Stock v. Nonstock Cooperatives in Wisconsin

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The advantage of incorporating as a stock cooperative is the flexibility that the structure provides for raising equity capital now or at a later date. There may be additional costs associated with incorporating as a stock cooperative in Wisconsin ($1.25 for every $1000 of capital stock), but these fees are relatively minimal.

Often co-ops start out with a single class of stock, one share of which establishes membership and voting rights. Other classes of stock may be issued as part of equity drives for start-up capitalization, future expansions, or if the co-op is undercapitalized. These other classes of stock might also be offered to nonmembers.

Classes of stock may include preferred stock, which pays dividends and also may be offered to nonmembers. Dividend payment is dependent on profitability. While dividends may be set in advance, payment is dependent on profitability and is at the discretion of the member-controlled board. Board decisions on dividend payment must balance commitments to preferred stockholders with the need to build capital reserves to support the cooperative business, and with the patronage refund expectations of its patron owners.

Only membership stock establishes full voting rights. Other nonmember common and preferred stock may have limited voting rights in situations directly affecting the value of the investment, such as mergers or dissolution.

Stock in a traditional cooperative does not appreciate, and cannot be traded. Repurchase by the cooperative is at the discretion of the board of directors.

The articles of incorporation can be amended to add a class of stock as the need arises. Being a stock cooperative does not preclude having a member loan program to finance cooperative activities. The decision to use loans or equity to raise capital for a project will depend on the particulars of the project, bank requirements and the financial position of the cooperative.

A key consideration when organizing a stock co-op is whether the sale of stock remains in-state. If stock is sold in multiple states, then the co-op becomes subject to federal securities laws that require registration and reporting to the SEC. If co-op stock is sold within the state, Wisconsin state laws exempt the co-op from this type of registration at the state level.

It should be noted, however, that a member loan program represents a sale of securities also. A member loan program needs to be structured with in-state considerations similar to the sale of cooperative stock.

In a non-stock cooperative, a membership fee, either one-time or annual, is set to establish membership and voting rights.

In a non-stock cooperative, member loan programs, which pay interest, also can be used to raise capital.

As fixed obligations that pay interest, member loans carry less risk to members than member equity, because in case of liquidation, they are paid off before member equity (i.e. stock). However, member loans are unsecured (uncollateralized), as opposed to secured (collateralized) debt from a bank or other lending institution, and thus still carry risk for the member.