

# Exiting a Worker Cooperative\*

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## Roger Williams School of Law Business Start-Up Clinic

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## Introduction: An Empowered Exit

Worker Cooperatives are for-profit businesses owned and controlled by shareholding employees, also known as worker-owners. The worker-owner holds one, and only one, share of the worker cooperative's common stock also referred to as a membership share. The membership share allows members to vote and receive patronage dividends.

A fundamental feature of worker cooperatives is that it is relatively easy for workers to come and go from the cooperative without expensive valuations and corporate restructuring. This guide describes that process.

When a worker-owner decides or is required to leave a worker cooperative, they are entitled to certain rights and have responsibilities outlined explicitly in the bylaws. But, a member is more than an owner, they are also an employee. Both relationships entitle the exiting member to certain benefits and obligations. This guide will look at these two distinct relationships in turn. First, it will discuss the process of when a worker-owner as a shareholder departs the cooperative. Then it will discuss the obligations that the cooperative, as an employer, has to the departing worker-owner.

In this guide, we will use the term "membership share" to describe a voting share or common share. This is different from a "preferred" or "investor" share. We will use the term "worker-owner" to describe the employee who owns shares of the worker cooperative in their capacity as a cooperative "owner". We will use the term "employee" to describe the worker-owner in their context of a cooperative employee.

## Statutory Frameworks

Worker cooperative exits are governed by cooperative bylaws, state statutes, and membership agreements. Some examples of statutes regulating worker cooperative exits include:

- Rhode Island: R.I. GEN. LAWS § 7-6.2 mandates that bylaws must establish membership separation procedures.
- Massachusetts: MASS. GEN. LAWS ch. 157A, requires cooperatives to issue membership shares and set redemption terms.
- Connecticut: CONN. GEN. STAT. §. 33-418 dictates the redemption of shares upon membership separation.
- New York: N.Y. COOP. CORP. LAW Ch. 77 establishes membership share rights and exit terms.

## Mechanics of a Worker-Owner Exit

Only active workers within a worker cooperative are eligible to hold membership shares in the cooperative.<sup>1</sup> So, when a worker-owner separates from the cooperative, the worker-owner is no longer eligible to hold their membership share. As such, the cooperative must repurchase an exiting worker-owner's membership shares to ensure that control remains in the hands of their employees.

Healthy cooperative bylaws will include provisions about worker-owner exit and share redemption that create predictability for both the worker-owner and the cooperative. However, if the cooperative's bylaws do not account for the worker-owner redemption process, state law and the taxation rules outlined in Sub-chapter T, the tax rules for organizations operating on a cooperative basis, will control.<sup>2</sup> Importantly, in the absence of bylaws provisions, boards of directors generally have broad discretion in the method of share redemption, but not the value of the share.

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## Share Redemption Value

The amount a worker-owner is entitled to upon redemption is the entire amount in the worker-owner's capital account.<sup>3</sup> A capital account is a ledger that outlines the worker-owner's financial interactions, including all patronage dividends and losses. The capital account will include the purchase price of the membership share and any earned but unpaid patronage.<sup>4</sup>

Earned but unpaid patronage is also referred to as "Unpaid Written Notices of Allocation" and is especially common in capital-intensive industries.<sup>5</sup> This means that the worker-owner is entitled to a patronage dividend, but that dividend was not distributed to the worker-owner in cash or other value. For example, if a worker-owner earns a \$2,500 dividend but the cooperative issues the worker-owner a \$1,000 check and retains the \$1,500 because the cooperative anticipates additional expenses related to an expansion, the \$1,500 will be documented as an Unpaid Written Notice of Allocation.

An internal capital account is not tied to the value of the company. However, it may earn interest if in the cooperative's Bylaws.<sup>6</sup> The formula for an individual capital account is below:

$$\begin{array}{r} \text{Initial Membership Fee +} \\ \text{Any other paid-in capital} \pm \\ \text{Unpaid Written Notices of Allocation} - \\ \text{Allocated losses} \\ \hline \text{Individual Capital Account} \end{array}$$

Again, the membership share redemption price is not tied to the total value of the cooperative.

## Redemption Payment Method(s)

The cooperative's board of directors must determine the method of payment to departing worker-owners.<sup>7</sup> The board of directors can redeem the membership share with any combination of cash, cash-equivalents (i.e. gift cards or property), or a security such as a promissory note or preferred share.

The cooperative's bylaws may have requirements about the methods of payments or how the stock must be redeemed. For example, the bylaws may require half of the redemption to be paid out in cash and the other

half paid out with a security. Finally, the board can have different redemption processes for different contexts. For example, a cooperative may redeem shares faster when a worker-owner is retiring versus leaving to join a competitor or upon termination.

In deciding how the membership share is redeemed, the board of directors must heed their fiduciary obligations to the cooperative.<sup>8</sup> This means that if a redemption would render the cooperative financially insolvent, the directors must take a different path toward repayment, even if such action runs counter to the bylaws.

## Preferred Shares

Worker cooperatives may also have preferred shares within their capital structures which are distinct from the membership shares. Preferred shares are issued to individuals who invest in the cooperative. If a worker-owner is also an investor, they will have membership shares and preferred shares. These preferred shares are not governed by the cooperative's bylaws but governed by subscription agreements. The subscription agreement will provide if and how the preferred shares are redeemed.

## Employee Departure

In addition to a fair and clear process for departing worker-owners, cooperatives are also employers and owe obligations to departing employees.

Adhering to state law, the cooperative employer must pay final wages including unpaid salary, overtime or bonuses, the payout of any unused sick leave (if required under state law), paid time off, or vacation time, and any severance pay, if applicable. Furthermore, the cooperative must adhere to its processes for the continuation or terminating of benefits such as health insurance, retirement plans, or other benefits.

Finally, the worker cooperative may want to protect its trade secrets and other intellectual property with non-compete, confidentiality, and/or intellectual property assignment agreements, as is consistent with state law and company policies or ethos. CooleyGo and other document repositories have useful form Confidential Information and Invention Assignment Agreements.

# Exiting a Worker Cooperative

## Avoiding Exit Disputes

Employers and worker-owners both want peaceful exits. Unfortunately, disputes may still arise. Ultimately, **the most important way to avoid disputes is to have frank and decisive conversations early in the cooperative's life-cycle.** The following discussion questions can guide these conversations.

### Avoiding Exit Disputes, cont.

There are certain issues that frequently are disputed when a worker-owner exits. These include membership share's redemption value and timeline, non-compete provisions, or who owns certain intellectual property. Disputes have the potential to be more emotional if a worker-owner was a founder. It is important for cooperatives and their worker owners to be especially clear in these contexts.

Early state negotiations can be memorialized in membership agreements and form redemption agreements. This guide has drafts of these agreements in the appendix. Cooperatives and their members may also find Confidential Information and Invention Assignment Agreements and separation/severance agreements helpful in these contexts.

Finally, in the event of unresolved disagreement, the bylaws of a worker cooperative should outline clear and cost effective procedures for resolving disputes.

## Citations

1 R.I. GEN. LAWS § 7-6.2-6 (2025); MASS. GEN. LAWS ch. 157A, § 6 (2024); CONN. GEN. STAT. § 33-418i (2025); N.Y. COOP. CORP. LAW § 88 (Consol. 2025).

2 RD Cooperative Information Report 44, Part 3, *Income Tax Treatment of Cooperatives* (USDA 2005) (citing Treas. Reg. § 1.1385-1(b) (1)).

3 R.I. GEN. LAWS § 7-6.2-10(b); MASS. GEN. LAWS ch. 157A, § 9(b); CONN. GEN. STAT. § 33-418m(a); N.Y. COOP. CORP. LAW § 92(1).

4 R.I. GEN. LAWS § 7-6.2-10; MASS. GEN. LAWS ch. 157A, § 10; CONN. GEN. STAT. § 33-418n; N.Y. COOP. CORP. LAW § 93.

5 MASS. GEN. LAWS ch. 157A, § 9(c); CONN. GEN. STAT. § 33-418m(c); N.Y. COOP. CORP. LAW § 92(c).

6 Treas. Reg. § 1.1382-2(c).

7 See R.I. GEN. LAWS § 7-6.2-10(b); MASS. GEN. LAWS ch. 157A, § 9(b); CONN. GEN. STAT. § 33-418m(b); N.Y. COOP. CORP. LAW § 92(2).

8 R.I. GEN. LAWS § 7-6.2-10(b); MASS. GEN. LAWS ch. 157A, § 9(b); CONN. GEN. STAT. § 33-418m(b); N.Y. COOP. CORP. LAW § 92(2).

## Early Discussion Questions For Worker-Owner Exit

- Will the cooperative routinely retain some patronage dividends?

This question helps surface whether the cooperative will have relatively large capital accounts or relatively small.

- When a worker-owner leaves the cooperative, how will their membership share be redeemed? Will this process be different for certain contexts? How?

This question aligns financial expectations when a worker-owner leaves the cooperative and gets buy-in for those decisions.

- What intellectual property is integral to the operation of the cooperative? Has it been assigned to the cooperative?

This clarifies who owns what intellectual property and ensures that necessary intellectual property stays with the cooperative

- Are there any areas of the bylaws that could be improved or supplemented to make the exiting process more transparent and equitable?

The bylaws are unique to each organization, they are a tool to memorialize decisions of the cooperative.

- How does the cooperative plan to balance issues of non-compete or confidentiality agreements with worker-owners' future employment endeavors?

This question can surface the cooperative's ethos around trade restrictions after leaving the cooperative.

- What steps have been taken to minimize any legal disputes worker-owners' potential exit?

This question asks if the cooperative has a bylaws provision or other process to mediate disputes.

# Exiting a Worker Cooperative Checklists

## Worker-Owner Exit Checklist

- Adhere to Bylaws process for worker-owner resignation or termination
- Review Internal Capital Account Balance – Confirm the redemption price of membership share and any retained earnings
- Board of Directors to determine redemption payment method and timeline at regular meeting, special meeting, or by written consent
- Cooperative to draft, and all parties to sign, redemption agreement
- Review and sign non-compete or confidentiality agreements, if applicable, adhering to cooperative policies
- Cooperative ensures proper protection of intellectual property, through written licenses and assignments
- Update contact information for any relevant future payments, this should include banking information, email address, and physical address

## Employee Departure Checklist

- Employee submits written resignation or Employer issues termination consistent with company policy and any collective bargaining agreement
- Employer, in coordination with employee, communicates the departure to other employees and customers
- Employee returns cooperative property
- Employer ensures employee no longer has physical or digital access to cooperative property or materials
- Employer ensures proper protection of intellectual property, through written licenses and assignments
- If applicable, negotiate and sign any severance and separation agreement
- Employer issues final paycheck consistent with state law (either immediately or with the payroll cycle); payroll to include unused PTO consistent with state law and company policy
- Document employee performance in internal system for reference checks or rehire determinations

## Acknowledgment



The Roger Williams School of Law Business Start-Up Clinic thanks **Coop Rhody** for its ongoing partnership, contributions to this resource, and technical assistance to the Rhode Island cooperative community.

# Exiting a Worker Cooperative Forms <sup>†</sup>

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## Worker Cooperative Membership Agreement

*Adapted from the International Cooperative Alliance*

This agreement is used when a new worker-owner joins the cooperative and outlines their obligations to the cooperative and the cooperative's obligations to the worker-owner.

This Membership Agreement (this "Agreement") dated \_\_\_\_\_, is between \_\_\_\_\_, a worker cooperative ("Cooperative") and \_\_\_\_\_, the undersigned member ("Member").

1. Membership and Ownership. The Member meets all requirements of membership and hereby applies to be a member of Cooperative, a business under the laws of the State of \_\_\_\_\_ and operating on a cooperative basis.
2. Documents and Bylaws. The Member acknowledges receipt of a copy of all founding documents (the "Articles") and the bylaws ("Bylaws") of the Cooperative agreeing to abide by all provisions.
3. Membership Share. The Member agrees to pay the Cooperative a Membership Fee of \_\_\_\_\_ dollars (\$\_\_\_\_\_) as consideration for the receipt of one (1) Membership Share, issued by the Cooperative according to their bylaw provisions and upon the Member fulfilling membership requirements. The Member agrees not to sell, assign any interest in, or transfer the membership share.
4. Membership Voting. Each member holds an equal voting power in Cooperative decisions including but not limited to board elections and policy changes according to the Cooperative's Bylaws.
5. Allocations. Members are entitled to share in any net surplus based on their work contribution or patronage, governed by the Board of Directors. The Cooperative may allocation portions of these surplus as profits to members capital accounts for future redemption in accordance with Bylaws. Cooperative may allocation a portion of losses to members as well.
6. Termination. The Member agrees that, upon the voluntary or involuntary termination of employment and membership in the Cooperative, the Member will transfer back their membership shares to the Cooperative for consideration. Such consideration is outlined in the Bylaws.

By signing below, the Member acknowledges understanding and agreement to the terms herein.

Member Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

# Exiting a Worker Cooperative Forms <sup>†</sup>

## Worker Cooperative Membership Expectation Worksheet

This simple questionnaire can help prevent common misunderstandings between the worker-owner and the cooperative. By setting expectations at the outset, cooperatives can have a more amicable relationship when a worker-owner moves on from the cooperative.

I hope to contribute to the cooperative:

I hope to gain from the cooperative:

I anticipate being a member of the cooperative for \_\_\_\_\_ years.

I have questions about:

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## Worker Cooperative Redemption Agreement

This agreement is used when a new worker-owner leaves the cooperative and provides clarity on the exiting process. Specifically, it ensures that the worker-owner is treated fairly and also eliminates any risk that an exiting worker-owner did not receive something to which they were entitled.

This Redemption and Separation Agreement (this “Agreement”) dated \_\_\_\_\_, is between \_\_\_\_\_, a worker cooperative (“Cooperative”), and \_\_\_\_\_, the undersigned departing member (“Member”).

1. Background.
  - a. The Member separated or will separate as an employee from the Cooperative on \_\_\_\_\_ (the “Separation Date”);
  - b. Per the Bylaws of the Cooperative, upon separation as an employee, the Member is no longer eligible for membership in the Cooperative; and
  - c. The Member’s termination of their worker-owner membership interest is distinct from their separation from the Cooperative as an employee.
2. Redemption of Membership Share. Consistent with the Bylaws, member agrees assign, transfer, sell, and deliver to the Cooperative their membership share in the Cooperative (“Membership Share”) as of separation date, and the Cooperative agrees to repurchase and Membership Share, free and clear of all liens, pledges, encumbrances, restrictions or rights of third parties of any kind.
3. Value of Membership Share. Consistent with the Bylaws, the total consideration to be paid by the Cooperative to Member shall equal the amount for which Member purchased the membership share, if any, plus any allocated but unpaid earnings and less any allocated losses.

The parties agree that the share shall be repurchased for \$\_\_\_\_\_ (“Redemption Price”).

4. Payment of Membership Shares. The Cooperative shall pay the redemption amount to the Member by (check all that apply):
  - Cash Payment for \$\_\_\_\_\_ at signing of this Agreement
  - Promissory Note for \$\_\_\_\_\_ with an interest rate of \_\_\_\_% for \_\_\_\_ months
  - Cash Equivalents valued at \$\_\_\_\_\_ (Description:\_\_\_\_\_)
  - Property valued at \$\_\_\_\_\_ (Description:\_\_\_\_\_)
  - Other Security valued at \$\_\_\_\_\_ (Description:\_\_\_\_\_)
5. Final Benefits and Compensation. The Member shall receive final wages including but not limited to any unpaid salary, overtime or bonuses, the payout of unused sick leave, paid time off, vacation time, and any severance pay if applicable.
6. Taxes. The Member shall be responsible for deducting and withholding tax from any payments made by

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the Cooperative for the repurchasing of their membership shares according to applicable tax laws.

7. After Redemption Rights. After receipt of redemption, the Member forfeits their rights, privileges, and claims associated with the Cooperative membership and is no longer deemed a member.
8. Cooperative Property. By signing this Agreement, Member represents that they have returned to the Cooperative all property belonging to the Cooperative, including, without limitation, Cooperative-issued equipment and electronics and copies of documents that belong to the Cooperative.
9. Dispute Resolution. Any dispute arising out of or relating to this Agreement shall first be resolved by good faith negotiations between both parties and the worker cooperative. If the matter is unresolved within thirty (30) days of such negotiations, then the parties shall engage in mediation with a mutually agreed-upon mediator splitting the costs equally. If the parties fail at mediation, then the dispute shall be settled by a binding arbitration. In arbitration, each party shall bear their own legal expenses and split arbitration expenses equally.
10. Miscellaneous. If any term of this Agreement is held to be invalid, void, or unenforceable, the remainder of this Agreement will remain in full force and effect and will not be affected. This Agreement will be construed and interpreted in accordance with the laws of the State of \_\_\_\_\_ (other than its conflict or choice of law provisions that would require the application of any other state's law). This Agreement may be signed and transmitted electronically.

By signing below, the Member and Cooperative acknowledges, understands, and agrees to the terms herein.

Member:

Member Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Cooperative:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_