



California Corporate & Securities Law

Cooperative Corporations – A California Tradition

By Keith Paul Bishop on December 1, 2011

Earlier this week, Lee Romney wrote this [story](#) for the *Los Angeles Times* about cooperatives. As I mentioned in this [post](#) from last March, California had a strong proponent of worker cooperatives over a century ago in the person of none other than Leland Stanford who in 1891 said:

Co-operative societies bring forth the best capacities, the best influences of the individual for the benefit of the whole, while the good influences of the many aid the individual.

Senator Stanford even introduced this [bill](#) to provide for the formation of cooperative associations in Washington, D.C.

California also has a comprehensive Consumer Cooperative Corporation Law, Corp. Code § 12200 *et seq.* Despite the name, corporations may be formed under this law for any lawful purpose provided that they must be organized and conduct their business primarily for the mutual benefit of their members as patrons.

Membership interests in any cooperative corporation organized under the CCC Law are exempt securities under Corporations Code Section 25100(r) provided that the two following requirements are met:

- The aggregate investment of any shareholder or member in shares or memberships does not exceed \$300; and
- No promoter expects or intends to make a profit directly or indirectly from any business or activity associated with the corporation or the operation of the corporation, other than reasonable salary received from the corporation.

Note that this exemption is not available to cooperative corporations formed under the laws of another jurisdiction.

In addition, the exemption is not available to nonvoting shares or memberships that are issued to any person who does not possess, and who will not acquire in connection with the issuance of nonvoting shares or memberships, voting power (as defined in Section 12253) in the corporation. Finally, the

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exemption is not available for shares or memberships issued by a nonprofit cooperative corporation organized to facilitate the creation of an unincorporated interindemnity arrangement that provides indemnification for medical malpractice to its physician and surgeon members as set forth in Section 25100(q).

Section 25100(q) was enacted as part of legislation enacted in 1976 in order to authorize the formation of interindemnity arrangements among members of a cooperative corporation whose members consisted of licensed physicians and surgeons. *See Mundy v. Mutual Protection Trust*, 219 Cal.App.3d 127 (1990). To my knowledge, the Mutual Protection Trust is the only such entity currently in existence. It provides coverage to the more than 11,000 physicians who are members of [Cooperative of American Physicians, Inc.](#)

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