

## **Durango Natural Foods Co-op URGENT MEMBER ALERT**

**PETITION TITLE:** *DNF MEMBER PETITION to remove the DNF Board*

**PETITION & VOTE BRIEF:**

- i) **Petition:** To remove the entire Durango Natural Foods Co-op Board of Directors; and
- ii) **Optional Vote:** To place temporary leadership of DNF under the direction of two long-time members: Root Routledge and Pat Blair as a temporary two-member interim Board

**PETITION & VOTE EXPLANATION:**

- i) **Petition:** This DNF MEMBER PETITION to the current DNF Board of Directors is being signed for the reasons stated below, which are supported in the accompanying SUPPORTING ANALYSIS document. The intent is to reclaim the original Durango Natural Foods Co-op vision of *local voice and local ownership*.
- ii) **Optional Vote:** Place temporary leadership of DNF under the direction of two long-time members: Root Routledge (author of the SUPPORTING ANALYSIS) and Pat Blair (DNF General Manager from 1974-1983) as an interim Board, with a November electronic vote for three additional Board members and NEW election April 2015.

**What you are voting for:** By adding your name to this electronic petition you are voting as WE THE MEMBER-OWNERS OF DNF to:

**PETITION**

1. Request the prompt and voluntary resignation of all 7 DNF Board Directors; if not voluntary, by their removal through this vote. By name and Board position they are: Geoff Wolf, Board President; Paul Kosnik, Vice President; Victoria Robinson, Secretary; Robert Fitts, Treasurer; Jim Forleo, Board Member; Deborah Powell, Board Member; Colleen Caver, Board Member.
2. Request that no further decisions be made by this Board; in particular, the search for and hiring of a new General Manager. This vote removes the Board's authority to make any further decisions that affect the current and future operation of DNF.
3. Request the retention of Kimberly Wiggins and Brian Gaddy as Co-General Managers through an interim period.

**OPTIONAL VOTE:** By checking the box by each name, I vote to have the following members assume temporary leadership of DNF as interim DNF Board members, with further voting to be scheduled in November and a NEW election April 2015.

Who Root and Pat are and their backgrounds are detailed in the SUPPORTING ANALYSIS document. The vote electronic or on paper ballot is:

- Root Routledge
- Pat Blair

## *DNF MEMBER PETITION to remove the DNF Board*

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**Reasons for removal of Board of Directors:** There are three broad reasons the members request the removal of the current Board. These are fully fleshed out in the SUPPORTING ANALYSIS:

1. Lack of transparency; inadequate, inaccurate and misleading communication with DNF members and staff; dishonesty and misinformation regarding “merger.”
2. Initiating and proceeding with a “merger” agreement with a New Mexico co-op named La Montañita without any prior notice to members, to the point of expenditures for external consultants, accountants, and legal services in the drafting of a letter of intent, which compromises our member-owned Co-op. To this day this infamous signed “letter of intent” has never been shared with members or staff in any detail; nor have any facts or detailed analysis been presented to the members or staff justifying the Board’s actions. The “merger” had a time pressure aspect for a final vote; and there has not been any rationale or analysis presented that stands up to common business scrutiny; only a sales pitch spin positioning this “merger” as a positive “opportunity” for a “win/win/win” transaction that will benefit everyone. The “merger” is questionable in its presentation and claims.
3. Insisting on proceeding with the ill-advised, costly and unnecessary search for and hiring of an outside General Manager. Our two Co-General Managers, Kim and Brian, have demonstrated competence, skill and sound judgment in managing DNF since the end of 2013, details of that performance are highlighted in the SUPPORTING ANALYSIS.

**VOTE and IMPLICIT ELECTRONIC SIGNATURE:** By submitting my name as a DNF member, I am voting YES to all of the above statements and expect this electronic vote to be as valid as a handwritten paper ballot and signature or a vote in person at any Board and/or member-owner meeting. Voting closes after a 10-day period at midnight, Sept 7<sup>th</sup>.

**SUPPORTING ANALYSIS & Petition Purpose:** This member-petition (“PETITION”) is backed by the SUPPORTING ANALYSIS presented in the document that accompanies the Durango Natural Foods Co-op (“DNF”) email notice of the PETITION as an attachment, along with the link to the PETITION website, which is:

<https://durangonaturalfoods.wufoo.com/forms/petition-to-remove-dnf-board/>.

The **purpose of this PETITION** is to request the immediate and voluntary resignation of the current DNF Board of Directors; or their removal by member vote.



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August 27, 2014

## Dear Durango Natural Foods Co-op Members:

This SUPPORTING ANALYSIS to the PETITION is broken into five sections which explicitly spell out pertinent member rights and details that undergird the statements in the PETITION itself: Member Rights; Who we are; The health of DNF Co-op and its value to the member-owners; Evaluation of the Board's "merger" proposal and other actions; The Future of Durango Natural Foods Co-op.

### Member Rights

Our beloved Durango Natural Foods Co-op ("DNF"), of which we are all equal member-owners ("owners" or "members" below), continues to be *under severe threat of permanent damage, if not its very existence*, as I will show in this paper. This paper presents an analysis of what's been proposed unanimously by the DNF Board ("the Board") and their stated rationale (still held to in their August 21<sup>st</sup> letter to owners and staff, even though it announces that the "merger" is "off the table" for now, but could be brought up again anytime in the future); what is currently being planned by the board; and the lack of candid truth and transparency to DNF members about power moves the Board has proposed and is currently planning, along with the information upon which they are based. Note that Board communications to members or public are typically put out by the DNF Board President, but represent the entire Board. As well, there has been a general attitude of misinformation, dishonesty, and disrespectful secrecy to member-owners and staff, who report being routinely intimidated by Board members and told not to share any information with the owners. The Board has not produced any strategic vision for the flourishing of Durango Natural Foods Co-op as a local member-owned co-op that supports the Durango community through what it sells, the people who staff the Co-op, who we are, and what the Co-op stands for. DNF has been treated as merely an ongoing business that is primed for a below-value fire sale. All of these points will be substantiated below.

All of these issues are not only *not* in the interest of DNF member-owners; they will cause irreparable damage to our Co-op, its staff, and the morale of the staff and entire membership. There exists such dissatisfaction with the Boards' recent proposal that were DNF to be "merged" with another entity, especially one out of state and thus no longer a locally owned, run and managed business, it is probable there would be a mass loss of its member and neighborhood customer base, putting the Co-op at risk of immanent business failure. The Board appears to be clueless as to why people actually shop at Durango Natural Foods.

We must exercise our member *rights of democratic governance* and save our Co-op by insisting on the removal of this board in its entirety, via the appropriate clauses in our "Bylaws of Durango Natural Foods Co-op." Relevant sections are: *Section 4.9 Resignation and Removal*; *Section 3.2 Special Meetings*; and *Section 3.9 Issues submitted by owners*. We respectfully ask

the Board to voluntarily abide by the demands of this member PETITION. We ask that they do so in a dignified and respectful way by voluntarily stepping down without a struggle or fight to retain Board-position power, or trying to exploit delays or any other relationship-damaging tactics. We, the members signing, simply do not want any more of this Board for the reasons stated and supported by this analysis. The special meeting sections noted above require extended time periods to manifest (up to 90 days for §3.2 and a minimum of 60 days for §3.9; however Section 5.5 Referendum, allows the Board to call a meeting within 20 days (or earlier). We expect the Board to honor the results of our PETITION, and to step down forthwith through a letter of resignation to the DNF member-owners.

If the Board insists on a meeting, they can call it. Section 5.5 states:

“Any action of potentially serious consequence taken by the Board shall be referred to a meeting of owners for approval or disapproval if demanded within ten days of such action by any three directors. Such meeting shall be called by the Secretary within twenty days of such demand.” That demand is hereby made via the PETITION and this supporting analysis. It would be a mistake for the Board to think in terms of “circling the wagons.”

It is our right to take direct control of our Co-op and establish a new governance. In the words of “The Cooperative Identity” as replicated in the official “Durango Natural Foods Board of Directors – Information Packet,” whose principles we purport to follow:

**“Democratic member control:** Co-operatives are democratic organizations *controlled by their members*, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership...”

**“Autonomy and independence:** Co-operatives are autonomous, self-help organizations *controlled by their members*. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so *on terms that ensure democratic control by their members and maintain their co-operative autonomy.*”

We expect every Board member to accept the PETITION results as our vote for removal without further delay or meetings, special or routine; and to respectfully resign with each Board member offering their own individual letter to the members. It is time for each Board member to speak openly for themselves.

## **Behind the PETITION: Who we are**

Although there is strong momentum building among many members and DNF staff for a petition to remove this Board of Directors; the specific wording and creation of this PETITION is put forth on behalf of the DNF members and their interests by two long-time members of DNF, Pat Blair and Root Routledge (author of this SUPPORTING ANALYSIS), who together represent 60 years of membership. Pat joined DNF shortly after it was formed, which grew out of a small group of “grassroots visionaries” who chose to establish a local nonprofit outlet for low-cost quality food which was and is locally owned and operated.<sup>1</sup> It was legally registered in the

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<sup>1</sup> Pat has written a brief history of Durango Natural Foods titled: “DNF 40 Year Legacy — Members Have a Voice!” The 1-page brief history by Pat is attached to this document as an appendix.

State of Colorado in 1974 as a nonprofit corporation named: “Durango Natural Foods, Inc;” changed to “Durango Natural Foods Co-op” in 2010. Pat served as the DNF General Manager from 1974 to 1983 and has been a member for 40 years. Pat has a B.S. degree in Biology and an M.A. in Human Nutrition.

The Blair family are long-time residents of Durango and also started the non-profit Rocky Mountain Retreat on 3<sup>rd</sup> Avenue, dba Turtle Lake Refuge, run by Pat and Rob’s daughter Katrina Blair, offering it as a venue for public interest meetings, including DNF public meetings; and they participated in the first recycling in Durango, subsequently picked up and administered by the City of Durango administration. Rob Blair is a professor emeritus of geology at Fort Lewis College. They are all passionate about preserving the unique local character and member ownership of our Durango Natural Foods Co-op.

Root Routledge has been a member of DNF for the past 20 years. He has been an industrial business consultant and trainer since founding his company Alpine Analytics (this letterhead) in 1991, after having worked directly in industry in various technical and management positions for 20 years. He holds a PhD in Industrial Engineering and an MBA. He moved to the Durango area in 1994 and has lived here ever since. He could accurately be referred to as a “DNF activist” whose passion to save DNF from its demise has been stirred by the recent Board actions. This analysis is his voluntary contribution and assistance to DNF members and staff, and represents his best professional investigation, description and analysis of the *reality* of the Board’s proposals and actions and their negative impacts on members’ interests. He brings to light the actual value of DNF to its members through a DNF member value-analysis, incorporating the recent financial history and performance trends over the past nine years, from 2006 through 2014. This is something the Board has not done, nor anything approaching it; and thus it is among the reasons why this PETITION to remove the Board is urgent and necessary.

## **The health of DNF Co-op and its value to the member-owners**

### **People, Communication, Accountability, Integrity and Relationships**

Let’s begin this analysis of who we are, how we’re doing, what value DNF holds for its members, and what the future prospects look like for DNF as our locally owned co-op by focusing on our people, relationships and our integrity. We start with a short aside to clear the air about our members, staff, Board, and the proposed buyer, La Montañita of Albuquerque. This analysis and the PETITION have nothing to do with this New Mexico co-op organization or its people; it is entirely independent of any outside suitor, only having to do with the interests of DNF itself, meaning its members, staff, suppliers and customers, and our prospects for continuing on into the future as a locally owned co-op.

**La Montañita Co-op (LMC):** La Montañita’s business model holds a large conglomerate vision of growth through acquisition of existing co-ops in an expanding geographic area; thus by its very nature, it is not a “local co-op” since all major decisions, including management staffing, product pricing and marketing are made from the corporate headquarter offices. It has approximately 17,000 members (DNF has about 2000 members, 1800 of whom are current). From all indications LMC is a very fine co-op with wonderful people managing it and satisfied customers. It has been repeatedly said that LMC has helped DNF many times over the years with “support and assistance,” but the nature of such help has never really been defined or identified to us in explicit terms of how specifically that support and assistance has manifested. For sure,

this does not mean financial or material support, as far as we know. It has been the offering of verbal advice when asked for by DNF staff or Board presidents over the years, and that has been the extent of it. Yet on a most positive note, even throughout the deliberations to acquire DNF, they have indicated they would continue to be available to offer such advice when needed whether or not the “merger” goes through. Our staff has excellent relationships with LMC and we as members and staff are grateful for all such help they have provided over the years and look forward to a continuing connection as respected fellow members of the broader co-op community.

The rejection by DNF members of this “merger” proposal with LMC, and this PETITION to remove our Board, does not reflect on LMC or its members and staff in any way. Yet, at the Monday, August 18<sup>th</sup> Board meeting to discuss this issue, where the threat of loss of DNF brought out over 60 people attending with standing room only, some people felt it necessary to pump up and defend LMC and its people, as if that were the reason we wouldn’t want to approve this “merger.” “Hey, they’re nice people; why don’t we just give them DNF to run, since we’ve struggled so hard and could barely make it work on our own.” One person even passed out a bunch of copies of LMC’s August issue of their monthly “CO-OP Connections” newspaper. Others spoke of the benefit of their regional Food Distribution System we would gain; however, LMC has stated they were, and still are very willing to work with DNF, local producers, local farmers, and local ranchers to allow them access into their regional Food Distribution System—without “merging.” Let us put LMC at rest as irrelevant to the decisions facing DNF’s future. It’s about keeping our member-owned local co-op; not about who might want it, how nice they are, what they could do for our store, or how our DNF business would be folded into their organization.

**Board, staff and members:** Even though Pat and I have received lots of feedback from our interactions with DNF staff and members regarding disillusionment and antipathy among them toward the Board, let us also put to rest any notion that this is about personal conflicts, personalities, or embitterment. We all live in a wonderful small community where we often run into each other around town or on the trails, and our goal is to change the leadership of DNF in a dignified timely way that does minimal damage to personal relationships. That is why we are asking the Board to step down in a dignified, graceful and respectful fashion, without tearing at the bonds of community relationships through rancor or personal attacks, or by “digging in” for a fight they will surely lose.

That said, business and professional integrity requires me to be rigorously truthful in my presentation of this analysis and the information it is based on, regardless of who it might directly reflect on with respect to their performance and decisions in their positions; in particular the members of the DNF Board, as uncomfortable as it may make them feel. It’s about accountability; and by our core principles, the Board is accountable to the Co-op members. Let us express our appreciation up front for all the time and energy they have spent as Board volunteers. But unfortunately, the Board has lost the original real vision for DNF—local voice, local owners, offering local reasonably priced food. Let us also note here that it is readily apparent that it is the President of the Board, Geoff Wolf, who has been the principal energy behind this proposed “merger”, as well as his aggressive insistence on upsetting our well-functioning staff management structure by bringing in a new outside general manager along with its associated additional expenses. He underscored this in his August 21<sup>st</sup> letter; and his last words at our August 18<sup>th</sup> Board meeting as we were all getting up to leave were: “One thing you

can be sure of is that we *will* be hiring a new GM, regardless of whether that GM comes from La Montañita or on our own.” He told us the search for a new GM would cost \$10,000, presumably following the industry paradigm of hiring a “head-hunter” for a nation-wide search. That \$10,000 mentioned at that Board meeting is the first time either of our Co-GMs Kim or Brian had ever heard that figure; and obviously it hasn’t been budgeted for. In fact, adding in to our wage expenses this figure and an additional GM salary of say \$50-60,000 a year (whatever it might be); this Board’s plan will unnecessarily impose on our organization perhaps an additional expense of at least \$70,000 a year. We don’t need it; it’s a waste of our money with other serious negative ramifications as well.

In fact, think about it; a new GM outsider would take over control of DNF. As an incoming outsider he or she would not know the culture of our staff, management, membership or Durango community; and would answer in loyalty to the Board who hired him and their dictates, not our member-owners. It would likely destroy the job satisfaction of Kim and Brian, since their responsibilities would be demoted and their excellent vision and strategic thinking would be at risk of being replaced by a new GM who would view his role as answering to the Board, not the members. We currently have a Board that apparently does not view itself as answering to the members. And since the staff likes Kim and Brian quite well, that would have reverberations throughout the organization.

All communications by the Board about the issues at hand have presented the Board as a unified front, all in agreement with the proposals put forth, and indeed through their statements they view themselves as “transparent” and “looking out for the members’ interests.” Unfortunately, this is not the truth and does not get to the core of the matter. By its very behavior, this has the appearance of an authoritative and dictatorial Board, especially as directives come from the president of the Board to staff. Relations between the staff and the Board are strained and distrustful, which is a negative drain on the efforts to run the business. The same could be said about its relationship with many member-owners. Staff members from our Co-General Managers on down are repeatedly told not to share information with the member-owners, which breeds distrust while securing the Board’s power—information is power, as the cliché goes. It is patently absurd on its face for the Board to imagine that the staff would simply cower to its dictates. The opposite is true; in fact, we members are most fortunate to have a staff that is more loyal to the interests of the members than some temporary Board member. And it is their candidness about all this, the willingness to share information, and their explicitly expressed frustrations that has shed light on the Board’s management style, its attitude toward staff and the members, and the audaciously absurd arrogance on the part of the Board to even contemplate the presumption that our 40-year DNF Co-op is simply some organizational entity that can be sold off at their discretion (minor detail of member approval) while they are in charge. It is *not* their organization; it belongs to the Co-op members. Do they represent our interests? This Board, under the leadership of Geoff Wolf, has exhibited a corporate mindset and apparently does not hold to the values that brought us all together and sustain us as an independently owned co-op. It’s merely a business and now that it is showing wonderfully improved performance it’s time to sell it off—actually, give it away, since the bank that holds our mortgage is the only one who will get any money for it and LMC would get everything we currently own in trade for LMC membership for your DNF member-ownership, with credit for your paid-in share of \$100 or less toward their \$200 cost of membership, as the analysis below shows.

**Co-General Mangers Kim and Brian, and our wonderful staff of about 20 people:** The fact is, we have an excellent cohesive and well-functioning enthusiastic staff and management team at DNF, who are responsible for producing the best financial performance, as projected from year-to-date (YTD, end of July) to the end-of-year (EOY) 2014, that we have seen since 2008, six years ago. These financial details are spelled out below. I have spent time interviewing several staff members and managers, and they have been open and candid with information and their perspectives and feelings about the threats this Board has posed to the future of DNF as an independent entity we currently own, manage and run. They are very concerned about the Board's impacts on our future health as an organization.

I have reviewed Kim and Brian's vision and strategic plan for this year and beyond, which is perfectly poised to build a stronger foundation with a theme of "creating readiness for growth" as the basis of future locally-based sales growth, creating opportunities for increased services and outcomes. They have directed their management and team energy on internal processes and infrastructure by implementing stronger systems and increased accountability throughout the management and staff; in fact, they are already well into a "store reset" that is improving flows and efficiency, and will make for a more enjoyable customer experience. This they are currently working on and accomplishing by focusing on more clearly defining jobs, duties, and reporting structures, where the kinks and challenges of learning to operate as a co-general management structure are being worked out through the learning curve of developing mutual and separate responsibilities, decision authority and accountability. They have clearly in mind that our organization's foundation is built on our systems, talent, our capital and our vision; and they have a passion to succeed. We would be tossing all of this out the window by bringing in some outsider as a new general manager. Apparently this disengaged Board has little managerial expertise. Let's empower our current DNF management and staff team and watch our co-op flourish.

Indeed, our DNF team really knows what they are doing; and along with some senior management consultative coaching that Pat and Root would bring, we can overcome any difficulties and glitches that currently exist. Pat and her family have founded and run several organizations from scratch, not the least of which include Rocky Mountain Retreat, Turtle Lake Refuge and DNF management in its early years. Management of industrial and business systems is Root's professional expertise and from a coaching and consultative management style, he will spend time actively and directly engaged with DNF staff to help understand what's in the way of success, and to evaluate and improve our performance from a systems perspective, thus helping our team manifest a stronger member-owned local food co-op that will flourish in our Durango local living economy. You will find our communications with staff, members, and our community refreshingly open, transparent and honest. What we need right now at this very moment in our 40-year history is strong collaborative and compassionate organizational leadership to get and keep us solidly and sustainably on an even keel. Future Board members must bring needed expertise to our effort, and we will seek to inspire such people to become part of our board down the road by what we accomplish over these next several months. We need cohesiveness as a team and then build a future from there.

### **Durango Natural Foods Co-op's Intrinsic Intangible Value to Its Members**

Our strengths come from who we are, what we stand for and the relationships we build and nurture amongst ourselves, and with our neighbors, customers, suppliers and our broader community. Our strengths come from a large, very devoted core of members, neighbors, staff,



vendors, producers, farmers and ranchers. It is our interest and attention to our bodily health and enjoyment of high quality food and supplements, and the health of our environment, community and economic performance, that helps us realize the potential we have to flourish in a difficult and competitive environment providing high quality food at reasonable prices. It is our independence and local ownership by an enthusiastic and growing member base that makes the difference. We need to nurture that and let it flourish. These are the values we need to bring forth to awareness of the broader community in order to attract them to our co-op as members and customers. We will work on community outreach and visibility; and we will educate our community further on what it means to be part of a locally owned cooperative by spreading the knowledge of the cooperative principles and how we live by them.

### **Economic Health, Performance and Projection**

We will take apart the Board's proposed "merger" in the next section. Above we looked at the value we place in people and the intrinsic intangible values we hold as member-owners of DNF. Here we examine the economic and financial questions that will form the basis of what the current Board's proposal, arguments and claims should be compared to:

- What exactly is DNF worth to its members?
- What do we actually own and have in our hands?
- How are we doing as a business, viewed from standard financial measures of business performance and health?
- What does our picture look like from a historical perspective and what does the trend look like if we make our best projections out in to the future?

All of these questions can be examined and answered by looking at several graphs that identify our current health, historical path, and current trends. Let me walk you through them.

Let's start with our amazing membership growth. Figure 1 shows our monthly total membership from January 1<sup>st</sup>, 2010 through July 1<sup>st</sup>, 2014, which has averaged about 25 new members per month since the third quarter of 2010, or 55 months, now just over 2000 members. That's equivalent to a steady annual membership growth rate of 22% for over 4 years!

In terms of membership growth, our performance reflects a steady and consistent increase in membership. People like us; so we must be doing lots of things right in meeting or exceeding member-customer expectations! Note that these numbers reflect total membership, not all of whom are current in their ownership dues; that brings the current figure down to about 1800. (Please catch up folks; this is our future, we need you, and we want everyone to be a part of it.)

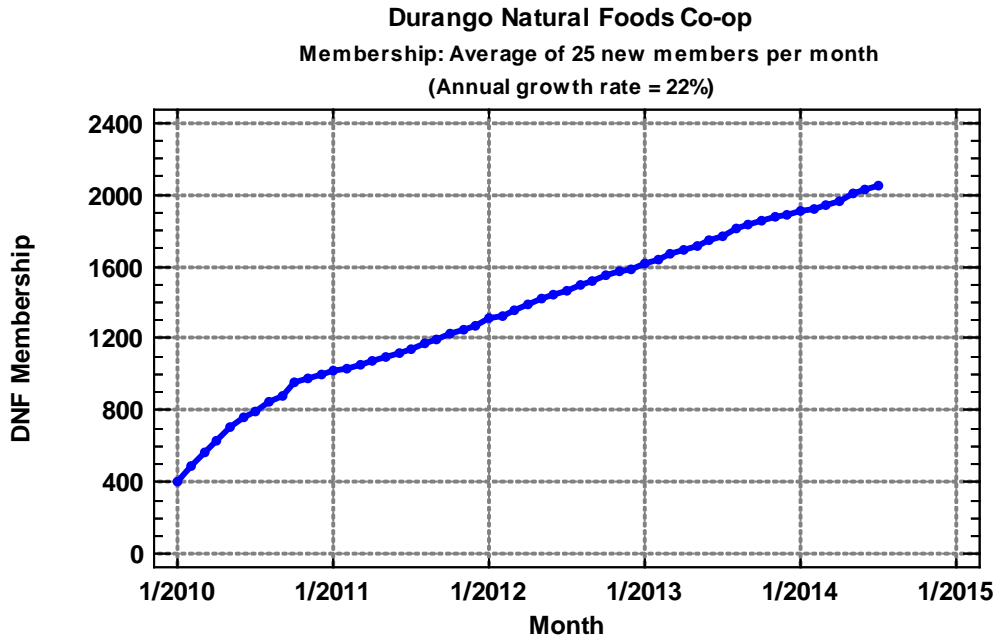


Figure 1: Durango Natural Foods membership growth

Now let's look at our sales revenue performance over the past 9 years. Figure 2 shows total sales income and total "Cost of Goods Sold," or COGS.

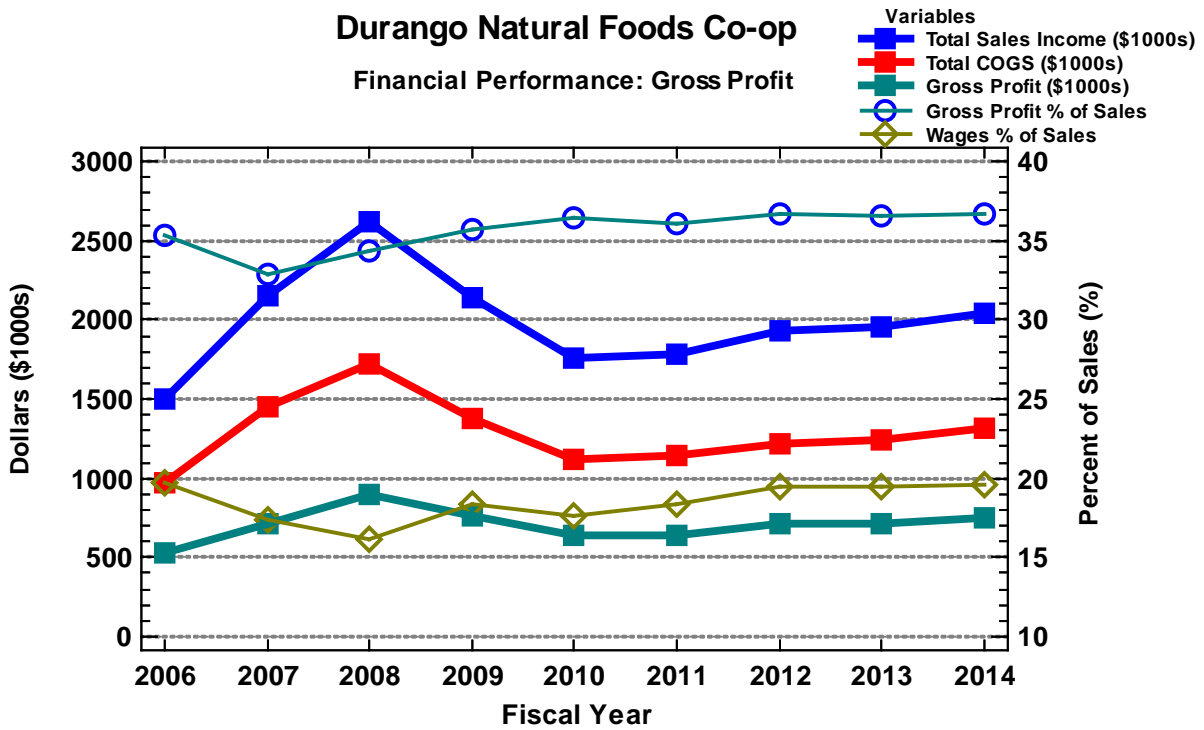


Figure 2: Sales revenue performance and gross margin

We sell food and other items, bringing in money; we pay for those things we sell, which is our direct costs of these goods we sell or COGS. The difference is known as Gross Profit, also called Gross Margin. We haven't yet accounted for all our operating and other expenses, so we'll add those in on the next couple of graphs. Also shown on this graph on the right axis scale are a couple of common business performance measures: Gross Profit as a percent of Sales; and Wages as a percent of Sales, which can be benchmarked against other similar organizations in our industry, as well as industry standards and expectations of larger cooperative membership groups we belong to.

All the graphs that follow cover this same 9-year period. Overall we will find that there has been a period of volatility and instability for four years from 2006 to 2009 in all of the financial measures. Figure 2 shows that our Sales and COGS, with their difference being Gross Profit tracking the pattern as well, increased sharply from 2006 to 2008, the year of the nation's financial collapse that September, and then declined into the recession at a similar sharp rate to 2010. From our bottoming out in 2010 to 2014, 5 years, we have shown remarkable stability in all financial performance measures. Note that although we had that peak in 2008, the gross profit as a percentage of sales actually dropped below 35% and didn't return to a steady 36-37% until 2010. That means that COGS expenses were a greater portion of our sales dollars in those earlier volatile years.

Our net profit performance is shown in Figure 3 and Figure 4. Net profit, also known as Net Income (NI), is computed by subtracting the organization's expenses from the Gross Profit.

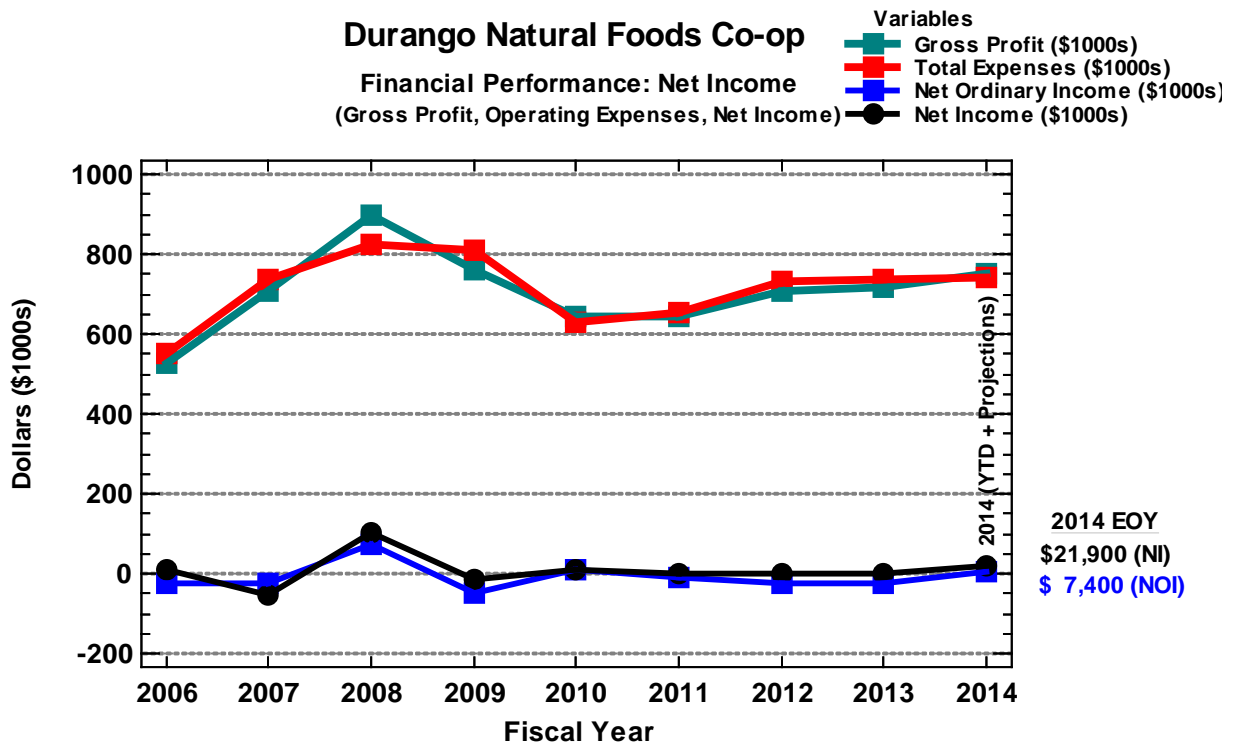


Figure 3: Net Profit (from ordinary income) = Gross Profit – Total Expenses

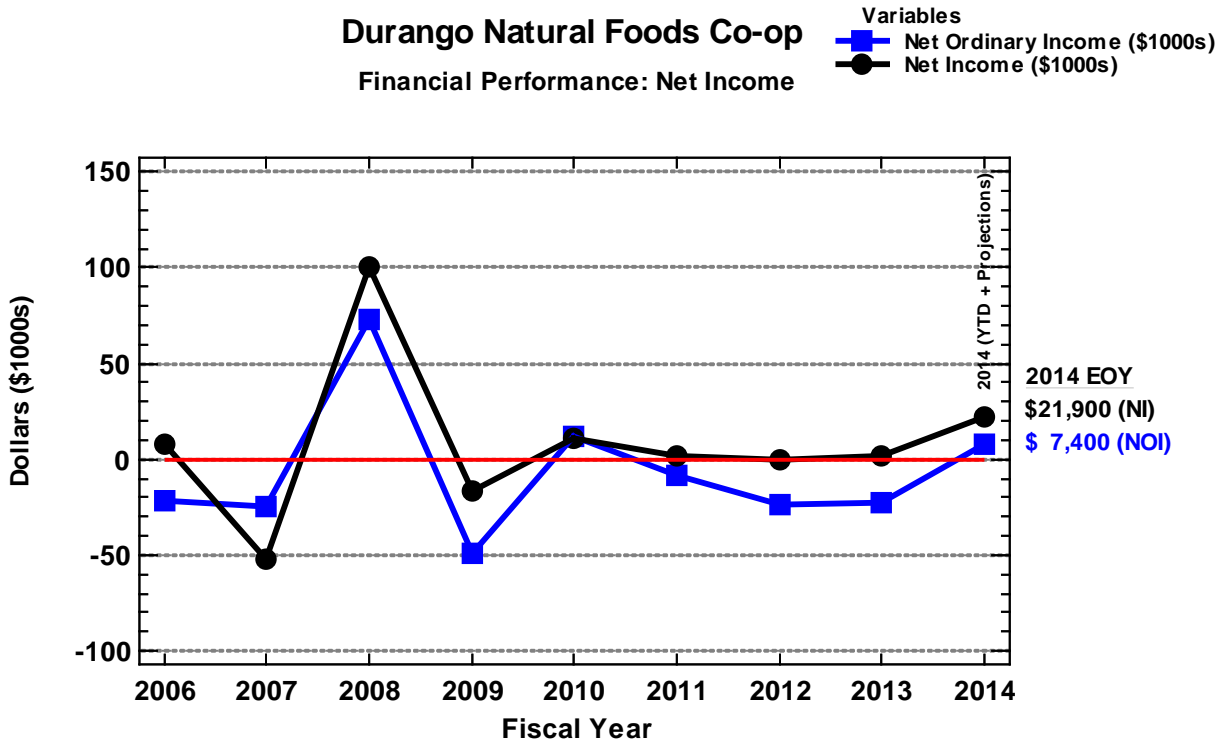


Figure 4: Net Profit - expanded scale

There are two “Net Incomes”: *Net Ordinary Income* subtracts our operating expenses from the gross profit from operations; and *Net Income* adds to that “Other Income” and subtracts “Other Expenses” to give the overall Net Income for the organization, from which taxes are based on. “Other” might include miscellaneous items that aren’t part of normal business operations.

Next let’s look at our balance sheet status in Figure 5. The balance sheet shows how much we own, called “Assets”; how much we owe, called “Liabilities”; with the difference being what’s left, or our “Net Equity,” which is a measure of the “book value” of the business, once all debts are paid off.

Again, we see volatility in the earlier years. We made a property purchase in 2007, which required additional borrowing, which we have steadily paid down over the years. The total assets line is based on what is referred to as “book value,” meaning it represents what we originally paid for the assets years before, adjusted for depreciation expenses, which the IRS sets the rules for. For real property especially, that is land and buildings, the “market value” is typically higher, often much higher, than the book value. However, in a recession like we’ve experienced in recent times, that is not always the case.

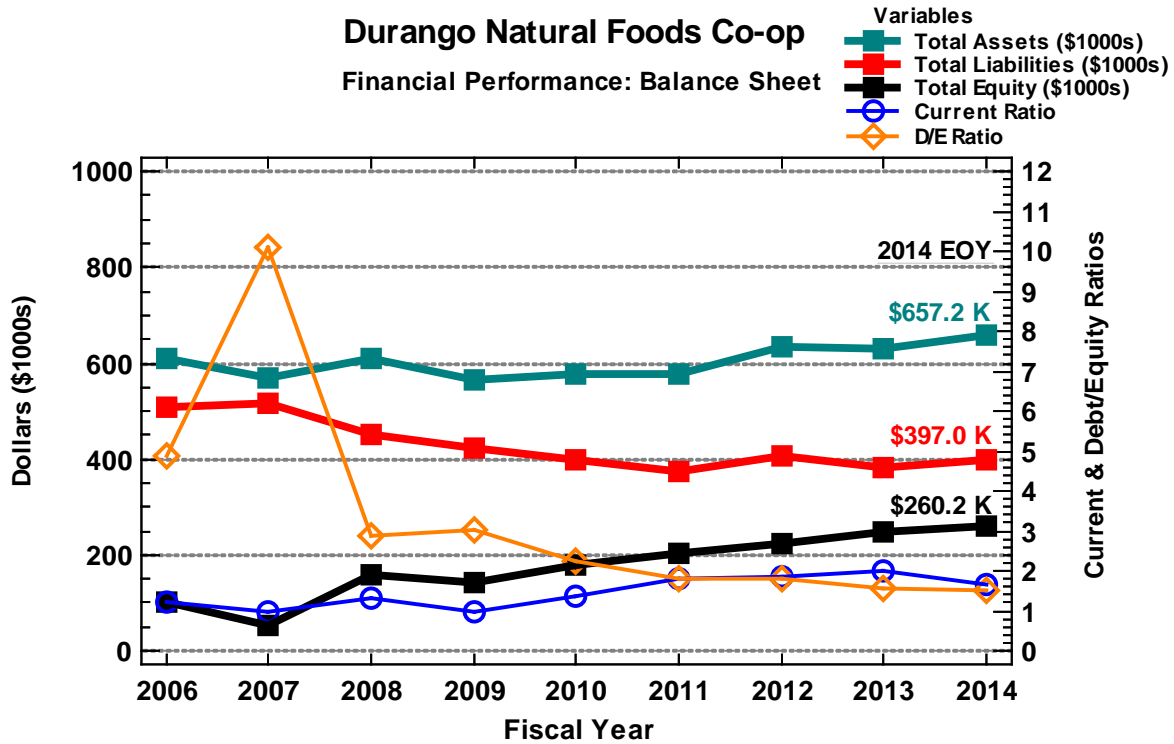


Figure 5: DNF Balance Sheet status

Right now projected EOY 2014 figures show that our DNF business asset book value is \$657.2 K (\$657,200) and our total liabilities that we owe others is \$397,000, with the difference being an equity value of \$260,200 as a measure of what DNF assets are worth “on the books.” Of course our financial worth is more than that, not only because our property is worth more should we sell it on the real estate market, but because we are an ongoing business, which has taken 40 years to get to this point. Ongoing businesses that are doing well have high value, regardless of how many assets they own; for example, they might be working out of all rented property.

Also on the graph are two important ratios which, like those referred to earlier, are measures of performance that can be benchmarked against other entities or targets. The “Current Ratio” is simply the Current Assets divided by the Current Liabilities. Current assets include such things as cash on hand or in the bank, accounts receivable, and inventory. Current liabilities include wages due, accounts payable and loan payments due. Our current ratio is close to 2, which is good. It is a measure of our ability to pay our current bills.

The other ratio is our Debt-To-Equity ratio (D/E), which is a measure of how we are currently financing ourselves. It is the Total Liabilities (how much we owe) divided by the Total Equity (how much we’re worth). Notice in particular how that has been steadily improving (getting lower) over these recent years. In 2009 it was about 3 and now it’s half of that, about 1½. That means our liability (mortgages, etc) are about one and a half times the equity value the owners have on the books. A large donation by a wealthy member would increase our total owner equity, thus decreasing the D/E ratio. We are working on getting that ratio down to 1 or less. Finally, let’s look at one very important portion of the balance sheet, just our land and buildings that we own as member-owners and have a mortgage on.

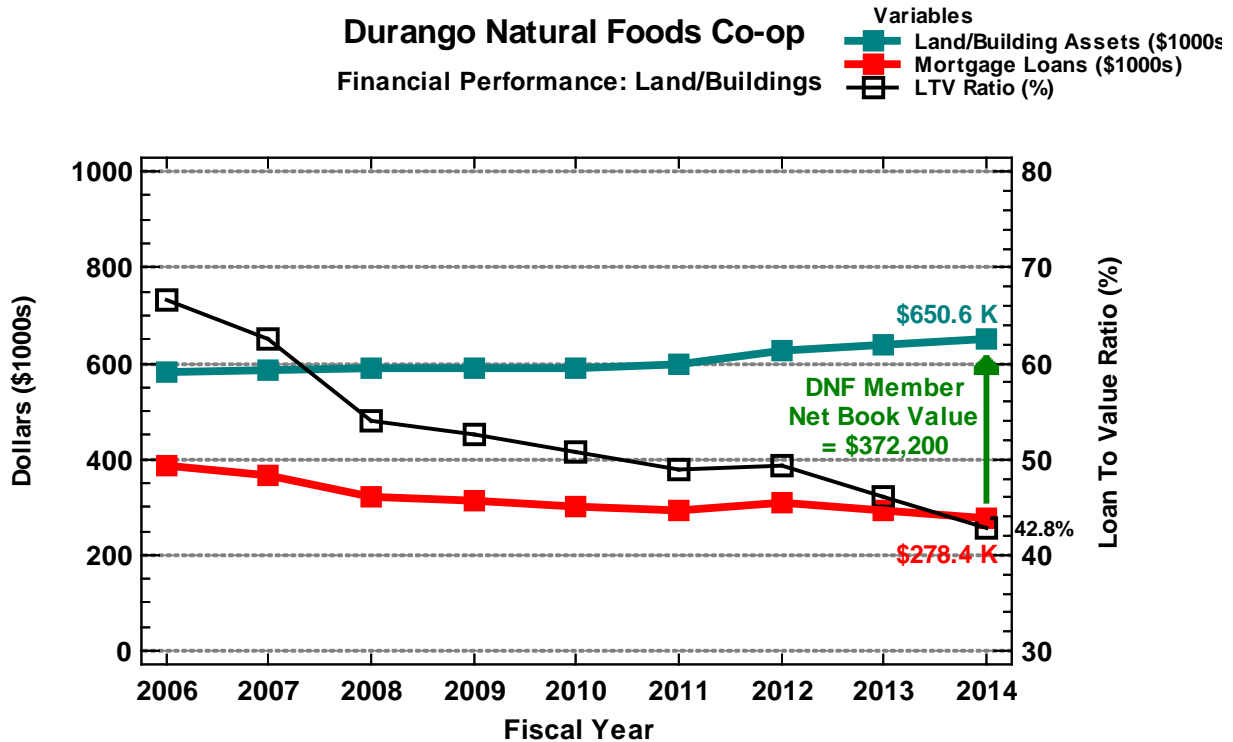


Figure 6: Land and Buildings that the DNF members own

Figure 6 is of major importance regarding the Board proposed “merger” with La Montañita. We can see that on our books we own real property (our lot property and store buildings) that are worth \$650,600; but our mortgage is only \$278,400. That means that DNF members hold a net book value of \$372,200 in our real property that we should get if we sold everything off; whereas the bank has a claim against us for our mortgage of \$278,400. Guess what? The Board “merger” with LMC would *give* everything we own to LMC for only the cost of paying off the bank! More on their disastrous proposal in a bit; but think about it... We would simply be gifting \$372,200 of member book value in property alone to LMC and get nothing in return; to say nothing of the value of our on-going business!

What’s the value of our on-going business? If we were to simply hold our net income at our projected 2014 amount or better, say \$20,000 per year for 10 years; that would amortize to a present value of about \$195,900 even at a 4½% discount rate! That’s a measure of just the Co-op business value itself as an on-going business.

Now in fact, who thinks the market value of that choice corner at College and 8<sup>th</sup> Avenue with its buildings is worth only \$650,600? What do you think the *real* market value of that property is? Any guesses? Certainly over a million dollars, wouldn’t you agree? Hmm, let’s see: \$1,100,000 - \$278,400 = \$821,600 of actual member property value, at least; plus the business value for the next 10 years of \$195,900 equals \$1,017,500. *That’s over a million dollars of value just given to LMC!* All of this LMC would get for free! For what? Helping us out with a little advice over the years?

How can this Board go so far as engaging consultants, lawyers and accounts “on behalf of DNF” out of DNF funds, and signing a letter of intent to sell all our assets, with the only money

paid out going to the bank, while carrying on about what a good deal it is for DNF members? Whose interests were these consultants and other professionals representing; and, if they claim it is DNF and its owners, are they that incompetent? The big question is: Who gets what out of this deal to sell DNF to LMC? If the Board is intentionally misrepresenting our value to get us to go along with this “merger” idea, this amounts to a *fraudulent* representation. The dictionary meaning of that word is “the intentional perversion of truth in order to induce another to part with something of value or surrender a legal right.” Whether intentionally misrepresenting this “merger” deal by deceit, or out of ignorance, it amounts to a giveaway of all of our value; *at least \$1 million*. Do you think LMC, with its “proven top level management,” isn’t aware of this? And our DNF Board bases their selling of this “merger” deal to us, the owners of DNF, merely on their claim (take our word for it) that it “will be great for our members,” and “all in all, we couldn’t be happier, and are looking forward to becoming part of this larger co-op community and enterprise.” Either way—deceit, ignorance or incompetence—this Board needs to go! And, we need to think about amending our Bylaws so that no future Board president ever has the audacity to think that our organization and all its assets are simply his to wheel and deal with! Pat and I will be looking at these kinds of things if you sign this PETITON.

Well, to be fair, we might get a nice certificate and Christmas card perhaps, that says something like: “We welcome you as new members to our Albuquerque-based La Montañita Co-op; and we’ll give you credit for what you’ve paid into your \$100 member share in DNF toward our \$200 member share costs. And, you’ll get to vote for LMC board members in Albuquerque.” That’s it! If you think there’s something else, you are not paying attention. It’s never been about whether “we’re a good fit for LMC;” DNF will be gone forever as a locally owned member co-op; there will be no more DNF Board, major local decisions, or member involvement. Even if they kept our name, which they would own along with all other logos and market images of “local” and intellectual property, it would only be a façade on a store now owned and run by LMC, run out of *our* former property this New Mexico business now owns. The Board says, “as a matter of fact, DNF would not even exist today if it were not for the help, encouragement and direction provided by La Montanita Co-op, which has helped us through some very troubling times.” And a theme of several former (and current) board members and employees of DNF who got up and spoke at the August 18<sup>th</sup> meeting was “DNF is so hard to run, maybe we should just let LMC have it” (well, couched in words like “we should just go ahead and ‘merge’ with them”). Who knows, they might do a better job of managing that little store than us, have more corporate systems in place, have economies of scale allowing a bit lower prices, better employee benefits, and even more capital to invest in store improvements; but what does that have to do with *us*, the current owners? Who cares? *It’s no longer us! It will no longer be our little DNF co-op*. Are you simply attached to the sign out front on the building that has the word “Durango” in it? We could shop there and maybe get a bit lower prices, but the market would determine that; maybe some of the employees would stay, but the store would have about a quarter of its staff defined as “excess” because of the “merger” now under New Mexico management. Now how can our DNF Board, responsible for looking out for our interests (remember your rights as a member-owned co-op, the Board is accountable to its members) describe this as an “opportunity” for DNF members? Does anyone have a dictionary? Please look that word up. We would simply never again have our wonderful little store to own, manage, be a part of and care for. Gone is that feeling of being a part of something special and all the relationships that go with it. Why would they do that? Is this really the recommendation of the whole Board, like we’ve been told over

and over; or does some member (or members) have a more proprietary interest in selling off DNF, with a net worth of at least a million dollars—for nothing? Why would they do that?

The other ratio, getting back to *our* business, is the Loan-To-Value ratio (LTV), which banks look at when you want to borrow money to buy a piece of property to determine how high your debt load is, for example, relative to the property value. It is the property mortgage divided by the book property value (purchase price). *We are in excellent financial shape with respect to our balance sheet!* The LTV has steadily decreased from about 67% in 2006 to just 42.8% at the end of 2014; we're making steady progress at paying down our loans. For comparison, a young family trying to buy their first home might have a 95% LTV, if they could get the loan, only being able to come up with 5% of the home value on their own. For any LTV above 80%, which includes lots of regular working people, the bank requires that you purchase private mortgage insurance (PMI) because you're assumed to be risky enough with that big of LTV that they want their loan insured so they'll get their money back if you default on your loan. Far from the way we've been characterized by this Board, we're in really good financial and business shape, folks; and that is part of our value.

**Summary of DNF Financial Health:** I want every member to really internalize what we own, that the Board has proposed we “give away for free,” only requiring the buyer LMC to pay off our mortgage at the sale—so of course, the bank is the only one who gets any money out of this “opportunity.” So here's the bottom line, as they say:

*We members of Durango Natural Foods are a proud community of owners of a wonderful \$2 million dollar a year co-op business that has had a rapid growth in membership for more than 4 years, a superb well-functioning staff, a healthy balance sheet, and our profit performance is “in the black” with an improving net profit projected to be higher than the past five years by the end of 2014! You should understand that as wonderful news! We are an excellent little co-op positioned well for the future. Why would anyone in their right mind want to give that away? In fact, although our profit margin has been just breaking even for the past four years (the food business has typically low profit margins), we have made it, members! And now, strategically we are in the process of creating a “readiness for growth;” we're ready for a terrific future. We have an excellent management team, unless we don't fire the Board now before it fucks it up by bringing on some new general manager. We have a fine running business with competent staff and a happy customer base and growing membership, to say nothing of all the intangibles mentioned earlier. Why the hell wouldn't we want to keep our little co-op? How dare this Board treat the membership as a bunch of fools and sign an agreement of intent to give our co-op away, while chastising the members for “disappointing the Board,” who is now “truly saddened”?*

## **Removal of the DNF Board of Directors**

Much has been said in various contexts above, but let's tie this up by referring back to the three broad reasons stated in the PETITION for removing this Board, and add a few important details. Especially, now that we have a solid understanding of the value we hold, we will want to examine the Board's wording in their two key statements they put out, as well as their timing: the press release and email blast announcement that went out Monday evening, August 11<sup>th</sup>; and their letter posted at DNF last Friday 10 days later, August 21<sup>st</sup>. But let's flesh each issue out in order to get the complete story of why this Board has to go.



## Lack of Transparency, Secrecy, Integrity and Other Board Style Issues

From knowing several of the DNF staff quite well over time, and meeting with several staff members over the past two weeks, as well as several DNF members, I've been able to get some insight to the underhandedness, secrecy and cynical attitude by the Board to the DNF staff and members in general. It turns out that this "merger" idea had been in the planning for some time; but not to be discussed openly. As things progressed they involved a consultant to DNF, lawyers and accountants to draft a "tight" letter of intent, the contents of which would directly form the core of a *tight* "Definitive Agreement". Only a general concept overview would be shared with the members; no details. The timeline was very aggressive with minimal contact or information sharing with staff or members; basically a planned early October paper vote, with minimal notice and an "info details packet" to be delivered to members sometime in September. Was that to be before or after the signing of a "Definitive Agreement" with LMC? We don't know. There was a one-to-one phone call lobbying effort with "key members" for support from members whom it was thought would be favorable to the "merger." The Board's thinking appears to have been to slip this on through quickly, expecting low interest and turnout by unaware members due to general member apathy and the usual low turn-out for any voting. They thought by expressing the Board's enthusiasm for the "merger" and positioning it as such a great "opportunity" for the members, with no presentation of any substantive analysis or facts, along with a coalition of supporting "key members", they could easily "sell it" to the members as "a good deal for all," who would be none the wiser. Their exuberance for the "merger" betrays an incredible sense of hubris by a Board that is not the least bit tainted by *reality*. In fact, some members *are* paying close attention, and once alerted, a standing room only crowd swarmed the Board's sales presentation "informational" meeting.

Staff has been confused and uncomfortable with not being able to respond to customer and member questions regarding said "merger," even before, but especially since the August 18<sup>th</sup> large turnout meeting, because they have been repeatedly told that they should not share information directly with members. It has put their integrity at risk because they had to hold back some truthful information they knew, yet treating members and customers as outsiders and telling them that they didn't know anything. It is obviously an outrageously unethical position to put employees in, where they are forced to compromise their integrity and human dignity by lying to the very members they are there to serve. Fortunately for us members, an authoritarian dictatorial Board commands little if any respect and earns no loyalty from staff it thinks will just abide by its dictates due to fear of losing their jobs if they did otherwise. Lots of staff members are anxious to talk, regardless of the potential threat to their jobs.

Most of the staff has been in agreement and restless to "dump this board" for some time, I found out, having been working on wording for their own removal petition, even by late spring before this LMC issue came to light. That's a measure of how poor the relationship is between the Board and staff. One mid-level staff member shared with me the collaborative draft wording the staff had come up with over a period of time for their own petition to remove the Board; along with a one-page list of bullet items expressing and summarizing their grievances, titled "Pressing concerns and reasoning for the recall." The Board had the potential of a staff revolt on its hands well before the LMC "merger" issue was even in the picture.

The staff members also feel the Board had many opportunities to provide information, to listen to members, to connect with the community but hid behind closed doors. Then up comes

this infamous August 6<sup>th</sup> afternoon meeting between the Board and staff (required attendance), with the consultant who was guiding the “merger” process and members of LMC present to brief the staff on the “merger” (but don’t speak of it to members) where the carefully worded “press release” was handed out (the one we all received later on, Monday evening, August 11<sup>th</sup>); most staff members had no idea what was up as they attended the meeting. That evening there was a social hour at Eno’s with the Board, their “merger” consultant, staff members invited from the afternoon meeting, LMC members and *a few invited “key members” who were apparently enthusiastic about the “merger opportunity.”* The press release—that Geoff told the 60 people attending the August 18<sup>th</sup> meeting they were sorry it was “accidentally released early” the evening of Monday August 11<sup>th</sup> because “the wording was still being worked on” and its intent was to engender “open discussion”—was in fact a tightly worded document and handed out 5 days earlier at the August 6<sup>th</sup> Eno’s meeting with exactly the same wording and was planned to be sent out Tuesday morning without any changes—at most it was released a few hours before planned.

Friday’s August 21<sup>st</sup> letter to the members (posted Friday on the “Board’s board” at the entryway of DNF and sent out in an email blast Monday, August 25<sup>th</sup>; attached as an appendix), announcing that the “merger” was now deemed by LMC as not a good fit, clearly shows where the Board’s thinking still is. A short couple of excerpts:

**“To clarify, the Letter of Intent was only designed for the sole purpose of *discussing* a possible merger”** [original emphasis, bold and italics].

Taking no responsibility themselves, the letter blames the failure on members: “Unfortunately, at this point in time, we were not allowed to fully articulate that vision before short sightedness, on the part of relatively few, intervened in that process. Unfortunately the communication plan the Board decided upon was bypassed and that simple occurrence ultimately brought the *discussion* [original emphasis] to a premature and abrupt end. These actions prohibited the staff and membership from being able to fully discuss and understand the issues. The Board had no intention of pushing this idea on the Co-op Owners. The Board wanted an open *discussion* [original emphasis].”

It is incredible how out of touch this Board is with DNF staff and members. In fact, they had a communications plan to *sell* this “merger” idea after it was well under way; not a communication plan to genuinely engage the membership with any sort of rational argument justifying the “merger,” which members could then evaluate with reasoned judgment and ask specific pointed questions about details and the facts supposedly supporting them. We are still demanding that this infamous “Letter of Intent” be made available to the staff and members and then we will be able to evaluate its intent by its content ourselves and compare that to the claims being made about it in Board communications.

In this section we focused on communication rhetoric, secrecy and lack of transparency, and poor relations between the Board and staff and members. So now, after clearly understanding the value of DNF to member-owner’s from the earlier section covering specific financial details, let’s examine closely the content of the claims being made by the Board about their “merger” in the wording of the press release, underscored by the wording of their “deal’s off the table” letter of August 21<sup>st</sup>. I’ve also attached their press release announcement as an appendix, so you have both of the principal documents.

## Evaluation of the Board's "Merger" Proposal

Far from demonstrating some sober humility and a backing away from the "merger" idea with some decency and respect after the threat of losing DNF brought the largest turnout to a Board meeting in anyone's memory, the Board's August 21<sup>st</sup> letter traps them in their own lies. They actually doubled down and told us what a bunch of fools we were for blowing this "incredible opportunity." The Board's words in Friday's letter are very revealing. In their continued "take our word for it" style of the "merger" press release, they offer nothing in terms of justification for their egregious attempt to take our Co-op and give it away, still using words like "joining LMC":

"To say that the Board is disappointed with this turn of events is an understatement... [We've worked tirelessly on] this exciting possibility... just personally thinking about what is best for the Co-op at this time and for the future [any analysis?]... The Board is truly saddened by the sudden turn of events. Above all, we are sorry for DNF, as we will not get an opportunity to compete in our community at the level of which we are capable [in fact, we'll be in much better shape]... Perhaps an opportunity like this will surface again someday. Hopefully we will be in as strong a position as we are now to negotiate a favorable agreement [I'm dumbfounded with their use of these kinds of words over and over. Do they take us for fools?]..."

The absurdity starts with the word "we"; and because they keep using it, it bears repeating. After a "merger" there is no *we*; there is no DNF or its members; there is no independent co-op we have a say in managing. There would only be the Albuquerque-based La Montañita business running a store in Durango with our stolen identity, *Durango Natural Foods Co-op!*

The August 21<sup>st</sup> letter from the Board sort of says it all in hypocritical detail. But let's drag out some of the wording from the August 6<sup>th</sup> press release, that the Board said explicitly to staff that its wording wasn't to be changed; it was released to members the evening of August 11<sup>th</sup> a few hours ahead of the planned next morning release; and later was described to members at the August 18<sup>th</sup> meeting as an "early draft where the wording was still being worked on, that accidentally got release before it was completed"; and after that in the August 21<sup>st</sup> letter the "early release" was characterized with: "Unfortunately the communication plan the Board decided upon was bypassed and that simple occurrence ultimately brought the *discussion* to a premature and abrupt end." [original emphasis]

No it didn't; it made it wide open! We had 60 people attend the Board's "information meeting;" and it is what this entire SUPPORTING ANALYSIS document on behalf of the owners' interests is about. What the Board's press release email blast did was ensure the members were alerted about the fraudulent train wreck about to happen to our Co-op.

Not yet has the Board ever presented any supporting facts or analysis of *why* this "merger" is supposedly such a "great opportunity" that the Board was so "excited to share" that they had "negotiated a favorable agreement" to give away all our member-owner value to an out of state business for the cost of our mortgage, with the only cash payment going to the bank.

First, we need to understand and quit using the euphemistic word "merger". I've purposely put this word in quotes every time I've used it unless it was in a quoted passage the Board made,

because it is the Board's word and has no relation to reality; thus the word needs to be understood for what the implications of their "merger" word actually means. Here's what I wrote in my August 18<sup>th</sup> email blast urging people to attend that evening's "informational Board meeting"; after my first August 11<sup>th</sup> email blast to alert about 70 community members after receiving the Board's press release blast:

What's important is to be very clear what the "soft wording" means in statements made by DNF Board President Geoff Wolf and any others representing the president's views.

This "merger" is advocated by the DNF Board President, Geoff Wolf... The word "merger" sounds like we'll all be part of the same 'bigger and growing co-op family' and local members will have lots of say about the future of DNF. In fact, that is a mirage.

By "merger" what is actually meant is this: The DNF Board will sell all DNF assets to La Montañita in exchange for our membership in the LM Co-op. The terms have not been disclosed (we demand to see the letter of intent), although other than swapping and diluting our ownership rights, we will no longer have any local authority as former DNF members. Our 1700 or so members will simply become part of the current Albuquerque 17,000 membership, which means less than 10% representation in anything that might be contemplated or done with our formerly 'local DNF' in Durango. Who do you know in Albuquerque you want to vote for? Even though stated as such, there are no guarantees regarding the future of Durango Natural Foods, its name, staffing, assets, or decision authority at any and all levels. All those decisions will be made by the new owners of DNF and its assets in another state; believe me, as a businessman I know they will retain all rights for themselves, because this is the way such asset sales business deals are done. This Albuquerque-based organization has a "growth by acquisition" business model; and apparently Durango Natural Foods is a tempting target. It is being sold to you with a sort of "Walmart" lower pricing argument. That is entirely irrelevant for our local co-op. People don't buy from DNF because of 'lower prices'; they buy from us because of who we are and what we represent in our community.

It's simply someone's corporate vision to sell off our assets to another entity... for what reason? Potential future business risk in an ever more competitive market? Whose opinion is it that we can't deal with the future and all the uncertainties the future holds. In fact, being locally owned is a protection from these uncertainties in that we have the ability to quickly respond to an every changing local food economy.

Thus America's corporate mindset strategy is to buy other entities and get ever bigger; and it is this business fad that is driving the proposal. That doesn't sound like who we members of Durango Natural Foods are; nor does it sound like why people buy from our co-op. We are a local, independently run, locally owned and managed co-op 'model business' in a vibrant Durango community.

Now let's look at the promises, assurances and claims the August 11<sup>th</sup> (August 6<sup>th</sup>) "merger" press release makes. It starts with enthusiastic claims and a sense that the Board has made tough, but sound strategic judgment on what's best for the owners of DNF. Then it goes on to emphasize how enthused they are about the expertise of LMC in collecting new stores and co-ops.

"[The Board] is excited to share with its members, staff and community plans to merge DNF with the La Montanita Food Co-op headquartered in Albuquerque... As we strategically looked forward to envision how our members and community could be best served for the next 40 years... [we found that *joining* with LMC] has many advantages... The co-ops have a signed Letter of Intent and are pursuing next steps with a goal of completing the merger in October."

"We're especially excited about the merger with La Montanita because they are experienced with integrating new stores and co-ops into their organization – having acquired stores in Santa Fe and Gallup – and because they have played a key role in our own co-op's history... DNF is stable and as strong as ever [this is the *only* evaluation of our financial health they offered]... However, the increasingly competitive marketplace demands more resources and capitol [sic] than necessary in the past for the business to remain healthy over the long term. [this is the *only* analysis offered]... A Store Manager will be hired by La Montanita to be responsible for operating the store... Details of the plan will be available in a few weeks for DNF members." ["few weeks", meaning in mid to late September for an early October "merger" completion] ...But "we were not allowed to fully articulate that vision before short sightedness, on the part of relatively few, intervened in that process. Unfortunately the communication plan the Board decided upon was bypassed and that simple occurrence ultimately brought the *discussion* to a premature and abrupt end... The Board wanted an open *discussion*. We were planning to hold several open meetings..."

Next the claimed benefits; first for staff. Did they ask staff what they thought or provide any factual details? No, in fact, to check on these claims, made in further detail by the Board's later Q&A response, the staff found them to be false by putting their own letter to the LMC general manager, with whom they were told not to communicate; which they did anyway—Go DNF staff!

"The change will provide increased stability for staff, a desirable wage and benefit package, improved staff training and development and will open up new career opportunities." [the benefits to staff]

Then the claims of benefits for member, community and staff in general, by emphasizing the managerial competence of the LMC staff and their economies of scale, which they claim will translate into savings for everyone. And they attempt to spin the meaning of "local." Again, the DNF staff did their own investigation with the co-op collective we already buy from and found such savings guarantees to be groundless—Go DNF staff!

"This transition will be great for our members, customers and staff. La Montanita has proven, top level management, runs great stores, and has much better buying power than we'll ever have. This will mean savings for

everyone shopping the co-op and will put us in a strong competitive position in the coming decades. Everyone involved is in complete alignment on the importance of a commitment to the local community and supporting local suppliers... All in all, we couldn't be happier, and are looking forward to becoming part of this larger co-op community and enterprise."

"...put *us* in a strong competitive position...becoming part of [consumed by]..." Who is *us*? There is no *us* anymore; unless you feel that by walking into and shopping in the Durango Walmart store that means *us*—*hey it's our store, isn't that wonderful we're all a part of it.* There would only be La Montañita and their Durango store, along with Santa Fe, Gallup, and a growing list of others consumed by this growing co-op conglomerate. Who we are and what we own as Durango Natural Foods Co-op would be history.

That's the reality behind the words "merger" and "join". At the August 18<sup>th</sup> meeting not one shred of facts, details or analysis was offered to support any of the claims the Board has made because there are none. Their agenda is not in our interest; it's in the interest of La Montañita, and a subversive attempt to give all of our value away for essentially nothing.

So, if you really care about DNF, now go back and review the earlier sections of data and analysis covering the *real* value we actually hold and ask yourself: "Do these claims ring true? Where's the proof? Is this what we really want? Is this idea really beneficial to us DNF owners? Is this Board really looking out for our interests?"

This is nothing more than a blatant attempt at a fraudulent stealth theft of what we currently own and run in a remarkably good fashion. It is truly one for the books, how a temporary board president and his followers, all elected by a very small percentage of members voting, could have such audacious and reckless contempt for our 40-year co-op that they feel it their privilege and right as Board President and Board members to engage such effort and resources to get rid of our organization and leave the DNF members holding an empty bag. What temerity! How dare this Board President purport to claim he and this Board "provide a consistent vision and recommend a direction for our membership"? With an elevated view of themselves: "Where there is no vision, the people perish... We ask for your support in the future and we will continue to lead in the best interest of the membership."

### **Insisting on Hiring a New General Manager**

Even with this proposed fire sale of our Co-op and all its assets, now off the table as "not a good fit... for now;" this Board can still sabotage our little Co-op by "hiring and managing a general manager." This would be an unmitigated disaster to our management and staff morale; and this Board, so disengaged from our members and staff and blatantly oblivious to what our own real interest are, would still dominate our organization. It is urgent we remove them from power before any more damage is done: **sign this PETITION, if you haven't already.**

In the Board's August 21<sup>st</sup> letter they announced they are moving forward with their responsibility to "hire and manage a general manager." Clearly any new general manager would have a collar with a short leash that could be jerked by the Board at any time, shrouded in "management secrecy." What effect would that have on staff morale? That is this authoritarian Board president's management style. Would you trust that some new outsider general manager would have loyalty to the interests of the DNF members or the courage to share with the

members information about things that may damage our organization? Again, the Board's words are very revealing:

“It is the duty of the Board of Directors to hire and manage a general manager and to review the mission statement yearly... We feel that a merger with La Montanita Co-op would have helped us attain the desires laid out in the mission statement more completely. The Board will now move forward with a search for a permanent general manager to run the store. We ask for your support in the future and we will continue to lead in the best interest of the membership.”

Let's not let this happen; and no, by our vote we do not support you now or in the future.

### **The Future of Durango Natural Foods Co-op**

Assuming there is an overwhelming response by members signing this PETITION, we have a very positive future in deed. Let me close by stating immediate commitments Pat and I are making to the members and staff of DNF, should you chose to vote for us. You have our assurance that by assuming leadership of DNF as the interim two-member DNF Board, founded with your backing by signing this PETITION and your vote, the first actions we will take will be:

1. Keep Kim and Brian as DNF Co-General Managers for an interim period and stop any further effort on hiring a new general manager;
2. Initiate a new Board of Directors management culture from scratch by promising to provide open, honest and timely communications with the staff and members;
3. Prepare Bylaw changes for member approval, with wording that will define ourselves as a locally owned and run independent co-op in perpetuity, whose very existence is not subject to Board discretion. Only if the members vote to change the Bylaws could we be sold;
4. To be actively engaged with our staff and management team in a mutually respectful way, in order to ensure a healthy future for DNF with the interests of all our stakeholders, especially our member-owners, being our primary focus.

Sincerely,



Root Routledge, PhD  
President, [Alpine Analytics](#)  
[Root@AlpineAnalytics.com](mailto:Root@AlpineAnalytics.com)

## **DNF 40 YEAR LEGACY - MEMBERS HAVE A VOICE!**

A Brief Historical Synopsis to 2014 by Pat Blair, DNF Manager 1974-83

**Everyone is welcome to shop at Durango Natural Foods (DNF), member or not.** Spring 1973, a few grassroots visionaries chose to establish a local **nonprofit outlet for low-cost, quality food which was and is locally owned and operated.** From a food-buying club to its first 10X30 ft. rented room located in the back and northern side of 700 Main Ave., DNF operated on all volunteer efforts and donations using an unlocked, red fishing tackle box as its cash register. In 1974, it was legally registered with the state of Colorado as Durango Natural Foods, Inc. In 1975, it moved to a 600 sq. ft. rented space in the alley of 2<sup>nd</sup> Ave. and 7<sup>th</sup> St. next to Family Craft Memorials. DNF invited a Social Services Program, named SPARS, to initially share the premises so it could afford the rent. In addition to manning the store, DNF volunteers worked with the community through SPARS by providing services and transportation for the elderly and the disadvantaged. Its first organic community garden flourished on the grounds where The Mears House now stands. DNF organized a network of local farmers and producers to supply a majority of its bulk grains, beans, nuts, seeds, fruits, vegetables, herbs, honey, beef, and eggs.

In order to accrue sufficient assets to buy its own building, DNF first invested its savings in a duplex at 3100 & 3104 W 2<sup>nd</sup> Ave. Using this property as collateral, members stepped forward to loan the down payment in March 1979, to purchase the northern half of its current 575 East 8<sup>th</sup> Ave. property. Community involvement continued through helping the Local Organic Produce Project (LOPP), the Soup Kitchen and San Juan Resource Recovery, among others. Education, too, has been one of DNF's priorities so throughout its history, informative newsletters have been sent plus a wide variety of classes and training videos have been offered.

July 1987, DNF planned a parking expansion with improved handicap accessibility by first selling the duplex in order to buy the adjoining property to the west, building a wheelchair ramp entrance, and then removing the house on the west property in August 1990, in order to accomplish the larger current parking lot. January 1999, DNF purchased the adjacent property to the south, removed an older house, and constructed an adjoining building, which created new space for a fresh-food deli, plus larger retail and storage areas. In 2010 DNF, Inc. became Durango Natural Foods Co-op. The deli was upgraded during 2012 and again recently improved in 2014. **At 40 years strong, DNF has nearly 1,800 members, gross sales of nearly \$2 million and is operating in the black!**

With each expansion DNF has risen to the challenge. It has grown from a rented "closet" to owning its own expanded building because committed, loyal members/community customers, too numerous to name, have supported this nonprofit organization with their countless hours of volunteer time, their loans/donations, and their purchases for 40 years. **DNF is proud of its vision come true: LOCAL OWNERSHIP, LOCAL VOICE, LOCAL CONTROL, LOW COST, and QUALITY FOOD. A heart-felt thanks goes to all. Come join the cause!**





## Board of Directors

The board of the Durango Natural Foods (DNF) is excited to share with its members, staff and community plans to merge DNF with the La Montanita Food Co-op headquartered in Albuquerque.

“Our co-op just turned 40 year old and as we strategically looked forward to envision how our members and community could best be served for the next 40 years, we began conversations with La Montanita Co-op. Joining with them has many advantages as we continue to grow our cooperative economy in Durango and Southwest,” said Geoff Wolf, President of the DNF board.

The co-ops have a signed Letter of Intent and are pursuing next steps with a goal of completing the merger in October. Meetings with co-op staff and members are planned to begin sharing details of the plan. A member vote of the DNF will conclude the process in the fall. DNF is owned by about 1500 members.

The La Montanita Co-op currently operates six stores in Albuquerque, Santa Fe and Gallup, and operates a regional food distribution business specifically designed to distribute food grown and produced in the southwest. The co-op is owned by 17,000 members in those communities.

“We welcome members of the Durango co-op and look forward to serving the Durango community,” said Terry Bowling, General Manager of La Montanita.

“We’re especially excited about the merger with La Montanita because they are experienced with integrating new stores and co-ops into their organization - having acquired stores in Santa Fe and Gallup - and because they have played a key a role in our own co-op’s history. They helped us in big ways during tough times in the past,” said Wolf.

DNF is stable and as strong as ever, said Wolf. However, the increasingly competitive marketplace demands more resources and capitol than necessary in the past for the business to remain healthy over the long term.

## DNF Board of Directors Press Release on Merger with La Montanita

“Special thanks to our great staff for stepping up during the recent period as we began searching for a new General Manager. Everyone, especially co-interim managers Kimberly and Brian, have kept the co-op on solid ground. That’s so important during transitions and it’s very much appreciated.” A Store Manager will be hired by La Montanita to be responsible for operating the store.

Arrangements are being made for staff and members to be integrated into the La Montanita Co-op. Meetings with staff and La Montanita management are planned. Details of the plan will be available in a few weeks for DNF members.

The change will provide increased stability for staff, a desirable wage and benefit package, improved staff training and development and will open up new career opportunities.

“This transition will be great for our members, customers and staff. La Montanita has proven, top level management, runs great stores, and has much better buying power than we’ll ever have. This will mean savings for everyone shopping the co-op and will put us in a strong competitive position in the coming decades. Everyone involved is in complete alignment on the importance of a commitment to the local community and supporting local suppliers. To help the support the local growers, La Montanita’s distribution system is one of the most innovative in the country. All in all, we couldn’t be happier, and are looking forward to becoming part of this larger co-op community and enterprise,” said Wolf

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## Board of Directors

August 21, 2014

Dear Owners and Staff of Durango Natural Foods Co-op,

Thank you for your passion and support of the Co-op. It was truly wonderful to hear from so many of you at the recent Board meeting. The Board of Directors values your opinions and concerns. We are glad that the meeting offered a space for you to speak your minds.

We received word from the GM of La Montanita, Terry Bowling, on August 19<sup>th</sup> that he is no longer interested in continuing the merger opportunity. In a phone conversation that same day he explained that the communication he had been receiving led him to believe that DNF would not fit into their culture nor would the staff be happy being a part of the La Montanita Co-op. The Board agrees that it is in the best interests of Durango Natural Foods to proceed on its own path at this time. He did express a willingness to continue their support and assist DNF in future needs, as they have done for many years. We appreciate his true passion for our business.

To say that the Board is disappointed with this turn of events is an understatement. Each of us has worked tirelessly around our family, work, and personal commitments to devote even more time than usual to this exciting possibility. We did not rush into this decision lightly. We met several times each month outside of regular Board meetings and spent countless hours on the phone with each other and our consultants and just personally thinking about what is best for the Co-op at this time and for the future. During this period we formulated the Letter of Intent. *To clarify, the Letter of Intent was only designed for the sole purpose of discussing a possible merger.*

The Board is truly saddened by the sudden turn of events. Above all, we are sorry for DNF, as we will not get an opportunity to compete in our community at the level of which we are capable. The Co-op has provided much for many in this community in the past 40 years. Regularly throughout that time it has

been a struggle for DNF to stay afloat. As a matter of fact, DNF would not even exist today if it were not for the help, encouragement and direction provided by La Montanita Co-op, which has helped us through some very troubling times.

It is the purpose of the Board of Directors to provide a consistent vision and recommend a direction for our membership. As it has been said, "Where there is no vision, the people perish". At this point in time, we were not allowed to fully articulate that vision before short sightedness, on the part of relatively few, intervened in that process. Unfortunately the communication plan the Board decided upon was bypassed and that simple occurrence ultimately brought the *discussion* to a premature and abrupt end. These actions prohibited the staff and membership from being able to fully discuss and understand the issues. The Board had no intention of pushing this idea on the Co-op Owners. The Board wanted an open *discussion*. We were planning to hold several open meetings with the Owners and staff including a few in which members of La Montanita Co-op would be present. After the meetings and much discussion there would have been a vote on whether or not the merger should happen. That is the Cooperative way.

Perhaps an opportunity like this will surface again someday. Hopefully we will be in as strong a position as we are now to negotiate a favorable agreement. Until that time we will continue to put one foot in front of the other and be the best little Co-op with the highest ideals that we can deliver on.

It is the duty of the Board of Directors to hire and manage a general manager and to review the mission statement yearly. This statement was last modified on February 15, 2014 and reads:

DNF is a member-owned food cooperative committed to providing quality organic local products and educating our community on the value of healthful living. We will

- Engage the community in cooperative principles
- Participate in a sustainable local economy
- Educate consumers about the broader impact of their choices
- Provide tools for healthy lifestyle choices

DNF Board of Directors August 21<sup>st</sup> Letter to Owners and Staff of DNF

- Respect the environment through our actions

We feel that a merger with La Montanita Co-op would have helped us attain the desires laid out in the mission statement more completely. The Board will now move forward with a search for a permanent general manager to run the store. We ask for your support in the future and we will continue to lead in the best interest of the membership.

Yours In Cooperation,

The Durango Natural Foods Co-op Board of Directors

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