

Co-op Annual Report 2010



HANOVER CONSUMER COOPERATIVE



2010

General Manager's Report



by Terry Appleby

2010 was a busy and eventful year for the Co-op. For the first time in our nearly 75-year history, the Co-op generated more than \$70 million in revenues. The year also saw the organization grow to four stores (and our first in Vermont)

when we opened the White River Junction location. We made advances on important environmental goals and on efforts to support our local economy and did lots of good things for our community. However, it all had a cost, and earnings fell as a result.

A Year of "Firsts"

The big news of the year was certainly the opening of the store in White River Junction. The opportunity for the store came suddenly after the parent company of the P&C store at that location declared bankruptcy and ceased operations early in 2010. Co-op management was approached about an interest in taking over the site, with the knowledge that other entities were also interested. Management did the due diligence and decided that the location was a good opportunity. Several issues led to that conclusion, but the primary ones were that we had a number of members in White River Junction and adjacent areas, the town needed a grocery store, and the former store was profitable at a fairly low level of revenue. The idea for a Co-op Food Store also received strong backing from Hartford town officials. Another key to our decision was the understanding that the Upper Valley Food Co-op was not opposed to our move to town.

Once our projections indicated a Co-op Food Store could succeed in White River Junction, we presented that information to the Co-op's Board of Directors, which endorsed the proposal. We were able to come to agreement with the landlord on the terms of a lease and in little more than six weeks, with the leadership of Director of Operations Tony White, were able to open the store. While we worked on the details of opening the

store we also held meetings with community members to hear about their needs and desires for the store. Those meetings helped us to plan and shape the store. To our great good fortune we were able to hire almost every former P&C employee to staff the store, including our fine store manager, Cathy Moloney. Our new employees teamed with existing Co-op staff to clean, repair, and restock the store. Finally, on June 23rd we were able to open the doors for the first time.

We have been very gratified with the results produced by the White River Junction store. In less than six months in business the store was able to turn a small profit and is running well ahead of our projections. I can honestly say that the store has exceeded expectations from the first day. It has been well-received by the community, sales have been brisk, and we have expanded our membership at the fastest pace since the opening of the Lebanon store in 1997. White River Junction provides us with a new community to support our philosophy of cooperation and our efforts to provide great food to our growing region.

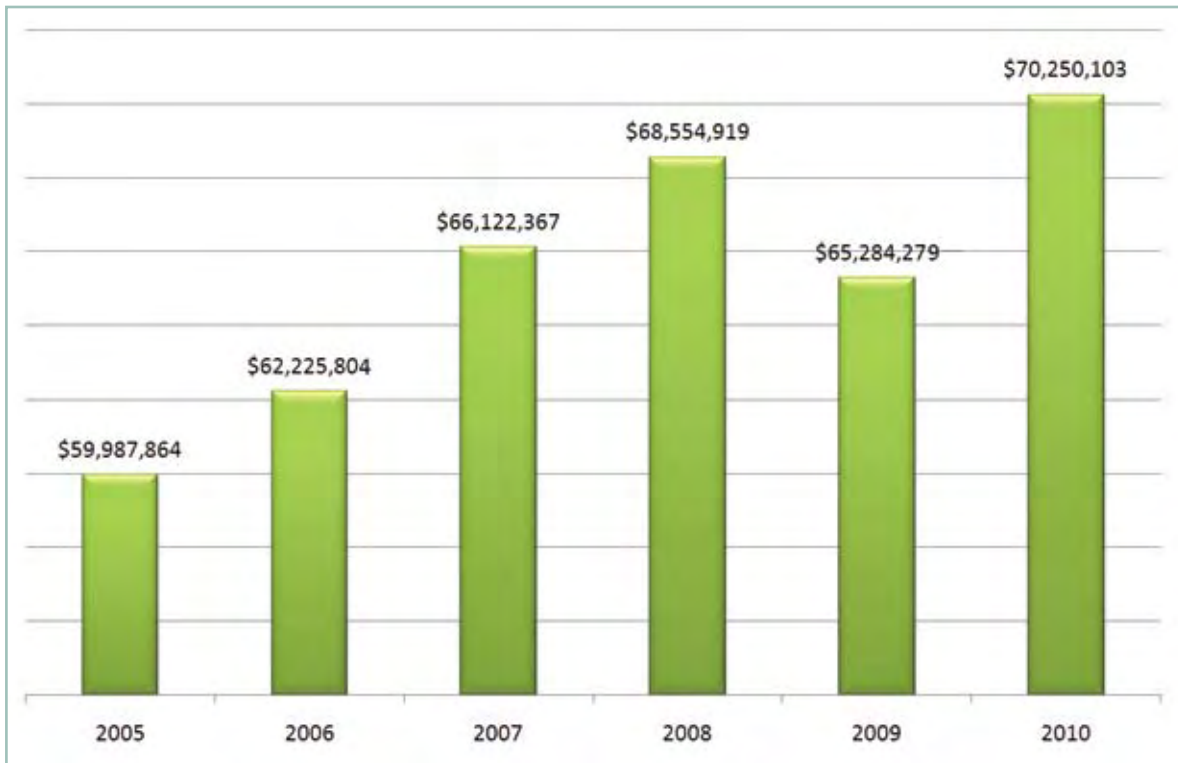
The growth in sales spurred by the opening of the new store pushed revenues over \$70 million. That ranks the Hanover Co-op as the second largest consumer co-op in the country behind only PCC Natural Markets in Seattle. However, the metropolitan area of Hanover/Lebanon/White River Junction is slightly smaller than the Seattle metro area, so we'll probably have to resign ourselves to being number two for a while longer!

2010 was the second year in a row that the Co-op inaugurated a new store. In 2009 we opened the Co-op Community Market on the Lyme Road in Hanover. The effect of having the Community Market and White River Junction stores is that sales at the Hanover and Lebanon stores were slightly slower than the previous year, as member purchases spread over more locations. The good news is that parking is less of an issue during busy times.

A Year of Challenges

There were also many challenges for Co-op operations

Yearly Sales



Total sales increased by 7.6% for the year, surpassing \$70 million for the first time. White River Junction contributed over \$4.4 million to sales in just over 27 weeks of operation. Sales have increased by more than 17% since 2005. —Tony Alongi, Director of Finance

last year, the biggest of which was controlling gross profit margins. Gross margin is what the Co-op makes on each item sold after paying for the cost of the product itself. So if we buy a box of cereal from a wholesale company for \$2.00 and sell it for \$2.50 our profit margin is fifty cents. Gross profit dollars— what the Co-op makes on every sale— is the money we use to pay for all our other expenses— rent, electricity, labor, etc. The surplus left after paying all our expenses is our net earnings, and those are divided among taxes owed, patronage refunds, and retained earnings. In 2010 the actual gross profit achieved by the Co-op was significantly less than had been projected, and net earnings fell well below projections, as well. There are several reasons for the drop in margins, not the least of which had to do with the economy, inflation, and pricing. Since the beginning of the recession in 2008, we have seen some pretty big shifts in customer purchasing behavior. Our members and shoppers have been more price-conscious, for example, and are looking for less-expensive alternatives. Added to that is the fact that food inflation is driving our costs up, but we have been trying to hold the line on price increases, putting pressure on profit margins.

Gross profit margins are the result of the interplay of various factors; pricing, inventory control, shrink, and purchasing are some of them. While we had some indications in the first half of the year that margins for two key departments were not at budgeted levels, management did not react immediately because we had years of history in achieving targeted levels. When the indicators persisted, we did the analysis and instituted a plan for bringing them to targeted levels. While those plans have been successful in raising margins, and will help earnings for the future, the damage to 2010 earnings was done.

Expenses in most areas of Co-op operations were kept under control last year, but there have been two major areas of additional costs that also have had negative effects on earnings. The first, and most rapidly rising expense, is the cost of healthcare. Over the past two years we have absorbed almost \$800,000 in additional costs to cover our staff, even at a time when we have shifted some of the burden for coverage to staff for the first time. The second area of increasing cost is credit card processing.

See **GM Report** on Page 10

Cooperative Connections Annual Meeting and Expo

Celebrating the Cooperative Spirit in our Community

Community cooperation is growing strong through your Co-op.
Come to our Co-op Expo and learn how you can make a
difference for local non-profit organizations.



Saturday, April 30 9 a.m.–1:30 p.m.

Richmond Middle School—63 Lyme Road, Hanover

12:00 p.m.

GUEST SPEAKER

David J. Thompson

*President of the Twin Pines
Cooperative Foundation and
Member of the Cooperative
Hall of Fame*

www.coopfoodstore.coop

Hanover Lebanon White River Junction



Hanover Cooperative Community Fund

Donors

The Board of Directors wishes to thank the following Co-op members who donated their patronage refund checks or wrote personal checks to the Hanover Cooperative Community Fund in 2010. We also thank local businesses who made a financial contribution to this fund in the past calendar year.

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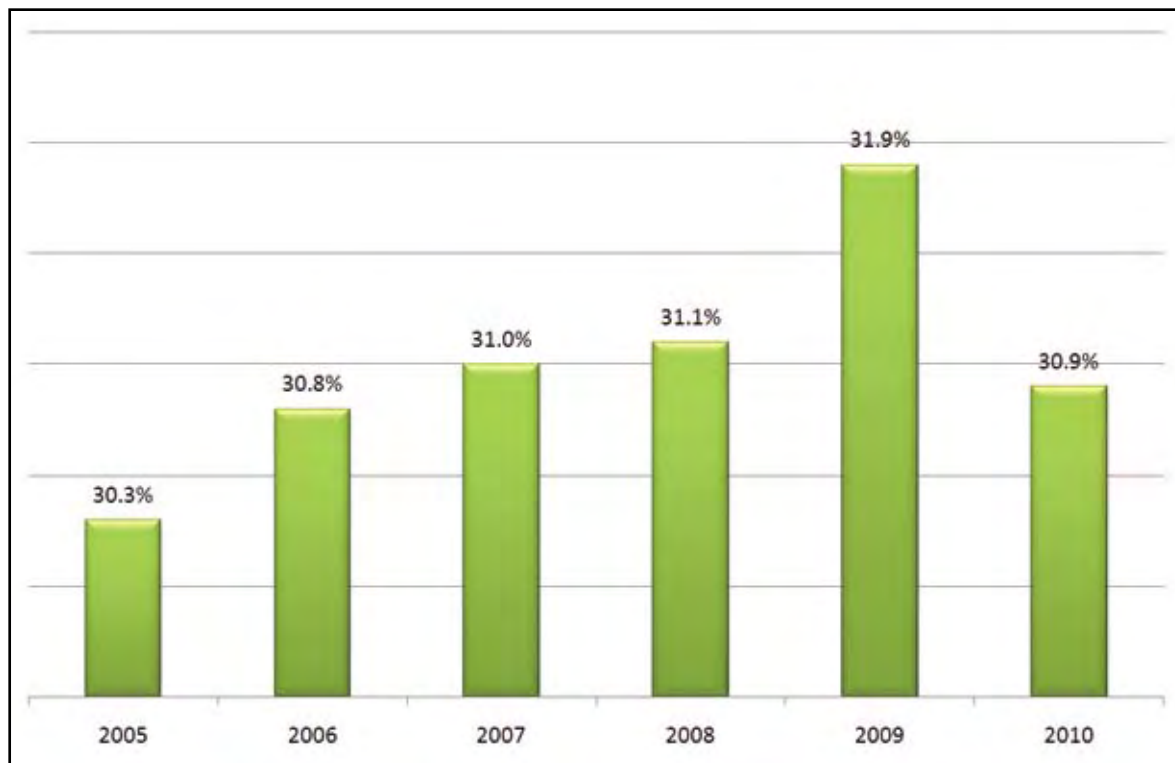
HANOVER COOPERATIVE COMMUNITY FUND UPDATE

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Gross Margin



Gross Margins (what is left after paying for the products we sell) slipped in 2010 by 1% due to pricing pressure as well as increased focus on ends achievement. One percentage point on \$70 million in sales equates to \$700,000 of lost margin.

—Tony Alongi, Director of Finance

GM Report, from Page 3

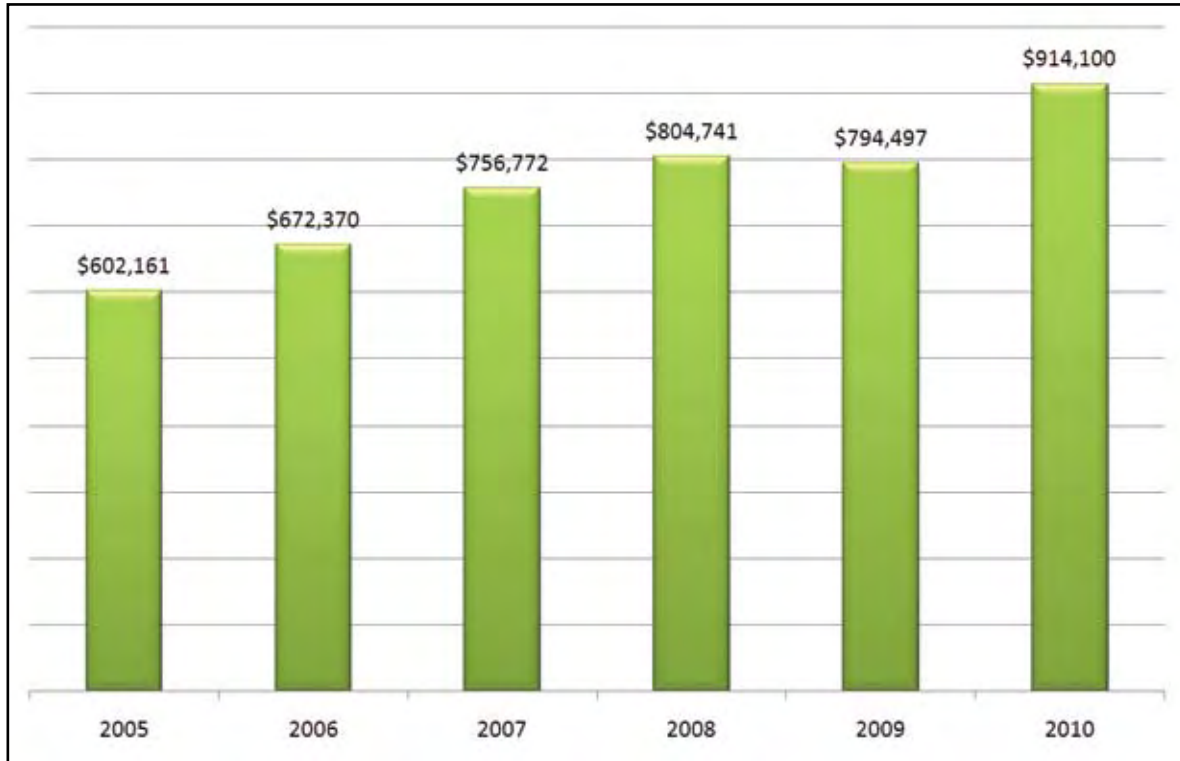
Last year the Co-op paid more than \$900,000 in processing fees. This is an area over which management has no control, as it is a function of the use by shoppers and the fees charged by credit card processors. Shopping with credit is a very high percentage of purchasing at the Co-op today, as many consumers use credit as their only means of payment. To put the issue in context, until the mid 1990s the Co-op took only cash or checks and had no credit processing costs. Soon the cost we pay for processing will be over \$1 million per year! We will be doing more work in 2011 to bring the issue to the attention of more members. Our hope is that by educating consumers about the cost of credit card processing they will choose to use alternative forms of payment, if not every time then, at least, for some higher percentage of purchases than currently.

Earnings for the year 2010 were at the lowest level since the construction of the Lebanon store. The lack of net earnings means there will be no patronage refund to return to members this year. The poor profitability picture

had other consequences as well. For members who read last year's Annual Report, you may remember that our labor force was reduced by ten percent in 2009 due to declining sales caused by an uncertain economy. I also noted in that report that our staff received no annual wage increase in 2009. 2010 was a better year for the economy as it emerged from a two-year recession, but the recovery, for both the general economy and the Co-op's business, has been slow and difficult. Consequently, for the second consecutive year, the staff saw no general increase in wages.

Because of our cooperative form of business we have a responsibility to strive not only for needs of members but also to work for the sustainable development of our community, including the continued well-being of staff. In 2010 we continued to attend to community concerns in a number of ways that I will mention below. I am mindful, however, that the costs of the good we have done has been unequally dispersed and somewhat to the detriment of staff. This is a situation we expect to rectify in 2011 and have budgeted increases to take effect during the year. We also made a small payment to staff in the

Credit Card Fees



The cost to process credit and debit card transactions continues to escalate and now represents the fourth highest cost to the Co-op after food, wages and benefits, and facilities costs. This currently represents 1.3% of total sales, or nearly 5 times the operating profit of the Co-op. Processing costs are expected to surpass \$1 million in 2011. —Tony Alongi, Director of Finance

form of a discretionary bonus to make up for some of the earning power lost to inflation over the last two years.

Supporting a Local Economy ...

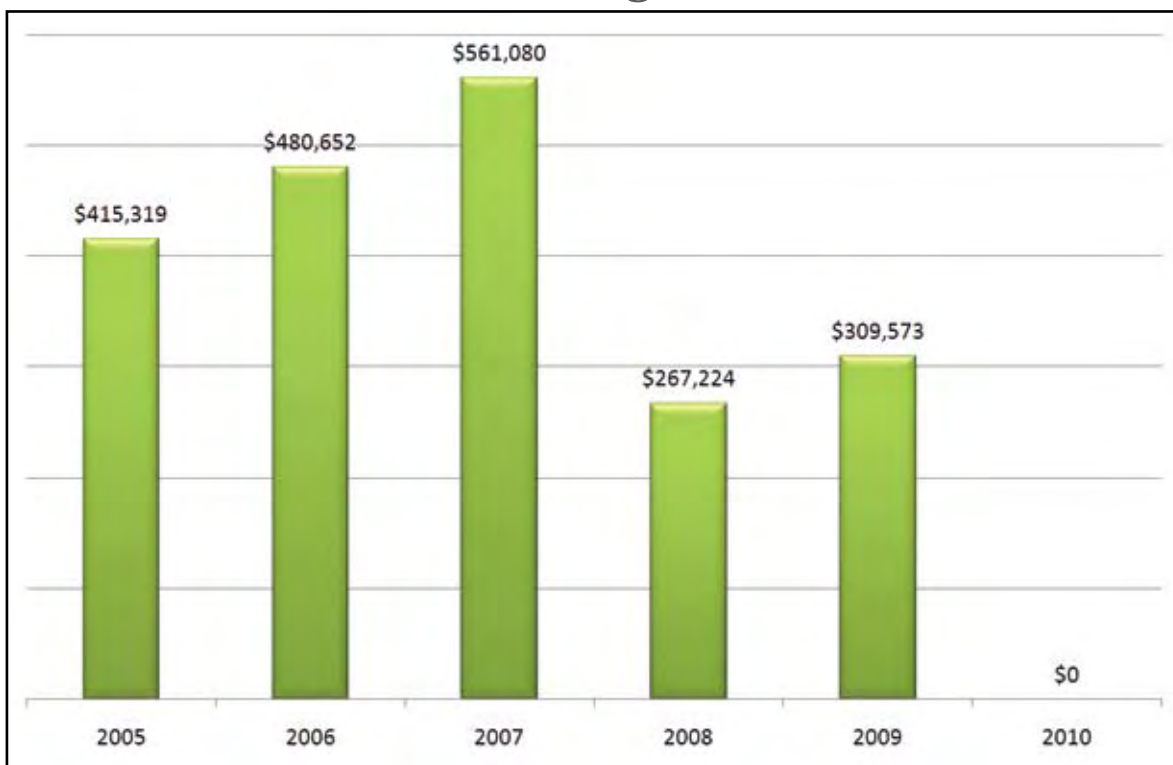
In 2010 we did accomplish some notable successes in acting on the Cooperative Principle of “Concern for Community.” The Co-op’s Board of Directors has developed a set of policies (called Ends) that guide the organization toward accomplishments that benefit our members and community. One area of direction is to support efforts to create a more vibrant local economy, and we have put much effort there. Over the past several years we have been working to raise awareness of the benefits of our community to a strong local economy. In 2010 those efforts focused on helping the development of the Local First Alliance, a new organization under the program umbrella of Vital Communities that promotes local ownership, local purchasing, and locally focused development. In pursuit of a more vibrant local economy we are joining with other local businesses and individuals to raise awareness of this effort. The benefits of local purchasing were recently made clearer through the release of a study by the Vermont-based Farm to Plate Initiative of the Vermont Sustainable Jobs Fund. The

study pointed out that if consumers shifted from spending 5 percent to spending 10 percent of their food budgets on products from local sources (or less than \$10 per week), the result would be 1,500 new private sector jobs in the state (and probably would mean the same for New Hampshire, I’ll bet). We are working with the Local First Alliance to help make that happen.

Consciously working to benefit the local economy is not something new to the members of the Hanover Co-op. In fact the minutes of the founding meeting of the Hanover Consumers Club, dated January 6th 1936, state that “the policy of the Club would be to deal with local merchants and distributors as far as practicable.” Co-op members continue to do their parts to help the local economy. In 2010 we collectively purchased more than \$8 million in local produce, milk, maple syrup, ice cream, and lots of other things. In 2010 we were able to add local beef, pork, and lamb to our offerings, as well as new bakery goods, cheeses, and a wide variety of specialty products. Each purchase of a local product helps our local economy in multiple ways. Your support of local producers means

See **GM Report** on Page 12

The Patronage Refund



Operating costs in 2010 truly matched revenues, with savings before taxes of \$102,546. This is below the threshold at which patronage refunds would be paid out. —Tony Alongi, Director of Finance

GM Report, from Page 11

more dollars are staying in the Upper Valley to enhance the regional economy. Support of our local farms ensures other benefits as well, like helping to ensure there is a working landscape we all value so much. In 2010 we initiated a new program to specifically help struggling dairy farmers. The program, called “Keep Local Farms,” generated \$40,000 last year in funds to benefit area farmers.

Part of our support for local farmers is in helping to make their products affordable to the public, while also covering their cost of production. The primary way we do that is to take reduced profit margins on locally produced goods. In 2010 that reduced margin amounted to almost \$400,000. By taking less margin the Co-op allows farmers to realize the cost of production and sell product at prices competitive with product from outside our region. And it gives Co-op shoppers the freshest product in season.

Another area of work important to our local producers was in the area of new national food safety legislation that passed through congress in the past year. Rosemary

Fifield, the Co-op’s Education Director, coordinated efforts by several local small farmers to have a voice in the process. Rosemary headed efforts to communicate the farmers’ message to our representatives in Congress and played an important role in the discussion. Rosemary also coordinated messages to consumers on this important topic.

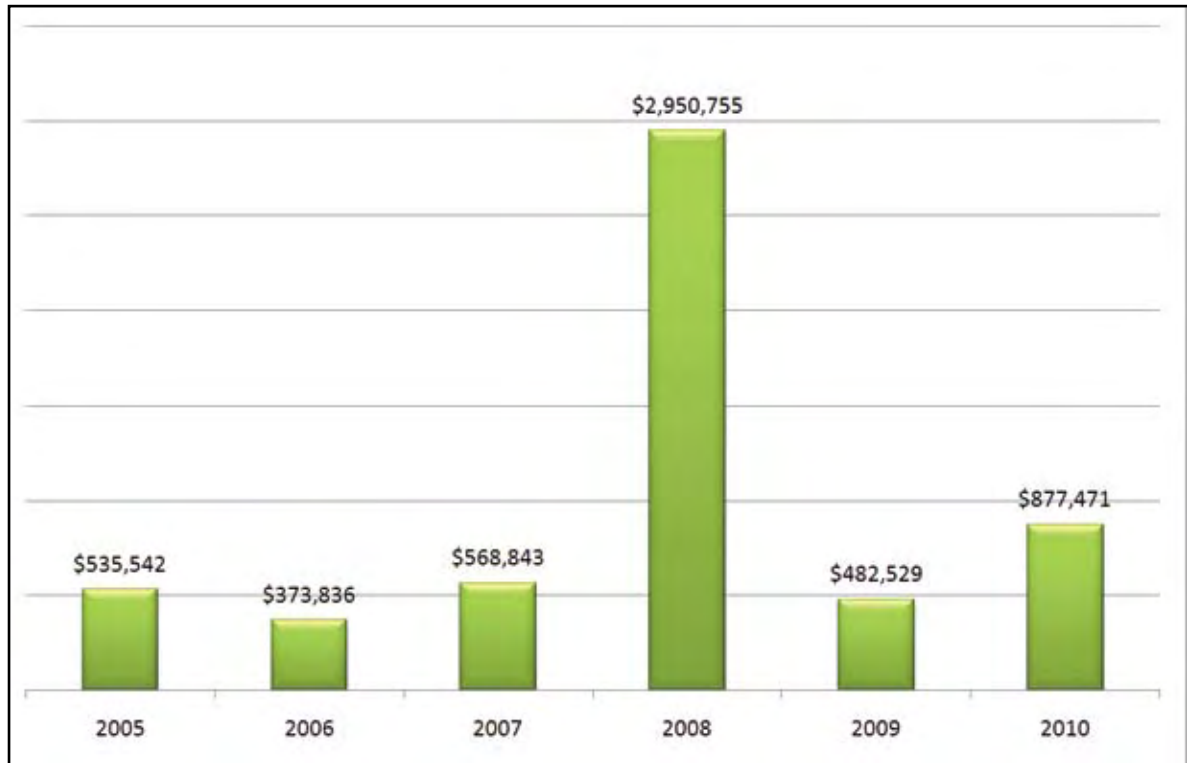
... And Our Fellow Co-ops

In another area of activity in 2010 we gave assistance to new cooperatives trying to form in our area. Nationally, cooperative development is at its highest level since the early 1970s as consumers look to alternatives that are home-grown and locally controlled. In our region, new consumer co-ops are forming in Keene, Walpole, and Manchester, New Hampshire. We’ve given advice and encouragement to those startup efforts as well as a new co-op in New Haven, Connecticut. We continue to collaborate with the Littleton Co-op, which is a real success story in the North Country. During the year, Hanover Co-op also hosted managers from Co-op Atlantic in eastern Canada.

Sustainability

In several areas the Co-op’s sustainability efforts moved

Capital Reinvestment



The Co-op continues to reinvest in equipment and facilities to both improve operations as well as to enhance the experience of our shoppers. \$5.8 million has been reinvested in operations since 2005, including more than \$877,000 last year. Of this amount, just under half was invested in the new White River Junction location. —Tony Alongi, Director of Finance

ahead last year, although the addition of the inefficient White River Junction store set back efforts to reduce energy consumption. To address the issue with White River Junction, we replaced some refrigeration units in 2010 and lighting throughout the store. In 2011 we will replace much of the remaining refrigeration which will dramatically improve our environmental impact. On other sustainability issues, we made significant decreases in the amount of materials going to landfills through programs in recycling, composting, and diversion of organic waste for animal consumption. The Sustainability Team, led by coordinator Emily Neuman, also created new standards for cleaning products used at the Co-op.

Staff Changes

2010 was the final year of a long career at the Co-op for Beverly Edson. Bev came to work at the Hanover store the week after graduating from High School in 1964, thinking at the time that the job would tide her over until the fall when she would be off on other adventures. As it turned out she lasted another 46 years. Bev was a loyal and reliable worker for the Co-op who knew hundreds of members by name. She worked for many years in

the old BIN building that was demolished in 1994 to increase parking at the store. For the past several years Bev worked in the Bulk Foods department and took orders for the Senior Delivery Program. I'd like to thank Bev publicly for her years of service to our Co-op and members. Thanks, Bev! Your work was much valued and appreciated!

Lastly, 2010 marked the passing of long-time staff members Linda O'Banion and Allen Mooney. Linda worked at the Hanover store as a cashier and, for the past few years, as the person who selected orders for the Senior Delivery Program. Even through the long period of her illness, Linda did her best to take care of her senior customers, a job she loved.

Allen Mooney worked as a grocery clerk at the Lebanon store for 8 years. Allen was a dedicated worker and team player. He was also as dependable as the sunrise, having never missed a day of work in his 40 years at various jobs!

Linda and Allen are missed by their many friends and co-workers.

2010

President's Report



by Kay Litten

2010 is a year in which the Hanover Consumer Cooperative Society realized more than \$70 million in sales for the first time ever. However, even as we increased our sales, we encountered more challenges than ever before. Our

first triumph was the expansion across the Connecticut River to White River Junction, Vermont, to open a Co-op store in the premises of the former P&C market. We could hardly believe that we managed to open this store a mere six weeks after signing the lease on the property. It took a Village to accomplish this with the town manager, selectpersons, management from the Co-op, state senators and representatives, the staffs at all of our stores, and a host of others to help. It also took endless patience on the part of all as chaos reigned much of the time. We are so fortunate that Cathy Moloney, the former P&C manager in White River Junction, was eager to become a Co-op employee and brought many of her staff with her. Some of those folks remained in White River Junction, some moved to our other stores, and some of our long-term employees chose to work at the latest version of the Hanover Co-op.

Everyone was thrilled with the immediate success of this store and its popularity with both the former P&C customers, many of whom became new Co-op members, and with many long-time Co-op members who have found this latest location more convenient for them. We know that the infrastructure of this store will need more attention in the immediate future, but we are convinced that these investments will enhance this store. Many of them you will not be able to see immediately, but all of them will allow the store to become more efficient and economical. I also know that the opening of this store has increased the dialogues among members, employees, and board members. Everyone wants to know all about the "White River Junction Store and how it's doing!"

At the same time that our revenues hit an all-time high, so did the costs of health insurance (up over \$800,000 in a two year period), transportation, and food inflation. Our employees did not receive a raise, again, in 2010. This caused great consternation for management and board members, to say nothing of the distress for employees and their families. We are expecting to offer staff a

discretionary bonus until we can promise another increase in general wages. We believe that it is the staff, at all levels who contribute to our positive place in the community and to the very timely opening and success of our new store.

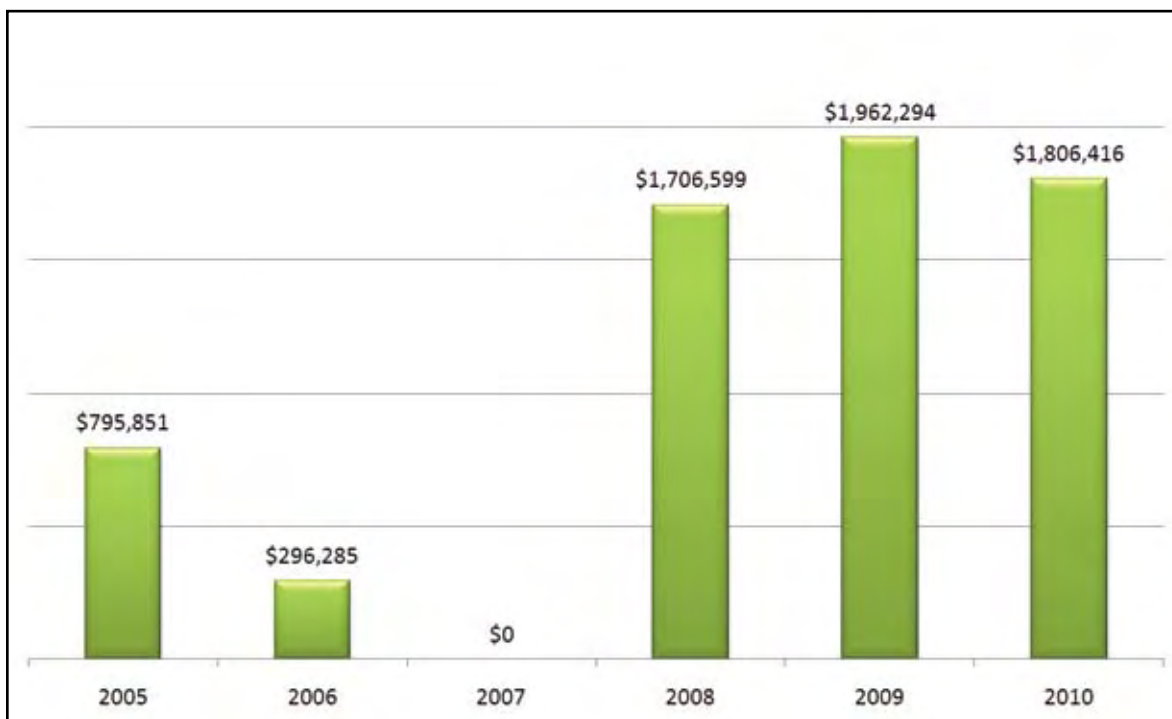
The Co-op does an enormous amount of good in the communities we serve from our support of the Local First Alliance through Vital Communities, our food donations to Willing Hands, donations from various events to benefit the HCCF, and our involvement in the Keep Local Farms movement. Our support of local farmers brings us more local food, whose sources we can trace, for our customers and members.

To this same End, our Annual Meeting on April 20, 2010, focused on Cooperative Connections, reflecting our commitment to our Global End #1: "The Upper Valley will have a retail source of food that is affordable, healthy, grown and/or processed locally to the fullest extent possible." The Food Expo which accompanied this Annual Meeting highlighted the food system and the issues we face concerning the production of our food. Displays featured criteria to think about while choosing food at the Co-op: health/nutrition; supply and distribution; and the environmental, social, and economic impacts of our many choices. Displays encouraged members to become more aware of the Co-op's efforts to support safe food, proper nutrition, and fair trade practices through their selections of food at the Co-op and the impacts of their choices.

Our commitment to the entire cooperative movement across the United States, and especially to three new co-ops opening soon in New Hampshire, is unfailing. We are working more closely than ever with the Upper Valley Food Co-op in White River Junction since we opened a store in their back yard. Staff in both stores send customers to the other store for items they do not carry. Two Hanover Co-op Board members and Terry Appleby meet quarterly with the Neighboring Food Co-operative Alliance, a group of 25 co-ops in Vermont, New Hampshire, Massachusetts, and Connecticut. Everyone in these groups is determined to enrich the local economies with local products and cooperative efforts.

On a beautiful Saturday in late September the Board of the Hanover Co-op invited members of the Co-op staff, community and business leaders, local producers of food,

Debt Status



The Co-op is currently carrying interest-bearing debt of \$1.8 million related to the renovation and re-opening of the Co-op Community Market. This debt is in the form of a note with the National Cooperative Bank. The new White River Junction store was opened without incurring any additional term debt, and the Co-op's \$1 million line of credit was not tapped. The opening costs were fully funded through operational cash flow. —Tony Alongi, Director of Finance

and local students to join us at Camp Ohana on Lake Fairlee to discuss things cooperative: our Co-op's history, where our Co-op is today, and how we all might envision the work of this Co-op in the next 75 years. The day provided us with so much to think about, from successes we did not even realize we'd achieved to criticisms we'd not considered and testimonials from folks who said they would not be in business without the support and consideration of Co-op management. It was a most rewarding experience leaving the Board enriched and ready to focus on our future.

We hope you value your time spent in and purchases made at the Co-op stores enough to recognize that we have a mission to do good as we are doing well. We have responsibilities to our employees as well as to our members. We know that while many of you consider the patronage refund a small bonus for shopping at the Co-op stores, there are others among you who believe that as Co-op members you are due this refund. You will not be receiving a check in the mail in April. This year all the profits from 2010 have gone to an employee bonus. What the Board is especially concerned for is that the membership understand that if there is \$0.00 to distribute for patronage refunds, this does not mean that the Co-op

did nothing for its membership this year. We have opened a new store, a very expensive proposition, especially with employee wages to pay for six weeks when the store was not yet opened. Also, throughout the year and within this very letter I have discussed the various positive initiatives and good works of the Co-op.

Furthermore, our new director of finance, Tony Alongi, has opened our eyes to the costs of credit card charges, which in 2010 amounted to over \$900,000 in fees charged to the Co-op for your credit card purchases. This amount would go a long way toward employee raises and patronage refunds. Perhaps we should all reconsider when we take out our credit cards at the Co-op's cash registers. The decision is yours, but we also believe that you should know the cost of this service.

It has been a privilege for me to act as the President of the Co-op for another year. It is an exceptional organization enriching all of us with much more than our daily bread.

Be sure to come to this year's 75th Annual Meeting and Food Expo and the afternoon talk by David Thompson, from England, where co-ops reign supreme. See you at the Richmond School in Hanover on Saturday, April 30, 2011.

Co-op Board of Directors



Kay Litten
President



Janet L. Saint Germain
Vice President



Tricia Groff
Secretary



Don Kreis
Treasurer



Corrie Martin
Nominating Committee Chair



John Boutin



Margaret Drye



Paul Hoffman



Jill Mikucki

Co-op in the Community

Co-op Community Partner of the Month

Co-op shoppers donated \$8,375 to twelve local non-profit organizations through our Co-op Community Partner of the Month program in 2010. The Haven, Women's Information Services (WISE), Listen, Headrest, Twin Pines Housing, the Good Neighbor/Red Logan Clinics, and the Hanover Cooperative Community Fund are partners every year. In 2010, shoppers also donated to Upper Valley Hostel, Outreach House, Upper Valley Humane Society, Willow Grove/Upper Valley Substance Abuse Foundation, and Grace Outreach Food Pantry and Community Dinner.

The Co-op is currently scheduling organizations to be featured as partners in 2015.

Aiding Community Programs

In addition to administering our Community Partner of the Month program, the Co-op gave \$7,530 in small donations to 163 local nonprofit organizations to assist them in their fundraising efforts and provided 72 local groups the opportunity to raise funds in our lobbies throughout the year for programs that benefited Upper Valley residents. We supported the educational goals of the Upper Valley Business and Education Partnership through participation in their programs linking students and teachers with local businesses. Willing Hands Enterprises, The Haven, and Listen received both product and monetary contributions from the Co-op to support their work in feeding the hungry. Co-op staff volunteer each month to prepare and serve a Listen Dinner for Upper Valley residents in need.

The Hanover Cooperative Community Fund

The Hanover Cooperative Community Fund (HCCF) is a nonprofit charitable foundation established by the Hanover Co-op's Board of Directors in 2001. A steering committee appointed by the Board oversees administration of the fund.

In 2010, 776 Co-op members showed their support for the HCCF by donating \$11,397 in patronage refund checks plus \$414 through other means, including personal checks and raffle ticket purchases. See page 5 for a list of donors.



The Board uses interest generated by the fund to make annual donations to local nonprofit organizations that contribute to the quality of life of Upper Valley residents.

In 2010, the Board returned \$8,595 to the Upper Valley through donations to Upper Valley Hostel, Windsor County Partners, Red Logan Dental Clinic, Twin Pines Housing, and Sustainable Energy Resource Group (SERG).

Contributions from interest received in 2010 will be distributed in 2011.

Interested in being a Community Partner? Let us know! Call us at 603-640-6544 or send an email to comment@coopfoodstore.com.

Co-op staff list current as of March 1, 2011

Management Team

Anthony Alongi
Chief Financial Officer
Terry Appleby
General Manager
Rosemary Fifield
Education and Member Services Director
Bruce Follett
Lebanon Store Manager
Loretta Land
Human Resources Director
Steve Miller
Hanover Store Manager
Allan Reetz
Communications Director
Tony White
Operations Director
William Williams III
Information Technology Director

Store Managers

Helen Daisey
Community Market
Cathy Moloney
White River Junction

Accounting

Kaitlin Bartley
Barbara Broderick
Janet Couture
Mark Langlois
Controller
Patricia Pisano
Lisa Wragg

Administration

Genie Braasch
Board Administrator
Emily Neuman
Sustainability Coordinator

Communications

Katie Cahill
Erika Gavin

Delivery

Joshua Dunn
Robert Hebert II
William Wakefield
Paul Walker

Education and

Member Services

Mary Choate
Kenneth Davis
Paula Gallien
Michele Jordan
Member Services Coordinator
Justine LaBonte
Jaime Richardson
Emily Rogers
Jessica Taylor
Mary Vermeulen

Human Resources

Jill Curtis
Deanna Vaillancourt

Information

Technology
Penny Ashe
Virginia Gray
Scott Hemond
Thomas Lockitt

Inventory Control

Jeannette Argent
Amy Ballou
Jillian Dalley
Dixie Goss
Manager
Tammy Trombly

Maintenance

Brian Barrel
Manager
Elbert Blodgett
Robert LeDuc
Joseph Stumpf

Merchandising

Dot Benham
Jean Dyke
Samantha Estes
Randy Gage
Vicki Grilli
Victoria Hicks
Paul Hoffman
Edwin Howes
Jolene LaBonte
Patrick Neily
Jacob Vincent

Commissary

George Albrecht
John Brochu
Randy Brooks
Warren Burmeister
Frank Clough
Geoff Conrad

Philip Conrad
Roderick Crandall
Jason Dacier
Food Production Manager

Nathan Darcey
Justin Eastman
Allen Edson
Kate Fedele
Michael Goodwin
Debra Groshens
Cynthia Hall
John Hathorn
Robert Henskens
Susan James
Benjamin Joslyn
James King
Cheyenne Lamphere
Amy Lamson
Ian Lord
Carrie Martin
Arthur Perkins
Tammy Robbins
Renee Russell
Mark Shaw
Richard Taliaferro
Douglas Tufts

Beverage

Daniel King
Justin St. Peter
Matthew Szczesiel

Bulk

Hanover
Jessica Bagley
Matthew Mazur
Sehan Poulton

Lebanon

Tracy Cadarette
Daniel Hazelton
Operations Manager
Timothy Leahy
Christopher Zullo

Center of Store

Hanover
George Astley
Michael Balch
Sarah Baldwin
Gary Camp
Daniel Cantlin
Kenneth Curtis
David Day
Daniel Duncklee
Operations Manager
Lawrence English
Elias Gray
Dale King

Craig Lavalla
Sharon LeMaster
Ann MacDonald
Cynthia Mario
Harold Mitchell
Sally Page
Gary Stark

Lebanon

Richard Argent
Chester Brant
Gary Cloutier
Harold Craig
William Dicks
Tyler Farnsworth
Sean Fernandes
Dylan Gelineau
Philip Lambert
Arthur Malm
Brian Rozzi
David Saboski
John Sausville
Andrew Spooner
Stanley Steacie
Steven Swasey
Patrick Temple
Operations Manager
Jane Thibodeau
Leon Valia

White River Junction

Cory Argent
Samuel Birchmore
Casey Brown
Peter Florucci
Operations Manager
Dante Gray
Jeremiah Holling
Jesse Johnson
David Phillips
Calvin Warchal

Cheese Shop

Hanover
Elli Bayer
Andrew Duncklee
Katrina Peront
Operations Manager
Teresa Weston

Lebanon

John Boutin
Violet Burgess
Sarah Urie Nusbaum
Operations Manager
Constance Wheelock

Dairy

Hanover
Clifal Aquino, Jr

John Holmes
Jonathon Marshall
Jonathan Richardson
Operations Manager

Lebanon

Peter Annis
Jon Dubuque
Operations Manager
Louis Felix
Timothy Guerin
Rebecca Woodward

White River Junction

Peter DeCoff
Operations Manager

Deli

Hanover
Samantha Argent
Karen Blodgett
Christopher Catchick
Brenda Jeror
Raymond Mitchell

Lebanon

Richard Babbitt
Mary-Ellen Blake
Jacob Fryar
Lynn Guthrie
Stacy Hewes
Natalie Louder
Zack Read
Albert Vanasse

White River Junction

Deborah Clark
Phoebe Hayes

Floral

Hanover
Donna Fioravanti
Susan Hewitt
Betty Mutney
Beverly Weeks
Charalyn Wood
Operations Manager
Janice Wright

Lebanon

Cindy Balzotti
Deborah Gonet
Ann Smith Lyons
Operations Manager

Front End

Hanover
Louella Adams
Elizabeth Balch
Deborah Ballou

Co-op staff list current as of March 1, 2011

Edna Barrett
Merton Bean
Mary Jo Billmann
Margaret Birch
Kevin Birdsey
Caroline Collison
Brenda Daisey
Traci Duncan
Patricia Farley
Stephanie Ferland
Meghan Gallagher
Elizabeth Gates
Matthew Geason
Mariah Johnson
Tosha Jones
Julia Kono
Raylene Lamadeleine
Alison Langley
Natalia Licari
Linda Marchetti
Michelle Metcalf
Austin Mills
Caroline Murphy
Deborah Osheyack
Bernice Parker
Theresa Patno
Brenda Pierson
Mariko Podjuban
Leo Queto
Linda Temple
Operations Manager
Lisa Thibodeau
Jessica Wallace
Christopher Washburn
Michael Whitman
Angela Wright

Lebanon

Sara Bailey
Janet Bergeron
Travis Berwick
Sarah Boisvert
Brandy Bouchard
Bernice Braley
Robert Brown
Ashley Carpenter
Ian Castellini
Sheila Clark
Operations Manager
Sandra Cleveland
Tiana Cross
Izaak Dowlin
Jennifer Dunn
Sandra Duquette
Adam George
Bryanna Hall
Samantha Harding
John Harp
Jaunita Hoisington
Debbie Hurd
Christopher Kingston

Elizabeth Koelsch
Natalie LaBonte
Ben Marx
Jonathan McCann
Annette Miller
Tricia Mitchell
CarolAnn Morrison
Jacob Murphy
Theresa Perry
Elizabeth Pierce
Julie Rocco
Andrew Schwarz
Jolleen Shepard
Sarah Simpson
Molly Tallman
Richard Wentworth
Sam Whitaker

White River Junction

Evelyn Adams
George Blake
Hannah Blanchard
Rebecca Blanchard
Stephan Bosley
Taylor Brown
Alicia Cerasoli
Hannah Cerasoli
Careyann Clark
Vicki Davidson
Mischa Goding
Linda Hodgdon
Tracy Holmes
Susan Jacobs
Operations Manager
Emma Jennings
Joshua Perry
Jennifer Sarne
Tadd Tardie
Emily Urquhart
Carol Wellman

Health and Beauty Aids

Hanover
Sandra Goodwin
Alison Hopkins
Operations Manager
Debra Reis
Kathleen Sinotte

Lebanon

Laurel Soderholm
Operations Manager
Kathy Stocking
Katherine Tufts

Meat

Hanover
Brian Campbell
Albert Lacroix, Jr.

Bruce Mario
Gregory Marsh
Christopher Martin
Peter Moulton
Vincent Porreca
Michael Sielewicz
Howard Taylor
Jeff Withington
Operations Manager
Matthew Wood

Lebanon

Albert Belanger
Thomas Belisle
Operations Manager
Guy Cook
Bryan Hall
Erik Olsen
Mary Ellen Parenteau
Jonas Peck
Derick Rowell
Samuel Wood

White River Junction

Travis Clark
Gregory Gilman
Operations Manager
Tara Hill
Stephen Lembke
Jeffrey Moulton

Prepared Foods

Hanover
David Beane, Jr.
Irene Bills
Michael Druhl
Gwendolyn Dunning
Philip Martindale
Danielle Monteith
Food Service Manager
Amber Nausadis
Seth Watson

Lebanon

Kelley Batten
Carol Beach
Joanne Bouchard
Food Service Manager

Drew Bradley
Mirinda Daisey
Patricia Duszynski
Courtney Fellers
Joanne Fernandes
Leslie Fifield
Caren Giaccone
Daniel Graham
Tara Gridley-Herzog
Tracey Haddock
Linda Lord
Linda Lowell
Kathryn Marshall

Bridget McElhiney
Andrew Moriarity
Cynthia Robtoy
Daniel Tillotson

White River Junction

Ryland Ianelli
Sheryl Licence
Lynette Mullen
Food Service Manager
Joi Purrell
Sarah White

Produce

Hanover
James Ballou
Jessica Buchan
Melissa Gray
Jason Hawkins
Richard Kifer
Paul Lamarre
Aaron McCoy
Todd Olson
John Perkins III
Operations Manager
Bonnie Pressey
Matthew Protas
Belinda Smith
James Swantak

Lebanon

Reginald Ashey
Justin Beams
Thomas Bircher
Operations Manager
Damien Cushman
Allison Garran
Jessica Grace
Kristin Henault
Gary Herschel
Jacquelyn Johnson
Larry Kennett
Daren Lowell
David Lowell
Norman Porter
Earl Varney

White River Junction

Stephen Bonnette
Koni Fletcher
Operations Manager
Corey Johnson
Michael Macedo

Receiving

Hanover
Michael Kingsbury
Ryan Wilcox

Lebanon

Eric Belisle

Becky Grammer
Mark Romano
Operations Manager

White River Junction

James Allen

Seafood

Hanover
Brandon Foley
Jeff Lister
Operations Manager
Anthony Maki
Zachary Weber

Lebanon

Julie Bean
Stephen Dow
Robert Lombardi
Operations Manager
Cameron Mendenhall
Larry Tryggstad
Dale Wheelock

White River Junction

James Liss
Operations Manager

Community Food Market

Bonnie Armstrong
John Bellavance
Jason Bonds
Steven Eggleston
Carolyn Fryer
Kristina Hill
John Martell
Hannah Maxham
Donna Monckton
Sarah Ricker
Steven Smith
Trudy Weigel
Linda Willson

Shuttle

William Movelle
Kenneth Weldon

Service Center

Scott Davidson
Jeffrey Miller
John Peavey
Paul Southworth
Wayne Stearns
Service Center Manager
Robert Taylor
Lawrence Wilmot

Board of Directors Election 2011

Voting Period Runs April 1-30, 2011

Three seats on the Co-op's nine-seat Board of Directors are up for election in 2011. Candidate statements and ballots—two ballots for each household—appear in this issue of the 2010 *Annual Report* on the following pages. Candidate statements and ballots are also available in our stores and online at coopfoodstore.coop.

Who Can Vote?

Any Co-op member who owns at least three shares of Co-op stock as of March 15, 2011, will be eligible to vote. Two members on the same membership will need to own at least six shares on March 15, 2011, in order for both to vote. A two-person membership with only three, four, or five shares can submit only one ballot. Either member is eligible to submit that one ballot for the membership.

Only individuals named on the membership are eligible to vote. If you are not sure you are named on your household's membership, check the mailing label on your issue of the Co-op News or call Member Services at (603) 640-6328. Unsure how many shares you own? The Member Services staff can give you that information as well.

When Do I Vote?

The 30-day voting period will begin on Friday, April 1, 2011, and end at the close of business on Saturday, April 30, 2011.

Where Do I Vote?

Votes are cast by paper ballot over the 30-day period. Ballots can be submitted by mail, in person at the Hanover, Lebanon, or White River Junction store, or at the Annual Meeting on Saturday, April 30, 2011.

How Do I Vote?

Two paper ballots will be included in every copy of the Co-op's Annual Report to be mailed at the end of March. In addition, paper ballots will be available for

pick-up at all Co-op locations beginning April 1st.

After filling out a ballot, you **MUST** put it into an envelope and put the following information on the sealed flap:

- Your name as it appears in our membership database (see the mailing label of your *Annual Report*), and
- Your member number.

A ballot without this verifying information will be considered invalid and will be discarded. Duplicates and ballots from members who are not eligible to vote will be discarded.

Then, bring the sealed envelope to the Service Desk at any Co-op Food Store, to the Annual Meeting, or mail the envelope to: Elections, Co-op Food Stores, PO Box 633, Hanover, NH 03755. No ballots will be accepted after the close of business on Saturday, April 30, 2011.

What About Voter Anonymity?

Your ballot should be securely sealed inside an envelope. Envelopes with voter identification information will remain sealed until the close of the 30-day voting period. Member names and numbers will be used only to verify the validity of each vote received and to eliminate duplicates.

At the close of the voting period, Board-appointed ballot counters working in pairs will separate each folded ballot from its envelope and put it into a collection of folded ballots until all successfully validated envelopes have been emptied. Only after the complete separation of ballots from their identifying envelopes will ballot counters open and count the ballots.

coopfoodstore.coop/members

CO-OP MEMBERS, WE NEED YOUR

VOTE!

BOARD OF DIRECTORS ELECTION: APRIL 1-30, 2011



Three seats on the Co-op's nine-seat Board of Directors are up for election in 2011. All eligible members are encouraged to vote!



Last year 704 members voted out of over 31,000 who were eligible.



If we're going to have more than 1 out of 44 members voting, we need you! Look Inside for eligibility.

VOTING FOR THE BOARD: STEP BY STEP



Step one: Find ballots and candidate statements in the *Annual Report*, which will be mailed to members at the end of March. Beginning April 1, you can also find statements and ballots in our stores or on our website at coopfoodstore.coop.



Step two: Put your completed ballot in an envelope, write your member number and name as it appears in our membership database on the sealed flap, and bring to any of our stores or mail to: Elections, Co-op Food Stores, PO Box 633, Hanover, NH 03755.



Step three: Celebrate and spread the word! A cooperative is one of the most democratic organizations you can find, and you just exercised your right to vote for your Co-op's leadership! Now share your enthusiasm and help us get out the vote to other members, too.

QUESTIONS? COOPFOODSTORE.COOP/MEMBERS

CO-OP MEMBERS, WE NEED YOUR

 **VOTE!** 

BOARD OF DIRECTORS ELECTION: APRIL 1-30, 2011

Please vote for up to, but no more than, three (3) candidates. The Co-op Bylaws require a minimum of 200 votes to be cast in order for the election to be valid. For candidate statements, see pages 24 through 27 of this Annual Report.

Toni Flora

Kay Litten

Tricia Groff

Dale Shriver

Rick Rebman

(write-in)

- Please fold your ballot and seal it in a large (number 10) envelope.
- Write your name and your membership number on the envelope. Your name must appear as it does on your Co-op membership. To be sure, see the mailing label on your Annual Report.
- Mail the sealed envelope to:

Co-op Elections
PO Box 633
Hanover, NH 03755

or return it to the Service Desk at the Hanover, Lebanon, or White River Junction Co-op Food Store; or submit it at the Annual Meeting on Saturday, April 30, 2011. All ballots must be received by Saturday, April 30, 2011.

CO-OP MEMBERS, WE NEED YOUR

 **VOTE!** 

BOARD OF DIRECTORS ELECTION: APRIL 1-30, 2011

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CO-OP MEMBERS, WE NEED YOUR

VOTE!

BOARD OF DIRECTORS ELECTION: APRIL 1-30, 2011



Toni Flora

I am excited to be running for the Board of Hanover Co-op. I fell in love with the cooperative model of business when I first encountered co-ops last year. Living most of my life outside of the Northeast, the co-op is a relatively new business model to me. Conducting business in a socially responsible manner just makes so much sense—it's good for the business, the community,

**Please See
Flora,
Page 25**



Tricia Groff

1. Why do you want to serve on the Board?

The Co-op is an amazing organization and I feel lucky to have been a Board member these past three years. Providing groceries for those living in the Upper Valley is only one tiny piece of the Co-op's mission. From its support of the local economy to contributing to various charities, the Co-op provides a broad

**Please See
Groff,
Page 25**



Kay Litten

1. Why do you want to serve on the Board?

Before I first joined the Board of the Hanover Consumer Co-operative Society I viewed this organization as a vastly superior food emporium offering me a range of products far more diverse than I might have imagined available in a small town in northern New England.

Well, now that I am far better acquainted with

**Please See
Litten,
Page 26**



Rick Rebman

Hi, my name is Rick Rebman and I have lived in the Upper Valley for over 10 years. Compared to many this is not a long time, but my kids have grown up here and my family considers this to be our home. The many folks who work at the Co-op and who provide food and other products to the Co-op are our friends and neighbors and I care deeply about their current and future well-being. The Co-op Board

**Please See
Rebman,
Page 27**



Dale Shriver

There are few organizations that support our local community the way the Co-op does. Everyone deserves access to a quality food source, and the Co-op meets this need exceedingly well. I wholly support and believe in each of our foundational cooperative principles that make this possible. But why shop at the Co-op, when we arguably have many other food sources in

**Please See
Shriver,
Page 27**

Flora, from Page 24

the owners, and the consumers! I am thrilled to find myself living down the street from one of the three Hanover Co-ops. I am a lawyer interested in social and environmental justice, and have never been a businessperson, so I found it striking that I am really excited about this business and believe it is the social responsibility and sustainability aspects that really draw me in. I am thrilled to be a part of a community that supports socially responsible businesses. It was truly a welcome discovery for me during a time where the rest of the country is suffering from a multitude of ailments brought about by typical business-as-usual models.

I understand that the Co-op has been a long-standing, well-respected institution in our community. It is and has been running smoothly for a very long time! Since there is nothing seriously broken that needs fixing, I feel we can aggressively move forward on the sustainability agenda. I would like to help the Co-op move even further along down this path by increasing consumer awareness of environmental sustainability of products and advocating to better sustain our health by changing eating habits. I'm not going to advocate for getting rid of certain products—but hope to find some way to provide consumers with more education at point of purchase to make informed choices. Co-ops helped open the local and organic markets to help begin the transformation to a more sustainable future, and I look forward to continuing this movement

through education of the “true” cost of products. By “true” cost of products, I envision researching the supply chain, the carbon footprint, subsidies and other externalities that are left out of the cost of most products we purchase today. This could be a real learning experience for the Co-op as a whole that will be achieved by no less than a herculean effort on the part of all who participate.

I am extremely passionate about the environment, social justice, and this new (to me) highly sustainable business model. The current board is a great group of people who are equally passionate about the community and our Co-op! As an attorney seeking my LLM in Environmental Law at Vermont Law, I have worked in various areas of the law and value effective communication, flexibility and creativity. My value comes from my background as a former sergeant in the Army, an environmental advocate, a family law attorney, a personal assistant to a psychologist, a ranch hand, and an environmental attorney. Over the years, I have found that I really enjoy working with and helping people in any capacity—from jumping in and helping lower ranking soldiers dig foxholes to representing plaintiffs in suits to obtain what they need. Consequently, I will be very happy serving my fellow Co-op owners in any capacity I possibly can.

I really look forward to serving you and appreciate your vote!

Groff, from Page 24

array of indispensable services. My family plans to remain in the Upper Valley for many years to come and I feel it is my duty to remain an active and involved community member. I have gained insight into why the Co-op has been so successful during my time on the Board and I will do my best to use this knowledge to contribute to the Co-op's future success.

2. What personal quality or skill do you have that will benefit the Co-op Board the most?

I bring my positive attitude and constructive energy to every Board meeting. Regardless of the circumstances, I tend to keep a clear head and maintain focus on what is best for the Co-op. As a local pediatrician, I am intimately aware of the health challenges our community faces and I use that knowledge to help the Co-op continue to be part of the solution. Finally, I am an approachable person who is open to new ideas. I

promise to listen to and advocate for the members.

3. We are celebrating our 75th Anniversary this year. How do you think the Co-op could and should evolve in the future?

My hope is that Co-op grows to be an even more accessible organization where everyone in the community feels welcome.

Maintaining a close connection to the membership is vital and the Co-op should continue to strengthen this link. The Co-op's trajectory over the past 75 years has been truly impressive and many lessons have been learned. Over the next 75 years, these lessons can be used to expand the impact of the Co-op as more than just a grocery store, but as a model of a thriving business owned by its members.

Litten, from Page 24

the many facets of the Co-op's work, I am even more interested in working on this Board to assure that our member/customer needs are well met at the same time that we honor our ends as first written by our founders 75 years ago and revised regularly as the role of the Co-op evolved in the Upper Valley. (See posters of these "Ends" hung in each store.) The Co-op is our grocery store of choice, but it is so much more.

2. What personal quality or skill do you have that will benefit the Co-op Board the most?

I was a high school French and English and Latin teacher for many years. I learned to cope under adverse circumstances which often made no sense to me, and I devised strategies for working with people whose philosophies I did not share, but who were good people with fine intentions. I have served on and chaired other boards, and I am proud of the work of those boards and the spirit of co-operation and respect for diverse opinions which existed when I was the board's leader. I aim to hear all voices and let the majority decide once all have been heard.

3. We are celebrating our 75th Anniversary this year. How do you think the Co-op could and should evolve in the future?

The Hanover Co-op has proven that it can meet the needs of its members/customers in a variety of ways. We eliminated a rather sad little convenience store/gas station and put up a state-of-the-art award-winning sustainable building on Lyme Road which has folks

headed north out of Hanover ever grateful for this new store they never dreamed of wanting. We now have crossed the Connecticut River into White River Junction, Vermont, to bring better food and service both to folks who had never been Co-op shoppers and to some regular shoppers and members who live nearer that store than any of the New Hampshire stores.

As our population ages our members' needs for both products and services will be changing. The work of the Board is to work with the General Manager as s/he and the staff explore ways to make our Co-op more member friendly and service-oriented as we help them become more aware of healthier choices, innovative and healthy products, and more sustainable ways to conduct our daily lives. Our staff members are trained in specialized areas to reflect the needs of our members and to help to educate them in these areas. Plus, as local producers become more diverse and offer more exciting possibilities, we know that the Co-op will respond by offering these choices to us. Our staff is always there to help us.

I would like to serve a third and last term on this Board. In my first term I learned about Board work. In my second term I served as President for two years. In my third term I would like to serve one more year as President and then help to educate the newer members of the Board about how the Board works and how exciting it is to be a member of a highly respected and innovative organization. I feel privileged to have served two terms so far, and look forward to a third. Thank you for your consideration.

Learn More About the Board!

Cooperative Principle Number Two is Democratic Member Control. What does that mean? Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives on a cooperative Board of Directors are accountable to the membership. Ever wondered how you can learn more about your Co-op's Board of Directors?

Every spring, Co-op members elect candidates to the Co-op's Board of Directors. The Board sets goals and provides guidance for the organization. Your participation in Board elections and the Co-op democratic process ensures that the Co-op's development is compatible with your vision.

Want to learn more about the Board? Attend a meeting! Board meetings are held the third Wednesday of each month in our Hanover store, located at 45 South Park Street in Hanover, New

See **Board** on Page 27

Rebman, from Page 24

is a well organized entity that truly endeavors to provide all who live and work in the area a place to shop that provides quality products, many local, at a reasonable price.

When I was growing up in Colorado, I would spend summers on my 2 uncles' farms every summer from age 11-15. My uncle in Nebraska had a 320 acre "dirt" farm that grew corn, string beans, pinto beans and sugar beets. I would spend early summer preparing the fields, planting and weeding (the old way – with a hoe) and return at harvest time to help out. I learned to drive a truck when I was 13 and made some spending money as well.

My uncle in Southern Colorado had a dairy farm where I would spend midsummer. I recall waking up at 3 or 4 am to milk the cows, herding them into the milking area and watching my cousins and uncle methodically move the cows through one by one. Uncle Martin would skim a milk pitcher through the holding tank and take it to my aunt who had breakfast waiting for us. Still the best breakfasts I ever had.

I would spend considerable time in the kitchen with

both my aunts and my mother who all were great cooks – eating mostly, but learning at the same time. I worked for local restaurants in high school and ended up as a Sous chef with Hyatt hotels in Boston before long.

When I returned to Colorado to complete my degree in Marketing and Management, I worked part time for a temp agency for Chefs. After graduating, I became a food broker and then worked a foodservice distributor sales rep. Nine years after finishing college, with two young children, we moved to the Upper Valley to buy and operate a restaurant. Finally after 27 years in the food business, I decided to leave the food business and join the Insurance industry. I have received my Property & Casualty license and my Life, Accident and Health license and am currently licensed for both in NH, VT and MA.

Each and every one of these experiences will enable me to provide the Co-op Board, the Co-op members, the employees, the farmers and all who shop at the Co-ops a wealth of knowledge unique to all operations of the Co-op. Please consider voting for me to be a member of the Co-op Board this year.

Shriver, from Page 24

the area? And why shop at the Co-op when it is often perceived as a more expensive option? What makes the Co-op different?

As a Board Member, we can help to answer these questions. Board Members are stewards and liaisons to the community and they play a key role in this lesson of local economies and the cost of doing good things for one another.

In addition to my teaching and communication strengths, I am a critical thinker and an entrepreneur. I have the ability to recognize what is right for business while balancing the wants and needs of the membership

and other constituents. I draw many similarities to the educational organizations that I have served effectively over the past ten years. Organizations are diverse and they have unique needs. The Co-op membership needs a Board of Directors that can serve a broad base of people effectively.

Finally, I strongly believe in managed growth and 'sticking to the knitting.' As the Co-op moves beyond its 75th year, we need to ensure that opportunities are not missed, but in doing so, we need to ensure that we don't depart from our roots. As a Board Member, I will take this stewardship responsibility seriously, protecting our assets and nurturing growth for the long term.

Board, from Page 26

Hampshire. They are open to the public. If you'd like to review past meeting minutes or want to know anything else about the Board and Policy Governance, check out our Board page online

at coopfoodstore.coop/members/board. For the upcoming Board meeting agenda, please look for an attachment at the bottom of that page a few days prior to the meeting date.

Question? Email us at comment@coopfoodstore.com.



TYLER, SIMMS & ST. SAUVEUR, P.C.
Certified Public Accountants & Business Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hanover Consumer Cooperative Society, Inc.:

We have audited the accompanying balance sheets of Hanover Consumer Cooperative Society, Inc. as of January 1, 2011 and January 2, 2010, and the related statements of income, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Hanover Consumer Cooperative Society, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hanover Consumer Cooperative Society, Inc. as of January 1, 2011 and January 2, 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Tyler, Simms and St. Sauveur, CPAs, P.C.

Lebanon, New Hampshire
January 16, 2011

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

BALANCE SHEETS

JANUARY 1, 2011 AND JANUARY 2, 2010

<u>ASSETS</u>	<u>1/1/2011</u>	<u>1/2/2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 557,666	\$ 773,877
Trade receivables	172,748	210,462
Receivables, other	200,537	206,789
Inventory	2,303,513	1,934,190
Current deferred income taxes	76,900	83,900
Income taxes receivable	24,000	-
Current portion of notes receivable	12,254	13,941
Other current assets	99,051	85,351
Total current assets	<u>3,446,669</u>	<u>3,308,510</u>
PROPERTY AND EQUIPMENT, at cost	15,848,475	15,318,172
Less: Accumulated depreciation	<u>(9,541,419)</u>	<u>(8,968,206)</u>
Property and equipment, net	<u>6,307,056</u>	<u>6,349,966</u>
OTHER ASSETS:		
Investments in other cooperatives	904,355	851,795
Certificate of deposit and indebtedness	349,424	320,942
Contract acquisition costs	150,000	150,000
Other assets	82,313	56,746
Total other assets	<u>1,486,092</u>	<u>1,379,483</u>
TOTAL ASSETS	<u>\$ 11,239,817</u>	<u>\$ 11,037,959</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,310,514	\$ 1,998,069
Accrued expenses and other current liabilities	822,569	681,450
Patronage refunds payable	-	307,573
Income taxes payable	-	2,720
Current portion of long-term debt	164,957	156,669
Total current liabilities	<u>3,298,040</u>	<u>3,146,481</u>
LONG-TERM LIABILITIES:		
Long-term debt	1,641,459	1,805,625
Deferred income taxes	686,900	679,700
Unclaimed patronage refunds	135,723	124,646
Total long-term liabilities	<u>2,464,082</u>	<u>2,609,971</u>
Total liabilities	<u>5,762,122</u>	<u>5,756,452</u>
COMMITMENTS AND CONTINGENCIES	<u>150,000</u>	<u>150,000</u>
MEMBERS' EQUITY:		
Capital stock of \$5 par value; authorized 2,000,000 shares with 459,067 issued and outstanding as of January 1, 2011 and 421,873 issued and outstanding as of January 2, 2010	2,295,335	2,109,365
Partial shares	56,126	55,985
Donated capital	19,132	19,132
Retained earnings	2,957,102	2,947,025
Total members' equity	<u>5,327,695</u>	<u>5,131,507</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 11,239,817</u>	<u>\$ 11,037,959</u>

The accompanying notes to financial statements are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENTS OF INCOME
FOR THE FISCAL YEARS ENDED JANUARY 1, 2011 AND JANUARY 2, 2010

	<u>1/1/2011</u>	<u>1/2/2010</u>
NET SALES	\$ 70,250,103	\$ 65,284,279
COST OF GOODS SOLD	<u>48,581,875</u>	<u>44,470,236</u>
GROSS PROFIT	<u>21,668,228</u>	<u>20,814,043</u>
COSTS AND EXPENSES:		
Wages and benefits	11,674,121	10,734,791
Facilities costs	2,735,435	2,659,949
Equipment costs	678,034	654,444
Other operating costs	2,245,540	2,119,372
Education and public relations	664,679	630,769
Marketing expense	439,255	401,480
Merchandising expense	840,050	820,427
Administration	<u>2,212,110</u>	<u>2,193,799</u>
Total costs and expenses	<u>21,489,224</u>	<u>20,215,031</u>
INCOME FROM OPERATIONS	<u>179,004</u>	<u>599,012</u>
OTHER INCOME (EXPENSE):		
Interest income	17,505	1,594
Interest expense	(106,412)	(89,104)
Miscellaneous, net	12,449	8,216
Gain (loss) on disposal of fixed assets	<u>(652)</u>	<u>3,660</u>
Other income (expense), net	<u>(77,110)</u>	<u>(75,634)</u>
INCOME BEFORE PROVISION FOR STATE AND FEDERAL TAXES	<u>101,894</u>	<u>523,378</u>
PROVISION FOR STATE AND FEDERAL TAXES		
New Hampshire business tax	74,560	89,933
Federal income tax	3,057	8,690
Provision (benefit) for deferred taxes	<u>14,200</u>	<u>(9,200)</u>
	<u>91,817</u>	<u>89,423</u>
NET INCOME	<u>\$ 10,077</u>	<u>\$ 433,955</u>

The accompanying notes to financial statements are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE FISCAL YEARS ENDED JANUARY 1, 2011 AND JANUARY 2, 2010

	<u>Capital Stock</u>	<u>Partial Shares</u>	<u>Donated Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
BALANCE, January 3, 2009	\$ 1,963,120	\$ 55,644	\$ 15,959	\$ 2,820,643	\$ 4,855,366
Net income	-	-	-	433,955	433,955
Shares issued (canceled), net	146,245	341	-	-	146,586
Donated capital	-	-	3,173	-	3,173
Current year patronage refunds accrued	-	-	-	(307,573)	(307,573)
BALANCE, January 2, 2010	2,109,365	55,985	19,132	2,947,025	5,131,507
Net income	-	-	-	10,077	10,077
Shares issued (canceled), net	185,970	141	-	-	186,111
BALANCE, January 1, 2011	<u>\$ 2,295,335</u>	<u>\$ 56,126</u>	<u>\$ 19,132</u>	<u>\$ 2,957,102</u>	<u>\$ 5,327,695</u>

The accompanying notes to financial statements are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JANUARY 1, 2011 AND JANUARY 2, 2010

	<u>1/1/2011</u>	<u>1/2/2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,077	\$ 433,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	924,143	965,814
Patronage capital credits received	(108,760)	(84,020)
Deferred income taxes	14,200	(9,200)
(Gain) loss on disposal of fixed assets	652	(3,660)
Patronage refunds held	(1,569)	(1,607)
Donated stock	-	3,173
(Increase) decrease in the following asset accounts:		
Trade receivables	952	(35,893)
Receivables, other	6,252	(28,850)
Inventory	(369,323)	3,154
Income taxes receivable	(24,000)	162,152
Other current assets	(13,700)	8,793
Increase (decrease) in the following liability accounts:		
Accounts payable	312,445	(57,792)
Construction and retainage payable	-	(298,972)
Accrued expenses and other current liabilities	141,119	(47,582)
Income taxes payable	(2,720)	2,720
Net cash provided by operating activities	<u>889,768</u>	<u>1,012,185</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(877,471)	(482,529)
Proceeds from sale of property and equipment	-	5,433
Advances of notes receivable	(2,000)	-
Payments received on notes receivable	31,968	-
Proceeds from certificates of indebtedness	27,718	35,857
Net cash used in investing activities	<u>(819,785)</u>	<u>(441,239)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments from line of credit	-	(700,000)
Proceeds from construction loan	-	293,402
Closing costs incurred on long-term lease	(21,500)	-
Principal payments on long-term debt	(155,878)	(37,707)
Net proceeds from issuance of capital stock and partial shares	30,771	11,631
Increase in unclaimed patronage refunds	11,077	45,269
Patronage refunds paid	(150,664)	(130,662)
Net cash used in financing activities	<u>(286,194)</u>	<u>(518,067)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(216,211)	52,879
CASH AND CASH EQUIVALENTS, beginning of year	<u>773,877</u>	<u>720,998</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>557,666</u>	\$ <u>773,877</u>

The accompanying notes to financial statements are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business – The Hanover Consumer Cooperative Society, Inc. (the Cooperative) was incorporated in New Hampshire in 1937. The Cooperative, located in Hanover and Lebanon, New Hampshire, operates member owned food stores, a service center and a convenience store, open to its members and the general public. In addition, the Cooperative leases and operates a commissary kitchen in Wilder, Vermont. During 2010, the Cooperative opened a new food store in White River Junction, Vermont.

Summary of Significant Accounting Policies:

The financial statements of the Cooperative are prepared using the accrual basis of accounting. The accounting and reporting policies of the Cooperative conform to accounting principles generally accepted in the United States of America. In order to facilitate a more complete understanding of the data included in the financial statements, the more significant of these accounting policies are summarized below:

Cash and Cash Equivalents – The Cooperative considers as cash and cash equivalents all highly liquid investments with a maturity of three months or less at the date of purchase and proceeds due from credit and debit card transactions with settlement terms of less than five days.

Concentration of Credit Risk – The Cooperative maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Cooperative has mitigated its concentration of credit risk relative to its cash balances by entering into an overnight repurchase agreement with its financial institution. The Cooperative has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year End – The Cooperative's fiscal year ends on the Saturday nearest December 31. The fiscal years ended January 1, 2011 and January 2, 2010 included 52 weeks.

Investments in Other Cooperatives – The Cooperative accounts for its investments in other cooperatives under the cost method of accounting.

Inventory – The Cooperative uses a combination of the retail inventory method ("RIM") and replacement cost method ("RCM") to determine the current cost of its inventory. Under RIM, the current cost of inventories and the gross margins are calculated by applying a cost-to-retail ratio to the current retail value of inventories. Under the RCM, the most current unit purchase cost is used to calculate the current cost of inventories. For fiscal year ending 2011, the majority of the inventory was calculated using RCM. The effect of calculating inventory using the RCM method versus the RIM method was not material to these statements.

Property and Equipment – The cost of property and equipment is depreciated over the estimated useful lives of the related assets using various straight-line and accelerated methods. Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized. When assets are no longer in service, the related costs and reserves are removed.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued):

Income Taxes – Deferred taxes are provided based on a liability method whereby deferred tax assets and liabilities are recognized for deductible temporary differences. Temporary differences are the differences between the financial and tax-reporting basis for specific items. Deferred taxes are recorded at the enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. No allowance was required for January 1, 2011 and January 2, 2010.

Revenue Recognition – Revenue is recognized at the point of sale for retail sales. Customer returns are immaterial. Sales discounts are recorded as a reduction of sales at the time of purchase.

Receivables – Receivables consist primarily of vendor rebates and promotional allowances, receivables from charge accounts with local business and individuals and other miscellaneous amounts due to the Cooperative. Amounts are recorded net of an allowance for doubtful accounts of \$0 at January 1, 2011 and January 2, 2010. Management determines the allowance for doubtful accounts based on historical experience and application of the specific identification method.

Advertising – Advertising costs are charged to operations when incurred. Advertising costs were \$191,782 and \$178,288 for the years ended January 1, 2011 and January 2, 2010, respectively.

Vendor Rebates – The Cooperative receives various rebates from third-party vendors in the form of promotional allowances and patronage refunds. Such rebates are classified as a reduction to cost of goods sold. The total patronage refunds from Associated Grocers which reduced cost of goods sold were \$186,856 and \$168,494 for January 1, 2011 and January 2, 2010, respectively.

Business Reporting Segments – The Cooperative has determined that its operations are within one reportable segment. Accordingly, financial information on industry segments is omitted because, apart from the principal business of operating retail stores, the Cooperative has no other industry segments.

Fair Value of Financial Instruments – The Cooperative's financial instruments consist of cash, short-term trade receivables and payables and notes receivable and payable. The carrying value of all instruments approximates their fair value.

Impairment of Long-Lived Assets – The Cooperative periodically assesses the likelihood of recovering the cost of long-lived assets based on its expectations of future profitability and undiscounted cash flows of the related business operations. These factors, along with management's plans with respect to the operations, are considered in assessing the recoverability of property, equipment and purchased intangibles.

Reclassifications – Certain prior year amounts have been reclassified to conform to the fiscal year ended January 1, 2011 presentation.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

2. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

	<u>1/1/11</u>	<u>1/2/10</u>
Land	\$ 299,138	\$ 299,138
Buildings and improvements	8,198,761	8,063,766
Equipment and vehicles	7,288,043	6,921,407
Projects-in-progress	<u>62,533</u>	<u>33,861</u>
	15,848,475	15,318,172
Less: accumulated depreciation	<u>(9,541,419)</u>	<u>(8,968,206)</u>
Net property and equipment	\$ <u>6,307,056</u>	\$ <u>6,349,966</u>

Depreciation expense for the years ended January 1, 2011 and January 2, 2010 amounted to \$919,731 and \$964,845, respectively.

3. INVESTMENTS IN OTHER COOPERATIVES:

Investments are recorded at cost or net realizable value and consisted of the following as of January 1, 2011 and January 2, 2010:

	<u>1/1/11</u>	<u>1/2/10</u>
Associated Grocers of New England, Inc. 3 and 2 shares of Class A stock at 1/1/11 and 1/2/2010, respectively	\$ 12,800	\$ 10,000
4,645.212 and 4,443.417 shares of Class B stock at 1/1/11 and 1/2/2010, respectively	<u>622,450</u>	<u>577,411</u>
	<u>635,250</u>	<u>587,411</u>
National Cooperative Bank Class C stock	<u>202,701</u>	<u>202,701</u>
Other cooperatives Springfield Food Co-op	1,000	1,000
National Cooperative Grocers Association, net of valuation allowance	<u>65,404</u>	<u>60,683</u>
	<u>66,404</u>	<u>61,683</u>
	\$ <u>904,355</u>	\$ <u>851,795</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

3. INVESTMENTS IN OTHER COOPERATIVES (continued):

The Cooperative holds shares of Associated Grocers (AG) Class B stock. This stock is not publicly traded and carries restricted conditions under which it may be transferred. The amount of Class B stock required to be owned by each member is equal to the value of two weeks purchases from AG, plus one hundred (100) shares. Minimum required Class B stock is \$125,000 per store. AG allocates its earnings to its members 50% in cash and the remaining 50% in a certificate of indebtedness (Note 4) and patronage shares. The Cooperative has not reached the required Class B purchase for the White River Junction store as of January 1, 2011.

The National Cooperative Bank (NCB) is owned by those businesses doing business with NCB. All businesses are required to buy a certain amount of stock in NCB. The Cooperative owns Class B2 stock recorded at cost, net of a 100% investment valuation of \$255,291 at January 1, 2011 and January 2, 2010. The stock is not publicly traded, is non-redeemable, non-transferable, pays no dividends and carries restricted conditions under which it may be transferred.

The Cooperative is a member of the National Cooperative Grocers Association (NCGA). The Cooperative has an investment in NCGA of \$130,427 with an investment valuation allowance of \$64,524.

4. CERTIFICATES OF DEPOSIT AND INDEBTEDNESS:

Included in certificates of deposit and indebtedness at January 1, 2011 and January 2, 2010 include \$329,424 and \$300,942, respectively, of certificates of indebtedness issued by Associated Grocers of New England, Inc. (Note 15). The certificates of indebtedness carry interest rates ranging from 4.5% to 5.5% maturing at various times through June 25, 2016. Also included in certificates of deposit and indebtedness is a \$20,000 certificate of deposit at a banking institution.

5. OTHER ASSETS:

Included in other assets at January 1, 2011 and January 2, 2010 is \$38,774 in closing costs associated with a construction loan and refinancing to a term loan. The costs are amortized over the life of the loan beginning October 2009, the time of the close of the term loan. Amortization expense was \$3,874 and \$969 for the years ended January 1, 2011 and January 2, 2010, respectively.

Included in other assets at January 1, 2011 is \$21,500 in legal costs associated with the long-term lease for the White River Junction store. The costs are amortized over the life of the lease beginning July 2010. Amortization expense for the year ended January 1, 2011 was \$538.

6. LINE OF CREDIT:

The Cooperative has a line of credit of \$1,000,000. The line of credit is through a local bank, carries an interest rate at Wall Street Journal Prime (3.25% at January 1, 2011) and is due on demand. At January 1, 2011 and January 2, 2010, the line of credit had a balance of \$0.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

7. LONG-TERM DEBT:

During 2008, the Cooperative entered into a loan agreement with NCB to finance the construction of the Lyme Road store, in Hanover, New Hampshire. The loan is collateralized by the Lyme Road facility. The Cooperative was only required to pay interest on the outstanding balance every month until completion of the construction project. Interest totaling \$19,501 on the construction loan has been capitalized as part of the building project. On September 24, 2008, the construction loan was converted into a \$2,000,000 term loan bearing interest at a rate equal to the 30 day Libor Rate plus 275 basis points. As permitted by the loan agreement, the Cooperative converted to a fixed rate of 5.43%. At January 1, 2011 and January 2, 2010, the outstanding principal balance was \$1,806,416 and \$1,962,294, respectively.

Future minimum payments on long-term debt at January 1, 2011 were as follows:

<u>Years</u>	
2011 (included in current liabilities)	\$ 164,957
2012	174,667
2013	184,644
2014	194,923
2015	205,775
Thereafter	<u>881,450</u>
	\$ <u>1,806,416</u>

With regards to this debt, the Cooperative has certain covenants it is required to comply with on an annual basis. As of January 1, 2011, the Cooperative was in compliance with these covenants.

8. INCOME TAXES:

The provision for income taxes amounted to \$91,817 and \$89,423 for the years ended January 1, 2011 and January 2, 2010, respectively (effective rates of 90.1% and 16.9%, respectively). The provision for the years ended January 1, 2011 and January 2, 2010 differs from the amounts obtained by applying the U.S. federal income tax rate to pretax income primarily because of expenses deductible for tax purposes that are not deductible for financial reporting purposes.

Deferred income taxes are provided for the effects of differences between the financial and tax bases of assets and liabilities.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

8. INCOME TAXES (continued):

The components of the deferred taxes on the balance sheets are as follows:

	<u>1/1/11</u>	<u>1/2/10</u>
Deferred tax credits		
Depreciation	\$ 579,000	\$ 584,700
Stock dividends	33,300	95,200
Prepaid expenses	<u>138,400</u>	<u>28,400</u>
	<u>750,700</u>	<u>708,300</u>
Deferred tax debits		
Net operating loss carryforward	27,600	7,100
Inventory capitalization	11,200	9,800
Vacation pay	99,000	92,500
Contribution carryforward	<u>2,900</u>	<u>3,100</u>
	<u>140,700</u>	<u>112,500</u>
Net deferred tax liability	\$ <u>(610,000)</u>	\$ <u>(595,800)</u>

The deferred tax amounts mentioned have been classified on the accompanying balance sheets as follows:

	<u>1/1/11</u>	<u>1/2/10</u>
Non-current liabilities	\$ (686,900)	\$ (679,700)
Current assets	<u>76,900</u>	<u>83,900</u>
	\$ <u>(610,000)</u>	\$ <u>(595,800)</u>

The Cooperative adopted the provisions of Accounting Standards Codification Subtopic 740-10 (formerly FASB Interpretation No. 48), *Accounting for Uncertainty in Income Taxes*, effective January 1, 2009. Interpretation No. 48 applies to all tax positions accounted for under FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation applies to situations where the uncertainty is to the timing of the deduction, the amount of the deduction or the validity of the deduction. At adoption, the Cooperative was required to adjust their financial statements to reflect only those tax positions that are more likely than not to be sustained as of the adoption date. Positions that meet this criterion should be measured using the largest benefit that is more than 50% likely to be realized. The necessary adjustment should be recorded directly to the beginning balance of retained earnings in the period of adoption and reported as a change in accounting principle. At January 1, 2011 and January 2, 2010, the Cooperative did not have any unrecognized tax benefits, nor any accrued interest or penalties, related to unrecognized tax benefits.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

9. OPERATING LEASES:

The Cooperative has a long-term land lease for a community market on Lyme Road. Base rent is \$42,000 per year, terminating in 2034. The base rent is adjusted annually by the Consumer Price Index (CPI).

The Cooperative has a long-term lease with the Centerra Marketplace, Inc. for real estate located in Lebanon, New Hampshire. Base rent is \$671,895 per year triple net, through 2017, with an option for the Cooperative to extend an additional 5 years. The base rent is adjusted annually by the CPI index.

The Cooperative has a long-term lease for building space located in Wilder, Vermont. Base rent is \$43,944 per year triple net, with an adjustment each year by CPI, terminating in 2014.

The Cooperative has a long-term lease for the office space located in Lebanon, New Hampshire. The base rent is \$112,995 per year plus a percentage of the operational costs of the building which is estimated to be \$58,730 per year. These amounts will be adjusted each year for the Consumer Price Index, and the current agreement terminates in 2013. The Cooperative was subleasing this additional space to a third party at a base rent of \$27,685 plus expenses of \$13,494. This sublease expired March 2009 and was not renewed.

The Cooperative has a long-term lease for the store in White River Junction, Vermont. Base rent is \$152,500 per year, to be increased 2.5% each year, through May 2015.

The minimum future rental payments at January 1, 2011 are as follows:

2011	\$ 1,024,534
2012	1,023,834
2013	1,023,334
2014	910,339
2015	777,437
Thereafter	<u>7,043,575</u>
Total minimum future rental payments	\$ <u>11,803,053</u>

The Cooperative had rental expense under operating leases of \$1,257,546 and \$1,197,151 for the years ended January 1, 2011 and January 2, 2010, respectively.

10. PROGRESS SHARING PLAN:

The Cooperative has a progress (profit) sharing plan covering all employees who meet eligibility requirements. The plan is designed to conform to Section 401(k) of the Internal Revenue Code. Currently, the employee's contribution is treated as a salary reduction and is not subject to income taxes. The plan documents call for a standard percentage contributed by the employer on behalf of eligible employees of 3%. Any additional discretionary employer contributions must be approved by the Cooperative's Board of Directors. The Board did not approve an additional contribution for the years ended January 1, 2011 and January 2, 2010. The Cooperative reported pension expense of \$317,672 and \$310,525 at January 1, 2011 and January 2, 2010, respectively.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

11. EMPLOYEE INCENTIVE PROGRAM:

The Cooperative has an employee incentive program to share a portion of the excess profit with employees. Management has discretion over what portion of the bonus is paid in cash and what portion is additional 401(k) contribution. The incentive is calculated as 100% of any earnings between \$750,000 and \$1,000,000 after a 1% patronage refund and a 10% retention of earnings. Also included is 50% of earnings over \$1,000,000 after the 1% patronage refund and 10% retention. There was no employee incentive bonus for the years ended January 1, 2011 or January 2, 2010.

12. PATRONAGE REFUNDS:

Earnings available for patronage refunds were calculated as follows as of January 1, 2011 and January 2, 2010:

	<u>1/1/11</u>	<u>1/2/10</u>
Net sales for the year	\$ <u>70,250,103</u>	\$ <u>65,284,279</u>
Sales to members	<u>54,293,137</u>	<u>51,262,144</u>
Percentage of members' sales to net sales	<u>77.21%</u>	<u>78.52%</u>
Income before provision for income taxes	\$ 101,894	\$ 523,378
Business enterprise tax (see below)	(74,560)	(80,400)
(Income) expense not subject to patronage refund	<u>652</u>	<u>(3,660)</u>
Income available for patronage refund before taxes	\$ <u>27,986</u>	\$ <u>439,318</u>
Retainage as described below	\$ 6,378	\$ 94,359
Provision for federal and state income taxes applicable to retainage per bylaws	<u>957</u>	<u>25,625</u>
Earnings available for patronage refunds	\$ <u>20,651</u>	\$ <u>319,334</u>
Patronage refunds rounded to nearest 0.1%	\$ <u>-</u>	\$ <u>307,573</u>

Total patronage refund percentages for the years ended January 1, 2011 and January 2, 2010 were 0% and 0.6%, respectively.

According to the Cooperative's bylaws, the patronage refund rate cannot exceed the rate of net earnings before provision for income taxes, expressed as a percent of total sales. In addition, the amount retained must be at least 10% of earnings or the percent of non-member sales, whichever is higher, times earnings for the year. In 2004, the board of directors and management interpreted the Cooperative bylaws to include the State of New Hampshire Business Enterprise Tax as a deduction from net earnings to arrive at earnings available for patronage refunds.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

12. PATRONAGE REFUNDS (continued):

The percentage retained is calculated as follows:

	<u>1/1/11</u>	<u>1/2/10</u>
Sales to members	77.21%	78.52%
Percentage of earnings retained	<u>22.79%</u>	<u>21.48%</u>
Net sales	<u>100.00%</u>	<u>100.00%</u>

For the year ended January 1, 2011, the Board of Directors of the Cooperative voted to forego a patronage refund.

For the year ended January 2, 2010, the Cooperative had accrued a patronage refund of \$307,573. The patronage refund was distributed as 50% cash and 50% stock.

13. CASH FLOW INFORMATION:

Cash paid for interest and income taxes was as follows:

	<u>1/1/11</u>	<u>1/2/10</u>
Interest	\$ <u>101,998</u>	\$ <u>88,135</u>
Income taxes	\$ <u>104,337</u>	\$ <u>91,093</u>

Non-cash transactions were as follows:

The Cooperative issued \$155,340 and \$134,955 of patronage refunds as stock for the years ended January 1, 2011 and January 2, 2010, respectively.

In 2009, the Cooperative entered into an agreement to guarantee the debt of Littleton Consumer Cooperative Society, Inc. in the amount of \$150,000 (Note 15). In 2010, the Cooperative converted \$36,762 of accounts receivable into a 0% promissory note, payable over 36 months.

14. MEMBERS' EQUITY:

Capital Stock – Capital stock of the Cooperative is restricted in transferability. It is redeemable with the Cooperative at par value. A member must own a minimum of 10 shares in order to receive more than 20% of the annual patronage refund in cash versus stock.

Partial Shares – Partial shares are recorded when the non-cash portion of the patronage refund for an individual patron is less than the \$5.00 (par value) required to purchase a share of stock. The amount remains until it accumulates to the value of a full share. If there is no activity for eight years, the shares are transferred to donated capital.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

15. COMMITMENTS AND CONTINGENCIES:

Projects-in-Progress – At January 1, 2011, the Cooperative had projects-in-progress (PIP) of \$62,533. The balance consists of registers, scanners and printers for the White River Junction store. Additional costs are to be minimal, and the project is expected to be completed in early 2011.

Government Regulation – The Cooperative's service facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

Guarantee of Debt – The Cooperative has entered into an agreement to guarantee the debt of Littleton Consumer Cooperative Society, Inc. with Cooperative Fund of New England, Inc. (CFNE). The Cooperative has agreed to purchase sellable inventory from CFNE in the amount remaining owed to them in the event of a default at 50% of the invoice price. The total liability under this security agreement is equal to the debt outstanding at the time of default, not to exceed \$150,000. As of January 1, 2011, the fair value of guarantee was determined to be \$150,000. As required by Accounting Standards Codification Topic 460, *Guarantees*, (formerly FIN 45), the Cooperative has recorded this guarantee as contract acquisition cost and a guarantee liability under Commitments and Contingencies. This guarantee shall remain in effect until full extinguishment of the debt.

USDA Certification – The Cooperative is in the process of receiving USDA certification on the prepared foods from the Commissary Kitchen, so as to meet federal regulations regarding the transportation of meat and poultry for retail sale. The costs associated with this project are unknown as of the date of this report.

16. RELATED PARTY:

The Cooperative owns shares of AG (see Note 3). During the year ended January 1, 2011, the Cooperative purchased \$12,607,907 of goods and groceries from AG. In addition, the general manager of the Cooperative serves on the board of directors for AG. The Cooperative recorded a liability to AG of \$230,930 and \$174,543 at January 1, 2011 and January 2, 2010, respectively.

The Cooperative is a member of NCGA, a national cooperative organized to unite food cooperatives, to strengthen the cooperative movement. The Cooperative has an investment in NCGA (see Note 3).

The General Manager of the Cooperative served on the Board of Directors of Equal Exchange, a vendor that supplies coffee for resale to the Cooperative through May 2009. He also serves on the Board of Directors of NCGA, noted above.

An officer on the Board of Directors of the Cooperative serves on the board of CFNE, who holds the debt that the Cooperative is guaranteeing (see Note 15).

The Cooperative offers a 20% discount on purchases made by employees. Total gross sales to employees for the years ended January 1, 2011 and January 2, 2010 were \$1,356,090 and \$1,197,034, respectively. The discount on these sales totaled \$271,218 and \$239,407, respectively, and was netted against the gross sales for financial statement reporting.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 AND JANUARY 2, 2010

16. RELATED PARTY (continued):

During the years ended January 1, 2011 and January 2, 2010, the Cooperative provided consulting services to Littleton Consumer Cooperative Society, Inc. (Note 15) in the amounts of \$3,134 and \$102,188, of which \$32,667 and \$33,628 was remaining as a note and accounts receivable at year end, respectively. The revenue earned from these services is included in miscellaneous income, net of related payroll and benefits expense of \$104,153 for the year ended January 2, 2010.

17. SUBSEQUENT EVENTS:

These statements have been prepared in accordance with Accounting Standards Codification Topic 855, *Subsequent Events*. Topic 855 requires the Cooperative to recognize the effect of the events that occur after the balance sheet date, January 1, 2011, but before the financial statements are available to be issued only if they provide additional evidence about a condition that existed as of January 1, 2011. In addition, Topic 855 requires disclosure consideration of significant subsequent events related to conditions that did not exist as of the balance sheet date but in effect make the financial statements misleading if not disclosed to the user. In addition, Topic 855 requires the Cooperative to disclose the date at which the financial statements were issued or were made available for issue (January 16, 2011) and how the date was determined.

The Cooperative has reviewed events occurring after January 1, 2011 through January 16, 2011, the date that management accepted the final draft of the financial statements and made them available to be issued. The Cooperative does not believe that any events requiring recognition or disclosure have occurred between the period of January 1, 2011 and the report date, January 16, 2011. The Cooperative has not reviewed events occurring after the report date for their potential impact on the information contained in these financial statements.

Hanover Consumer Co-op
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Cooperative Connections Annual Meeting and Expo

Celebrating the Cooperative Spirit in our Community

Community cooperation is growing strong through your Co-op.
Come to our Co-op Expo and learn how you can make a
difference for local non-profit organizations.



Saturday, April 30 9 a.m.–1:30 p.m.

Richmond Middle School—63 Lyme Road, Hanover

12:00 p.m.

GUEST SPEAKER

David J. Thompson

*President of the Twin Pines
Cooperative Foundation and
Member of the Cooperative
Hall of Fame*

