences of the agreements, representations and warranties contained herein, agrees that such agreements, representations and warranties shall survive and remain in full force and effect after the execution hereof and advance of the loan to the Co-op, and further agrees to indemnify and hold harmless the Co-op, each current and future officer, director, employee, agent and shareholder from and against any and all loss, damage or liability due to, or arising out of, a breach of any agreement, representation or warranty of the undersigned contained herein.

(b) Neither this Agreement, nor any interest herein, shall be assignable by the Subscriber without prior written consent of the Co-op. The Subscriber hereby acknowledges and agrees that the Subscriber is not entitled to cancel, terminate or revoke this Agreement and that it shall survive the death, incapacity or bankruptcy of the Subscriber. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective heirs, legal representatives, successors and assigns.

(c) This Agreement shall be construed and interpreted in accordance with the laws of the State of Illinois, exclusive of its conflict of laws provisions.

The undersigned has executed this Subscription Agreement as of _____.

INDIVIDUAL SUBSCRIBERS:

Signature

Name (Typed or Printed)

Signature (If more than one individual subscriber)

Name (Typed or Printed)

ENTITY SUBSCRIBERS:

Signature

Name (Typed or Printed) and Title

Name of Entity

ALL SUBSCRIBERS:

Date of Subscription

Street Address

Daytime Telephone Number

City, State and Zip Code

Fax Number

Tax Identification or Social Security Number

Email address

ACCEPTANCE:

This Subscription Agreement is accepted as of _____.

DILL PICKLE FOOD CO-OP

By: _____

Its: _____