

Court Rules Dissolution of Cooperative Corporation Is a Process, Not a Flash

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I don't see that many cases involving California's Cooperative Corporation Law and so I was interested in a recent ruling by Magistrate Judge Laurel Beeler in ***English & Sons, Inc. v. Straw Hat Rests., Inc.***, 2016 U.S. Dist. LEXIS 44803 (N.D. Cal. Apr. 1, 2016). The case arose from the desire to transition the Straw Hat pizza restaurant chain from a cooperative corporation to a franchise. Although a majority of the members of the Straw Hat Cooperative Corporation voted to dissolve, there were six dissenters. After this vote, the majority members converted their restaurants into a franchise, but the six dissenters did not. The dissenters then invoked a bylaw providing that when a member converts a restaurant into a franchise, the member loses the share in the corporation associated with the restaurant. The dissenters claimed that this bylaw provision left them in the position of being the only members of the corporation. They then purportedly took control of the corporation in an attempt to undue its still pending dissolution.

The Court disagreed finding that the dissolution vote left the members with two options: either exit the company (taking a final distribution) or convert to a franchise. The vote did not allow for the continuation of the cooperative corporation as asserted by the plaintiffs. The Court found that the use of the bylaw was out of sync with the California Cooperative Corporation Law and corporate democracy as dissolution "is a process, that it is expected to extend in time, rather than happen in a flash after a company votes to dissolve".

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National Law Review, Volume VI, Number 103

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