

AMENDED IN SENATE APRIL 22, 2014

**SENATE BILL**

**No. 1301**

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**Introduced by Senator DeSaulnier**

February 21, 2014

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An act to amend Sections 107, 158, 171.08, 1100, 1112.5, 1113, 1151, 1152, 1155, 1201, 2500, 2501, 2502, 2502.01, 2502.03, 2502.04, 2502.05, 2502.06, 2503.1, 2504, 2506, 2507, 2509, 2510, 2510.1, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2600, 2600.5, 2601, 2602, 2603, 2604, 2605, 2700, 2701, 2702, 2800, 2900, 3000, 3001, 3002, 3100, 3200, 3201, 3202, 3203, 3300, 3301, 3302, 3303, 3304, 3305, 3400, 3401, 3500, 3501, 3502, and 3503 of, and to amend the heading of Division 1.5 (commencing with Section 2500) of Title 1 of, the Corporations Code, relating to corporations.

LEGISLATIVE COUNSEL'S DIGEST

SB 1301, as amended, DeSaulnier. Corporate Flexibility Act of 2011: ~~Socially Responsible~~ *Social Purpose* Corporations Act.

The Corporate Flexibility Act of 2011 authorizes and regulates the formation and operation of flexible purpose corporations.

This bill would rename the act as the ~~Socially Responsible~~ *Social Purpose* Corporations Act and rename the type of corporation authorized and regulated under that act as a ~~socially responsible~~ *social purpose* corporation.

Under the act, an existing business association organized as a trust under the laws of this state or of a foreign jurisdiction may incorporate under the act upon approval by its board of trustees or similar governing body and approval by the affirmative vote of a majority of the outstanding voting shares of beneficial interest, and the filing of articles with a certificate.

This bill would revise the approval by the affirmative vote of a majority of the outstanding voting shares of beneficial interest requirement to approval by the affirmative vote of  $\frac{2}{3}$  of those shares.

Under the act, the articles of incorporation are required to set forth specified statements, including the name of the corporation.

This bill would revise the statements that are required to be contained in the articles of incorporation. This bill would provide that any reference to a “flexible purpose corporation” or any abbreviation in the articles of incorporation of a corporation formed pursuant to this act before January 1, 2015, is also a reference to ~~“socially responsible~~ “*social purpose* corporation.” This bill would provide that a corporation formed pursuant to this act as a “flexible purpose corporation” before January 1, 2015, continues its existence as a ~~socially responsible~~ *social purpose* corporation.

*This bill would require, for corporations organized on and after January 1, 2015, a statement that the corporation is organized as a social purpose corporation under the Social Purpose Corporations Act.*

Under the act, the director, in discharging his or her duties, may consider those factors, and give weight to those factors, as the director deems relevant, including the short-term and long-term prospects of the corporation, the best interests of the corporation and its shareholders, and the purposes of the corporation as set forth in its articles.

This bill would require the director to consider those factors.

Under the act, certificates representing the shares of a corporation formed under the act are required to contain specified statements.

This bill would revise the statements required to be on those certificates. This bill would provide that the certificates representing shares of a corporation formed pursuant to this act as a “flexible purpose corporation” before January 1, 2015, continue to be valid, and that any reference to a “flexible purpose corporation” or any abbreviation of that term in those certificates is also a reference to ~~“socially responsible~~ “*social purpose* corporation.”

Under the act, a corporation formed under the act may, by amendment of its articles as specified in the act, convert to a domestic corporation.

This bill would provide that if the conversion is approved, shareholders with dissenting shares may exercise dissenters’ rights set forth in the General Corporation Law.

Under the act certain mergers require approval by an affirmative vote of at least  $\frac{2}{3}$  of the outstanding shares of each class, or a greater vote if required in the articles, regardless of whether that class is entitled to

vote thereon by the provisions of the articles, of the disappearing corporation.

This bill would provide that if the merger is approved, shareholders with dissenting shares may exercise dissenters' rights set forth in the General Corporation Law.

Under the act, a corporation formed under the act may be converted into a domestic other business entity if specified conditions are met. The act requires the approval of a plan of conversion.

This bill would provide that if the plan is approved, shareholders with dissenting shares may exercise dissenters' rights set forth in the General Corporation Law.

Under the act, the principal terms of a reorganization are required to be approved by the outstanding shares of any class of a corporation formed under that act that is a party to a merger or sale-of-assets reorganization if holders of shares of that class receive shares of the surviving or acquiring corporation formed under that act or parent party having different rights, preferences, privileges, or restrictions than those surrendered.

This bill would instead require the principal terms of a reorganization to be approved by the affirmative vote of at least 2/3 of each class, or a greater vote if required in the articles, of the outstanding shares of any class of a corporation formed under that act that is a party to a merger or sale-of-assets reorganization if holders of shares of that class receive shares of the surviving or acquiring corporation formed under that act or parent party having different rights, preferences, privileges, or restrictions than those surrendered.

This bill would make other changes to correct erroneous ~~cross~~ references *cross-references*.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 SECTION 1. Section 107 of the Corporations Code is amended
- 2 to read:
- 3 107. No corporation, ~~socially responsible~~ *social purpose*
- 4 corporation, ~~association~~ *association*, or individual shall issue or
- 5 put in circulation, as money, anything but the lawful money of the
- 6 United States.

1 SEC. 2. Section 158 of the Corporations Code is amended to  
2 read:

3 158. (a) “Close corporation” means a corporation, including  
4 a close-~~socially responsible~~ *social purpose* corporation, whose  
5 articles contain, in addition to the provisions required by Section  
6 202, a provision that all of the corporation’s issued shares of all  
7 classes shall be held of record by not more than a specified number  
8 of persons, not exceeding 35, and a statement “This corporation  
9 is a close corporation.”

10 (b) The special provisions referred to in subdivision (a) may be  
11 included in the articles by amendment, but if such amendment is  
12 adopted after the issuance of shares only by the affirmative vote  
13 of all of the issued and outstanding shares of all classes.

14 (c) The special provisions referred to in subdivision (a) may be  
15 deleted from the articles by amendment, or the number of  
16 shareholders specified may be changed by amendment, but if such  
17 amendment is adopted after the issuance of shares only by the  
18 affirmative vote of at least two-thirds of each class of the  
19 outstanding shares; provided, however, that the articles may  
20 provide for a lesser vote, but not less than a majority of the  
21 outstanding shares, or may deny a vote to any class, or both.

22 (d) In determining the number of shareholders for the purposes  
23 of the provision in the articles authorized by this section, a husband  
24 and wife and the personal representative of either shall be counted  
25 as one regardless of how shares may be held by either or both of  
26 them, a trust or personal representative of a decedent holding shares  
27 shall be counted as one regardless of the number of trustees or  
28 beneficiaries and a partnership or corporation or business  
29 association holding shares shall be counted as one (except that any  
30 such trust or entity the primary purpose of which was the  
31 acquisition or voting of the shares shall be counted according to  
32 the number of beneficial interests therein).

33 (e) A corporation shall cease to be a close corporation upon the  
34 filing of an amendment to its articles pursuant to subdivision (c)  
35 or if it shall have more than the maximum number of holders of  
36 record of its shares specified in its articles as a result of an inter  
37 vivos transfer of shares which is not void under subdivision (d) of  
38 Section 418, the transfer of shares on distribution by will or  
39 pursuant to the laws of descent and distribution, the dissolution of  
40 a partnership or corporation or business association or the

1 termination of a trust which holds shares, by court decree upon  
2 dissolution of a marriage or otherwise by operation of law.  
3 Promptly upon acquiring more than the specified number of holders  
4 of record of its shares, a close corporation shall execute and file  
5 an amendment to its articles deleting the special provisions referred  
6 to in subdivision (a) and deleting any other provisions not  
7 permissible for a corporation which is not a close corporation,  
8 which amendment shall be promptly approved and filed by the  
9 board and need not be approved by the outstanding shares.

10 (f) Nothing contained in this section shall invalidate any  
11 agreement among the shareholders to vote for the deletion from  
12 the articles of the special provisions referred to in subdivision (a)  
13 upon the lapse of a specified period of time or upon the occurrence  
14 of a certain event or condition or otherwise.

15 (g) The following sections contain specific references to close  
16 corporations: Sections 186, 202, 204, 300, 418, 421, 1111, 1201,  
17 ~~1800~~ 1800, and 1904.

18 SEC. 3. Section 171.08 of the Corporations Code is amended  
19 to read:

20 171.08. ~~“Socially responsible~~ “*Social purpose* corporation”  
21 means any ~~socially responsible~~ *social purpose* corporation formed  
22 under Division 1.5 (commencing with Section 2500).

23 SEC. 4. Section 1100 of the Corporations Code is amended to  
24 read:

25 1100. Any two or more corporations may be merged into one  
26 of those corporations. A corporation may merge with one or more  
27 domestic corporations (Section 167), socially responsible  
28 corporations (Section 171.08), foreign corporations (Section 171),  
29 or other business entities (Section 174.5) pursuant to this chapter.  
30 Mergers in which a foreign corporation but no other business entity  
31 is a constituent party are governed by Section 1108, mergers in  
32 which a ~~socially responsible~~ *social purpose* corporation but no  
33 other business entity is a constituent party are governed by Section  
34 1112.5, and mergers in which an other business entity is a  
35 constituent party are governed by Section 1113.

36 SEC. 5. Section 1112.5 of the Corporations Code is amended  
37 to read:

38 1112.5. If a disappearing corporation in a merger is a  
39 corporation governed by this division and the surviving corporation

1 is a ~~socially responsible~~ *social purpose* corporation, both of the  
2 following shall apply:

3 (a) The merger shall be approved by the affirmative vote of at  
4 least two-thirds of each class, or a greater vote if required in the  
5 articles, of the outstanding shares (Section 152) of the disappearing  
6 corporation, notwithstanding any provision of Chapter 12  
7 (commencing with Section 1200).

8 (b) The shareholders of the disappearing corporation shall have  
9 all of the rights under Chapter 13 (commencing with Section 1300)  
10 of the shareholders of a corporation involved in a reorganization  
11 requiring the approval of its outstanding shares (Section 152), and  
12 the disappearing corporation shall have all of the obligations under  
13 Chapter 13 (commencing with Section 1300) of a corporation  
14 involved in the reorganization.

15 SEC. 6. Section 1113 of the Corporations Code is amended to  
16 read:

17 1113. (a) Any one or more corporations may merge with one  
18 or more other business entities (Section 174.5). One or more  
19 domestic corporations (Section 167) not organized under this  
20 division and one or more foreign corporations (Section 171) may  
21 be parties to the merger. Notwithstanding the provisions of this  
22 section, the merger of any number of corporations with any number  
23 of other business entities may be effected only if:

24 (1) In a merger in which a domestic corporation not organized  
25 under this division or a domestic other business entity is a party,  
26 it is authorized by the laws under which it is organized to effect  
27 the merger.

28 (2) In a merger in which a foreign corporation is a party, it is  
29 authorized by the laws under which it is organized to effect the  
30 merger.

31 (3) In a merger in which a foreign other business entity is a  
32 party, it is authorized by the laws under which it is organized to  
33 effect the merger.

34 (b) Each corporation and each other party that desires to merge  
35 shall approve, and shall be a party to, an agreement of merger.  
36 Other persons, including a parent party (Section 1200), may be  
37 parties to the agreement of merger. The board of each corporation  
38 that desires to merge and, if required, the shareholders shall  
39 approve the agreement of merger. The agreement of merger shall  
40 be approved on behalf of each party by those persons required to

1 approve the merger by the laws under which it is organized. The  
2 agreement of merger shall state:

3 (1) The terms and conditions of the merger.

4 (2) The name and place of incorporation or organization of each  
5 party to the merger and the identity of the surviving party.

6 (3) The amendments, if any, subject to Sections 900 and 907,  
7 to the articles of the surviving corporation, if applicable, to be  
8 effected by the merger. If any amendment changes the name of  
9 the surviving corporation, if applicable, the new name may be,  
10 subject to subdivision (b) of Section 201, the same as or similar  
11 to the name of a disappearing party to the merger.

12 (4) The manner of converting the shares of each constituent  
13 corporation into shares, interests, or other securities of the surviving  
14 party. If any shares of any constituent corporation are not to be  
15 converted solely into shares, ~~interests~~ *interests*, or other securities  
16 of the surviving party, the agreement of merger shall state (i) the  
17 cash, rights, securities, or other property which the holders of those  
18 shares are to receive in exchange for the shares, which cash, rights,  
19 securities, or other property may be in addition to or in lieu of  
20 shares, ~~interests~~ *interests*, or other securities of the surviving party,  
21 or (ii) that the shares are canceled without consideration.

22 (5) Any other details or provisions required by the laws under  
23 which any party to the merger is organized, including, if a public  
24 benefit corporation or a religious corporation is a party to the  
25 merger, Section 6019.1, or, if a mutual benefit corporation is a  
26 party to the merger, Section 8019.1, or, if a consumer cooperative  
27 corporation is a party to the merger, Section 12540.1, or if an  
28 unincorporated association is a party to the merger, Section 18370,  
29 or, if a domestic limited partnership is a party to the merger,  
30 Section 15911.12, or, if a domestic partnership is a party to the  
31 merger, Section 16911, or, if a domestic limited liability company  
32 is a party to the merger, Section 17710.12.

33 (6) Any other details or provisions as are desired, including,  
34 without limitation, a provision for the payment of cash in lieu of  
35 fractional shares or for any other arrangement with respect thereto  
36 consistent with the provisions of Section 407.

37 (c) Each share of the same class or series of any constituent  
38 corporation (other than the cancellation of shares held by a party  
39 to the merger or its parent, or a wholly owned subsidiary of either,  
40 in another constituent corporation) shall, unless all shareholders

1 of the class or series consent and except as provided in Section  
2 407, be treated equally with respect to any distribution of cash,  
3 rights, securities, or other property. Notwithstanding paragraph  
4 (4) of subdivision (b), the unredeemable common shares of a  
5 constituent corporation may be converted only into unredeemable  
6 common shares of a surviving corporation or a parent party  
7 (Section 1200) or unredeemable equity securities of a surviving  
8 party other than a corporation if another party to the merger or its  
9 parent owns, directly or indirectly, prior to the merger shares of  
10 that corporation representing more than 50 percent of the voting  
11 power of that corporation, unless all of the shareholders of the  
12 class consent and except as provided in Section 407.

13 (d) Notwithstanding its prior approval, an agreement of merger  
14 may be amended prior to the filing of the agreement of merger or  
15 the certificate of merger, as is applicable, if the amendment is  
16 approved by the board of each constituent corporation and, if the  
17 amendment changes any of the principal terms of the agreement,  
18 by the outstanding shares (Section 152), if required by Chapter 12  
19 (commencing with Section 1200), in the same manner as the  
20 original agreement of merger. If the agreement of merger as so  
21 amended and approved is also approved by each of the other parties  
22 to the agreement of merger, the agreement of merger as so amended  
23 shall then constitute the agreement of merger.

24 (e) The board of a constituent corporation may, in its discretion,  
25 abandon a merger, subject to the contractual rights, if any, of third  
26 parties, including other parties to the agreement of merger, without  
27 further approval by the outstanding shares (Section 152), at any  
28 time before the merger is effective.

29 (f) Each constituent corporation shall sign the agreement of  
30 merger by its chairperson of the board, president or a vice president,  
31 and also by its secretary or an assistant secretary acting on behalf  
32 of their respective corporations.

33 (g) (1) If the surviving party is a corporation or a foreign  
34 corporation, or if a ~~socially responsible~~ *social purpose* corporation  
35 (Section 171.08), a public benefit corporation (Section 5060), a  
36 mutual benefit corporation (Section 5059), a religious corporation  
37 (Section 5061), or a corporation organized under the Consumer  
38 Cooperative Corporation Law (Section 12200) is a party to the  
39 merger, after required approvals of the merger by each constituent  
40 corporation through approval of the board (Section 151) and any

1 approval of the outstanding shares (Section 152) required by  
2 Chapter 12 (commencing with Section 1200) and by the other  
3 parties to the merger, the surviving party shall file a copy of the  
4 agreement of merger with an officers' certificate of each constituent  
5 domestic and foreign corporation attached stating the total number  
6 of outstanding shares or membership interests of each class entitled  
7 to vote on the merger (and identifying any other person or persons  
8 whose approval is required), that the agreement of merger in the  
9 form attached or its principal terms, as required, were approved  
10 by that corporation by a vote of a number of shares or membership  
11 interests of each class that equaled or exceeded the vote required,  
12 specifying each class entitled to vote and the percentage vote  
13 required of each class and, if applicable, by that other person or  
14 persons whose approval is required, or that the merger agreement  
15 was entitled to be and was approved by the board alone (as  
16 provided in Section 1201, in the case of corporations subject to  
17 that section). If equity securities of a parent party (Section 1200)  
18 are to be issued in the merger, the officers' certificate of that  
19 controlled party shall state either that no vote of the shareholders  
20 of the parent party was required or that the required vote was  
21 obtained. In lieu of an officers' certificate, a certificate of merger,  
22 on a form prescribed by the Secretary of State, shall be filed for  
23 each constituent other business entity. The certificate of merger  
24 shall be executed and acknowledged by each domestic constituent  
25 limited liability company by all managers of the limited liability  
26 company (unless a lesser number is specified in its articles of  
27 organization or operating agreement) and by each domestic  
28 constituent limited partnership by all general partners (unless a  
29 lesser number is provided in its certificate of limited partnership  
30 or partnership agreement) and by each domestic constituent general  
31 partnership by two partners (unless a lesser number is provided in  
32 its partnership agreement) and by each foreign constituent limited  
33 liability company by one or more managers and by each foreign  
34 constituent general partnership or foreign constituent limited  
35 partnership by one or more general partners, and by each  
36 constituent reciprocal insurer by the chairperson of the board,  
37 president, or vice president, and by the secretary or assistant  
38 secretary, or, if a constituent reciprocal insurer has not appointed  
39 those officers, by the chairperson of the board, president, or vice  
40 president, and by the secretary or assistant secretary of the

1 constituent reciprocal insurer's attorney-in-fact, and by each other  
2 party to the merger by those persons required or authorized to  
3 execute the certificate of merger by the laws under which that party  
4 is organized, specifying for that party the provision of law or other  
5 basis for the authority of the signing persons. The certificate of  
6 merger shall set forth, if a vote of the shareholders, members,  
7 partners, or other holders of interests of the constituent other  
8 business entity was required, a statement setting forth the total  
9 number of outstanding interests of each class entitled to vote on  
10 the merger and that the agreement of merger in the form attached  
11 or its principal terms, as required, were approved by a vote of the  
12 number of interests of each class that equaled or exceeded the vote  
13 required, specifying each class entitled to vote and the percentage  
14 vote required of each class, and any other information required to  
15 be set forth under the laws under which the constituent other  
16 business entity is organized, including, if a domestic limited  
17 partnership is a party to the merger, subdivision (a) of Section  
18 15911.14, if a domestic partnership is a party to the merger,  
19 subdivision (b) of Section 16915, and, if a domestic limited liability  
20 company is a party to the merger, subdivision (a) of Section  
21 17710.04. The certificate of merger for each constituent foreign  
22 other business entity, if any, shall also set forth the statutory or  
23 other basis under which that foreign other business entity is  
24 authorized by the laws under which it is organized to effect the  
25 merger. The merger and any amendment of the articles of the  
26 surviving corporation, if applicable, contained in the agreement  
27 of merger shall be effective upon filing of the agreement of merger  
28 with an officer's certificate of each constituent domestic and  
29 foreign corporation and a certificate of merger for each constituent  
30 other business entity, subject to subdivision (c) of Section 110 and  
31 subject to the provisions of subdivision (j), and the several parties  
32 thereto shall be one entity. If a domestic reciprocal insurer  
33 organized after 1974 to provide medical malpractice insurance is  
34 a party to the merger, the agreement of merger or certificate of  
35 merger shall not be filed until there has been filed the certificate  
36 issued by the Insurance Commissioner approving the merger  
37 pursuant to Section 1555 of the Insurance Code. The Secretary of  
38 State may certify a copy of the agreement of merger separate from  
39 the officers' certificates and certificates of merger attached thereto.

1 (2) If the surviving entity is an other business entity, and no  
2 public benefit corporation (Section 5060), mutual benefit  
3 corporation (Section 5059), religious corporation (Section 5061),  
4 or corporation organized under the Consumer Cooperative  
5 Corporation Law (Section 12200) is a party to the merger, after  
6 required approvals of the merger by each constituent corporation  
7 through approval of the board (Section 151) and any approval of  
8 the outstanding shares (Section 152) required by Chapter 12  
9 (commencing with Section 1200) and by the other parties to the  
10 merger, the parties to the merger shall file a certificate of merger  
11 in the office of, and on a form prescribed by, the Secretary of State.  
12 The certificate of merger shall be executed and acknowledged by  
13 each constituent domestic and foreign corporation by its  
14 chairperson of the board, president or a vice president, and also  
15 by its secretary or an assistant secretary and by each domestic  
16 constituent limited liability company by all managers of the limited  
17 liability company (unless a lesser number is specified in its articles  
18 of organization or operating agreement) and by each domestic  
19 constituent limited partnership by all general partners (unless a  
20 lesser number is provided in its certificate of limited partnership  
21 or partnership agreement) and by each domestic constituent general  
22 partnership by two partners (unless a lesser number is provided in  
23 its partnership agreement) and by each foreign constituent limited  
24 liability company by one or more managers and by each foreign  
25 constituent general partnership or foreign constituent limited  
26 partnership by one or more general partners, and by each  
27 constituent reciprocal insurer by the chairperson of the board,  
28 president, or vice president, and by the secretary or assistant  
29 secretary, or, if a constituent reciprocal insurer has not appointed  
30 those officers, by the chairperson of the board, president, or vice  
31 president, and by the secretary or assistant secretary of the  
32 constituent reciprocal insurer's attorney-in-fact. The certificate of  
33 merger shall be signed by each other party to the merger by those  
34 persons required or authorized to execute the certificate of merger  
35 by the laws under which that party is organized, specifying for  
36 that party the provision of law or other basis for the authority of  
37 the signing persons. The certificate of merger shall set forth all of  
38 the following:

39 (A) The name, place of incorporation or organization, and the  
40 Secretary of State's file number, if any, of each party to the merger,

1 separately identifying the disappearing parties and the surviving  
2 party.

3 (B) If the approval of the outstanding shares of a constituent  
4 corporation was required by Chapter 12 (commencing with Section  
5 1200), a statement setting forth the total number of outstanding  
6 shares of each class entitled to vote on the merger and that the  
7 principal terms of the agreement of merger were approved by a  
8 vote of the number of shares of each class entitled to vote and the  
9 percentage vote required of each class.

10 (C) The future effective date or time, not more than 90 days  
11 subsequent to the date of filing of the merger, if the merger is not  
12 to be effective upon the filing of the certificate of merger with the  
13 office of the Secretary of State.

14 (D) A statement, by each party to the merger which is a domestic  
15 corporation not organized under this division, a foreign corporation,  
16 or an other business entity, of the statutory or other basis under  
17 which that party is authorized by the laws under which it is  
18 organized to effect the merger.

19 (E) Any other information required to be stated in the certificate  
20 of merger by the laws under which each party to the merger is  
21 organized, including, if a domestic limited liability company is a  
22 party to the merger, subdivision (a) of Section 17710.14, if a  
23 domestic partnership is a party to the merger, subdivision (b) of  
24 Section 16915, and, if a domestic limited partnership is a party to  
25 the merger, subdivision (a) of Section 15911.14.

26 (F) Any other details or provisions that may be desired.

27 Unless a future effective date or time is provided in a certificate  
28 of merger, in which event the merger shall be effective at that  
29 future effective date or time, a merger shall be effective upon the  
30 filing of the certificate of merger in the office of the Secretary of  
31 State and the several parties thereto shall be one entity. The  
32 surviving other business entity shall keep a copy of the agreement  
33 of merger at its principal place of business which, for purposes of  
34 this subdivision, shall be the office referred to in Section 17710.13  
35 if a domestic limited liability company, at the business address  
36 specified in paragraph (5) of subdivision (a) of Section 17710.14  
37 if a foreign limited liability company, at the office referred to in  
38 subdivision (a) of Section 16403 if a domestic general partnership,  
39 at the business address specified in subdivision (f) of Section 16911  
40 if a foreign partnership, at the office referred to in subdivision (a)

1 of Section 15901.14 if a domestic limited partnership, or at the  
2 business address specified in paragraph (3) of subdivision (a) of  
3 Section 15909.02 if a foreign limited partnership. Upon the request  
4 of a holder of equity securities of a party to the merger, a person  
5 with authority to do so on behalf of the surviving other business  
6 entity shall promptly deliver to that holder, a copy of the agreement  
7 of merger. A waiver by that holder of the rights provided in the  
8 foregoing sentence shall be unenforceable. If a domestic reciprocal  
9 insurer organized after 1974 to provide medical malpractice  
10 insurance is a party to the merger the agreement of merger or  
11 certificate of merger shall not be filed until there has been filed  
12 the certificate issued by the Insurance Commissioner approving  
13 the merger in accordance with Section 1555 of the Insurance Code.

14 (h) (1) A copy of an agreement of merger certified on or after  
15 the effective date by an official having custody thereof has the  
16 same force in evidence as the original and, except as against the  
17 state, is conclusive evidence of the performance of all conditions  
18 precedent to the merger, the existence on the effective date of the  
19 surviving party to the merger, and the performance of the  
20 conditions necessary to the adoption of any amendment to the  
21 articles, if applicable, contained in the agreement of merger.

22 (2) For all purposes for a merger in which the surviving entity  
23 is a domestic other business entity and the filing of a certificate of  
24 merger is required by paragraph (2) of subdivision (g), a copy of  
25 the certificate of merger duly certified by the Secretary of State is  
26 conclusive evidence of the merger of the constituent corporations,  
27 either by themselves or together with the other parties to the  
28 merger, into the surviving other business entity.

29 (i) (1) Upon a merger pursuant to this section, the separate  
30 existences of the disappearing parties to the merger cease and the  
31 surviving party to the merger shall succeed, without other transfer,  
32 to all the rights and property of each of the disappearing parties to  
33 the merger and shall be subject to all the debts and liabilities of  
34 each in the same manner as if the surviving party to the merger  
35 had itself incurred them.

36 (2) All rights of creditors and all liens upon the property of each  
37 of the constituent corporations and other parties to the merger shall  
38 be preserved unimpaired, provided that those liens upon property  
39 of a disappearing party shall be limited to the property affected  
40 thereby immediately prior to the time the merger is effective.

1 (3) Any action or proceeding pending by or against any  
2 disappearing corporation or disappearing party to the merger may  
3 be prosecuted to judgment, which shall bind the surviving party,  
4 or the surviving party may be proceeded against or substituted in  
5 its place.

6 (4) If a limited partnership or a general partnership is a party to  
7 the merger, nothing in this section is intended to affect the liability  
8 a general partner of a disappearing limited partnership or general  
9 partnership may have in connection with the debts and liabilities  
10 of the disappearing limited partnership or general partnership  
11 existing prior to the time the merger is effective.

12 (j) (1) The merger of domestic corporations with foreign  
13 corporations or foreign other business entities in a merger in which  
14 one or more other business entities is a party shall comply with  
15 subdivision (a) and this subdivision.

16 (2) If the surviving party is a domestic corporation or domestic  
17 other business entity, the merger proceedings with respect to that  
18 party and any domestic disappearing corporation shall conform to  
19 the provisions of this section. If the surviving party is a foreign  
20 corporation or foreign other business entity, then, subject to the  
21 requirements of subdivision (c), and of Section 407 and Chapter  
22 12 (commencing with Section 1200) and Chapter 13 (commencing  
23 with Section 1300), and, if applicable, corresponding provisions  
24 of the Nonprofit Corporation Law or the Consumer Cooperative  
25 Corporation Law, with respect to any domestic constituent  
26 corporations, Article 11 (commencing with Section 17711.01) of  
27 Title 2.6 with respect to any domestic constituent limited liability  
28 companies, Article 6 (commencing with Section 16601) of Chapter  
29 5 of Title 2 with respect to any domestic constituent general  
30 partnerships, and Article 11.5 (commencing with Section 15911.20)  
31 of Chapter 5.5 of Title 2 with respect to any domestic constituent  
32 limited partnerships, the merger proceedings may be in accordance  
33 with the laws of the state or place of incorporation or organization  
34 of the surviving party.

35 (3) If the surviving party is a domestic corporation or domestic  
36 other business entity, the certificate of merger or the agreement of  
37 merger with attachments shall be filed as provided in subdivision  
38 (g) and thereupon, subject to subdivision (c) of Section 110 or  
39 paragraph (2) of subdivision (g), as is applicable, the merger shall

1 be effective as to each domestic constituent corporation and  
2 domestic constituent other business entity.

3 (4) If the surviving party is a foreign corporation or foreign  
4 other business entity, the merger shall become effective in  
5 accordance with the law of the jurisdiction in which the surviving  
6 party is organized, but, except as provided in paragraph (5), the  
7 merger shall be effective as to any domestic disappearing  
8 corporation as of the time of effectiveness in the foreign jurisdiction  
9 upon the filing in this state of a copy of the agreement of merger  
10 with an officers' certificate of each constituent foreign and  
11 domestic corporation and a certificate of merger of each constituent  
12 other business entity attached, which officers' certificates and  
13 certificates of merger shall conform to the requirements of  
14 paragraph (1) of subdivision (g). If one or more domestic other  
15 business entities is a disappearing party in a merger pursuant to  
16 this subdivision in which a foreign other business entity is the  
17 surviving entity, a certificate of merger required by the laws under  
18 which that domestic other business entity is organized, including  
19 subdivision (a) of Section 15911.14, subdivision (b) of Section  
20 16915, or subdivision (a) of Section 17710.14, as is applicable,  
21 shall also be filed at the same time as the filing of the agreement  
22 of merger.

23 (5) If the date of the filing in this state pursuant to this  
24 subdivision is more than six months after the time of the  
25 effectiveness in the foreign jurisdiction, or if the powers of a  
26 domestic disappearing corporation are suspended at the time of  
27 effectiveness in the foreign jurisdiction, the merger shall be  
28 effective as to the domestic disappearing corporation as of the date  
29 of filing in this state.

30 (6) In a merger described in paragraph (3) or (4), each foreign  
31 disappearing corporation that is qualified for the transaction of  
32 intrastate business shall by virtue of the filing pursuant to this  
33 subdivision, subject to subdivision (c) of Section 110, automatically  
34 surrender its right to transact intrastate business in this state. The  
35 filing of the agreement of merger or certificate of merger, as is  
36 applicable, pursuant to this subdivision, by a disappearing foreign  
37 other business entity registered for the transaction of intrastate  
38 business in this state shall, by virtue of that filing, subject to  
39 subdivision (c) of Section 110, automatically cancels the

1 registration for that foreign other business entity, without the  
2 necessity of the filing of a certificate of cancellation.

3 SEC. 7. Section 1151 of the Corporations Code is amended to  
4 read:

5 1151. (a) A corporation may be converted into a domestic  
6 other business entity, including, but not limited to, a limited  
7 liability company, ~~a partnership or a socially responsible~~  
8 *partnership, or social purpose* corporation, pursuant to this chapter  
9 if, pursuant to the proposed conversion, (1) each share of the same  
10 class or series of the converting corporation shall, unless all the  
11 shareholders of the class or series consent, be treated equally with  
12 respect to any cash, rights, securities, or other property to be  
13 received by, or any obligations or restrictions to be imposed on,  
14 the holder of that share, and (2) nonredeemable common shares  
15 of the converting corporation shall be converted only into  
16 nonredeemable equity securities of the converted entity unless all  
17 of the shareholders of the class consent; provided, however, that  
18 clause (1) shall not restrict the ability of the shareholders of a  
19 converting corporation to appoint one or more managers, if the  
20 converted entity is a limited liability company, or one or more  
21 general partners, if the converted entity is a limited partnership,  
22 in the plan of conversion or in the converted entity's governing  
23 documents.

24 (b) Notwithstanding this section, the conversion of a corporation  
25 into a domestic other business entity, including, but not limited  
26 to, a limited liability company, ~~a partnership or a socially~~  
27 ~~responsible~~ *partnership, or social purpose* corporation, may be  
28 effected only if both of the following conditions are complied with:

29 (1) The law under which the converted entity will exist expressly  
30 permits the formation of that entity pursuant to a conversion.

31 (2) The corporation complies with any and all other requirements  
32 of any other law that applies to conversion to the converted entity.

33 SEC. 8. Section 1152 of the Corporations Code is amended to  
34 read:

35 1152. (a) A corporation that desires to convert to a domestic  
36 other business entity shall approve a plan of conversion. The plan  
37 of conversion shall state all of the following:

38 (1) The terms and conditions of the conversion.

1 (2) The jurisdiction of the organization of the converted entity  
2 and of the converting corporation and the name of the converted  
3 entity after conversion.

4 (3) The manner of converting the shares of each of the  
5 shareholders of the converting corporation into securities of, or  
6 interests in, the converted entity.

7 (4) The provisions of the governing documents for the converted  
8 entity, including the partnership agreement or limited liability  
9 company articles of organization and operating agreement, to  
10 which the holders of interests in the converted entity are to be  
11 bound.

12 (5) Any other details or provisions that are required by the laws  
13 under which the converted entity is organized, or that are desired  
14 by the converting corporation.

15 (b) The plan of conversion shall be approved by the board of  
16 the converting corporation (Section 151), and the principal terms  
17 of the plan of the conversion shall be approved by the outstanding  
18 shares (Section 152) of each class of the converting corporation.  
19 The approval of the outstanding shares may be given before or  
20 after approval by the board. Notwithstanding the foregoing, if a  
21 converting corporation is a close corporation, the conversion shall  
22 be approved by the affirmative vote of at least two-thirds of each  
23 class, or a greater vote if required in the articles, of outstanding  
24 shares (Section 152) of that converting corporation; provided,  
25 however, that the articles may provide for a lesser vote, but not  
26 less than a majority of the outstanding shares of each class.

27 (c) If the corporation is converting into a general or limited  
28 partnership or into a limited liability company, then in addition to  
29 the approval of the shareholders set forth in subdivision (b), the  
30 plan of conversion shall be approved by each shareholder who will  
31 become a general partner or manager, as applicable, of the  
32 converted entity pursuant to the plan of conversion unless the  
33 shareholders have dissenters' rights pursuant to Section 1159 and  
34 Chapter 13 (commencing with Section 1300).

35 (d) If the corporation is converting into a ~~socially responsible~~  
36 *social purpose* corporation, both of the following shall apply:

37 (1) Notwithstanding subdivision (b), the plan of conversion  
38 shall be approved by the affirmative vote of at least two-thirds of  
39 each class, or a greater vote if required in the articles, of  
40 outstanding shares (Section 152) of that converting corporation.

1 (2) The shareholders of the converting corporation shall have  
2 all of the rights under Chapter 13 (commencing with Section 1300)  
3 of the shareholders of a corporation involved in a reorganization  
4 requiring the approval of its outstanding shares (Section 152), and  
5 the converting corporation shall have all of the obligations under  
6 Chapter 13 (commencing with Section 1300) of a corporation  
7 involved in a reorganization, without regard to whether the  
8 conversion constitutes a reorganization requiring a shareholder  
9 vote under Chapter 12 (commencing with Section 1200).

10 (e) Upon the effectiveness of the conversion, all shareholders  
11 of the converting corporation, except those that exercise dissenters'  
12 rights as provided in Section 1159 and Chapter 13 (commencing  
13 with Section 1300), shall be deemed parties to any agreement or  
14 agreements constituting the governing documents for the converted  
15 entity adopted as part of the plan of conversion, irrespective of  
16 whether or not a shareholder has executed the plan of conversion  
17 or those governing documents for the converted entity. Any  
18 adoption of governing documents made pursuant thereto shall be  
19 effective at the effective time or date of the conversion.

20 (f) Notwithstanding its prior approval by the board and the  
21 outstanding shares or either of them, a plan of conversion may be  
22 amended before the conversion takes effect if the amendment is  
23 approved by the board and, if it changes any of the principal terms  
24 of the plan of conversion, by the shareholders of the converting  
25 corporation in the same manner and to the same extent as was  
26 required for approval of the original plan of conversion.

27 (g) A plan of conversion may be abandoned by the board of a  
28 converting corporation, or by the shareholders of a converting  
29 corporation if the abandonment is approved by the outstanding  
30 shares, in each case in the same manner as required for approval  
31 of the plan of conversion, subject to the contractual rights of third  
32 parties, at any time before the conversion is effective.

33 (h) The converted entity shall keep the plan of conversion at  
34 (1) the principal place of business of the converted entity if the  
35 converted entity is a domestic partnership or (2) at the office at  
36 which records are to be kept under Section 15901.11 if the  
37 converted entity is a domestic limited partnership or at the office  
38 at which records are to be kept under Section 17701.13 if the  
39 converted entity is a domestic limited liability company. Upon the  
40 request of a shareholder of a converting corporation, the authorized

1 person on behalf of the converted entity shall promptly deliver to  
2 the shareholder, at the expense of the converted entity, a copy of  
3 the plan of conversion. A waiver by a shareholder of the rights  
4 provided in this subdivision shall be unenforceable.

5 SEC. 9. Section 1155 of the Corporations Code is amended to  
6 read:

7 1155. (a) To convert a corporation:

8 (1) If the corporation is converting into a domestic limited  
9 partnership, a statement of conversion shall be completed on the  
10 certificate of limited partnership for the converted entity.

11 (2) If the corporation is converting into a domestic partnership,  
12 a statement of conversion shall be completed on the statement of  
13 partnership authority for the converted entity, or if no statement  
14 of partnership authority is filed then a certificate of conversion  
15 shall be filed separately.

16 (3) If the corporation is converting into a domestic limited  
17 liability company, a statement of conversion shall be completed  
18 on the articles of organization for the converted entity.

19 (4) If the corporation is converting into a ~~socially responsible~~  
20 *social purpose* corporation, a statement of conversion shall be  
21 completed on the articles for the converted entity.

22 (b) Any statement or certificate of conversion of a converting  
23 corporation shall be executed and acknowledged by those officers  
24 of the converting corporation as would be required to sign an  
25 officers' certificate (Section 173), and shall set forth all of the  
26 following:

27 (1) The name and the Secretary of State's file number of the  
28 converting corporation.

29 (2) A statement of the total number of outstanding shares of  
30 each class entitled to vote on the conversion, that the principal  
31 terms of the plan of conversion were approved by a vote of the  
32 number of shares of each class which equaled or exceeded the vote  
33 required under Section 1152, specifying each class entitled to vote  
34 and the percentage vote required of each class.

35 (3) The name, form, and jurisdiction of organization of the  
36 converted entity.

37 (c) For the purposes of this chapter, the certificate of conversion  
38 shall be on a form prescribed by the Secretary of State.

39 (d) The filing with the Secretary of State of a statement of  
40 conversion on an organizational document or a certificate of

1 conversion as set forth in subdivision (a) shall have the effect of  
2 the filing of a certificate of dissolution by the converting  
3 corporation and no converting corporation that has made the filing  
4 is required to file a certificate of election under Section 1901 or a  
5 certificate of dissolution under Section 1905 as a result of that  
6 conversion.

7 (e) Upon the effectiveness of a conversion pursuant to this  
8 chapter, a converted entity that is a ~~socially responsible~~ *social*  
9 *purpose* corporation, domestic partnership, domestic limited  
10 ~~partnership~~ *partnership*, or domestic limited liability company  
11 shall be deemed to have assumed the liability of the converting  
12 corporation (1) to prepare and file or cause to be prepared and filed  
13 all tax and information returns otherwise required of the converting  
14 corporation under the Corporation Tax Law (Part 11 (commencing  
15 with Section 23001) of Division 2 of the Revenue and Taxation  
16 Code) and (2) to pay any tax liability determined to be due pursuant  
17 to that law.

18 SEC. 10. Section 1201 of the Corporations Code is amended  
19 to read:

20 1201. (a) The principal terms of a reorganization shall be  
21 approved by the outstanding shares (Section 152) of each class of  
22 each corporation the approval of whose board is required under  
23 Section 1200, except as provided in subdivision (b) and except  
24 that (unless otherwise provided in the articles) no approval of any  
25 class of outstanding preferred shares of the surviving or acquiring  
26 corporation or parent party shall be required if the rights,  
27 preferences, ~~privileges~~ *privileges*, and restrictions granted to or  
28 imposed upon that class of shares remain unchanged (subject to  
29 the provisions of subdivision (c)). For the purpose of this  
30 subdivision, two classes of common shares differing only as to  
31 voting rights shall be considered as a single class of shares.

32 (b) No approval of the outstanding shares (Section 152) is  
33 required by subdivision (a) in the case of any corporation if that  
34 corporation, or its shareholders immediately before the  
35 reorganization, or both, shall own (immediately after the  
36 reorganization) equity securities, other than any warrant or right  
37 to subscribe to or purchase those equity securities, of the surviving  
38 or acquiring corporation or a parent party (subdivision (d) of  
39 Section 1200) possessing more than five-sixths of the voting power  
40 of the surviving or acquiring corporation or parent party. In making

1 the determination of ownership by the shareholders of a  
2 corporation, immediately after the reorganization, of equity  
3 securities pursuant to the preceding sentence, equity securities  
4 which they owned immediately before the reorganization as  
5 shareholders of another party to the transaction shall be  
6 disregarded. For the purpose of this section only, the voting power  
7 of a corporation shall be calculated by assuming the conversion  
8 of all equity securities convertible (immediately or at some future  
9 time) into shares entitled to vote but not assuming the exercise of  
10 any warrant or right to subscribe to or purchase those shares.

11 (c) Notwithstanding subdivision (b), the principal terms of a  
12 reorganization shall be approved by the outstanding shares (Section  
13 152) of the surviving corporation in a merger reorganization if any  
14 amendment is made to its articles that would otherwise require  
15 that approval.

16 (d) Notwithstanding subdivision (b), the principal terms of a  
17 reorganization shall be approved by the outstanding shares (Section  
18 152) of any class of a corporation that is a party to a merger or  
19 sale-of-assets reorganization if holders of shares of that class  
20 receive shares of the surviving or acquiring corporation or parent  
21 party having different rights, preferences, ~~privileges~~ *privileges*, or  
22 restrictions than those surrendered. Shares in a foreign corporation  
23 received in exchange for shares in a domestic corporation have  
24 different rights, preferences, ~~privileges~~ *privileges*, and restrictions  
25 within the meaning of the preceding sentence.

26 (e) Notwithstanding subdivisions (a) and (b), the principal terms  
27 of a reorganization shall be approved by the affirmative vote of at  
28 least two-thirds of each class, or a greater vote if required in the  
29 articles, of the outstanding shares (Section 152) of any close  
30 corporation if the reorganization would result in their receiving  
31 shares of a corporation that is not a close corporation. However,  
32 the articles may provide for a lesser vote, but not less than a  
33 majority of the outstanding shares of each class.

34 (f) Notwithstanding subdivisions (a) and (b), the principal terms  
35 of a reorganization shall be approved by at least two-thirds of each  
36 class, or a greater vote if required in the articles, of the outstanding  
37 shares (Section 152) of a corporation that is a party to a merger  
38 reorganization if holders of shares receive shares of a surviving  
39 ~~socially responsible~~ *social purpose* corporation in the merger.

1 (g) Notwithstanding subdivisions (a) and (b), the principal terms  
 2 of a reorganization shall be approved by the outstanding shares  
 3 (Section 152) of any class of a corporation that is a party to a  
 4 merger reorganization if holders of shares of that class receive  
 5 interests of a surviving other business entity in the merger.

6 (h) Notwithstanding subdivisions (a) and (b), the principal terms  
 7 of a reorganization shall be approved by all shareholders of any  
 8 class or series if, as a result of the reorganization, the holders of  
 9 that class or series become personally liable for any obligations  
 10 of a party to the reorganization, unless all holders of that class or  
 11 series have the dissenters' rights provided in Chapter 13  
 12 (commencing with Section 1300).

13 (i) Any approval required by this section may be given before  
 14 or after the approval by the board. Notwithstanding approval  
 15 required by this section, the board may abandon the proposed  
 16 reorganization without further action by the shareholders, subject  
 17 to the contractual rights, if any, of third parties.

18 SEC. 11. The heading of Division 1.5 (commencing with  
 19 Section 2500) of Title 1 of the Corporations Code is amended to  
 20 read:

21  
 22 DIVISION 1.5. ~~SOCIALLY RESPONSIBLE~~ SOCIAL  
 23 PURPOSE CORPORATIONS ACT  
 24

25 SEC. 12. Section 2500 of the Corporations Code is amended  
 26 to read:

27 2500. This division shall be known and may be cited as the  
 28 ~~Socially Responsible Social Purpose~~ Corporations Act.

29 SEC. 13. Section 2501 of the Corporations Code is amended  
 30 to read:

31 2501. Except as otherwise expressly stated, the provisions of  
 32 Division 1 (commencing with Section 100) shall apply to  
 33 corporations organized under this division, and references in that  
 34 division to the terms "close corporation," "constituent corporation,"  
 35 "corporation," "disappearing corporation," "domestic corporation,"  
 36 "foreign corporation," "surviving corporation," and similar terms  
 37 shall be read to apply, in the same manner, to include the similar  
 38 "~~socially responsible~~ "social purpose corporation."

39 SEC. 14. Section 2502 of the Corporations Code is amended  
 40 to read:

1 2502. This division applies only to ~~socially responsible~~ *social*  
2 *purpose* corporations organized expressly under this division  
3 whether organized or existing under this division or merged or  
4 converted into a ~~socially responsible~~ *social purpose* corporation  
5 in accordance with Chapter 11 (commencing with Section 1100)  
6 of Division 1 or Chapter 11.5 (commencing with Section 1150)  
7 of Division 1.

8 SEC. 15. Section 2502.01 of the Corporations Code is amended  
9 to read:

10 2502.01. Every ~~socially responsible~~ *social purpose* corporation  
11 organized under the laws of this state or similar foreign ~~socially~~  
12 ~~responsible~~ *social purpose* corporation, all of the capital stock of  
13 which is beneficially owned by the United States, an agency or  
14 instrumentality of the United States or any ~~socially responsible~~  
15 *social purpose* corporation or similar foreign ~~socially responsible~~  
16 *social purpose* corporation the whole of the capital stock of which  
17 is owned by the United States or by an agency or instrumentality  
18 of the United States, is conclusively presumed to be an agency and  
19 instrumentality of the United States and is entitled to all privileges  
20 and immunities to which the holders of all of its stock are entitled  
21 as agencies of the United States.

22 SEC. 16. Section 2502.03 of the Corporations Code is amended  
23 to read:

24 2502.03. A ~~socially responsible~~ *social purpose* corporation  
25 may be sued in the same manner as a corporation as provided in  
26 the Code of Civil Procedure.

27 SEC. 17. Section 2502.04 of the Corporations Code is amended  
28 to read:

29 2502.04. A ~~socially responsible~~ *social purpose* corporation  
30 formed under this division shall, in respect of its property, as a  
31 condition of its existence as a ~~socially responsible~~ *social purpose*  
32 corporation, be subject, in the same manner as a corporation, to  
33 the provisions of the Code of Civil Procedure authorizing the  
34 attachment of corporate property.

35 SEC. 18. Section 2502.05 of the Corporations Code is amended  
36 to read:

37 2502.05. The fees of the Secretary of State for filing  
38 instruments by or on behalf of ~~socially responsible~~ *social purpose*  
39 corporations shall be the same fees prescribed for corporations in

1 Article 3 (commencing with Section 12180) of Chapter 3 of Part  
2 2 of Division 3 of Title 2 of the Government Code.

3 SEC. 19. Section 2502.06 of the Corporations Code is amended  
4 to read:

5 2502.06. (a) Provisions of the articles described in paragraph  
6 (3) of subdivision (e) of Section 2602 and subdivisions (a) and (b)  
7 of Section 2603 may be made dependent upon facts ascertainable  
8 outside of the articles, if the manner in which those facts shall  
9 operate upon those provisions is clearly and expressly set forth in  
10 the articles. Similarly, any of the terms of an agreement of merger  
11 pursuant to Section 1101 may be made dependent upon facts  
12 ascertainable outside of that agreement, if the manner in which  
13 those facts shall operate upon the terms of the agreement is clearly  
14 and expressly set forth in the agreement of merger.

15 (b) Notwithstanding subdivision (a), when any provisions or  
16 terms of articles or an agreement of merger are made dependent  
17 upon facts ascertainable outside of the filed instrument through a  
18 reference to an agreement or similar document, the ~~socially~~  
19 ~~responsible~~ *social purpose* corporation filing that instrument shall  
20 maintain at its principal executive office a copy of that referenced  
21 agreement or document and all amendments, and shall provide to  
22 its shareholders, in the case of articles, or to shareholders of any  
23 constituent corporation or other business entity, in the case of an  
24 agreement of merger, a copy of them upon written request and  
25 without charge.

26 (c) For the purposes of this section, “referenced agreement”  
27 means an agreement or contract to which the ~~socially responsible~~  
28 *social purpose* corporation is a party. An amendment or revision  
29 of a referenced agreement shall require shareholder approval, in  
30 addition to any other required approvals, upon any of the following  
31 circumstances:

32 (1) If the amendment or revision of the referenced agreement  
33 would result in a material change in the rights, preferences,  
34 privileges, or restrictions of a class or series of shares, the  
35 amendment or revision shall be approved by the outstanding shares,  
36 as defined in Section 152, of that class or series.

37 (2) If the amendment or revision of the referenced agreement  
38 would result in a material change in the rights or liabilities of any  
39 class or series of shares with respect to the subject matter of  
40 paragraph (1), (2), (3), (5), or (9) of subdivision (a) of Section

1 2603, the amendment or revision shall be approved by the  
2 outstanding shares, as defined in Section 152, of that class or series.

3 (3) If the amendment or revision of the referenced agreement  
4 would result in a material change in the restrictions on transfer or  
5 hypothecation of any class or series of shares, the amendment or  
6 revision shall be approved by the outstanding shares, as defined  
7 in Section 152, of that class or series.

8 (4) If the amendment or revision of the referenced agreement  
9 would result in a change of any of the principal terms of an  
10 agreement of merger, the amendment or revision shall be approved  
11 in the same manner as required by Section 3504 for a change in  
12 the principal terms of an agreement of merger.

13 SEC. 20. Section 2503.1 of the Corporations Code is amended  
14 to read:

15 2503.1. “~~Close—socially—responsible~~ *social purpose*  
16 corporation” means a ~~socially—responsible~~ *social purpose*  
17 corporation that is also a close corporation.

18 SEC. 21. Section 2504 of the Corporations Code is amended  
19 to read:

20 2504. “~~Constituent—socially—responsible~~ *social purpose*  
21 corporation” means a ~~socially—responsible~~ *social purpose*  
22 corporation that is merged with or into one or more corporations  
23 or one or more other business entities and includes a surviving  
24 ~~socially—responsible~~ *social purpose* corporation.

25 SEC. 22. Section 2506 of the Corporations Code is amended  
26 to read:

27 2506. “~~Disappearing—socially—responsible~~ *social purpose*  
28 corporation” means a constituent socially responsible corporation  
29 that is not the surviving entity.

30 SEC. 23. Section 2507 of the Corporations Code is amended  
31 to read:

32 2507. “~~Domestic—socially—responsible~~ *social purpose*  
33 corporation” means a corporation organized under this division.

34 SEC. 24. Section 2509 of the Corporations Code is amended  
35 to read:

36 2509. “~~Socially—responsible~~ “*Social purpose* corporation,”  
37 unless otherwise expressly provided, refers only to a corporation  
38 organized under this division.

39 SEC. 25. Section 2510 of the Corporations Code is amended  
40 to read:

1 2510. ~~“Socially responsible~~ “*Social purpose* corporation subject  
2 to the Banking Law” means any of the following:

3 (a) ~~A socially responsible~~ *social purpose* corporation that, with  
4 the approval of the Commissioner of Financial Institutions, is  
5 incorporated for the purpose of engaging in, or that is authorized  
6 by the Commissioner of Financial Institutions to engage in, the  
7 commercial banking business under the Banking Law (Division  
8 1 (commencing with Section 99) of the Financial Code).

9 (b) ~~Any socially responsible~~ *social purpose* corporation that,  
10 with the approval of the Commissioner of Financial Institutions,  
11 is incorporated for the purpose of engaging in, or that is authorized  
12 by the Commissioner of Financial Institutions to engage in, the  
13 industrial banking business under the Banking Law (Division 1  
14 (commencing with Section 99) of the Financial Code).

15 (c) ~~Any socially responsible~~ *social purpose* corporation, other  
16 than a ~~socially responsible~~ *social purpose* corporation described  
17 in subdivision (d), that, with the approval of the Commissioner of  
18 Financial Institutions, is incorporated for the purpose of engaging  
19 in, or that is authorized by the Commissioner of Financial  
20 Institutions to engage in, the trust business under the Banking Law  
21 (Division 1 (commencing with Section 99) of the Financial Code).

22 (d) ~~Any socially responsible~~ *social purpose* corporation that is  
23 authorized by the Commissioner of Financial Institutions and the  
24 Commissioner of Insurance to maintain a title insurance department  
25 to engage in title insurance business and a trust department to  
26 engage in trust business.

27 (e) ~~Any socially responsible~~ *social purpose* corporation that,  
28 with the approval of the Commissioner of Financial Institutions,  
29 is incorporated for the purpose of engaging in, or that is authorized  
30 by the Commissioner of Financial Institutions to engage in,  
31 business under Article 1 (commencing with Section 3500) of  
32 Chapter 19 of Division 1 of the Financial Code.

33 SEC. 26. Section 2510.1 of the Corporations Code is amended  
34 to read:

35 2510.1. ~~“Socially responsible~~ “*Social purpose* corporation  
36 subject to the Insurance Code as an insurer” means a ~~socially~~  
37 ~~responsible~~ *social purpose* corporation that has met the  
38 requirements of Sections 201.5, 201.6, and 201.7.

39 SEC. 27. Section 2511 of the Corporations Code is amended  
40 to read:

1 2511. “Reorganization” means a merger reorganization, an  
2 exchange reorganization, or a sale of assets reorganization.

3 (a) “Merger reorganization” means a merger pursuant to Chapter  
4 11 (commencing with Section 1100) of Division 1 and Chapter 8  
5 (commencing with Section 3200), of this division, other than a  
6 short-form merger.

7 (b) “Exchange reorganization” means the acquisition by one  
8 domestic ~~socially responsible~~ *social purpose* corporation, foreign  
9 ~~socially responsible~~ *social purpose* corporation, or other business  
10 entity in exchange, in whole or in part, for its equity securities, or  
11 the equity securities of a domestic socially responsible corporation,  
12 a foreign socially responsible corporation, or an other business  
13 entity that is in control of the acquiring entity, of equity securities  
14 of another domestic ~~socially responsible~~ *social purpose*  
15 corporation, foreign ~~socially responsible~~ *social purpose*  
16 corporation, or other business entity if, immediately after the  
17 acquisition, the acquiring entity has control of the other entity.

18 (c) “Sale-of-assets reorganization” means the acquisition by  
19 one domestic ~~socially responsible~~ *social purpose* corporation,  
20 foreign ~~socially responsible~~ *social purpose* corporation, or other  
21 business entity in exchange in whole or in part for its equity  
22 securities, or the equity securities of a domestic ~~socially responsible~~  
23 *social purpose* corporation, a foreign socially responsible  
24 corporation, or an other business entity that is in control of the  
25 acquiring entity, or for its debt securities, or debt securities of a  
26 domestic ~~socially responsible~~ *social purpose* corporation, foreign  
27 ~~socially responsible~~ *social purpose* corporation, or other business  
28 entity that is in control of the acquiring entity, that are not  
29 adequately secured and that have a maturity date in excess of five  
30 years after the consummation of the reorganization, or both, of all  
31 or substantially all of the assets of another domestic ~~socially~~  
32 ~~responsible~~ *social purpose* corporation, foreign ~~socially responsible~~  
33 *social purpose* corporation, or other business entity.

34 SEC. 28. Section 2512 of the Corporations Code is amended  
35 to read:

36 2512. “Share exchange tender offer” means any acquisition by  
37 one ~~socially responsible~~ *social purpose* corporation in exchange  
38 in whole or in part for its equity securities, or the equity securities  
39 of a corporation or a ~~socially responsible~~ *social purpose*  
40 corporation that is in control of the acquiring ~~socially responsible~~

1 *social purpose* corporation, of shares of another corporation or  
2 ~~socially responsible~~ *social purpose* corporation, other than an  
3 exchange reorganization (subdivision (b) of Section 2511).

4 SEC. 29. Section 2513 of the Corporations Code is amended  
5 to read:

6 2513. “Special purpose” means the special purpose set forth  
7 in a ~~socially responsible~~ *social purpose* corporation’s articles  
8 pursuant to subdivision (b) of Section 2602.

9 SEC. 30. Section 2514 of the Corporations Code is amended  
10 to read:

11 2514. “Special purpose current report” means the report  
12 required of a ~~socially responsible~~ *social purpose* corporation  
13 pursuant to Section 3501.

14 SEC. 31. Section 2515 of the Corporations Code is amended  
15 to read:

16 2515. “Special purpose MD&A” means the management  
17 discussion and analysis required of a socially responsible  
18 corporation pursuant to subdivision (b) of Section 3500.

19 SEC. 32. Section 2516 of the Corporations Code is amended  
20 to read:

21 2516. “Special purpose objectives” means those objectives set  
22 forth by management and the directors of a ~~socially responsible~~  
23 *social purpose* corporation for purposes of measuring the impact  
24 of the ~~socially responsible~~ *social purpose* corporation’s efforts  
25 relating to its special purpose in accordance with Section 3500.

26 SEC. 33. Section 2517 of the Corporations Code is amended  
27 to read:

28 2517. “Surviving ~~socially responsible~~ *social purpose*  
29 corporation” means a ~~socially responsible~~ *social purpose*  
30 corporation into which one or more other corporations or one or  
31 more other business entities is merged.

32 SEC. 34. Section 2600 of the Corporations Code is amended  
33 to read:

34 2600. (a) One or more natural persons, partnerships,  
35 associations, ~~socially responsible~~ *social purpose* corporations, or  
36 corporations, domestic or foreign, may form a ~~socially responsible~~  
37 *social purpose* corporation under this division by executing and  
38 filing articles of incorporation.

39 (b) If initial directors are named in the articles, each director  
40 named in the articles shall sign and acknowledge the articles. If

1 initial directors are not named in the articles, the articles shall be  
2 signed by one or more incorporators who shall be persons described  
3 in subdivision (a).

4 (c) The corporate existence begins upon the filing of the articles  
5 and continues perpetually, unless otherwise expressly provided by  
6 law or in the articles.

7 SEC. 35. Section 2600.5 of the Corporations Code is amended  
8 to read:

9 2600.5. (a) An existing business association organized as a  
10 trust under the laws of this state or of a foreign jurisdiction may  
11 incorporate under this division upon approval by its board of  
12 trustees or similar governing body and approval by the affirmative  
13 vote of two-thirds of the outstanding voting shares of beneficial  
14 interest, or a greater proportion of the outstanding shares of  
15 beneficial interest or the vote of those other classes of shares of  
16 beneficial interest as may be specifically required by its declaration  
17 of trust or bylaws, and the filing of articles with a certificate  
18 attached pursuant to this chapter.

19 (b) In addition to the matters required to be set forth in the  
20 articles pursuant to Section 2602, the articles filed pursuant to this  
21 section shall state that an existing unincorporated association,  
22 stating its name, is being incorporated by the filing of the articles.

23 (c) The articles filed pursuant to this section shall be signed by  
24 the president, or any vice president, and the secretary, or any  
25 assistant secretary, of the existing association and shall be  
26 accompanied by a certificate signed and verified by those officers  
27 signing the articles and stating that the incorporation of the  
28 association has been approved by the trustees and by the required  
29 vote of holders of shares of beneficial interest in accordance with  
30 subdivision (a).

31 (d) Upon the filing of articles pursuant to this section, the  
32 ~~socially responsible~~ *social purpose* corporation shall succeed  
33 automatically to all of the rights and property of the association  
34 being incorporated and shall be subject to all of its debts and  
35 liabilities in the same manner as if the socially responsible  
36 corporation had itself incurred them. The incumbent trustees of  
37 the association shall constitute the initial directors of the ~~socially~~  
38 ~~responsible~~ *social purpose* corporation and shall continue in office  
39 until the next annual meeting of the shareholders or their earlier  
40 death, resignation, or removal. All rights of creditors and all liens

1 upon the property of the association shall be preserved unimpaired.  
2 Any action or proceeding pending by or against the association  
3 may be prosecuted to judgment, which shall bind the ~~socially~~  
4 ~~responsible~~ *social purpose* corporation, or the ~~socially responsible~~  
5 *social purpose* corporation may be proceeded against or substituted  
6 in its place.

7 (e) The filing for record in the office of the county recorder of  
8 any county in this state in which any of the real property of the  
9 association is located of a copy of the articles filed pursuant to this  
10 section, certified by the Secretary of State, shall evidence record  
11 ownership in the ~~socially responsible~~ *social purpose* corporation  
12 of all interests of the association in and to the real property located  
13 in that county.

14 SEC. 36. Section 2601 of the Corporations Code is amended  
15 to read:

16 2601. (a) The Secretary of State shall not file articles setting  
17 forth a name in which “bank,” “trust,” ~~“trustee”~~ “*trustee*,” or  
18 related words appear, unless the certificate of approval of the  
19 Commissioner of Financial Institutions is attached to the articles.  
20 This subdivision does not apply to the articles of any socially  
21 responsible corporation subject to the Banking Law on which is  
22 endorsed the approval of the Commissioner of Financial  
23 Institutions.

24 (b) (1) The Secretary of State shall not file articles that set  
25 forth a name that is likely to mislead the public or that is the same  
26 as, or resembles so closely as to tend to deceive, the name of a  
27 domestic corporation, the name of a domestic ~~socially responsible~~  
28 *social purpose* corporation, or the name of a foreign corporation  
29 that is authorized to transact intrastate business or has registered  
30 its name pursuant to Section 2101, a name that a foreign  
31 corporation has assumed under subdivision (b) of Section 2106, a  
32 name that will become the record name of a corporation or ~~socially~~  
33 ~~responsible~~ *social purpose* corporation or a foreign corporation  
34 upon the effective date of a filed corporate instrument where there  
35 is a delayed effective date pursuant to subdivision (c) of Section  
36 110 or subdivision (c) of Section 5008, or a name that is under  
37 reservation for another corporation or socially responsible  
38 corporation pursuant to this title, except that a ~~socially responsible~~  
39 *social purpose* corporation may adopt a name that is substantially  
40 the same as an existing corporation or ~~socially responsible~~ *social*

1 *purpose* corporation, foreign or domestic, which is authorized to  
2 transact intrastate business or has registered its name pursuant to  
3 Section 2101, upon proof of consent by the domestic or foreign  
4 corporation or socially responsible corporation and a finding by  
5 the Secretary of State that under the circumstances the public is  
6 not likely to be misled. The use by a ~~socially responsible~~ *social*  
7 *purpose* corporation of a name in violation of this section may be  
8 enjoined notwithstanding the filing of its articles by the Secretary  
9 of State.

10 (2) A corporation formed pursuant to this division as a “flexible  
11 purpose corporation” before January 1, 2015, shall continue its  
12 existence as a ~~socially responsible~~ *social purpose* corporation. A  
13 corporation formed pursuant to this division before January 1,  
14 2015, may, but is not required to, change its name to replace  
15 “flexible purpose corporation” with ~~“socially responsible~~ “*social*  
16 *purpose* corporation” and may, but is not required to, amend its  
17 articles of incorporation to replace the term “flexible purpose  
18 corporation” with ~~“socially responsible~~ “*social purpose*  
19 corporation” as applicable in any statements contained in the  
20 articles. Any reference to a “flexible purpose corporation” or any  
21 abbreviation of that term in the articles of incorporation of a  
22 corporation formed pursuant to this division before January 1,  
23 2015, shall also be a reference to ~~“socially responsible~~ “*social*  
24 *purpose* corporation.”

25 (c) Any applicant may, upon payment of the fee prescribed in  
26 the Government Code, obtain from the Secretary of State a  
27 certificate of reservation of any name not prohibited by subdivision  
28 (b), and upon the issuance of the certificate the name stated in the  
29 certificate shall be reserved for a period of 60 days. The Secretary  
30 of State shall not, however, issue certificates reserving the same  
31 name for two or more consecutive 60-day periods to the same  
32 applicant or for the use or benefit of the same person, partnership,  
33 firm, corporation, or ~~socially responsible~~ *social purpose*  
34 corporation. No consecutive reservations shall be made by or for  
35 the use or benefit of the same person, partnership, firm, ~~corporation~~  
36 *corporation*, or ~~socially responsible~~ *social purpose* corporation  
37 of names so similar as to fall within the prohibitions of subdivision  
38 (b).

39 SEC. 37. Section 2602 of the Corporations Code is amended  
40 to read:

1 2602. The articles of incorporation shall set forth:

2 (a) The name of the ~~socially responsible~~ *social purpose*  
3 corporation that shall contain the words “socially responsible  
4 corporation” or an abbreviation of those words.

5 (b) (1) Either of the following statements, as applicable:

6 (A) “The purpose of this ~~socially responsible~~ *social purpose*  
7 corporation is to engage in any lawful act or activity for which a  
8 ~~socially responsible~~ *social purpose* corporation may be organized  
9 under Division 1.5 of the California Corporations Code, other than  
10 the banking business, the trust company business or the practice  
11 of a profession permitted to be incorporated by the California  
12 Corporations Code, for the benefit of the long-term and the  
13 short-term interests of the ~~socially responsible~~ *social purpose*  
14 corporation and its shareholders and in furtherance of the following  
15 enumerated purposes \_\_\_\_.”

16 (B) “The purpose of this ~~socially responsible~~ *social purpose*  
17 corporation is to engage in the profession of \_\_\_\_ (with the  
18 insertion of a profession permitted to be incorporated by the  
19 California Corporations Code) and any other lawful activities,  
20 other than the banking or trust company business, not prohibited  
21 to a ~~socially responsible~~ *social purpose* corporation engaging in  
22 that profession by applicable laws and regulations, for the benefit  
23 of the long-term and the short-term interests of the ~~socially~~  
24 ~~responsible~~ *social purpose* corporation and its shareholders and  
25 in furtherance of the following enumerated purposes \_\_\_\_.”

26 (2) A statement that a purpose of the socially responsible  
27 corporation is to engage in one or more of the following purposes,  
28 in addition to the purpose stated pursuant to paragraph (1):

29 (A) One or more charitable or public purpose activities that a  
30 nonprofit public benefit corporation is authorized to carry out.

31 (B) The purpose of promoting positive short-term or long-term  
32 effects of, or minimizing adverse short-term or long-term effects  
33 of, the ~~socially responsible~~ *social purpose* corporation’s activities  
34 upon any of the following:

35 (i) The ~~socially responsible~~ *social purpose* corporation’s  
36 employees, suppliers, customers, and creditors.

37 (ii) The community and society.

38 (iii) The environment.

39 (3) ~~A~~ (A) *For corporations organized before January 1, 2015,*  
40 a statement that the ~~socially responsible~~ corporation is organized

1 as a ~~socially responsible~~ *flexible purpose* corporation under the  
2 Corporate Flexibility Act of 2011.

3 (B) For corporations organized on and after January 1, 2015,  
4 a statement that the corporation is organized as a social purpose  
5 corporation under the Social Purpose Corporations Act.

6 (4) If the ~~socially responsible~~ *social purpose* corporation is a  
7 ~~socially responsible~~ *social purpose* corporation subject to the  
8 Banking Law (Division 1 (commencing with Section 99) of the  
9 Financial Code), the articles shall set forth a statement of purpose  
10 that is prescribed by the applicable provision of the Banking Law  
11 (Division 1 (commencing with Section 99) of the Financial Code).

12 (5) If the ~~socially responsible~~ *social purpose* corporation is a  
13 ~~socially responsible~~ *social purpose* corporation subject to the  
14 Insurance Code as an insurer, the articles shall additionally state  
15 that the business of the ~~socially responsible~~ *social purpose*  
16 corporation is to be an insurer.

17 (6) If the ~~socially responsible~~ *social purpose* corporation is  
18 intended to be a professional corporation within the meaning of  
19 the Moscone-Knox Professional Corporation Act (Part 4  
20 (commencing with Section 13400) of Division 3), the articles shall  
21 additionally contain the statement required by Section 13404. The  
22 articles shall not set forth any further or additional statement with  
23 respect to the purposes or powers of the socially responsible  
24 corporation, except by way of limitation or except as expressly  
25 required by any law of this state, other than this division, or any  
26 federal or other statute or regulation, including the Internal Revenue  
27 Code and regulations thereunder as a condition of acquiring or  
28 maintaining a particular status for tax purposes.

29 (7) If the ~~socially responsible~~ *social purpose* corporation is a  
30 close ~~socially responsible~~ *social purpose* corporation, a statement  
31 as required by subdivision (a) of Section 158.

32 (c) The name and street address in this state of the ~~socially~~  
33 ~~responsible~~ *social purpose* corporation's initial agent for service  
34 of process in accordance with subdivision (b) of Section 1502.

35 (d) The initial street address of the corporation.

36 (e) The initial mailing address of the corporation, if different  
37 from the initial street address.

38 (f) If the ~~socially responsible~~ *social purpose* corporation is  
39 authorized to issue only one class of shares, the total number of

1 shares that the ~~socially responsible~~ *social purpose* corporation is  
2 authorized to issue.

3 (g) If the ~~socially responsible~~ *social purpose* corporation is  
4 authorized to issue more than one class of shares, or if any class  
5 of shares is to have two or more series, the articles shall state:

6 (1) The total number of shares of each class that the ~~socially~~  
7 ~~responsible~~ *social purpose* corporation is authorized to issue and  
8 the total number of shares of each series that the ~~socially~~  
9 ~~responsible~~ *social purpose* corporation is authorized to issue or  
10 that the board is authorized to fix the number of shares of any such  
11 series.

12 (2) The designation of each class and the designation of each  
13 series or that the board may determine the designation of any such  
14 series.

15 (3) The rights, preferences, privileges, and restrictions granted  
16 to or imposed upon the respective classes or series of shares or the  
17 holders thereof, or that the board, within any limits and restrictions  
18 stated, may determine or alter the rights, preferences, privileges,  
19 and restrictions granted to or imposed upon any wholly unissued  
20 class of shares or any wholly unissued series of any class of shares.  
21 As to any series the number of shares of which is authorized to be  
22 fixed by the board, the articles may also authorize the board, within  
23 the limits and restrictions stated in the article or in any resolution  
24 or resolutions of the board originally fixing the number of shares  
25 constituting any series, to increase or decrease, but not below the  
26 number of shares of such series then outstanding, the number of  
27 shares of any series subsequent to the issue of shares of that series.  
28 If the number of shares of any series shall be so decreased, the  
29 shares constituting that decrease shall resume the status which they  
30 had prior to the adoption of the resolution originally fixing the  
31 number of shares of that series.

32 SEC. 38. Section 2603 of the Corporations Code is amended  
33 to read:

34 2603. The articles of incorporation may set forth:

35 (a) Any or all of the following provisions, which shall not be  
36 effective unless expressly provided in the articles:

37 (1) Granting, with or without limitations, the power to levy  
38 assessments upon the shares or any class of shares.

39 (2) Granting to shareholders preemptive rights to subscribe to  
40 any or all issues of shares or securities.

1 (3) Special qualifications of persons who may be shareholders.

2 (4) A provision limiting the duration of the ~~socially responsible~~  
3 *social purpose* corporation's existence to a specified date.

4 (5) A provision requiring, for any or all corporate actions, except  
5 as provided in Section 303, subdivision (b) of Section 402.5,  
6 subdivision (c) of Section 708, and Section 1900, the vote of a  
7 larger proportion or of all of the shares of any class or series, or  
8 the vote or quorum for taking action of a larger proportion or of  
9 all of the directors, than is otherwise required by Division 1  
10 (commencing with Section 100) or this division.

11 (6) So long as consistent with the purpose of the ~~socially~~  
12 ~~responsible~~ *social purpose* corporation as set forth in the articles  
13 in accordance with subdivision (b) of Section 2602, a provision  
14 limiting or restricting the business in which the ~~socially responsible~~  
15 *social purpose* corporation may engage or the powers which the  
16 ~~socially responsible~~ *social purpose* corporation may exercise, or  
17 both.

18 (7) A provision conferring upon the holders of any evidences  
19 of indebtedness, issued or to be issued by the ~~socially responsible~~  
20 *social purpose* corporation, the right to vote in the election of the  
21 directors and on any other matters on which shareholders may  
22 vote.

23 (8) A provision conferring upon shareholders the right to  
24 determine the consideration for which shares shall be issued.

25 (9) A provision requiring the approval of the shareholders  
26 (Section 153) or the approval of the outstanding shares (Section  
27 152) for any corporate action, even though not otherwise required  
28 by Division 1 (commencing with Section 100) or this division.

29 (10) Provisions eliminating or limiting the personal liability of  
30 a director for monetary damages in an action brought by or in the  
31 right of the ~~socially responsible~~ *social purpose* corporation for  
32 breach of a director's duties to the socially responsible corporation  
33 and its shareholders, as set forth in Section 2700, subject to the  
34 following:

35 (A) The provision may not eliminate or limit the liability of  
36 directors (i) for acts or omissions that involve intentional  
37 misconduct or a knowing and culpable violation of law, (ii) for  
38 acts or omissions that a director believes to be contrary to the best  
39 interests of the ~~socially responsible~~ *social purpose* corporation or  
40 its shareholders and its corporate purposes as expressed in its

1 articles, or that involve the absence of good faith on the part of the  
2 director, (iii) for any transaction from which a director derived an  
3 improper personal benefit, (iv) for acts or omissions that show a  
4 reckless disregard for the director's duty to the ~~socially responsible~~  
5 *social purpose* corporation or its shareholders in circumstances in  
6 which the director was aware, or should have been aware, in the  
7 ordinary course of performing a director's duties, of a risk of  
8 serious injury to the socially responsible corporation, its  
9 shareholders, or its corporate purposes as expressed in its articles,  
10 (v) for acts or omissions that constitute an unexcused pattern of  
11 inattention that amounts to an abdication of the director's duty to  
12 the ~~socially responsible~~ *social purpose* corporation, its  
13 shareholders, or its corporate purposes as expressed in its articles  
14 pursuant to Section 2602, or (vi) under Section 310 or 2701.

15 (B) The provision shall not eliminate or limit the liability of a  
16 director for any act or omission occurring prior to the date on which  
17 the provision becomes effective.

18 (C) The provision shall not eliminate or limit the liability of an  
19 officer for any act or omission as an officer, notwithstanding that  
20 the officer is also a director or that his or her actions, if negligent  
21 or improper, have been ratified by the directors.

22 (11) A provision authorizing, whether by bylaw, agreement, or  
23 otherwise, the indemnification of agents of the ~~socially responsible~~  
24 *social purpose* corporation for breach of duty to the ~~socially~~  
25 ~~responsible~~ *social purpose* corporation and its shareholders,  
26 provided, however, that the provision may not provide for  
27 indemnification of any agent for any acts or omissions or  
28 transactions from which a director may not be relieved of liability  
29 as described in subparagraphs (A), (B), and (C) of paragraph (10).

30 Notwithstanding this subdivision, bylaws may require, for all  
31 or any actions by the board, the affirmative vote of a majority of  
32 the authorized number of directors. Nothing contained in this  
33 subdivision shall affect the enforceability, as between the parties  
34 thereto, of any lawful agreement not otherwise contrary to public  
35 policy.

36 (b) Reasonable restrictions upon the right to transfer or  
37 hypothecate shares of any class or classes or series, except that no  
38 restriction shall be binding with respect to shares issued prior to  
39 the adoption of the restriction unless the holders of those shares  
40 voted in favor of the restriction.

1 (c) The names and addresses of the persons appointed to act as  
2 initial directors.

3 (d) Any other provision, not in conflict with law, for the  
4 management of the business and for the conduct of the affairs of  
5 the ~~socially responsible~~ *social purpose* corporation, including any  
6 provision that is required or permitted by this division to be stated  
7 in the bylaws.

8 SEC. 39. Section 2604 of the Corporations Code is amended  
9 to read:

10 2604. Subject to any limitation contained in the articles, to  
11 compliance with any other applicable laws, and to consistency  
12 with the special purpose of the ~~socially responsible~~ *social purpose*  
13 corporation, any ~~socially responsible~~ *social purpose* corporation  
14 other than a ~~socially responsible~~ *social purpose* corporation subject  
15 to the Banking Law or a professional ~~socially responsible~~ *social*  
16 *purpose* corporation may engage in any business activity. A  
17 ~~socially responsible~~ *social purpose* corporation subject to the  
18 Banking Law or a professional socially responsible corporation  
19 may engage in any business activity not prohibited by the  
20 respective statutes and regulations to which it is subject.

21 SEC. 40. Section 2605 of the Corporations Code is amended  
22 to read:

23 2605. Subject to any limitations contained in the articles, to  
24 compliance with other provisions of this division and any other  
25 applicable laws, and to consistency with the special purpose of the  
26 ~~socially responsible~~ *social purpose* corporation, a ~~socially~~  
27 ~~responsible~~ *social purpose* corporation shall have all the powers  
28 of a natural person in carrying out its business activities, including,  
29 without limitation, the power to:

30 (a) Adopt, use, and at will alter a corporate seal. Failure to affix  
31 a seal does not affect the validity of any instrument.

32 (b) Adopt, amend, and repeal bylaws.

33 (c) Qualify to do business in any other state, territory,  
34 dependency, or foreign country.

35 (d) Subject to the provisions of Section 510, issue, purchase,  
36 redeem, receive, take or otherwise acquire, own, hold, sell, lend,  
37 exchange, transfer or otherwise dispose of, pledge, use, and  
38 otherwise deal in and with its own shares, bonds, debentures, and  
39 other securities.

1 (e) Make donations, regardless of specific corporate benefit, for  
2 the public welfare or for a community fund, hospital, charitable,  
3 educational, scientific, civic, or similar purposes.

4 (f) Pay pensions, and establish and carry out pension,  
5 profit-sharing, share bonus, share purchase, share option, savings,  
6 thrift, and other retirement, incentive, and benefit plans, ~~trusts~~  
7 *trusts*, and provisions for any or all of the directors, officers, and  
8 employees of the ~~socially responsible~~ *social purpose* corporation  
9 or any of its subsidiaries or affiliates, and to indemnify and  
10 purchase and maintain insurance on behalf of any fiduciary of  
11 these plans, trusts, or provisions.

12 (g) Subject to the provisions of Section 315, assume obligations,  
13 enter into contracts, including contracts of guaranty or suretyship,  
14 incur liabilities, borrow and lend money and otherwise use its  
15 credit, and secure any of its obligations, contracts, or liabilities by  
16 mortgage, pledge, or other encumbrance of all or any part of its  
17 property, ~~franchises~~ *franchises*, and income.

18 (h) Participate with others in any partnership, joint venture, or  
19 other association, transaction, or arrangement of any kind, whether  
20 or not that participation involves sharing or delegation of control  
21 with or to others.

22 SEC. 41. Section 2700 of the Corporations Code is amended  
23 to read:

24 2700. (a) A director shall perform the duties of a director,  
25 including duties as a member of any committee of the board upon  
26 which the director may serve, in good faith, in a manner the director  
27 believes to be in the best interests of the socially responsible  
28 corporation and its shareholders, and with that care, including  
29 reasonable inquiry, as an ordinarily prudent person in a like  
30 position would use under similar circumstances.

31 (b) In performing the duties of a director, a director shall be  
32 entitled to rely upon information, opinions, reports, or statements,  
33 including financial statements and other financial data, in each  
34 case prepared or presented by any of the following:

35 (1) An officer or employee of the socially responsible  
36 corporation whom the director believes to be reliable and  
37 competent in the matters presented.

38 (2) Counsel, independent accountants, or other persons as to  
39 matters which the director believes to be within that person's  
40 professional or expert competence.

1 (3) A committee of the board upon which the director does not  
2 serve, as to matters within its designated authority, which  
3 committee the director believes to merit confidence, so long as the  
4 director acts in good faith, after reasonable inquiry when the need  
5 therefor is indicated by the circumstances and without knowledge  
6 that would cause that reliance to be unwarranted.

7 (c) In discharging his or her duties, a director shall consider  
8 those factors, and give weight to those factors, as the director  
9 deems relevant, including the short-term and long-term prospects  
10 of the ~~socially responsible~~ *social purpose* corporation, the best  
11 interests of the ~~socially responsible~~ *social purpose* corporation and  
12 its shareholders, and the purposes of the ~~socially responsible~~ *social*  
13 *purpose* corporation as set forth in its articles.

14 (d) A person who performs the duties of a director in accordance  
15 with subdivisions (a), (b), and (c) shall have no liability based  
16 upon any alleged failure to discharge the person's obligations as  
17 a director. The liability of a director for monetary damages may  
18 be eliminated or limited by a ~~socially responsible~~ *social purpose*  
19 corporation's articles to the extent provided in paragraph (10) of  
20 subdivision (a) of Section 2603.

21 (e) Notwithstanding any of the purposes set forth in its articles,  
22 a ~~socially responsible~~ *social purpose* corporation shall not be  
23 deemed to hold any of its assets for the benefit of any party other  
24 than its shareholders. However, nothing in this division shall be  
25 construed as negating existing charitable trust principles or the  
26 Attorney General's authority to enforce any charitable trust created.

27 (f) Nothing in this section, express or implied, is intended to  
28 create or grant or shall create or grant any right in or for any person  
29 or any cause of action by or for any person, and a director shall  
30 not be responsible to any party other than the ~~socially responsible~~  
31 *social purpose* corporation and its shareholders.

32 SEC. 42. Section 2701 of the Corporations Code is amended  
33 to read:

34 2701. (a) Subject to Section 2700, directors of a ~~socially~~  
35 ~~responsible~~ *social purpose* corporation who approve any of the  
36 following corporate actions shall be jointly and severally liable to  
37 the ~~socially responsible~~ *social purpose* corporation for the benefit  
38 of all of the creditors or shareholders entitled to institute an action  
39 under subdivision (c):

1 (1) The making of any distribution to its shareholders to the  
2 extent that it is contrary to the provisions of Sections 500 to 503,  
3 inclusive.

4 (2) The distribution of assets to shareholders after institution of  
5 dissolution proceedings of the ~~socially responsible~~ *social purpose*  
6 corporation, without paying or adequately providing for all known  
7 liabilities of the ~~socially responsible~~ *social purpose* corporation,  
8 excluding any claims not filed by creditors within the time limit  
9 set by the court in a notice given to creditors under Chapter 18  
10 (commencing with Section 1800) of Division 1, Chapter 20  
11 (commencing with Section 1900) of Division 1, and Chapter 20  
12 (commencing with Section 2000).

13 (3) The making of any loan or guaranty contrary to Section  
14 2715.

15 (b) A director who is present at a meeting of the board, or any  
16 committee of the board, at which an action specified in subdivision  
17 (a) is taken and who abstains from voting, shall be deemed to have  
18 approved the action.

19 (c) Suit may be brought in the name of the ~~socially responsible~~  
20 *social purpose* corporation to enforce the liability as follows:

21 (1) Under paragraph (1) of subdivision (a) against any or all  
22 directors liable, by the persons entitled to sue under subdivision  
23 (b) of Section 506.

24 (2) Under paragraph (2) or (3) of subdivision (a) against any or  
25 all directors liable, by any one or more creditors of the ~~socially~~  
26 ~~responsible~~ *social purpose* corporation whose debts or claims arose  
27 prior to the time of any of the corporate actions specified in  
28 paragraph (2) or (3) of subdivision (a) and who have not consented  
29 to the corporate action, regardless of whether they have reduced  
30 their claims to judgment.

31 (3) Under paragraph (3) of subdivision (a) against any or all  
32 directors liable, by any one or more holders of shares outstanding  
33 at the time of any corporate action specified in paragraph (3) of  
34 subdivision (a) who have not consented to the corporate action,  
35 without regard to the provisions of Section 2900.

36 (d) The damages recoverable from a director under this section  
37 shall be the amount of the illegal distribution, or if the illegal  
38 distribution consists of property, the fair market value of that  
39 property at the time of the illegal distribution, plus interest thereon  
40 from the date of the distribution at the legal rate on judgments until

1 paid, together with all reasonably incurred costs of appraisal or  
2 other valuation, if any, of that property or loss suffered by the  
3 ~~socially responsible~~ *social purpose* corporation as a result of the  
4 illegal loan or guaranty, respectively, but not exceeding the  
5 liabilities of the ~~socially responsible~~ *social purpose* corporation  
6 owed to nonconsenting creditors at the time of the violation and  
7 the injury suffered by nonconsenting shareholders.

8 (e) Any director sued under this section may implead all other  
9 directors liable and may compel contribution, either in that action  
10 or in an independent action against directors not joined in that  
11 action.

12 (f) Directors liable under this section shall also be entitled to  
13 be subrogated to the rights of the socially responsible corporation:

14 (1) With respect to paragraph (1) of subdivision (a), against  
15 shareholders who received the distribution.

16 (2) With respect to paragraph (2) of subdivision (a), against  
17 shareholders who received the distribution of assets.

18 (3) With respect to paragraph (3) of subdivision (a), against the  
19 person who received the loan or guaranty.

20 Any director sued under this section may file a cross-complaint  
21 against the person or persons who are liable to the director as a  
22 result of the subrogation provided for in this subdivision or may  
23 proceed against them in an independent action.

24 SEC. 43. Section 2702 of the Corporations Code is amended  
25 to read:

26 2702. (a) For the purposes of this section:

27 (1) "Agent" means any person who is or was a director, officer,  
28 employee, or other agent of the socially responsible corporation,  
29 or is or was serving at the request of the ~~socially responsible~~ *social*  
30 *purpose* corporation as a director, officer, ~~employee~~ *employee*, or  
31 agent of another foreign or domestic corporation, partnership, joint  
32 venture, trust, or other enterprise, or was a director, officer,  
33 employee, or agent of a foreign or domestic corporation which  
34 was a predecessor corporation of the ~~socially responsible~~ *social*  
35 *purpose* corporation or of another enterprise at the request of the  
36 predecessor corporation.

37 (2) "Proceeding" means any threatened, pending, or completed  
38 action or proceeding, whether civil, criminal, administrative, or  
39 investigative.

1 (3) “Expenses” includes without limitation attorneys’ fees and  
2 any expenses of establishing a right to indemnification under  
3 subdivision (b).

4 (b) Subject to the standards and restrictions, if any, set forth in  
5 its articles or bylaws, and subject to the limitations required by  
6 paragraph (11) of subdivision (a) of Section 2603, a ~~socially~~  
7 ~~responsible~~ *social purpose* corporation may indemnify and hold  
8 harmless any agent or any other person from and against any and  
9 all claims and demands whatsoever.

10 (c) Expenses incurred in defending any proceeding may be  
11 advanced by the ~~socially responsible~~ *social purpose* corporation  
12 prior to the final disposition of the proceeding. The provisions of  
13 subdivision (a) of Section 315 do not apply to advances made  
14 pursuant to this subdivision.

15 (d) A ~~socially responsible~~ *social purpose* corporation may  
16 purchase and maintain insurance on behalf of any of its agents  
17 against any liability asserted against or incurred by the agent in  
18 that capacity or arising out of the agent’s status as an agent  
19 regardless of whether the ~~socially responsible~~ *social purpose*  
20 corporation would have the power to indemnify the agent against  
21 that liability under this section. The fact that a ~~socially responsible~~  
22 *social purpose* corporation owns all or a portion of the shares of  
23 the company issuing a policy of insurance shall not render this  
24 subdivision inapplicable if either of the following conditions are  
25 satisfied:

26 (1) The insurance provided by this subdivision is limited as  
27 indemnification is required to be limited by paragraph (11) of  
28 subdivision (a) of Section 2603.

29 (2) (A) The company issuing the insurance policy is organized,  
30 licensed, and operated in a manner that complies with the insurance  
31 laws and regulations applicable to its jurisdiction of organization.

32 (B) The company issuing the policy provides procedures for  
33 processing claims that do not permit that company to be subject  
34 to the direct control of the ~~socially responsible~~ *social purpose*  
35 corporation that purchased that policy.

36 (C) The policy issued provides for some manner of risk sharing  
37 between the issuer and purchaser of the policy, on one hand, and  
38 some unaffiliated person or persons, on the other, such as by  
39 providing for more than one unaffiliated owner of the company  
40 issuing the policy or by providing that a portion of the coverage

1 furnished will be obtained from some unaffiliated insurer or  
2 reinsurer.

3 (e) This section does not apply to any proceeding against any  
4 trustee, investment manager, or other fiduciary of an employee  
5 benefit plan in that person's capacity as such, even though the  
6 person may also be an agent as defined in subdivision (a) of the  
7 employer—~~socially responsible~~ *social purpose* corporation. A  
8 ~~socially responsible~~ *social purpose* corporation shall have power  
9 to indemnify a trustee, investment manager, or other fiduciary to  
10 the extent permitted by subdivision (f) of Section 2605.

11 SEC. 44. Section 2800 of the Corporations Code is amended  
12 to read:

13 2800. (a) All certificates representing shares of a ~~socially~~  
14 ~~responsible~~ *social purpose* corporation shall contain, in addition  
15 to any other statements required by this section, the following  
16 conspicuous language on the face of the certificate.

17  
18 “This entity is a ~~socially responsible~~ *social purpose* corporation  
19 organized under Division 1.5 of the California Corporations Code.  
20 The articles of this corporation state one or more purposes required  
21 by law. Refer to the articles on file with the Secretary of State, and  
22 the bylaws and any agreements on file with the secretary of the  
23 corporation, for further information.”

24  
25 (b) There shall also appear on the certificate, the initial  
26 transaction statement, and written statements, unless stated or  
27 summarized under subdivision (a) or (b) of Section 417, the  
28 statements required by all of the following, to the extent applicable:

29 (1) The fact that the shares are subject to restrictions upon  
30 transfer.

31 (2) If the shares are assessable or are not fully paid, a statement  
32 that they are assessable or the statements required by subdivision  
33 (d) of Section 409 if they are not fully paid.

34 (3) The fact that the shares are subject to a voting agreement  
35 under subdivision (a) of Section 706 or an irrevocable proxy under  
36 subdivision (e) of Section 705 or restrictions upon voting rights  
37 contractually imposed by the ~~socially responsible~~ *social purpose*  
38 corporation.

39 (4) The fact that the shares are redeemable.

1 (5) The fact that the shares are convertible and the period for  
2 conversion.

3 Statements or references to statements on the face of the  
4 certificate, the initial transaction statement, and written statements  
5 required by paragraph (1) or (2) shall be conspicuous.

6 (c) Unless stated on the certificate, the initial transaction  
7 statement, and written statements as required by subdivision (a),  
8 no restriction upon transfer, no right of redemption and no voting  
9 agreement under subdivision (a) of Section 706, no irrevocable  
10 proxy under subdivision (e) of Section 705, and no voting  
11 restriction imposed by the ~~socially responsible~~ *social purpose*  
12 corporation shall be enforceable against a transferee of the shares  
13 without actual knowledge of the restriction, right, agreement, or  
14 proxy. With regard only to liability to assessment or for the unpaid  
15 portion of the subscription price, unless stated on the certificate  
16 as required by subdivision (a), that liability shall not be enforceable  
17 against a transferee of the shares. For the purpose of this  
18 subdivision, “transferee” includes a purchaser from the ~~socially~~  
19 ~~responsible~~ *social purpose* corporation.

20 (d) All certificates representing shares of a close ~~socially~~  
21 ~~responsible~~ *social purpose* corporation shall contain, in addition  
22 to any other statements required by this section, the following  
23 conspicuous legend on the face thereof:

24  
25 “This ~~socially responsible~~ *social purpose* corporation is a close  
26 ~~socially responsible~~ *social purpose* corporation. The number of  
27 holders of record of its shares of all classes cannot exceed \_\_\_\_  
28 (a number not in excess of 35). Any attempted voluntary inter  
29 vivos transfer which would violate this requirement is void. Refer  
30 to the articles, ~~bylaws~~ *bylaws*, and any agreements on file with the  
31 secretary of the ~~socially responsible~~ *social purpose* corporation  
32 for further restrictions.”

33  
34 (e) Any attempted voluntary inter vivos transfer of the shares  
35 of a close ~~socially responsible~~ *social purpose* corporation that  
36 would result in the number of holders of record of its shares  
37 exceeding the maximum number specified in its articles is void if  
38 the certificate contains the legend required by subdivision (c).

39 (f) Notwithstanding any other subdivision, the certificates  
40 representing shares of a corporation formed pursuant to this

1 division as a “flexible purpose corporation” before January 1,  
2 2015, shall continue to be valid even if the certificates reference  
3 a “flexible purpose corporation.” A corporation formed pursuant  
4 to this division before January 1, 2015, may, but is not required  
5 to, reissue certificates to replace “flexible purpose corporation”  
6 with—“socially responsible” “*social purpose* corporation” as  
7 applicable. Any reference to a “flexible purpose corporation” or  
8 any abbreviation of that term in certificates representing shares of  
9 a corporation formed pursuant to this division before January 1,  
10 2015, shall also be a reference to—“socially responsible” “*social*  
11 *purpose* corporation.”

12 SEC. 45. Section 2900 of the Corporations Code is amended  
13 to read:

14 2900. (a) As used in this section:

15 (1) ~~“Socially responsible”~~ “*Social purpose* corporation” includes  
16 an unincorporated association.

17 (2) “Board” includes the managing body of an unincorporated  
18 association.

19 (3) “Shareholder” includes a member of an unincorporated  
20 association.

21 (4) “Shares” includes memberships in an unincorporated  
22 association.

23 (b) No action may be instituted or maintained in right of any  
24 domestic or foreign ~~socially responsible~~ *social purpose* corporation  
25 under this section by any party other than a shareholder of the  
26 ~~socially responsible~~ *social purpose* corporation.

27 (c) No action may be instituted or maintained in right of any  
28 domestic or foreign ~~socially responsible~~ *social purpose* corporation  
29 by any holder of shares or of voting trust certificates of the ~~socially~~  
30 ~~responsible~~ *social purpose* corporation unless both of the following  
31 conditions exist:

32 (1) The plaintiff alleges in the complaint that plaintiff was a  
33 shareholder, of record or beneficially, or the holder of voting trust  
34 certificates at the time of the transaction or any part thereof of  
35 which plaintiff complains or that plaintiff’s shares or voting trust  
36 certificates thereafter devolved upon plaintiff by operation of law  
37 from a holder who was a holder at the time of the transaction or  
38 any part thereof complained of. Any shareholder who does not  
39 meet these requirements may nevertheless be allowed, in the  
40 discretion of the court, to maintain the action on a preliminary

1 showing to and determination by the court, by motion and after a  
2 hearing, at which the court shall consider the evidence by affidavit  
3 or testimony, as it deems material, of all of the following:

4 (A) There is a strong prima facie case in favor of the claim  
5 asserted on behalf of the ~~socially responsible~~ *social purpose*  
6 corporation.

7 (B) No other similar action has been or is likely to be instituted.

8 (C) The plaintiff acquired the shares before there was disclosure  
9 to the public or to the plaintiff of the wrongdoing of which plaintiff  
10 complains.

11 (D) Unless the action can be maintained the defendant may  
12 retain a gain derived from defendant’s willful breach of a fiduciary  
13 duty.

14 (E) The requested relief will not result in unjust enrichment of  
15 the ~~socially responsible~~ *social purpose* corporation or any  
16 shareholder of the ~~socially responsible~~ *social purpose* corporation.

17 (2) The plaintiff alleges in the complaint with particularity  
18 plaintiff’s efforts to secure from the board the action as plaintiff  
19 desires, or the reasons for not making that effort, and alleges further  
20 that plaintiff has either informed the socially responsible  
21 corporation or the board in writing of the ultimate facts of each  
22 cause of action against each defendant or delivered to the ~~socially~~  
23 ~~responsible~~ *social purpose* corporation or the board a true copy of  
24 the complaint which plaintiff proposes to file.

25 (d) In any action referred to in subdivision (b), at any time within  
26 30 days after service of summons upon the socially responsible  
27 corporation or upon any defendant who is an officer or director of  
28 the ~~socially responsible~~ *social purpose* corporation, or held that  
29 office at the time of the acts complained of, the ~~socially responsible~~  
30 *social purpose* corporation or the defendant may move the court  
31 for an order, upon notice and hearing, requiring the plaintiff to  
32 furnish a bond as hereinafter provided. The motion shall be based  
33 upon one or both of the following grounds:

34 (1) There is no reasonable possibility that the prosecution of  
35 the cause of action alleged in the complaint against the moving  
36 party will benefit the ~~socially responsible~~ *social purpose*  
37 corporation or its shareholders.

38 (2) The moving party, if other than the socially responsible  
39 corporation, did not participate in the transaction complained of  
40 in any capacity.

1 The court on application of the socially responsible corporation  
2 or any defendant may, for good cause shown, extend the 30-day  
3 period for an additional period or periods not exceeding 60 days.

4 (e) At the hearing upon any motion pursuant to subdivision (c),  
5 the court shall consider the evidence, written or oral, by witnesses  
6 or affidavit, as may be material to the ground or grounds upon  
7 which the motion is based, or to a determination of the probable  
8 reasonable expenses, including attorney’s fees, of the ~~socially~~  
9 ~~responsible~~ *social purpose* corporation and the moving party that  
10 will be incurred in the defense of the action. If the court determines,  
11 after hearing the evidence adduced by the parties, that the moving  
12 party has established a probability in support of any of the grounds  
13 upon which the motion is based, the court shall fix the amount of  
14 the bond, not to exceed fifty thousand dollars (\$50,000), to be  
15 furnished by the plaintiff for reasonable expenses, including  
16 attorney’s fees, which may be incurred by the moving party and  
17 the ~~socially responsible~~ *social purpose* corporation in connection  
18 with the action, including expenses for which the ~~socially~~  
19 ~~responsible~~ *social purpose* corporation may become liable pursuant  
20 to Section 2702. A ruling by the court on the motion shall not be  
21 a determination of any issue in the action or of the merits thereof.  
22 If the court, upon the motion, makes a determination that a bond  
23 shall be furnished by the plaintiff as to any one or more defendants,  
24 the action shall be dismissed as to the defendant or defendants,  
25 unless the bond required by the court has been furnished within  
26 such reasonable time as may be fixed by the court.

27 (f) If the plaintiff, either before or after a motion is made  
28 pursuant to subdivision (c), or any order or determination pursuant  
29 to the motion, furnishes a bond in the aggregate amount of fifty  
30 thousand dollars (\$50,000) to secure the reasonable expenses of  
31 the parties entitled to make the motion, the plaintiff shall be deemed  
32 to have complied with the requirements of this section and with  
33 any order for a bond theretofore made, and any motion then  
34 pending shall be dismissed and no further or additional bond shall  
35 be required.

36 (g) If a motion is filed pursuant to subdivision (c), no pleadings  
37 need be filed by the ~~socially responsible~~ *social purpose* corporation  
38 or any other defendant and the prosecution of the action shall be  
39 stayed until 10 days after the motion has been disposed of.

1 SEC. 46. Section 3000 of the Corporations Code is amended  
2 to read:

3 3000. (a) A proposed amendment to the articles of a ~~socially~~  
4 ~~responsible~~ *social purpose* corporation shall be approved by the  
5 outstanding shares of a class, regardless of whether that class is  
6 entitled to vote thereon by the provisions of the articles, if the  
7 amendment would:

8 (1) Increase or decrease the aggregate number of authorized  
9 shares of that class, other than an increase as provided in either  
10 subdivision (b) of Section 405 or subdivision (b) of Section 902.

11 (2) Effect an exchange, reclassification, or cancellation of all  
12 or part of the shares of that class, including a reverse stock split  
13 but excluding a stock split.

14 (3) Effect an exchange, or create a right of exchange, of all or  
15 part of the shares of another class into the shares of that class.

16 (4) Change the rights, preferences, ~~privileges~~ *privileges*, or  
17 restrictions of the shares of that class.

18 (5) Create a new class of shares having rights, preferences, or  
19 privileges prior to the shares of that class, or increase the rights,  
20 preferences, or privileges or the number of authorized shares of  
21 any class having rights, preferences, or privileges prior to the shares  
22 of that class.

23 (6) In the case of preferred shares, divide the shares of any class  
24 into series having different rights, preferences, privileges, or  
25 restrictions or authorize the board to do so.

26 (7) Cancel or otherwise affect dividends on the shares of that  
27 class that have accrued but have not been paid.

28 (b) A proposed amendment shall be approved by an affirmative  
29 vote of at least two-thirds of the outstanding shares of each class,  
30 or a greater vote if required in the articles, regardless of whether  
31 that class is entitled to vote thereon by the provisions of the articles,  
32 if the amendment would materially alter any special purpose of  
33 the ~~socially responsible~~ *social purpose* corporation stated in the  
34 articles pursuant to paragraph (2) of subdivision (b) of Section  
35 2602, regardless of whether that purpose, as amended, would  
36 comply with the provisions of that paragraph.

37 (c) Different series of the same class shall not constitute different  
38 classes for the purpose of voting by classes except when a series  
39 is adversely affected by an amendment in a different manner than  
40 other shares of the same class.

1 (d) In addition to approval by a class as provided in subdivisions  
2 (a) and (b), a proposed amendment shall also be approved by the  
3 outstanding voting shares (Section 152).

4 SEC. 47. Section 3001 of the Corporations Code is amended  
5 to read:

6 3001. (a) ~~A socially responsible~~ *social purpose* corporation  
7 may, by amendment of its articles pursuant to this section, convert  
8 to a nonprofit public benefit corporation, nonprofit mutual benefit  
9 corporation, nonprofit religious corporation, or cooperative  
10 corporation.

11 (b) The amendment of the articles to convert to a nonprofit  
12 corporation shall revise the statement of purpose, delete the  
13 authorization for shares and any other provisions relating to  
14 authorized or issued shares, make other changes as may be  
15 necessary or desired, and, if any shares have been issued, provide  
16 either for the cancellation of those shares or for the conversion of  
17 those shares to memberships of the nonprofit corporation. The  
18 amendment of the articles to convert to a cooperative corporation  
19 shall revise the statement of purpose, make other changes as may  
20 be necessary or desired, and, if any shares have been issued,  
21 provide for the cancellation of those shares or for the conversion  
22 of those shares to memberships of the cooperative corporation, if  
23 necessary.

24 (c) If shares have been issued, an amendment to convert to a  
25 nonprofit corporation shall be approved by all of the outstanding  
26 shares of all classes regardless of limitations or restrictions on their  
27 voting rights and an amendment to convert to a cooperative  
28 corporation shall be approved by the outstanding shares of each  
29 class regardless of limitations or restrictions on their voting rights.

30 (d) If an amendment pursuant to this section is included in a  
31 merger agreement, the provisions of this section shall apply, except  
32 that any provision for cancellation or conversion of shares shall  
33 be in the merger agreement rather than in the amendment of the  
34 articles.

35 (e) Notwithstanding subdivision (c), if a socially responsible  
36 corporation is a mutual water company within the meaning of  
37 Section 2705 of the Public Utilities Code and under the terms of  
38 the conversion each outstanding share is converted to a membership  
39 of a nonprofit mutual benefit corporation, an amendment to convert  
40 to a nonprofit mutual benefit corporation shall be approved by the

1 outstanding shares of each class regardless of limitations or  
2 restrictions on their voting rights.

3 SEC. 48. Section 3002 of the Corporations Code is amended  
4 to read:

5 3002. (a) A ~~socially responsible~~ *social purpose* corporation  
6 may, by amendment of its articles pursuant to this section, convert  
7 to a domestic corporation.

8 (b) The amendment of the articles to convert to a domestic  
9 corporation shall revise the statement of purpose to delete any  
10 provisions in the articles that are permitted by Section 2602, but  
11 that are not permitted to be in the articles of a domestic corporation.

12 (c) If shares have been issued, an amendment to convert to a  
13 domestic corporation shall be approved by an affirmative vote of  
14 at least two-thirds of the outstanding shares of each class, or a  
15 greater vote if required in the articles, regardless of whether that  
16 class is entitled to vote thereon by the provisions of the articles.  
17 If the conversion is approved, shareholders with dissenting shares,  
18 as defined in subdivision (b) of Section 1300, may exercise  
19 dissenters' rights pursuant to Section 3305 and Chapter 13  
20 (commencing with Section 1300) of Division 1.

21 (d) If an amendment pursuant to this section is included in a  
22 merger agreement, the provisions of this section shall apply, except  
23 that any provision for cancellation or conversion of shares shall  
24 be in the merger agreement rather than in the amendment of the  
25 articles.

26 SEC. 49. Section 3100 of the Corporations Code is amended  
27 to read:

28 3100. (a) A ~~socially responsible~~ *social purpose* corporation  
29 may sell, lease, convey, exchange, transfer, or otherwise dispose  
30 of all or substantially all of its assets when the principal terms of  
31 the transaction are approved by the board and are approved by an  
32 affirmative vote of at least two-thirds of the outstanding shares of  
33 each class, or a greater vote if required in the articles, regardless  
34 of whether that class is entitled to vote thereon by the provisions  
35 of the articles, either before or after approval by the board and  
36 before the transaction. A transaction constituting a reorganization  
37 shall be subject to Chapter 12 (commencing with Section 1200)  
38 of Division 1 and Chapter 10 (commencing with Section 3400) of  
39 this division and shall not be subject to this section, other than  
40 subdivision (d). A transaction constituting a conversion shall be

1 subject to Chapter 11.5 (commencing with Section 1150) of  
2 Division 1 and Chapter 9 (commencing with Section 3300) of this  
3 division and shall not be subject to this section.

4 (b) Notwithstanding approval of two-thirds of the outstanding  
5 shares, the board may abandon the proposed transaction without  
6 further action by the shareholders, subject to the contractual rights,  
7 if any, of third parties.

8 (c) The sale, lease, conveyance, exchange, transfer, or other  
9 disposition may be made upon those terms and conditions and for  
10 that consideration as the board may deem in the best interests of  
11 the ~~socially responsible~~ *social purpose* corporation. The  
12 consideration may be money, securities, or other property.

13 (d) If the acquiring party in a transaction pursuant to subdivision  
14 (a) or subdivision (g) of Section 2001 is in control of or under  
15 common control with the disposing socially responsible  
16 corporation, the principal terms of the sale shall be approved by  
17 at least 90 percent of the voting power of the disposing ~~socially~~  
18 ~~responsible~~ *social purpose* corporation unless the disposition is to  
19 a domestic or foreign other business entity or ~~socially responsible~~  
20 *social purpose* corporation, the articles of incorporation of which  
21 specify materially the same purposes, in consideration of the  
22 nonredeemable common shares or nonredeemable equity securities  
23 of the acquiring party or its parent.

24 (e) Subdivision (d) shall not apply to a transaction if the  
25 Commissioner of Corporations, the Commissioner of Financial  
26 Institutions, the Insurance Commissioner, or the Public Utilities  
27 Commission has approved the terms and conditions of the  
28 transaction and the fairness of those terms and conditions pursuant  
29 to Section 25142, Section 696.5 of the Financial Code, Section  
30 838.5 of the Insurance Code, or Section 822 of the Public Utilities  
31 Code.

32 SEC. 50. Section 3200 of the Corporations Code is amended  
33 to read:

34 3200. If any disappearing ~~socially responsible~~ *social purpose*  
35 corporation in a merger is a close ~~socially responsible~~ *social*  
36 *purpose* corporation and the surviving ~~socially responsible~~ *social*  
37 *purpose* corporation is not a close ~~socially responsible~~ *social*  
38 *purpose* corporation, the merger shall be approved by an  
39 affirmative vote of at least two-thirds of the outstanding shares of  
40 each class, or a greater vote if required in the articles, regardless

1 of whether that class is entitled to vote thereon by the provisions  
2 of the articles, of the disappearing ~~socially responsible~~ *social*  
3 *purpose* corporation. The articles may provide for a lesser vote,  
4 but not less than a majority of the outstanding shares of each class.

5 SEC. 51. Section 3201 of the Corporations Code is amended  
6 to read:

7 3201. If any disappearing corporation in a merger is a ~~socially~~  
8 ~~responsible~~ *social purpose* corporation and the surviving entity is  
9 not a ~~socially responsible~~ *social purpose* corporation, or is a  
10 ~~socially responsible~~ *social purpose* corporation the articles of  
11 incorporation of which set forth materially different purposes, the  
12 merger shall be approved by an affirmative vote of at least  
13 two-thirds of the outstanding shares of each class, or a greater vote  
14 if required in the articles, regardless of whether that class is entitled  
15 to vote thereon by the provisions of the articles, of the disappearing  
16 ~~socially responsible~~ *social purpose* corporation. If the merger is  
17 approved, shareholders with dissenting shares, as defined in  
18 subdivision (b) of Section 1300, may exercise dissenters' rights  
19 pursuant to Section 3305 and Chapter 13 (commencing with  
20 Section 1300) of Division 1.

21 SEC. 52. Section 3202 of the Corporations Code is amended  
22 to read:

23 3202. If a disappearing ~~socially responsible~~ *social purpose*  
24 corporation in a merger is a ~~socially responsible~~ *social purpose*  
25 corporation governed by this division and the surviving corporation  
26 is a nonprofit public benefit corporation, a nonprofit mutual benefit  
27 corporation, or a nonprofit religious corporation, the merger shall  
28 be approved by all of the outstanding shares of all classes of the  
29 disappearing ~~socially responsible~~ *social purpose* corporation,  
30 regardless of limitations or restrictions on their voting rights,  
31 notwithstanding any provision of Chapter 10 (commencing with  
32 Section 3400).

33 SEC. 53. Section 3203 of the Corporations Code is amended  
34 to read:

35 3203. (a) Any one or more ~~socially responsible~~ *social purpose*  
36 corporations may merge with one or more other business entities.  
37 One or more domestic ~~socially responsible~~ *social purpose*  
38 corporations not organized under this division and one or more  
39 foreign corporations may be parties to the merger. Notwithstanding  
40 this section, the merger of any number of ~~socially responsible~~

1 *social purpose* corporations with any number of other business  
2 entities may be effected only if:

3 (1) In a merger in which a domestic socially responsible  
4 corporation not organized under this division or a domestic other  
5 business entity is a party, it is authorized by the laws under which  
6 it is organized to effect the merger.

7 (2) In a merger in which a foreign corporation is a party, it is  
8 authorized by the laws under which it is organized to effect the  
9 merger.

10 (3) In a merger in which a foreign other business entity is a  
11 party, it is authorized by the laws under which it is organized to  
12 effect the merger.

13 (b) Each ~~socially responsible~~ *social purpose* corporation and  
14 each other party that desires to merge shall approve, and shall be  
15 a party to, an agreement of merger. Other persons, including a  
16 parent party, may be parties to the agreement of merger. The board  
17 of each ~~socially responsible~~ *social purpose* corporation that desires  
18 to merge, and, if required, the shareholders, shall approve the  
19 agreement of merger. The agreement of merger shall be approved  
20 on behalf of each party by those persons required to approve the  
21 merger by the laws under which it is organized. The agreement of  
22 merger shall state:

23 (1) The terms and conditions of the merger.

24 (2) The name and place of incorporation or organization of each  
25 party to the merger and the identity of the surviving party.

26 (3) The amendments, if any, subject to Sections 900, 902, 907,  
27 and 3002 to the articles of the surviving ~~socially responsible~~ *social*  
28 *purpose* corporation, if applicable, to be effected by the merger.  
29 If any amendment changes the name of the surviving ~~socially~~  
30 ~~responsible~~ *social purpose* corporation, if applicable, the new name  
31 may be, subject to subdivision (b) of Section 2601, the same as or  
32 similar to the name of a disappearing party to the merger.

33 (4) The manner of converting the shares of each constituent  
34 ~~socially responsible~~ *social purpose* corporation into shares,  
35 interests, or other securities of the surviving party. If any shares  
36 of any constituent ~~socially responsible~~ *social purpose* corporation  
37 are not to be converted solely into shares, interests, or other  
38 securities of the surviving party, the agreement of merger shall  
39 state (A) the cash, rights, securities, or other property that the  
40 holders of those shares are to receive in exchange for the shares,

1 which cash, rights, securities, or other property may be in addition  
2 to or in lieu of shares, interests, or other securities of the surviving  
3 party, or (B) that the shares are canceled without consideration.

4 (5) Any other details or provisions required by the laws under  
5 which any party to the merger is organized, including, if a domestic  
6 corporation is a party to the merger, Section 3203, if a public  
7 benefit corporation or a religious corporation is a party to the  
8 merger, Section 6019.1, if a mutual benefit corporation is a party  
9 to the merger, Section 8019.1, if a consumer cooperative  
10 corporation is a party to the merger, Section 12540.1, if a domestic  
11 limited partnership is a party to the merger, Section 15911.12, if  
12 a domestic partnership is a party to the merger, Section 16911,  
13 and if a domestic limited liability company is a party to the merger,  
14 Section 17551.

15 (6) Any other details or provisions as are desired, including,  
16 without limitation, a provision for the payment of cash in lieu of  
17 fractional shares or for any other arrangement with respect thereto  
18 consistent with the provisions of Section 407.

19 (c) Each share of the same class or series of any constituent  
20 ~~socially responsible~~ *social purpose* corporation, other than the  
21 cancellation of shares held by a party to the merger or its parent,  
22 or a wholly owned subsidiary of either, in another constituent  
23 ~~socially responsible~~ *social purpose* corporation, shall, unless all  
24 shareholders of the class or series consent and except as provided  
25 in Section 407, be treated equally with respect to any distribution  
26 of cash, rights, securities, or other property. Notwithstanding  
27 paragraph (4) of subdivision (b), the nonredeemable common  
28 shares of a constituent ~~socially responsible~~ *social purpose*  
29 corporation may be converted only into nonredeemable common  
30 shares of a surviving ~~socially responsible~~ *social purpose*  
31 corporation or a parent party or nonredeemable equity securities  
32 of a surviving party other than a socially responsible corporation  
33 if another party to the merger or its parent owns, directly or  
34 indirectly, prior to the merger shares of that corporation  
35 representing more than 50 percent of the voting power of that  
36 ~~socially responsible~~ *social purpose* corporation, unless all of the  
37 shareholders of the class consent and except as provided in Section  
38 407.

39 (d) Notwithstanding its prior approval, an agreement of merger  
40 may be amended prior to the filing of the agreement of merger or

1 the certificate of merger, as is applicable, if the amendment is  
2 approved by the board of each constituent ~~socially responsible~~  
3 *social purpose* corporation and, if the amendment changes any of  
4 the principal terms of the agreement, by the outstanding shares, if  
5 required by Chapter 10 (commencing with Section 3400), in the  
6 same manner as the original agreement of merger. If the agreement  
7 of merger as so amended and approved is also approved by each  
8 of the other parties to the agreement of merger, the agreement of  
9 merger as so amended shall then constitute the agreement of  
10 merger.

11 (e) The board of a constituent ~~socially responsible~~ *social purpose*  
12 corporation may, in its discretion, abandon a merger, subject to  
13 the contractual rights, if any, of third parties, including other parties  
14 to the agreement of merger, without further approval by the  
15 outstanding shares, at any time before the merger is effective.

16 (f) Each constituent ~~socially responsible~~ *social purpose*  
17 corporation shall sign the agreement of merger by its chairperson  
18 of the board, president, or a vice president and also by its secretary  
19 or an assistant secretary acting on behalf of their respective  
20 corporations.

21 (g) (1) If the surviving party is a domestic ~~socially responsible~~  
22 *social purpose* corporation, or if a domestic corporation or a foreign  
23 corporation, a public benefit corporation, a mutual benefit  
24 corporation, a religious corporation, or a corporation organized  
25 under the Consumer Cooperative Corporation Law (Part 2  
26 (commencing with Section 12200) of Division 3) is a party to the  
27 merger, after required approvals of the merger by each constituent  
28 ~~socially responsible~~ *social purpose* corporation through approval  
29 of the board and any approval of the outstanding shares required  
30 by Chapter 10 (commencing with Section 3400) and by the other  
31 parties to the merger, the surviving party shall file a copy of the  
32 agreement of merger with an officers' certificate of each constituent  
33 domestic ~~socially responsible~~ *social purpose* corporation and  
34 foreign ~~socially responsible~~ *social purpose* corporation attached  
35 stating the total number of outstanding shares of each class entitled  
36 to vote on the merger, and identifying any other person or persons  
37 whose approval is required, that the agreement of merger in the  
38 form attached or its principal terms, as required, were approved  
39 by that ~~socially responsible~~ *social purpose* corporation by a vote  
40 of a number of shares of each class that equaled or exceeded the

1 vote required, specifying each class entitled to vote and the  
2 percentage vote required of each class and, if applicable, by that  
3 other person or persons whose approval is required, or that the  
4 merger agreement was entitled to be and was approved by the  
5 board alone, as provided in Section 3401, in the case of a ~~socially~~  
6 ~~responsible~~ *social purpose* corporation subject to that section. If  
7 equity securities of a parent party are to be issued in the merger,  
8 the officers' certificate of that controlled party shall state either  
9 that no vote of the shareholders of the parent party was required  
10 or that the required vote was obtained. In lieu of an officers'  
11 certificate, a certificate of merger, on a form prescribed by the  
12 Secretary of State, shall be filed for each constituent other business  
13 entity. The certificate of merger shall be executed and  
14 acknowledged by each domestic constituent limited liability  
15 company by all managers of the limited liability company, unless  
16 a lesser number is specified in its articles or organization or  
17 operating agreement, and by each domestic constituent limited  
18 partnership by all general partners, unless a lesser number is  
19 provided in its certificate of limited partnership or partnership  
20 agreement, and by each domestic constituent general partnership  
21 by two partners, unless a lesser number is provided in its  
22 partnership agreement, and by each foreign constituent limited  
23 liability company by one or more managers and by each foreign  
24 constituent general partnership or foreign constituent limited  
25 partnership by one or more general partners, and by each  
26 constituent reciprocal insurer by the chairperson of the board,  
27 president, or vice president, and by the secretary or assistant  
28 secretary, or, if a constituent reciprocal insurer has not appointed  
29 those officers, by the chairperson of the board, president, or vice  
30 president, and by the secretary or assistant secretary of the  
31 constituent reciprocal insurer's attorney-in-fact, and by each other  
32 party to the merger by those persons required or authorized to  
33 execute the certificate of merger by the laws under which that party  
34 is organized, specifying for that party the provision of law or other  
35 basis for the authority of the signing persons. The certificate of  
36 merger shall set forth, if a vote of the shareholders, members,  
37 partners, or other holders of interests of the constituent other  
38 business entity was required, a statement setting forth the total  
39 number of outstanding interests of each class entitled to vote on  
40 the merger and that the agreement of merger in the form attached

1 or its principal terms, as required, were approved by a vote of the  
2 number of interests of each class that equaled or exceeded the vote  
3 required, specifying each class entitled to vote and the percentage  
4 vote required of each class, and any other information required to  
5 be set forth under the laws under which the constituent other  
6 business entity is organized, including, if a domestic limited  
7 partnership is a party to the merger, subdivision (a) of Section  
8 15911.14, if a domestic partnership is a party to the merger,  
9 subdivision (b) of Section 16915, and, if a domestic limited liability  
10 company is a party to the merger, subdivision (a) of Section 17552.  
11 The certificate of merger for each constituent foreign other business  
12 entity, if any, shall also set forth the statutory or other basis under  
13 which that foreign other business entity is authorized by the laws  
14 under which it is organized to effect the merger. The merger and  
15 any amendment of the articles of the surviving ~~socially responsible~~  
16 *social purpose* corporation, if applicable, contained in the  
17 agreement of merger shall be effective upon filing of the agreement  
18 of merger with an officer's certificate of each constituent domestic  
19 corporation and foreign corporation and a certificate of merger for  
20 each constituent other business entity, subject to subdivision (c)  
21 of Section 110 and subject to the provisions of subdivision (j), and  
22 the several parties thereto shall be one entity. If a domestic  
23 reciprocal insurer organized after 1974 to provide medical  
24 malpractice insurance is a party to the merger, the agreement of  
25 merger or certificate of merger shall not be filed until there has  
26 been filed the certificate issued by the Insurance Commissioner  
27 approving the merger pursuant to Section 1555 of the Insurance  
28 Code. The Secretary of State may certify a copy of the agreement  
29 of merger separate from the officers' certificates and certificates  
30 of merger attached thereto.

31 (2) If the surviving entity is an other business entity, and no  
32 public benefit corporation, mutual benefit corporation, religious  
33 corporation, or corporation organized under the Consumer  
34 Cooperative Corporation Law (Part 2 (commencing with Section  
35 12200) of Division 3) is a party to the merger, after required  
36 approvals of the merger by each constituent ~~socially responsible~~  
37 *social purpose* corporation through approval of the board and any  
38 approval of the outstanding shares required by Chapter 10  
39 (commencing with Section 3400) and by the other parties to the  
40 merger, the parties to the merger shall file a certificate of merger

1 in the office of, and on a form prescribed by, the Secretary of State.  
2 The certificate of merger shall be executed and acknowledged by  
3 each constituent domestic and foreign ~~socially responsible~~ *social*  
4 *purpose* corporation by its chairperson of the board, president, or  
5 a vice president and also by its secretary or an assistant secretary  
6 and by each domestic constituent limited liability company by all  
7 managers of the limited liability company, unless a lesser number  
8 is specified in its articles of organization or operating agreement,  
9 and by each domestic constituent limited partnership by all general  
10 partners, unless a lesser number is provided in its certificate of  
11 limited partnership or partnership agreement, and by each domestic  
12 constituent general partnership by two partners, unless a lesser  
13 number is provided in its partnership agreement, and by each  
14 foreign constituent limited liability company by one or more  
15 managers and by each foreign constituent general partnership or  
16 foreign constituent limited partnership by one or more general  
17 partners, and by each constituent reciprocal insurer by the  
18 chairperson of the board, president, or vice president, and by the  
19 secretary or assistant secretary, or, if a constituent reciprocal insurer  
20 has not appointed those officers, by the chairperson of the board,  
21 president, or vice president, and by the secretary or assistant  
22 secretary of the constituent reciprocal insurer's attorney-in-fact.  
23 The certificate of merger shall be signed by each other party to the  
24 merger by those persons required or authorized to execute the  
25 certificate of merger by the laws under which that party is  
26 organized, specifying for that party the provision of law or other  
27 basis for the authority of the signing persons. The certificate of  
28 merger shall set forth all of the following:

29 (A) The name, place of incorporation or organization, and the  
30 Secretary of State's file number, if any, of each party to the merger,  
31 separately identifying the disappearing parties and the surviving  
32 party.

33 (B) If the approval of the outstanding shares of a constituent  
34 ~~socially responsible~~ *social purpose* corporation was required by  
35 Chapter 10 (commencing with Section 3400), a statement setting  
36 forth the total number of outstanding shares of each class entitled  
37 to vote on the merger and that the principal terms of the agreement  
38 of merger were approved by a vote of the number of shares of each  
39 class entitled to vote and the percentage vote required of each  
40 class.

1 (C) The future effective date or time, not more than 90 days  
2 subsequent to the date of filing of the merger, if the merger is not  
3 to be effective upon the filing of the certificate of merger with the  
4 Secretary of State.

5 (D) A statement, by each party to the merger that is a domestic  
6 corporation not organized under this division, a foreign corporation  
7 or foreign other business entity, or an other business entity, of the  
8 statutory or other basis under which that party is authorized by the  
9 laws under which it is organized to effect the merger.

10 (E) Any other information required to be stated in the certificate  
11 of merger by the laws under which each respective party to the  
12 merger is organized, including, if a domestic limited liability  
13 company is a party to the merger, subdivision (a) of Section 17552,  
14 if a domestic partnership is a party to the merger, subdivision (b)  
15 of Section 16915, and, if a domestic limited partnership is a party  
16 to the merger, subdivision (a) of Section 15911.14.

17 (F) Any other details or provisions that may be desired.

18 Unless a future effective date or time is provided in a certificate  
19 of merger, in which event the merger shall be effective at that  
20 future effective date or time, a merger shall be effective upon the  
21 filing of the certificate of merger with the Secretary of State and  
22 the several parties thereto shall be one entity. The surviving other  
23 business entity shall keep a copy of the agreement of merger at its  
24 principal place of business which, for purposes of this subdivision,  
25 shall be the office referred to in Section 17057 if a domestic limited  
26 liability company, at the business address specified in paragraph  
27 (5) of subdivision (a) of Section 17552 if a foreign limited liability  
28 company, at the office referred to in subdivision (a) of Section  
29 16403 if a domestic general partnership, at the business address  
30 specified in subdivision (f) of Section 16911 if a foreign  
31 partnership, at the office referred to in subdivision (a) of Section  
32 15901.14 if a domestic limited partnership, or at the business  
33 address specified in paragraph (5) of subdivision (a) of Section  
34 15911.14 if a foreign limited partnership. Upon the request of a  
35 holder of equity securities of a party to the merger, a person with  
36 authority to do so on behalf of the surviving other business entity  
37 shall promptly deliver to that holder, a copy of the agreement of  
38 merger. A waiver by that holder of the rights provided in the  
39 foregoing sentence shall be unenforceable. If a domestic reciprocal  
40 insurer organized after 1974 to provide medical malpractice

1 insurance is a party to the merger the agreement of merger or  
2 certificate of merger shall not be filed until there has been filed  
3 the certificate issued by the Insurance Commissioner approving  
4 the merger in accordance with Section 1555 of the Insurance Code.

5 (h) (1) A copy of an agreement of merger certified on or after  
6 the effective date by an official having custody thereof has the  
7 same force in evidence as the original and, except as against the  
8 state, is conclusive evidence of the performance of all conditions  
9 precedent to the merger, the existence on the effective date of the  
10 surviving party to the merger, and the performance of the  
11 conditions necessary to the adoption of any amendment to the  
12 articles, if applicable, contained in the agreement of merger.

13 (2) For all purposes for a merger in which the surviving entity  
14 is a domestic other business entity and the filing of a certificate of  
15 merger is required by paragraph (2) of subdivision (g), a copy of  
16 the certificate of merger duly certified by the Secretary of State is  
17 conclusive evidence of the merger of the constituent corporations,  
18 either by themselves or together with the other parties to the  
19 merger, into the surviving other business entity.

20 (i) (1) Upon a merger pursuant to this section, the separate  
21 existences of the disappearing parties to the merger cease and the  
22 surviving party to the merger shall succeed, without other transfer,  
23 to all the rights and property of each of the disappearing parties to  
24 the merger and shall be subject to all the debts and liabilities of  
25 each in the same manner as if the surviving party to the merger  
26 had itself incurred them.

27 (2) All rights of creditors and all liens upon the property of each  
28 of the constituent ~~socially responsible~~ *social purpose* corporations  
29 and other parties to the merger shall be preserved unimpaired,  
30 provided that those liens upon property of a disappearing party  
31 shall be limited to the property affected thereby immediately prior  
32 to the time the merger is effective.

33 (3) Any action or proceeding pending by or against any  
34 disappearing ~~socially responsible~~ *social purpose* corporation or  
35 disappearing party to the merger may be prosecuted to judgment,  
36 which shall bind the surviving party, or the surviving party may  
37 be proceeded against or substituted in its place.

38 (4) Nothing in this section shall be construed to affect the  
39 liability a general partner of a disappearing limited partnership or  
40 general partnership may have in connection with the debts and

1 liabilities of the disappearing limited partnership or general  
2 partnership existing prior to the time the merger is effective.

3 (j) (1) The merger of domestic ~~socially responsible~~ *social*  
4 *purpose* corporations with foreign corporations or foreign other  
5 business entities in a merger in which one or more other business  
6 entities is a party shall comply with subdivision (a) and this  
7 subdivision.

8 (2) If the surviving party is a domestic socially responsible  
9 corporation or domestic other business entity, the merger  
10 proceedings with respect to that party and any domestic  
11 disappearing ~~socially responsible~~ *social purpose* corporation shall  
12 conform to the provisions of this section. If the surviving party is  
13 a foreign corporation or foreign other business entity, then, subject  
14 to the requirements of subdivision (c), Section 407, Chapter 10  
15 (commencing with Section 3400), and Chapter 13 (commencing  
16 with Section 1300) of Division 1, and, if applicable, corresponding  
17 provisions of the Nonprofit Corporation Law (Division 2  
18 (commencing with Section 5002)) or the Consumer Cooperative  
19 Corporation Law (Part 2 (commencing with Section 12200) of  
20 Division 3), with respect to any domestic constituent corporations,  
21 Chapter 13 (commencing with Section 17600) of Title 2.5 with  
22 respect to any domestic constituent limited liability companies,  
23 Article 6 (commencing with Section 16601) of Chapter 5 of Title  
24 2 with respect to any domestic constituent general partnerships,  
25 and Article 11.5 (commencing with Section 15911.20) of Chapter  
26 5.5 of Title 2 with respect to any domestic constituent limited  
27 partnerships, the merger proceedings may be in accordance with  
28 the laws of the state or place of incorporation or organization of  
29 the surviving party.

30 (3) If the surviving party is a domestic ~~socially responsible~~  
31 *social purpose* corporation or domestic other business entity, the  
32 certificate of merger or the agreement of merger with attachments  
33 shall be filed as provided in subdivision (g) and thereupon, subject  
34 to subdivision (c) of Section 110 or paragraph (2) of subdivision  
35 (g), as applicable, the merger shall be effective as to each domestic  
36 constituent ~~socially responsible~~ *social purpose* corporation and  
37 domestic constituent other business entity.

38 (4) If the surviving party is a foreign corporation or foreign  
39 other business entity, the merger shall become effective in  
40 accordance with the law of the jurisdiction in which the surviving

1 party is organized, but, except as provided in paragraph (5), the  
2 merger shall be effective as to any domestic disappearing ~~socially~~  
3 ~~responsible~~ *social purpose* corporation as of the time of  
4 effectiveness in the foreign jurisdiction upon the filing in this state  
5 of a copy of the agreement of merger with an officers' certificate  
6 of each constituent foreign and domestic ~~socially responsible~~ *social*  
7 *purpose* corporation and a certificate of merger of each constituent  
8 other business entity attached, which officers' certificates and  
9 certificates of merger shall conform to the requirements of  
10 paragraph (1) of subdivision (g). If one or more domestic other  
11 business entities is a disappearing party in a merger pursuant to  
12 this subdivision in which a foreign other business entity is the  
13 surviving entity, a certificate of merger required by the laws under  
14 which that domestic other business entity is organized, including  
15 subdivision (a) of Section 15911.14, subdivision (b) of Section  
16 16915, or subdivision (a) of Section 17552, as is applicable, shall  
17 also be filed at the same time as the filing of the agreement of  
18 merger.

19 (5) If the date of the filing in this state pursuant to this  
20 subdivision is more than six months after the time of the  
21 effectiveness in the foreign jurisdiction, or if the powers of a  
22 domestic disappearing ~~socially responsible~~ *social purpose*  
23 corporation are suspended at the time of effectiveness in the foreign  
24 jurisdiction, the merger shall be effective as to the domestic  
25 disappearing ~~socially responsible~~ *social purpose* corporation as of  
26 the date of filing in this state.

27 (6) In a merger described in paragraph (3) or (4), each foreign  
28 disappearing ~~socially responsible~~ *social purpose* corporation that  
29 is qualified for the transaction of intrastate business shall by virtue  
30 of the filing pursuant to this subdivision, subject to subdivision  
31 (c) of Section 110, automatically surrender its right to transact  
32 intrastate business in this state. The filing of the agreement of  
33 merger or certificate of merger, as is applicable, pursuant to this  
34 subdivision, by a disappearing foreign other business entity  
35 registered for the transaction of intrastate business in this state  
36 shall, by virtue of that filing, subject to subdivision (c) of Section  
37 110, automatically cancel the registration for that foreign other  
38 business entity, without the necessity of the filing of a certificate  
39 of cancellation.

1 SEC. 54. Section 3300 of the Corporations Code is amended  
2 to read:

3 3300. For purposes of this chapter, the following definitions  
4 shall apply:

5 (a) “~~Converted socially responsible~~ *social purpose* corporation”  
6 means a ~~socially responsible~~ *social purpose* corporation that results  
7 from a conversion of an other business entity or a foreign other  
8 business entity or a foreign corporation pursuant to Section 1158.

9 (b) “Converted entity” means a domestic other business entity  
10 that results from a conversion of a ~~socially responsible~~ *social*  
11 *purpose* corporation under this chapter.

12 (c) “~~Converting socially responsible~~ *social purpose* corporation”  
13 means a ~~socially responsible~~ *social purpose* corporation that  
14 converts into a domestic or foreign other business entity pursuant  
15 to this chapter.

16 (d) “Converting entity” means an other business entity or a  
17 foreign other business entity or foreign corporation that converts  
18 into a ~~socially responsible~~ *social purpose* corporation pursuant to  
19 Section 3607.

20 (e) “Domestic other business entity” has the meaning provided  
21 in Section 167.7.

22 (f) “Foreign other business entity” has the meaning provided in  
23 Section 171.05.

24 (g) “Other business entity” has the meaning provided in Section  
25 174.5.

26 SEC. 55. Section 3301 of the Corporations Code is amended  
27 to read:

28 3301. (a) A ~~socially responsible~~ *social purpose* corporation  
29 may be converted into a domestic other business entity pursuant  
30 to this chapter if, pursuant to the proposed conversion, each of the  
31 following conditions is met:

32 (1) Each share of the same class or series of the converting  
33 ~~socially responsible~~ *social purpose* corporation shall, unless all  
34 the shareholders of the class or series consent, be treated equally  
35 with respect to any cash, rights, securities, or other property to be  
36 received by, or any obligations or restrictions to be imposed on,  
37 the holder of that share.

38 (2) The conversion is approved by an affirmative vote of at least  
39 two-thirds of the outstanding shares of each class, or a greater vote

1 if required in the articles, regardless of whether that class is entitled  
2 to vote thereon by the provisions of the articles.

3 (3) Nonredeemable common shares of the converting ~~socially~~  
4 ~~responsible~~ *social purpose* corporation shall be converted only  
5 into nonredeemable equity securities of the converted entity unless  
6 all of the shareholders of the class consent.

7 (4) Paragraph (1) shall not restrict the ability of the shareholders  
8 of a converting ~~socially responsible~~ *social purpose* corporation to  
9 appoint one or more managers, if the converted entity is a limited  
10 liability company, or one or more general partners, if the converted  
11 entity is a limited partnership, in the plan of conversion or in the  
12 converted entity's governing documents.

13 (b) Notwithstanding subdivision (a), the conversion of a ~~socially~~  
14 ~~responsible~~ *social purpose* corporation into a domestic other  
15 business entity may be effected only if both of the following  
16 conditions are met:

17 (1) The law under which the converted entity will exist expressly  
18 permits the formation of that entity pursuant to a conversion.

19 (2) The ~~socially responsible~~ *social purpose* corporation complies  
20 with any and all other requirements of any other law that applies  
21 to conversion to the converted entity.

22 SEC. 56. Section 3302 of the Corporations Code is amended  
23 to read:

24 3302. (a) A ~~socially responsible~~ *social purpose* corporation  
25 that desires to convert to a domestic other business entity shall  
26 approve a plan of conversion. The plan of conversion shall state  
27 all of the following:

28 (1) The terms and conditions of the conversion.

29 (2) The jurisdiction of the organization of the converted entity  
30 and of the converting ~~socially responsible~~ *social purpose*  
31 corporation and the name of the converted entity after conversion.

32 (3) The manner of converting the shares of each of the  
33 shareholders of the converting ~~socially responsible~~ *social purpose*  
34 corporation into securities of, or interests in, the converted entity.

35 (4) The provisions of the governing documents for the converted  
36 entity, including the articles and bylaws, partnership agreement  
37 or limited liability company articles of organization and operating  
38 agreement, to which the holders of interests in the converted entity  
39 are to be bound.

1 (5) Any other details or provisions that are required by the laws  
2 under which the converted entity is organized, or that are desired  
3 by the converting ~~socially responsible~~ *social purpose* corporation.

4 (b) The plan of conversion shall be approved by the board of  
5 the converting ~~socially responsible~~ *social purpose* corporation,  
6 and the principal terms of the plan of the conversion shall be  
7 approved by at least two-thirds of the outstanding shares of each  
8 class, or a greater vote if required in the articles, regardless of  
9 whether that class is entitled to vote thereon by the provisions of  
10 the articles of the converting ~~socially responsible~~ *social purpose*  
11 corporation. The approval of at least two-thirds of the outstanding  
12 shares may be given before or after approval by the board. If the  
13 plan is approved, shareholders with dissenting shares, as defined  
14 in subdivision (b) of Section 1300, may exercise dissenters' rights  
15 pursuant to Section 3305 and Chapter 13 (commencing with  
16 Section 1300) of Division 1.

17 (c) If the ~~socially responsible~~ *social purpose* corporation is  
18 converting into a general or limited partnership or into a limited  
19 liability company, then in addition to the approval of the  
20 shareholders set forth in subdivision (b), the plan of conversion  
21 shall be approved by each shareholder who will become a general  
22 partner or manager, as applicable, of the converted entity pursuant  
23 to the plan of conversion unless the shareholders have dissenters'  
24 rights pursuant to Section 3305 and Chapter 13 (commencing with  
25 Section 1300) of Division 1.

26 (d) Upon the effectiveness of the conversion, all shareholders  
27 of the converting ~~socially responsible~~ *social purpose* corporation,  
28 except those that exercise dissenters' rights as provided in Section  
29 3305 and Chapter 13 (commencing with Section 1300) of Division  
30 1, shall be deemed parties to any agreement or agreements  
31 constituting the governing documents for the converted entity  
32 adopted as part of the plan of conversion, regardless of whether a  
33 shareholder has executed the plan of conversion or those governing  
34 documents for the converted entity. Any adoption of governing  
35 documents made pursuant thereto shall be effective at the effective  
36 time or date of the conversion.

37 (e) Notwithstanding its prior approval by the board and the  
38 outstanding shares, or either of them, a plan of conversion may be  
39 amended before the conversion takes effect if the amendment is  
40 approved by the board and, if it changes any of the principal terms

1 of the plan of conversion, by the shareholders of the converting  
2 ~~socially responsible corporation~~ *social purpose* in the same manner  
3 and to the same extent as was required for approval of the original  
4 plan of conversion.

5 (f) A plan of conversion may be abandoned by the board of a  
6 converting ~~socially responsible~~ *social purpose* corporation, or by  
7 the shareholders of a converting ~~socially responsible~~ *social purpose*  
8 corporation if the abandonment is approved by the outstanding  
9 shares, in each case in the same manner as required for approval  
10 of the plan of conversion, subject to the contractual rights of third  
11 parties, at any time before the conversion is effective.

12 (g) The converted entity shall keep the plan of conversion at  
13 the principal place of business of the converted entity if the  
14 converted entity is a domestic partnership, or at the office at which  
15 records are to be kept under Section 15901.14 if the converted  
16 entity is a domestic limited partnership, or at the office at which  
17 records are to be kept under Section 17057 if the converted entity  
18 is a domestic limited liability company. Upon the request of a  
19 shareholder of a converting flexible purpose corporation, the  
20 authorized person on behalf of the converted entity shall promptly  
21 deliver to the shareholder, at the expense of the converted entity,  
22 a copy of the plan of conversion. A waiver by a shareholder of the  
23 rights provided in this subdivision shall be unenforceable.

24 SEC. 57. Section 3303 of the Corporations Code is amended  
25 to read:

26 3303. (a) After the approval, as provided in Section 3302, of  
27 a plan of conversion by the board and the outstanding shares of a  
28 ~~socially responsible~~ *social purpose* corporation converting into a  
29 domestic other business entity, the converting ~~socially responsible~~  
30 *social purpose* corporation shall cause the filing of all documents  
31 required by law to effect the conversion and create the converted  
32 entity, which documents shall include a certificate of conversion  
33 or a statement of conversion as required by Section 3304, and the  
34 conversion shall thereupon be effective.

35 (b) A copy of the statement of partnership authority, certificate  
36 of limited partnership, or articles of organization complying with  
37 Section 1155, duly certified by the Secretary of State on or after  
38 the effective date, shall be conclusive evidence of the conversion  
39 of the ~~socially responsible~~ *social purpose* corporation.

1 SEC. 58. Section 3304 of the Corporations Code is amended  
2 to read:

3 3304. (a) To convert a ~~socially responsible~~ *social purpose*  
4 corporation:

5 (1) If the ~~socially responsible~~ *social purpose* corporation is  
6 converting into a domestic limited partnership, a statement of  
7 conversion shall be completed on the certificate of limited  
8 partnership for the converted entity.

9 (2) If the ~~socially responsible~~ *social purpose* corporation is  
10 converting into a domestic partnership, a statement of conversion  
11 shall be completed on the statement of partnership authority for  
12 the converted entity, or if no statement of partnership authority is  
13 filed, then a certificate of conversion shall be filed separately.

14 (3) If the ~~socially responsible~~ *social purpose* corporation is  
15 converting into a domestic limited liability company, a statement  
16 of conversion shall be completed on the articles of organization  
17 for the converted entity.

18 (4) If the ~~socially responsible~~ *social purpose* corporation is  
19 converting into a domestic corporation, a statement of conversion  
20 shall be completed on the articles for the converted entity.

21 (b) Any statement or certificate of conversion of a converting  
22 ~~socially responsible~~ *social purpose* corporation shall be executed  
23 and acknowledged by those officers of the converting ~~socially~~  
24 ~~responsible~~ *social purpose* corporation as would be required to  
25 sign an officers' certificate, and shall set forth all of the following:

26 (1) The name and the Secretary of State's file number of the  
27 converting ~~socially responsible~~ *social purpose* corporation.

28 (2) A statement of the total number of outstanding shares of  
29 each class entitled to vote on the conversion, that the principal  
30 terms of the plan of conversion were approved by a vote of the  
31 number of shares of each class which equaled or exceeded the vote  
32 required under Section 3602, specifying each class entitled to vote  
33 and the percentage vote required of each class.

34 (3) The name, form, and jurisdiction of organization of the  
35 converted entity.

36 (c) The certificate of conversion shall be on a form prescribed  
37 by the Secretary of State.

38 (d) The filing with the Secretary of State of a statement of  
39 conversion on an organizational document or a certificate of  
40 conversion as set forth in subdivision (a) shall have the effect of

1 the filing of a certificate of dissolution by the converting ~~socially~~  
2 ~~responsible~~ *social purpose* corporation and no converting ~~socially~~  
3 ~~responsible~~ *social purpose* corporation that has made the filing is  
4 required to file a certificate of election under Section 1901 or a  
5 certificate of dissolution under Section 1905 as a result of that  
6 conversion.

7 (e) Upon the effectiveness of a conversion pursuant to this  
8 chapter, a converted entity that is a domestic partnership, domestic  
9 limited ~~partnership~~ *partnership*, or domestic limited liability  
10 company shall be deemed to have assumed the liability of the  
11 converting ~~socially responsible~~ *social purpose* corporation to  
12 prepare and file or cause to be prepared and filed all tax and  
13 information returns otherwise required of the converting socially  
14 responsible corporation under the Corporation Tax Law (Part 11  
15 (commencing with Section 23001) of Division 2 of the Revenue  
16 and Taxation Code) and to pay any tax liability determined to be  
17 due pursuant to that law.

18 SEC. 59. Section 3305 of the Corporations Code is amended  
19 to read:

20 3305. The shareholders with dissenting rights, as defined in  
21 subdivision (b) of Section 1300, of a converting ~~socially~~  
22 ~~responsible~~ *social purpose* corporation shall have all of the rights  
23 under Chapter 13 (commencing with Section 1300) of Division 1  
24 of the shareholders of a corporation involved in a reorganization  
25 requiring the approval of its outstanding shares, and the converting  
26 ~~socially responsible~~ *social purpose* corporation shall have all of  
27 the obligations under Chapter 13 (commencing with Section 1300)  
28 of Division 1 of a corporation involved in the reorganization. Solely  
29 for purposes of applying the provisions of Chapter 13 (commencing  
30 with Section 1300) of Division 1, and not for purposes of this  
31 chapter, a conversion pursuant to Section 3301 or 1157 shall be  
32 deemed to constitute a reorganization.

33 SEC. 60. Section 3400 of the Corporations Code is amended  
34 to read:

35 3400. A reorganization or a share exchange tender offer shall  
36 be approved by the board of all of the following:

37 (a) Each constituent ~~socially responsible~~ *social purpose*  
38 corporation in a merger reorganization.

39 (b) The acquiring ~~socially responsible~~ *social purpose*  
40 corporation in an exchange reorganization.

1 (c) The acquiring ~~socially responsible~~ *social purpose*  
2 corporation and the ~~socially responsible~~ *social purpose* corporation  
3 whose property and assets are acquired in a sale-of-assets  
4 reorganization.

5 (d) The acquiring ~~socially responsible~~ *social purpose*  
6 corporation in a share exchange tender offer.

7 (e) The ~~socially responsible~~ *social purpose* corporation in control  
8 of any constituent or acquiring domestic or foreign ~~socially~~  
9 ~~responsible~~ *social purpose* corporation or other business entity  
10 under subdivision (a), (b), or (c) and whose equity securities are  
11 issued, transferred, or exchanged in the reorganization, hereafter  
12 a “parent party.”

13 SEC. 61. Section 3401 of the Corporations Code is amended  
14 to read:

15 3401. (a) The principal terms of a reorganization shall be  
16 approved by the outstanding shares of each class of each ~~socially~~  
17 ~~responsible~~ *social purpose* corporation the approval of whose  
18 board is required under Section 3400, except as provided in  
19 subdivision (b) and except that, unless otherwise provided in the  
20 articles, no approval of any class of outstanding preferred shares  
21 of the surviving or acquiring ~~socially responsible~~ *social purpose*  
22 corporation or parent party shall be required if the rights,  
23 preferences, privileges, and restrictions granted to or imposed upon  
24 that class of shares remain unchanged, subject to the provisions  
25 of subdivision (c). For the purpose of this subdivision, two classes  
26 of common shares differing only as to voting rights shall be  
27 considered as a single class of shares.

28 (b) No approval of the outstanding shares is required by  
29 subdivision (a) if the ~~socially responsible~~ *social purpose*  
30 corporation, or its shareholders immediately before the  
31 reorganization, or both, shall own, immediately after the  
32 reorganization, equity securities, other than any warrant or right  
33 to subscribe to or purchase those equity securities, of the surviving  
34 or acquiring ~~socially responsible~~ *social purpose* corporation or a  
35 parent party possessing more than five-sixths of the voting power  
36 of the surviving or acquiring ~~socially responsible~~ *social purpose*  
37 corporation or parent party. In making the determination of  
38 ownership by the shareholders of a ~~socially responsible~~ *social*  
39 *purpose* corporation, immediately after the reorganization, of equity  
40 securities pursuant to the preceding sentence, equity securities that

1 they owned immediately before the reorganization as shareholders  
2 of another party to the transaction shall be disregarded. For the  
3 purpose of this section, the voting power of a ~~socially responsible~~  
4 *social purpose* corporation shall be calculated by assuming the  
5 conversion of all equity securities convertible, immediately or at  
6 some future time, into shares entitled to vote but not assuming the  
7 exercise of any warrant or right to subscribe to or purchase those  
8 shares.

9 (c) Notwithstanding subdivisions (a) and (b), the principal terms  
10 of a reorganization shall be approved by the outstanding shares of  
11 the surviving ~~socially responsible~~ *social purpose* corporation in a  
12 merger reorganization, as otherwise required by Chapter 10  
13 (commencing with Section 3400), if any amendment is made to  
14 its articles that would otherwise require that approval.

15 (d) Notwithstanding subdivisions (a) and (b), the principal terms  
16 of a reorganization shall be approved by the affirmative vote of at  
17 least two-thirds of each class, or a greater vote if required in the  
18 articles, of the outstanding shares of any class of a ~~socially~~  
19 ~~responsible~~ *social purpose* corporation that is a party to a merger  
20 or sale-of-assets reorganization if holders of shares of that class  
21 receive shares of the surviving or acquiring ~~socially responsible~~  
22 *social purpose* corporation or parent party having different rights,  
23 preferences, privileges, or restrictions than those surrendered.  
24 Shares in a foreign corporation received in exchange for shares in  
25 a domestic ~~socially responsible~~ *social purpose* corporation shall  
26 be deemed to have different rights, preferences, privileges, and  
27 restrictions within the meaning of the preceding sentence.

28 (e) Notwithstanding subdivisions (a) and (b), the principal terms  
29 of a reorganization shall be approved by the affirmative vote of at  
30 least two-thirds of each class, or a greater vote if required in the  
31 articles, of the outstanding shares of any socially responsible  
32 corporation that is a close socially responsible corporation if the  
33 reorganization would result in the holders receiving shares or other  
34 interests of a corporation or other business entity that is not a close  
35 socially responsible corporation. The articles may provide for a  
36 lesser vote, but not less than a majority of the outstanding shares  
37 of each class.

38 (f) Notwithstanding subdivisions (a) and (b), the principal terms  
39 of a reorganization shall be approved by a vote of at least two-thirds  
40 of the outstanding shares of each class, or a greater vote if required

1 in the articles, of a ~~socially responsible~~ *social purpose* corporation  
2 that is a party to a merger reorganization, regardless of whether  
3 that class is entitled to vote thereon by the provisions of the articles,  
4 if holders of shares of that class receive interests of a surviving  
5 other business entity in the merger that is not a ~~socially responsible~~  
6 *social purpose* corporation, or receive interests of a surviving  
7 ~~socially responsible~~ *social purpose* corporation the articles of  
8 incorporation of which specify a materially different purpose as  
9 part of the reorganization.

10 (g) Notwithstanding subdivisions (a) and (b), the principal terms  
11 of a reorganization shall be approved by all shareholders of any  
12 class or series if, as a result of the reorganization, the holders of  
13 that class or series become personally liable for any obligations  
14 of a party to the reorganization, unless all holders of that class or  
15 series have the dissenters' rights provided in Chapter 13  
16 (commencing with Section 1300) of Division 1.

17 (h) Any approval required by this section may be given before  
18 or after the approval by the board. Notwithstanding approval  
19 required by this section, the board may abandon the proposed  
20 reorganization without further action by the shareholders, subject  
21 to the contractual rights, if any, of third parties.

22 SEC. 62. Section 3500 of the Corporations Code is amended  
23 to read:

24 3500. (a) The board of a ~~socially responsible~~ *social purpose*  
25 corporation shall cause an annual report to be sent to the  
26 shareholders not later than 120 days after the close of the fiscal  
27 year. The annual report shall contain (1) a balance sheet as of the  
28 end of that fiscal year and an income statement and a statement of  
29 cashflows for that fiscal year, accompanied by any report thereon  
30 of independent accountants or, if there is no report, the certificate  
31 of an authorized officer of the ~~socially responsible~~ *social purpose*  
32 corporation that the statements were prepared without audit from  
33 the books and records of the corporation, and (2) the information  
34 required by subdivision (b).

35 (b) The board shall cause to be provided with the annual report,  
36 a management discussion and analysis (special purpose MD&A)  
37 concerning the ~~socially responsible~~ *social purpose* corporation's  
38 stated purpose or purposes as set forth in its articles pursuant to  
39 paragraph (2) of subdivision (b) of Section 2602, and, to the extent  
40 consistent with reasonable confidentiality requirements, shall cause

1 the special purpose MD&A to be made publicly available by  
2 posting it on the ~~socially responsible~~ *social purpose* corporation's  
3 Internet Web site or providing it through similar electronic means.  
4 The special purpose MD&A shall include the information specified  
5 in this subdivision and any other information that the ~~socially~~  
6 ~~responsible~~ *social purpose* corporation's officers and directors  
7 believe to be reasonably necessary or appropriate to an  
8 understanding of the ~~socially responsible~~ *social purpose*  
9 corporation's efforts in connection with its special purpose or  
10 purposes. The special purpose MD&A shall also include the  
11 following information:

12 (1) Identification and discussion of the short-term and long-term  
13 objectives of the ~~socially responsible~~ *social purpose* corporation  
14 relating to its special purpose or purposes, and an identification  
15 and explanation of any changes made in those special purpose  
16 objectives during the fiscal year.

17 (2) Identification and discussion of the material actions taken  
18 by the ~~socially responsible~~ *social purpose* corporation during the  
19 fiscal year to achieve its special purpose objectives, the impact of  
20 those actions, including the causal relationships between the actions  
21 and the reported outcomes, and the extent to which those actions  
22 achieved the special purpose objectives for the fiscal year.

23 (3) Identification and discussion of material actions, including  
24 the intended impact of those actions, that the ~~socially responsible~~  
25 *social purpose* corporation expects to take in the short term and  
26 long term with respect to achievement of its special purpose  
27 objectives.

28 (4) A description of the process for selecting, and an  
29 identification and description of, the financial, operating, and other  
30 measures used by the ~~socially responsible~~ *social purpose*  
31 corporation during the fiscal year for evaluating its performance  
32 in achieving its special purpose objectives, including an explanation  
33 of why the ~~socially responsible~~ *social purpose* corporation selected  
34 those measures and identification and discussion of the nature and  
35 rationale for any material changes in those measures made during  
36 the fiscal year.

37 (5) Identification and discussion of any material operating and  
38 capital expenditures incurred by the socially responsible  
39 corporation during the fiscal year in furtherance of achieving the  
40 special purpose objectives, a good faith estimate of any additional

1 material operating or capital expenditures the ~~socially responsible~~  
2 *social purpose* corporation expects to incur over the next three  
3 fiscal years in order to achieve its special purpose objectives, and  
4 other material expenditures of resources incurred by the ~~socially~~  
5 ~~responsible~~ *social purpose* corporation during the fiscal year,  
6 including employee time, in furtherance of achieving the special  
7 purpose objectives, including a discussion of the extent to which  
8 that capital or use of other resources serves purposes other than  
9 and in addition to furthering the achievement of the special purpose  
10 objectives.

11 (c) Except as may otherwise be excused pursuant to subdivision  
12 (h) of Section 1501.5, the reports specified in subdivisions (a) and  
13 (b) shall be sent to the shareholders at least 15 days, or, if sent by  
14 bulk mail, 35 days, prior to the annual meeting of shareholders to  
15 be held during the next fiscal year. This requirement shall not limit  
16 the requirement for holding an annual meeting as required by  
17 Section 600.

18 (d) If no annual report for the last fiscal year has been sent to  
19 shareholders, the ~~socially responsible~~ *social purpose* corporation  
20 shall, upon the written request of any shareholder made more than  
21 120 days after the end of that fiscal year, deliver or mail to the  
22 person making the request within 30 days following the request,  
23 the statements required by subdivisions (a) and (b) for that fiscal  
24 year.

25 (e) A shareholder or shareholders holding at least 5 percent of  
26 the outstanding shares of any class of a socially responsible  
27 corporation may make a written request to the ~~socially responsible~~  
28 *social purpose* corporation for an income statement of the ~~socially~~  
29 ~~responsible~~ *social purpose* corporation for the three-month,  
30 six-month, or nine-month period of the current fiscal year ended  
31 more than 30 days prior to the date of the request and a balance  
32 sheet of the ~~socially responsible~~ *social purpose* corporation as at  
33 the end of that period and, in addition, if no annual report for the  
34 most recent fiscal year has been sent to the shareholders, the  
35 statements referred to in subdivisions (a) and (b) relating to that  
36 fiscal year. The statements shall be delivered or mailed to the  
37 person making the request within 30 days following the request.  
38 A copy of the statements shall be kept on file in the principal office  
39 of the ~~socially responsible~~ *social purpose* corporation for 12  
40 months and shall be exhibited at all reasonable times to any

1 shareholder demanding an examination of the statements or a copy  
2 shall be mailed to the shareholder. The quarterly income statements  
3 and balance sheets referred to in this subdivision shall be  
4 accompanied by the report thereon, if any, of any independent  
5 accountants engaged by the ~~socially responsible~~ *social purpose*  
6 corporation or the certificate of an authorized officer of the ~~socially~~  
7 ~~responsible~~ *social purpose* corporation that the financial statements  
8 were prepared without audit from the books and records of the  
9 ~~socially responsible~~ *social purpose* corporation.

10 SEC. 63. Section 3501 of the Corporations Code is amended  
11 to read:

12 3501. (a) The board shall cause a special purpose current report  
13 to be sent to the shareholders not later than 45 days following the  
14 occurrence of any one or more of the events specified in  
15 subdivision (b) or (c), and, to the extent consistent with reasonable  
16 confidentiality requirements, shall cause the special purpose current  
17 report to be made publicly available by posting it on the ~~socially~~  
18 ~~responsible~~ *social purpose* corporation's Internet Web site or  
19 providing it through similar electronic means.

20 (b) Unless previously reported in the most recent annual report,  
21 the special purpose current report shall identify and discuss, in  
22 reasonable detail, any expenditure or group of related or planned  
23 expenditures, excluding compensation of officers and directors,  
24 made in furtherance of the special purpose objectives, whether an  
25 operating expenditure, a capital expenditure, or some other  
26 expenditure of corporate resources, including, but not limited to,  
27 employee time, whether the expenditure was direct or indirect,  
28 and whether the expenditure was categorized as overhead or  
29 otherwise where the expenditure has or is likely to have a material  
30 adverse impact on the ~~socially responsible~~ *social purpose*  
31 corporation's results of operations or financial condition for a  
32 quarterly or annual fiscal period.

33 (c) Unless previously reported in the most recent annual report,  
34 the special purpose current report shall identify and discuss, in  
35 reasonable detail, any decision by the board or action by  
36 management to do either of the following:

37 (1) Withhold expenditures or a group of related or planned  
38 expenditures, whether temporarily or permanently, that were to  
39 have been made in furtherance of the special purpose as  
40 contemplated in the most recent annual report, whether those

1 planned expenditures were an operating expenditure, a capital  
2 expenditure, or some other expenditure of corporate resources,  
3 including, but not limited to, employee time, whether the planned  
4 expenditure was direct or indirect, and whether the planned  
5 expenditure to be made would have been categorized as overhead  
6 or otherwise, in any case, where the planned expenditure was likely  
7 to have had a material positive impact on the ~~socially responsible~~  
8 *social purpose* corporation's impact in furtherance of its special  
9 purpose objectives, as contemplated in the most recent annual  
10 report.

11 (2) Determine that the special purpose has been satisfied or  
12 should no longer be pursued, whether temporarily or permanently.

13 SEC. 64. Section 3502 of the Corporations Code is amended  
14 to read:

15 3502. (a) Nothing contained in subdivision (b) of Section 3500  
16 or Section 3501 shall require a detailing or itemization of every  
17 relevant expenditure incurred, or planned or action taken or  
18 planned, by the corporation. Management and the board shall use  
19 their discretion in providing that information, including the  
20 reasonable detail that a reasonable investor would consider  
21 important in understanding the corporation's objectives, actions,  
22 impacts, measures, rationale, and results of operations as they  
23 relate to the nature and achievement of the special purpose  
24 objectives.

25 (b) Where best practices emerge for providing the information  
26 required by subdivision (b) of Section 3500 or Section 3501, use  
27 of those best practices shall create a presumption that the ~~socially~~  
28 ~~responsible~~ *social purpose* corporation caused all the information  
29 required by those provisions to be provided. This presumption can  
30 only be rebutted by showing that the reporting contained either a  
31 misstatement of a material fact or omission of a material fact.

32 (c) Notwithstanding subdivision (b) of Section 3500 and Section  
33 3501, under no circumstances shall the socially responsible  
34 corporation be required to provide information that would result  
35 in a violation of state or federal securities laws or other applicable  
36 laws.

37 (d) The ~~socially responsible~~ *social purpose* corporation and its  
38 officers and directors are expressly excluded from liability for any  
39 and all forward looking statements supplied in the report required  
40 by subdivision (b) of Section 3500 and Section 3501, so long as

1 those statements are supplied in good faith. Statements are deemed  
2 to be forward looking as that term is defined in the federal  
3 securities laws.

4 (e) The special purpose MD&A and any special purpose current  
5 report shall be written in plain English and shall be provided in an  
6 efficient and understandable manner, avoiding repetition and  
7 disclosure of immaterial information.

8 (f) Unless otherwise provided by the articles or bylaws, and if  
9 approved by the board of directors, the reports specified in  
10 ~~subdivision (b) of Section 3500 and Section~~ *Sections 3500 and*  
11 *3501* and any accompanying material sent pursuant to this section  
12 may be sent by electronic transmission by the corporation.

13 (g) The financial statements of any socially responsible  
14 corporation with fewer than 100 holders of record of its shares,  
15 determined as provided in Section 605, required to be furnished  
16 by ~~Section 3500 and Section~~ *Sections 3500 and 3501* are not  
17 required to be prepared in conformity with generally accepted  
18 accounting principles if they reasonably set forth the assets and  
19 liabilities and the income and expense of the ~~socially responsible~~  
20 *social purpose* corporation and disclose the accounting basis used  
21 in their preparation.

22 (h) Any corporation with fewer than 100 holders of record of  
23 its shares, determined as provided in Section 605, shall not be  
24 required to prepare and furnish the reports required by subdivision  
25 (b) of Section 3500 and Section 3501, if and only if, the ~~socially~~  
26 ~~responsible~~ *social purpose* corporation holds unrevoked waivers  
27 of such compliance executed by shareholders holding two-thirds  
28 of the outstanding shares. That waiver shall remain valid and in  
29 effect for each fiscal year that the ~~socially responsible~~ *social*  
30 *purpose* corporation provides each waiving shareholder with notice,  
31 prior to the end of that year, that the shareholder may revoke the  
32 waiver and, on the 30th day following the end of the fiscal year,  
33 the ~~socially responsible~~ *social purpose* corporation holds unrevoked  
34 waivers to that compliance executed by shareholders holding  
35 two-thirds of the outstanding shares. The shareholder notice may  
36 be sent by electronic transmission pursuant to Section 20.

37 (i) The requirements described in Section 3500 shall be satisfied  
38 if a corporation with an outstanding class of securities registered  
39 under Section 12 of the Securities Exchange Act of 1934 both  
40 complies with Section 240.14a-16 of Title 17 of the Code of

1 Federal Regulations, as amended from time to time, with respect  
2 to the obligation of a corporation to furnish an annual report to  
3 shareholders pursuant to Section 240.14a-3(b) of Title 17 of the  
4 Code of Federal Regulations, and includes the information required  
5 by subdivision (b) of Section 3500 in the annual report.

6 (j) The requirements described in Section 3501 shall be satisfied  
7 if a corporation with an outstanding class of securities registered  
8 under Section 12 of the Securities Exchange Act of 1934 both  
9 complies with Section 240.13a-13 of Title 17 of the Code of  
10 Federal Regulations, as amended from time to time, with respect  
11 to the obligation of a corporation to furnish a quarterly report to  
12 shareholders, and includes the information required by subdivision  
13 (b) of Section 3501 in the quarterly report.

14 (k) In addition to the penalties provided for in this division, the  
15 superior court of the proper county shall enforce the duty of making  
16 and mailing or delivering the information and financial statements  
17 required by ~~subdivision (b) of Section 3500 and Section~~ *Sections*  
18 *3500 and 3501* and, for good cause shown, may extend the time  
19 therefor.

20 (l) In any action or proceeding with respect to Section 3500 or  
21 3501, if the court finds the failure of the socially responsible  
22 corporation to comply with the requirements of those sections to  
23 have been without justification, the court may award an amount  
24 sufficient to reimburse the shareholder for the reasonable expenses  
25 incurred by the shareholder, including attorney's fees, in connection  
26 with the action or proceeding.

27 (m) ~~Subdivision (b) of Section 3500 and Section 3501~~ apply to  
28 any domestic ~~socially responsible~~ *social purpose* corporation and  
29 also to a foreign ~~socially responsible~~ *social purpose* corporation  
30 having its principal executive office in this state or customarily  
31 holding meetings of its board in this state.

32 (n) All reports and notices required by ~~subdivision (b) of Section~~  
33 ~~3500 and Section 3501~~ shall be maintained by the ~~socially~~  
34 ~~responsible~~ *social purpose* corporation, in an electronic form for  
35 a period of not less than 10 years.

36 SEC. 65. Section 3503 of the Corporations Code is amended  
37 to read:

38 3503. Any officers, directors, employees, or agents of a ~~socially~~  
39 ~~responsible~~ *social purpose* corporation who do any of the following  
40 shall be liable jointly and severally for all the damages resulting

1 therefrom to the ~~socially responsible~~ *social purpose* corporation  
2 or any person injured by those actions who relied on those actions  
3 or to both:

4 (a) Make, issue, ~~deliver~~ *deliver*, or publish any prospectus,  
5 report, including the reports required pursuant to ~~subdivision (b)~~  
6 ~~of Section Sections~~ 3500 and ~~Section~~ 3501, circular, certificate,  
7 financial statement, balance sheet, public notice, or document  
8 respecting the ~~socially responsible~~ *social purpose* corporation or  
9 its shares, assets, liabilities, capital, dividends, business, earnings,  
10 or accounts which is false in any material respect, knowing it to  
11 be false, or participate in the making, issuance, delivery, or  
12 publication thereof with knowledge that the same is false in a  
13 material respect.

14 (b) Make or cause to be made in the books, minutes, ~~records~~  
15 *records*, or accounts of a ~~socially responsible~~ *social purpose*  
16 corporation any entry that is false in any material particular  
17 knowing it to be false.

18 (c) Remove, erase, alter, or cancel any entry in any books or  
19 records of the ~~socially responsible~~ *social purpose* corporation,  
20 with intent to deceive.

21 (d) With respect to the reports required pursuant to subdivision  
22 (b) of Section 3500 and Section 3501, omit to state any material  
23 fact necessary in order to make the statements contained therein,  
24 in light of the circumstances under which those statements were  
25 made, not misleading in a material respect, knowing the omission  
26 to be misleading.