

AMENDED IN ASSEMBLY MAY 29, 2014

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, *911*, 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, *5813.5, 7813.5, 9621, and 12504* of, ~~and~~ to amend the heading of Division 1.5 (commencing with Section 2500) of Title 1 of, *and to add Section 3307 to*, the Corporations Code, relating to corporations.

LEGISLATIVE COUNSEL'S DIGEST

SB 1301, as amended, DeSaulnier. Corporate Flexibility Act of 2011: 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 Social Purpose Corporations Act and rename the type of corporation authorized and regulated under that act as a 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 “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 social purpose corporation. *authorize a corporation formed pursuant to the act before January 1, 2015, to elect to change its status from a flexible purpose corporation to a social purpose corporation by amending its articles of incorporation, as provided. The bill would require that any reference in the act to social purpose corporation be deemed a reference to flexible purpose corporation, for any flexible purpose corporation formed prior to January 1, 2015, that has not amended its articles of incorporation to change its status to a 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 revise one of the factors and* would require the director to consider those factors. *This bill would authorize shareholders to maintain a derivative lawsuit to enforce this requirement.*

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 “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 instead provide that a corporation formed under the act may change its status to that of a business corporation.* This bill would provide that if the ~~conversion~~ *status change* 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  $\frac{2}{3}$  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.

*Under the act, the board of a corporation formed under the act is required to cause an annual report to be sent to the shareholders, provided with a management discussion and analysis (special purpose MD&A) that contains specified information concerning the corporation's stated purposes. Existing law exempts the annual report and special purpose MD&A requirement for corporations formed under the act with fewer than 100 holders of record of its shares if specified conditions exist.*

*This bill would revise the information required to be contained in the special purpose MD&A. This bill would repeal the exemption.*

*Existing law sets forth procedures for how a corporation formed pursuant to the Corporate Flexibility Act of 2011 can convert or change their status into other types of entities and how other entities can convert or change their status to a corporation formed pursuant to the Corporate Flexibility Act of 2011.*

*This bill would revise those procedures.*

This bill would make other changes to correct erroneous 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, social purpose corporation, association,  
4 or individual shall issue or put in circulation, as money, anything  
5 but the lawful money of the United States.

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

8 158. (a) "Close corporation" means a corporation, including  
9 a close social purpose corporation, whose articles contain, in  
10 addition to the provisions required by Section 202, a provision that  
11 all of the corporation's issued shares of all classes shall be held of  
12 record by not more than a specified number of persons, not  
13 exceeding 35, and a statement "This corporation is a close  
14 corporation."

15 (b) The special provisions referred to in subdivision (a) may be  
16 included in the articles by amendment, but if such amendment is

1 adopted after the issuance of shares only by the affirmative vote  
2 of all of the issued and outstanding shares of all classes.

3 (c) The special provisions referred to in subdivision (a) may be  
4 deleted from the articles by amendment, or the number of  
5 shareholders specified may be changed by amendment, but if such  
6 amendment is adopted after the issuance of shares only by the  
7 affirmative vote of at least two-thirds of each class of the  
8 outstanding shares; provided, however, that the articles may  
9 provide for a lesser vote, but not less than a majority of the  
10 outstanding shares, or may deny a vote to any class, or both.

11 (d) In determining the number of shareholders for the purposes  
12 of the provision in the articles authorized by this section, a husband  
13 and wife and the personal representative of either shall be counted  
14 as one regardless of how shares may be held by either or both of  
15 them, a trust or personal representative of a decedent holding shares  
16 shall be counted as one regardless of the number of trustees or  
17 beneficiaries and a partnership or corporation or business  
18 association holding shares shall be counted as one (except that any  
19 such trust or entity the primary purpose of which was the  
20 acquisition or voting of the shares shall be counted according to  
21 the number of beneficial interests therein).

22 (e) A corporation shall cease to be a close corporation upon the  
23 filing of an amendment to its articles pursuant to subdivision (c)  
24 or if it shall have more than the maximum number of holders of  
25 record of its shares specified in its articles as a result of an inter  
26 vivos transfer of shares which is not void under subdivision (d) of  
27 Section 418, the transfer of shares on distribution by will or  
28 pursuant to the laws of descent and distribution, the dissolution of  
29 a partnership or corporation or business association or the  
30 termination of a trust which holds shares, by court decree upon  
31 dissolution of a marriage or otherwise by operation of law.  
32 Promptly upon acquiring more than the specified number of holders  
33 of record of its shares, a close corporation shall execute and file  
34 an amendment to its articles deleting the special provisions referred  
35 to in subdivision (a) and deleting any other provisions not  
36 permissible for a corporation which is not a close corporation,  
37 which amendment shall be promptly approved and filed by the  
38 board and need not be approved by the outstanding shares.

39 (f) Nothing contained in this section shall invalidate any  
40 agreement among the shareholders to vote for the deletion from

1 the articles of the special provisions referred to in subdivision (a)  
2 upon the lapse of a specified period of time or upon the occurrence  
3 of a certain event or condition or otherwise.

4 (g) The following sections contain specific references to close  
5 corporations: Sections 186, 202, 204, 300, 418, 421, 1111, 1201,  
6 1800, and 1904.

7 SEC. 3. Section 171.08 of the Corporations Code is amended  
8 to read:

9 171.08. “Social purpose corporation” means any social purpose  
10 corporation formed under Division 1.5 (commencing with Section  
11 2500).

12 SEC. 4. Section 911 of the Corporations Code is amended to  
13 read:

14 911. (a) A corporation may, by amendment of its articles  
15 pursuant to this section, ~~convert to a~~ *change its status to that of a*  
16 *social purpose corporation, nonprofit public benefit corporation,*  
17 *nonprofit mutual benefit corporation, nonprofit religious*  
18 *corporation, or cooperative corporation.*

19 (b) The amendment of the articles to ~~convert~~ *change status* to  
20 a nonprofit corporation shall revise the statement of purpose, delete  
21 the authorization for shares and any other provisions relating to  
22 authorized or issued shares, make such other changes as may be  
23 necessary or desired, and, if any shares have been issued, provide  
24 either for the cancellation of those shares or for the ~~conversion~~  
25 *change* of those shares to memberships of the nonprofit  
26 corporation. The amendment of the articles to ~~convert~~ *change*  
27 *status* to a cooperative corporation shall revise the statement of  
28 purpose, make such other changes as may be necessary or desired,  
29 and, if any shares have been issued, provide for the cancellation  
30 of those shares or for the ~~conversion~~ *change* of those shares to  
31 memberships of the cooperative corporation, if necessary.

32 (c) If shares have been issued, an amendment to ~~convert~~ *change*  
33 *status* to a nonprofit corporation shall be approved by all of the  
34 outstanding shares of all classes regardless of limitations or  
35 restrictions on the voting rights thereof and an amendment to  
36 ~~convert~~ *change status* to a cooperative corporation shall be  
37 approved by the outstanding shares (Section 152) of each class  
38 regardless of limitations or restrictions on the voting rights thereof.

39 (d) *In the case of a change of status to a social purpose*  
40 *corporation:*

1 (1) *The corporation shall modify the name of the corporation,*  
2 *revise the statement of purpose, include the statement required by*  
3 *subparagraph (B) of paragraph (3) of subdivision (b) of Section*  
4 *2602, and make such other conforming changes as may be*  
5 *necessary or desired.*

6 (2) *The amendment shall be approved by the affirmative vote*  
7 *of at least two-thirds of each class, or a greater vote if required*  
8 *in the articles, of outstanding shares (Section 152) of that changing*  
9 *corporation.*

10 ~~(d)~~

11 (e) If an amendment pursuant to this section is included in a  
12 merger agreement, the provisions of this section apply, except that  
13 any provision for cancellation or ~~conversion~~ *change* of shares shall  
14 be in the merger agreement rather than in the amendment of the  
15 articles.

16 ~~(e)~~

17 (f) Notwithstanding subdivision (c), if a corporation is a mutual  
18 water company within the meaning of Section 2705 of the Public  
19 Utilities Code and under the terms of the ~~conversion~~ *status change*  
20 each outstanding share is ~~converted~~ *changed* to a membership of  
21 a nonprofit mutual benefit corporation, an amendment to ~~convert~~  
22 *change status* to a nonprofit mutual benefit corporation shall be  
23 approved by the outstanding shares (Section 152) of each class  
24 regardless of limitations or restrictions on the voting rights thereof.

25 ~~SEC. 4.~~

26 *SEC. 5.* Section 1100 of the Corporations Code is amended to  
27 read:

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

1     ~~SEC. 5.~~

2     SEC. 6. Section 1112.5 of the Corporations Code is amended  
3 to read:

4     1112.5. If a disappearing corporation in a merger is a  
5 corporation governed by this division and the surviving corporation  
6 is a social purpose corporation, both of the following shall apply:

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

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

19     ~~SEC. 6.~~

20     SEC. 7. Section 1113 of the Corporations Code is amended to  
21 read:

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

29     (1) In a merger in which a domestic corporation not organized  
30 under this division or a domestic other business entity is a party,  
31 it is authorized by the laws under which it is organized to effect  
32 the merger.

33     (2) In a merger in which a foreign corporation is a party, it is  
34 authorized by the laws under which it is organized to effect the  
35 merger.

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

39     (b) Each corporation and each other party that desires to merge  
40 shall approve, and shall be a party to, an agreement of merger.

1 Other persons, including a parent party (Section 1200), may be  
2 parties to the agreement of merger. The board of each corporation  
3 that desires to merge and, if required, the shareholders shall  
4 approve the agreement of merger. The agreement of merger shall  
5 be approved on behalf of each party by those persons required to  
6 approve the merger by the laws under which it is organized. The  
7 agreement of merger shall state:

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

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

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

17 (4) The manner of converting the shares of each constituent  
18 corporation into shares, interests, or other securities of the surviving  
19 party. If any shares of any constituent corporation are not to be  
20 converted solely into shares, interests, or other securities of the  
21 surviving party, the agreement of merger shall state—(i) (A) the  
22 cash, rights, securities, or other property which the holders of those  
23 shares are to receive in exchange for the shares, which cash, rights,  
24 securities, or other property may be in addition to or in lieu of  
25 shares, interests, or other securities of the surviving party, or—(ii)  
26 (B) that the shares are canceled without consideration.

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

38 (6) Any other details or provisions as are desired, including,  
39 without limitation, a provision for the payment of cash in lieu of

1 fractional shares or for any other arrangement with respect thereto  
2 consistent with the provisions of Section 407.

3 (c) Each share of the same class or series of any constituent  
4 corporation (other than the cancellation of shares held by a party  
5 to the merger or its parent, or a wholly owned subsidiary of either,  
6 in another constituent corporation) shall, unless all shareholders  
7 of the class or series consent and except as provided in Section  
8 407, be treated equally with respect to any distribution of cash,  
9 rights, securities, or other property. Notwithstanding paragraph  
10 (4) of subdivision (b), the unredeemable common shares of a  
11 constituent corporation may be converted only into unredeemable  
12 common shares of a surviving corporation or a parent party  
13 (Section 1200) or unredeemable equity securities of a surviving  
14 party other than a corporation if another party to the merger or its  
15 parent owns, directly or indirectly, prior to the merger shares of  
16 that corporation representing more than 50 percent of the voting  
17 power of that corporation, unless all of the shareholders of the  
18 class consent and except as provided in Section 407.

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

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

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

39 (g) (1) If the surviving party is a corporation or a foreign  
40 corporation, or if a social purpose corporation (Section 171.08), a

1 public benefit corporation (Section 5060), a mutual benefit  
2 corporation (Section 5059), a religious corporation (Section 5061),  
3 or a corporation organized under the Consumer Cooperative  
4 Corporation Law (Section 12200) is a party to the merger, after  
5 required approvals of the merger by each constituent corporation  
6 through approval of the board (Section 151) and any approval of  
7 the outstanding shares (Section 152) required by Chapter 12  
8 (commencing with Section 1200) and by the other parties to the  
9 merger, the surviving party shall file a copy of the agreement of  
10 merger with an officers' certificate of each constituent domestic  
11 and foreign corporation attached stating the total number of  
12 outstanding shares or membership interests of each class entitled  
13 to vote on the merger (and identifying any other person or persons  
14 whose approval is required), that the agreement of merger in the  
15 form attached or its principal terms, as required, were approved  
16 by that corporation by a vote of a number of shares or membership  
17 interests of each class that equaled or exceeded the vote required,  
18 specifying each class entitled to vote and the percentage vote  
19 required of each class and, if applicable, by that other person or  
20 persons whose approval is required, or that the merger agreement  
21 was entitled to be and was approved by the board alone (as  
22 provided in Section 1201, in the case of corporations subject to  
23 that section). If equity securities of a parent party (Section 1200)  
24 are to be issued in the merger, the officers' certificate of that  
25 controlled party shall state either that no vote of the shareholders  
26 of the parent party was required or that the required vote was  
27 obtained. In lieu of an officers' certificate, a certificate of merger,  
28 on a form prescribed by the Secretary of State, shall be filed for  
29 each constituent other business entity. The certificate of merger  
30 shall be executed and acknowledged by each domestic constituent  
31 limited liability company by all managers of the limited liability  
32 company (unless a lesser number is specified in its articles of  
33 organization or operating agreement) and by each domestic  
34 constituent limited partnership by all general partners (unless a  
35 lesser number is provided in its certificate of limited partnership  
36 or partnership agreement) and by each domestic constituent general  
37 partnership by two partners (unless a lesser number is provided in  
38 its partnership agreement) and by each foreign constituent limited  
39 liability company by one or more managers and by each foreign  
40 constituent general partnership or foreign constituent limited

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

1 merger shall not be filed until there has been filed the certificate  
2 issued by the Insurance Commissioner approving the merger  
3 pursuant to Section 1555 of the Insurance Code. The Secretary of  
4 State may certify a copy of the agreement of merger separate from  
5 the officers' certificates and certificates of merger attached thereto.

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

1 that party the provision of law or other basis for the authority of  
2 the signing persons. The certificate of merger shall set forth all of  
3 the following:

4 (A) The name, place of incorporation or organization, and the  
5 Secretary of State's file number, if any, of each party to the merger,  
6 separately identifying the disappearing parties and the surviving  
7 party.

8 (B) If the approval of the outstanding shares of a constituent  
9 corporation was required by Chapter 12 (commencing with Section  
10 1200), a statement setting forth the total number of outstanding  
11 shares of each class entitled to vote on the merger and that the  
12 principal terms of the agreement of merger were approved by a  
13 vote of the number of shares of each class entitled to vote and the  
14 percentage vote required of each class.

15 (C) The future effective date or time, not more than 90 days  
16 subsequent to the date of filing of the merger, if the merger is not  
17 to be effective upon the filing of the certificate of merger with the  
18 office of the Secretary of State.

19 (D) A statement, by each party to the merger which is a domestic  
20 corporation not organized under this division, a foreign corporation,  
21 or an other business entity, of the statutory or other basis under  
22 which that party is authorized by the laws under which it is  
23 organized to effect the merger.

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

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

32 Unless a future effective date or time is provided in a certificate  
33 of merger, in which event the merger shall be effective at that  
34 future effective date or time, a merger shall be effective upon the  
35 filing of the certificate of merger in the office of the Secretary of  
36 State and the several parties thereto shall be one entity. The  
37 surviving other business entity shall keep a copy of the agreement  
38 of merger at its principal place of business which, for purposes of  
39 this subdivision, shall be the office referred to in Section 17710.13  
40 if a domestic limited liability company, at the business address

1 specified in paragraph (5) of subdivision (a) of Section 17710.14  
2 if a foreign limited liability company, at the office referred to in  
3 subdivision (a) of Section 16403 if a domestic general partnership,  
4 at the business address specified in subdivision (f) of Section 16911  
5 if a foreign partnership, at the office referred to in subdivision (a)  
6 of Section 15901.14 if a domestic limited partnership, or at the  
7 business address specified in paragraph (3) of subdivision (a) of  
8 Section 15909.02 if a foreign limited partnership. Upon the request  
9 of a holder of equity securities of a party to the merger, a person  
10 with authority to do so on behalf of the surviving other business  
11 entity shall promptly deliver to that holder, a copy of the agreement  
12 of merger. A waiver by that holder of the rights provided in the  
13 foregoing sentence shall be unenforceable. If a domestic reciprocal  
14 insurer organized after 1974 to provide medical malpractice  
15 insurance is a party to the merger the agreement of merger or  
16 certificate of merger shall not be filed until there has been filed  
17 the certificate issued by the Insurance Commissioner approving  
18 the merger in accordance with Section 1555 of the Insurance Code.

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

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

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

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

6 (3) Any action or proceeding pending by or against any  
7 disappearing corporation or disappearing party to the merger may  
8 be prosecuted to judgment, which shall bind the surviving party,  
9 or the surviving party may be proceeded against or substituted in  
10 its place.

11 (4) If a limited partnership or a general partnership is a party to  
12 the merger, nothing in this section is intended to affect the liability  
13 a general partner of a disappearing limited partnership or general  
14 partnership may have in connection with the debts and liabilities  
15 of the disappearing limited partnership or general partnership  
16 existing prior to the time the merger is effective.

17 (j) (1) The merger of domestic corporations with foreign  
18 corporations or foreign other business entities in a merger in which  
19 one or more other business entities is a party shall comply with  
20 subdivision (a) and this subdivision.

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

1 (3) If the surviving party is a domestic corporation or domestic  
2 other business entity, the certificate of merger or the agreement of  
3 merger with attachments shall be filed as provided in subdivision  
4 (g) and thereupon, subject to subdivision (c) of Section 110 or  
5 paragraph (2) of subdivision (g), as is applicable, the merger shall  
6 be effective as to each domestic constituent corporation and  
7 domestic constituent other business entity.

8 (4) If the surviving party is a foreign corporation or foreign  
9 other business entity, the merger shall become effective in  
10 accordance with the law of the jurisdiction in which the surviving  
11 party is organized, but, except as provided in paragraph (5), the  
12 merger shall be effective as to any domestic disappearing  
13 corporation as of the time of effectiveness in the foreign jurisdiction  
14 upon the filing in this state of a copy of the agreement of merger  
15 with an officers' certificate of each constituent foreign and  
16 domestic corporation and a certificate of merger of each constituent  
17 other business entity attached, which officers' certificates and  
18 certificates of merger shall conform to the requirements of  
19 paragraph (1) of subdivision (g). If one or more domestic other  
20 business entities is a disappearing party in a merger pursuant to  
21 this subdivision in which a foreign other business entity is the  
22 surviving entity, a certificate of merger required by the laws under  
23 which that domestic other business entity is organized, including  
24 subdivision (a) of Section 15911.14, subdivision (b) of Section  
25 16915, or subdivision (a) of Section 17710.14, as is applicable,  
26 shall also be filed at the same time as the filing of the agreement  
27 of merger.

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

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

1 applicable, pursuant to this subdivision, by a disappearing foreign  
2 other business entity registered for the transaction of intrastate  
3 business in this state shall, by virtue of that filing, subject to  
4 subdivision (c) of Section 110, automatically cancels the  
5 registration for that foreign other business entity, without the  
6 necessity of the filing of a certificate of cancellation.

7 ~~SEC. 7.~~

8 *SEC. 8.* Section 1151 of the Corporations Code is amended to  
9 read:

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

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

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

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

37 ~~SEC. 8.~~

38 *SEC. 9.* Section 1152 of the Corporations Code is amended to  
39 read:

1 1152. (a) A corporation that desires to convert to a domestic  
2 other business entity shall approve a plan of conversion. The plan  
3 of conversion shall state all of the following:

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

5 (2) The jurisdiction of the organization of the converted entity  
6 and of the converting corporation and the name of the converted  
7 entity after conversion.

8 (3) The manner of converting the shares of each of the  
9 shareholders of the converting corporation into securities of, or  
10 interests in, the converted entity.

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

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

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

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

39 ~~(d) If the corporation is converting into a social purpose~~  
40 ~~corporation, both of the following shall apply:~~

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

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

14 ~~(e)~~

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

25 ~~(f)~~

26 ~~(e) Notwithstanding its prior approval by the board and the~~  
27 ~~outstanding shares or either of them, a plan of conversion may be~~  
28 ~~amended before the conversion takes effect if the amendment is~~  
29 ~~approved by the board and, if it changes any of the principal terms~~  
30 ~~of the plan of conversion, by the shareholders of the converting~~  
31 ~~corporation in the same manner and to the same extent as was~~  
32 ~~required for approval of the original plan of conversion.~~

33 ~~(g)~~

34 ~~(f) A plan of conversion may be abandoned by the board of a~~  
35 ~~converting corporation, or by the shareholders of a converting~~  
36 ~~corporation if the abandonment is approved by the outstanding~~  
37 ~~shares, in each case in the same manner as required for approval~~  
38 ~~of the plan of conversion, subject to the contractual rights of third~~  
39 ~~parties, at any time before the conversion is effective.~~

40 ~~(h)~~

1 (g) The converted entity shall keep the plan of conversion at  
2 (1) the principal place of business of the converted entity if the  
3 converted entity is a domestic partnership or (2) at the office at  
4 which records are to be kept under Section 15901.11 if the  
5 converted entity is a domestic limited partnership or at the office  
6 at which records are to be kept under Section 17701.13 if the  
7 converted entity is a domestic limited liability company. Upon the  
8 request of a shareholder of a converting corporation, the authorized  
9 person on behalf of the converted entity shall promptly deliver to  
10 the shareholder, at the expense of the converted entity, a copy of  
11 the plan of conversion. A waiver by a shareholder of the rights  
12 provided in this subdivision shall be unenforceable.

13 ~~SEC. 9.~~

14 *SEC. 10.* Section 1155 of the Corporations Code is amended  
15 to read:

16 1155. (a) To convert a corporation:

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

20 (2) If the corporation is converting into a domestic partnership,  
21 a statement of conversion shall be completed on the statement of  
22 partnership authority for the converted entity, or if no statement  
23 of partnership authority is filed then a certificate of conversion  
24 shall be filed separately.

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

28 ~~(4) If the corporation is converting into a social purpose~~  
29 ~~corporation, a statement of conversion shall be completed on the~~  
30 ~~articles for the converted entity.~~

31 (b) Any statement or certificate of conversion of a converting  
32 corporation shall be executed and acknowledged by those officers  
33 of the converting corporation as would be required to sign an  
34 officers' certificate (Section 173), and shall set forth all of the  
35 following:

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

38 (2) A statement of the total number of outstanding shares of  
39 each class entitled to vote on the conversion, that the principal  
40 terms of the plan of conversion were approved by a vote of the

1 number of shares of each class which equaled or exceeded the vote  
2 required under Section 1152, specifying each class entitled to vote  
3 and the percentage vote required of each class.

4 (3) The name, form, and jurisdiction of organization of the  
5 converted entity.

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

8 (d) The filing with the Secretary of State of a statement of  
9 conversion on an organizational document or a certificate of  
10 conversion as set forth in subdivision (a) shall have the effect of  
11 the filing of a certificate of dissolution by the converting  
12 corporation and no converting corporation that has made the filing  
13 is required to file a certificate of election under Section 1901 or a  
14 certificate of dissolution under Section 1905 as a result of that  
15 conversion.

16 (e) Upon the effectiveness of a conversion pursuant to this  
17 chapter, a converted entity that is a ~~social purpose corporation~~,  
18 domestic partnership, domestic limited partnership, or domestic  
19 limited liability company shall be deemed to have assumed the  
20 liability of the converting corporation (1) to prepare and file or  
21 cause to be prepared and filed all tax and information returns  
22 otherwise required of the converting corporation under the  
23 Corporation Tax Law (Part 11 (commencing with Section 23001)  
24 of Division 2 of the Revenue and Taxation Code) and (2) to pay  
25 any tax liability determined to be due pursuant to that law.

26 ~~SEC. 10.~~

27 *SEC. 11.* Section 1201 of the Corporations Code is amended  
28 to read:

29 1201. (a) The principal terms of a reorganization shall be  
30 approved by the outstanding shares (Section 152) of each class of  
31 each corporation the approval of whose board is required under  
32 Section 1200, except as provided in subdivision (b) and except  
33 that (unless otherwise provided in the articles) no approval of any  
34 class of outstanding preferred shares of the surviving or acquiring  
35 corporation or parent party shall be required if the rights,  
36 preferences, privileges, and restrictions granted to or imposed upon  
37 that class of shares remain unchanged (subject to the provisions  
38 of subdivision (c)). For the purpose of this subdivision, two classes  
39 of common shares differing only as to voting rights shall be  
40 considered as a single class of shares.

1 (b) No approval of the outstanding shares (Section 152) is  
2 required by subdivision (a) in the case of any corporation if that  
3 corporation, or its shareholders immediately before the  
4 reorganization, or both, shall own (immediately after the  
5 reorganization) equity securities, other than any warrant or right  
6 to subscribe to or purchase those equity securities, of the surviving  
7 or acquiring corporation or a parent party (subdivision (d) of  
8 Section 1200) possessing more than five-sixths of the voting power  
9 of the surviving or acquiring corporation or parent party. In making  
10 the determination of ownership by the shareholders of a  
11 corporation, immediately after the reorganization, of equity  
12 securities pursuant to the preceding sentence, equity securities  
13 which they owned immediately before the reorganization as  
14 shareholders of another party to the transaction shall be  
15 disregarded. For the purpose of this section only, the voting power  
16 of a corporation shall be calculated by assuming the conversion  
17 of all equity securities convertible (immediately or at some future  
18 time) into shares entitled to vote but not assuming the exercise of  
19 any warrant or right to subscribe to or purchase those shares.

20 (c) Notwithstanding subdivision (b), the principal terms of a  
21 reorganization shall be approved by the outstanding shares (Section  
22 152) of the surviving corporation in a merger reorganization if any  
23 amendment is made to its articles that would otherwise require  
24 that approval.

25 (d) Notwithstanding subdivision (b), the principal terms of a  
26 reorganization shall be approved by the outstanding shares (Section  
27 152) of any class of a corporation that is a party to a merger or  
28 sale-of-assets reorganization if holders of shares of that class  
29 receive shares of the surviving or acquiring corporation or parent  
30 party having different rights, preferences, privileges, or restrictions  
31 than those surrendered. Shares in a foreign corporation received  
32 in exchange for shares in a domestic corporation have different  
33 rights, preferences, privileges, and restrictions within the meaning  
34 of the preceding sentence.

35 (e) Notwithstanding subdivisions (a) and (b), the principal terms  
36 of a reorganization shall be approved by the affirmative vote of at  
37 least two-thirds of each class, or a greater vote if required in the  
38 articles, of the outstanding shares (Section 152) of any close  
39 corporation if the reorganization would result in their receiving  
40 shares of a corporation that is not a close corporation. However,

1 the articles may provide for a lesser vote, but not less than a  
2 majority of the outstanding shares of each class.

3 (f) Notwithstanding subdivisions (a) and (b), the principal terms  
4 of a reorganization shall be approved by at least two-thirds of each  
5 class, or a greater vote if required in the articles, of the outstanding  
6 shares (Section 152) of a corporation that is a party to a merger  
7 reorganization if holders of shares receive shares of a surviving  
8 social purpose corporation in the merger.

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

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

21 (i) Any approval required by this section may be given before  
22 or after the approval by the board. Notwithstanding approval  
23 required by this section, the board may abandon the proposed  
24 reorganization without further action by the shareholders, subject  
25 to the contractual rights, if any, of third parties.

26 ~~SEC. 11.~~

27 *SEC. 12.* The heading of Division 1.5 (commencing with  
28 Section 2500) of Title 1 of the Corporations Code is amended to  
29 read:

30

31 DIVISION 1.5. SOCIAL PURPOSE CORPORATIONS ACT

32

33 ~~SEC. 12.~~

34 *SEC. 13.* Section 2500 of the Corporations Code is amended  
35 to read:

36 2500. This division shall be known and may be cited as the  
37 Social Purpose Corporations Act.

38 ~~SEC. 13.~~

39 *SEC. 14.* Section 2501 of the Corporations Code is amended  
40 to read:

1 2501. Except as otherwise expressly stated, the provisions of  
2 Division 1 (commencing with Section 100) shall apply to  
3 corporations organized under this division, and references in that  
4 division to the terms “close corporation,” “constituent corporation,”  
5 “corporation,” “disappearing corporation,” “domestic corporation,”  
6 “foreign corporation,” “surviving corporation,” and similar terms  
7 shall be read to apply, in the same manner, to include the similar  
8 “social purpose corporation.”

9 ~~SEC. 14.~~

10 *SEC. 15.* Section 2502 of the Corporations Code is amended  
11 to read:

12 2502. This division applies only to social purpose corporations  
13 organized expressly under this division whether organized or  
14 existing under this division or *amended*, merged or converted into  
15 a social purpose corporation in accordance with *Chapter 9*  
16 (*commencing with Section 900*) of *Division 1*, Chapter 11  
17 (commencing with Section 1100) of Division 1 or Chapter 11.5  
18 (commencing with Section 1150) of Division ~~1~~, *including all*  
19 *flexible purpose corporations formed under this division prior to*  
20 *January 1, 2015, and now existing except as provided in paragraph*  
21 *(2) of subdivision (b) of Section 2601 and paragraph (3) of*  
22 *subdivision (b) of Section 2602.*

23 ~~SEC. 15.~~

24 *SEC. 16.* Section 2502.01 of the Corporations Code is amended  
25 to read:

26 2502.01. Every social purpose corporation organized under  
27 the laws of this state or similar foreign social purpose corporation,  
28 all of the capital stock of which is beneficially owned by the United  
29 States, an agency or instrumentality of the United States or any  
30 social purpose corporation or similar foreign social purpose  
31 corporation the whole of the capital stock of which is owned by  
32 the United States or by an agency or instrumentality of the United  
33 States, is conclusively presumed to be an agency and  
34 instrumentality of the United States and is entitled to all privileges  
35 and immunities to which the holders of all of its stock are entitled  
36 as agencies of the United States.

37 ~~SEC. 16.~~

38 *SEC. 17.* Section 2502.03 of the Corporations Code is amended  
39 to read:

1 2502.03. A social purpose corporation may be sued in the same  
2 manner as a corporation as provided in the Code of Civil Procedure.

3 ~~SEC. 17.~~

4 *SEC. 18.* Section 2502.04 of the Corporations Code is amended  
5 to read:

6 2502.04. A social purpose corporation formed under this  
7 division shall, in respect of its property, as a condition of its  
8 existence as a social purpose corporation, be subject, in the same  
9 manner as a corporation, to the provisions of the Code of Civil  
10 Procedure authorizing the attachment of corporate property.

11 ~~SEC. 18.~~

12 *SEC. 19.* Section 2502.05 of the Corporations Code is amended  
13 to read:

14 2502.05. The fees of the Secretary of State for filing  
15 instruments by or on behalf of social purpose corporations shall  
16 be the same fees prescribed for corporations in Article 3  
17 (commencing with Section 12180) of Chapter 3 of Part 2 of  
18 Division 3 of Title 2 of the Government Code.

19 ~~SEC. 19.~~

20 *SEC. 20.* Section 2502.06 of the Corporations Code is amended  
21 to read:

22 2502.06. (a) Provisions of the articles described in paragraph  
23 (3) of subdivision (e) of Section 2602 and subdivisions (a) and (b)  
24 of Section 2603 may be made dependent upon facts ascertainable  
25 outside of the articles, if the manner in which those facts shall  
26 operate upon those provisions is clearly and expressly set forth in  
27 the articles. Similarly, any of the terms of an agreement of merger  
28 pursuant to Section 1101 may be made dependent upon facts  
29 ascertainable outside of that agreement, if the manner in which  
30 those facts shall operate upon the terms of the agreement is clearly  
31 and expressly set forth in the agreement of merger.

32 (b) Notwithstanding subdivision (a), when any provisions or  
33 terms of articles or an agreement of merger are made dependent  
34 upon facts ascertainable outside of the filed instrument through a  
35 reference to an agreement or similar document, the social purpose  
36 corporation filing that instrument shall maintain at its principal  
37 executive office a copy of that referenced agreement or document  
38 and all amendments, and shall provide to its shareholders, in the  
39 case of articles, or to shareholders of any constituent corporation

1 or other business entity, in the case of an agreement of merger, a  
2 copy of them upon written request and without charge.

3 (c) For the purposes of this section, “referenced agreement”  
4 means an agreement or contract to which the social purpose  
5 corporation is a party. An amendment or revision of a referenced  
6 agreement shall require shareholder approval, in addition to any  
7 other required approvals, upon any of the following circumstances:

8 (1) If the amendment or revision of the referenced agreement  
9 would result in a material change in the rights, preferences,  
10 privileges, or restrictions of a class or series of shares, the  
11 amendment or revision shall be approved by the outstanding shares,  
12 as defined in Section 152, of that class or series.

13 (2) If the amendment or revision of the referenced agreement  
14 would result in a material change in the rights or liabilities of any  
15 class or series of shares with respect to the subject matter of  
16 paragraph (1), (2), (3), (5), or (9) of subdivision (a) of Section  
17 2603, the amendment or revision shall be approved by the  
18 outstanding shares, as defined in Section 152, of that class or series.

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

24 (4) If the amendment or revision of the referenced agreement  
25 would result in a change of any of the principal terms of an  
26 agreement of merger, the amendment or revision shall be approved  
27 in the same manner as required by Section 3504 for a change in  
28 the principal terms of an agreement of merger.

29 ~~SEC. 20.~~

30 *SEC. 21.* Section 2503.1 of the Corporations Code is amended  
31 to read:

32 2503.1. “Close social purpose corporation” means a social  
33 purpose corporation that is also a close corporation.

34 ~~SEC. 21.~~

35 *SEC. 22.* Section 2504 of the Corporations Code is amended  
36 to read:

37 2504. “Constituent social purpose corporation” means a social  
38 purpose corporation that is merged with or into one or more  
39 corporations or one or more other business entities and includes a  
40 surviving social purpose corporation.

1 ~~SEC. 22.~~

2 *SEC. 23.* Section 2506 of the Corporations Code is amended  
3 to read:

4 2506. “Disappearing social purpose corporation” means a  
5 constituent ~~socially responsible~~ *social purpose* corporation that is  
6 not the surviving entity.

7 ~~SEC. 23.~~

8 *SEC. 24.* Section 2507 of the Corporations Code is amended  
9 to read:

10 2507. “Domestic social purpose corporation” means a  
11 corporation organized under this division.

12 ~~SEC. 24.~~

13 *SEC. 25.* Section 2509 of the Corporations Code is amended  
14 to read:

15 2509. “Social purpose corporation,” unless otherwise expressly  
16 provided, refers only to a corporation organized under this division.

17 ~~SEC. 25.~~

18 *SEC. 26.* Section 2510 of the Corporations Code is amended  
19 to read:

20 2510. “Social purpose corporation subject to the Banking Law”  
21 means any of the following:

22 (a) A social purpose corporation that, with the approval of the  
23 Commissioner of Financial Institutions, is incorporated for the  
24 purpose of engaging in, or that is authorized by the Commissioner  
25 of Financial Institutions to engage in, the commercial banking  
26 business under the Banking Law (Division 1 (commencing with  
27 Section 99) of the Financial Code).

28 (b) Any social purpose corporation that, with the approval of  
29 the Commissioner of Financial Institutions, is incorporated for the  
30 purpose of engaging in, or that is authorized by the Commissioner  
31 of Financial Institutions to engage in, the industrial banking  
32 business under the Banking Law (Division 1 (commencing with  
33 Section 99) of the Financial Code).

34 (c) Any social purpose corporation, other than a social purpose  
35 corporation described in subdivision (d), that, with the approval  
36 of the Commissioner of Financial Institutions, is incorporated for  
37 the purpose of engaging in, or that is authorized by the  
38 Commissioner of Financial Institutions to engage in, the trust  
39 business under the Banking Law (Division 1 (commencing with  
40 Section 99) of the Financial Code).

1 (d) Any social purpose corporation that is authorized by the  
2 Commissioner of Financial Institutions and the Commissioner of  
3 Insurance to maintain a title insurance department to engage in  
4 title insurance business and a trust department to engage in trust  
5 business.

6 (e) Any social purpose corporation that, with the approval of  
7 the Commissioner of Financial Institutions, is incorporated for the  
8 purpose of engaging in, or that is authorized by the Commissioner  
9 of Financial Institutions to engage in, business under Article 1  
10 (commencing with Section 3500) of Chapter 19 of Division 1 of  
11 the Financial Code.

12 ~~SEC. 26.~~

13 *SEC. 27.* Section 2510.1 of the Corporations Code is amended  
14 to read:

15 2510.1. “Social purpose corporation subject to the Insurance  
16 Code as an insurer” means a social purpose corporation that has  
17 met the requirements of Sections 201.5, 201.6, and 201.7.

18 ~~SEC. 27.~~

19 *SEC. 28.* Section 2511 of the Corporations Code is amended  
20 to read:

21 2511. “Reorganization” means a merger reorganization, an  
22 exchange reorganization, or a sale of assets reorganization.

23 (a) “Merger reorganization” means a merger pursuant to Chapter  
24 11 (commencing with Section 1100) of Division 1 and Chapter 8  
25 (commencing with Section 3200), of this division, other than a  
26 short-form merger.

27 (b) “Exchange reorganization” means the acquisition by one  
28 domestic social purpose corporation, foreign social purpose  
29 corporation, or other business entity in exchange, in whole or in  
30 part, for its equity securities, or the equity securities of a domestic  
31 ~~socially responsible~~ *social purpose* corporation, a foreign ~~socially~~  
32 ~~responsible~~ *social purpose* corporation, or an other business entity  
33 that is in control of the acquiring entity, of equity securities of  
34 another domestic social purpose corporation, foreign social purpose  
35 corporation, or other business entity if, immediately after the  
36 acquisition, the acquiring entity has control of the other entity.

37 (c) “Sale-of-assets reorganization” means the acquisition by  
38 one domestic social purpose corporation, foreign social purpose  
39 corporation, or other business entity in exchange in whole or in  
40 part for its equity securities, or the equity securities of a domestic

1 social purpose corporation, a foreign ~~socially responsible~~ *social*  
2 *purpose* corporation, or an other business entity that is in control  
3 of the acquiring entity, or for its debt securities, or debt securities  
4 of a domestic social purpose corporation, foreign social purpose  
5 corporation, or other business entity that is in control of the  
6 acquiring entity, that are not adequately secured and that have a  
7 maturity date in excess of five years after the consummation of  
8 the reorganization, or both, of all or substantially all of the assets  
9 of another domestic social purpose corporation, foreign social  
10 purpose corporation, or other business entity.

11 ~~SEC. 28.~~

12 *SEC. 29.* Section 2512 of the Corporations Code is amended  
13 to read:

14 2512. “Share exchange tender offer” means any acquisition by  
15 one social purpose corporation in exchange in whole or in part for  
16 its equity securities, or the equity securities of a corporation or a  
17 social purpose corporation that is in control of the acquiring social  
18 purpose corporation, of shares of another corporation or social  
19 purpose corporation, other than an exchange reorganization  
20 (subdivision (b) of Section 2511).

21 ~~SEC. 29.~~

22 *SEC. 30.* Section 2513 of the Corporations Code is amended  
23 to read:

24 2513. “Special purpose” means the special purpose set forth  
25 in a social purpose corporation’s articles pursuant to subdivision  
26 (b) of Section 2602.

27 ~~SEC. 30.~~

28 *SEC. 31.* Section 2514 of the Corporations Code is amended  
29 to read:

30 2514. “Special purpose current report” means the report  
31 required of a social purpose corporation pursuant to Section 3501.

32 ~~SEC. 31.~~

33 *SEC. 32.* Section 2515 of the Corporations Code is amended  
34 to read:

35 2515. “Special purpose MD&A” means the management  
36 discussion and analysis required of a ~~socially responsible~~ *social*  
37 *purpose* corporation pursuant to subdivision (b) of Section 3500.

38 ~~SEC. 32.~~

39 *SEC. 33.* Section 2516 of the Corporations Code is amended  
40 to read:

1 2516. “Special purpose objectives” means those objectives set  
2 forth by management and the directors of a social purpose  
3 corporation for purposes of measuring the impact of the social  
4 purpose corporation’s efforts relating to its special purpose in  
5 accordance with Section 3500.

6 ~~SEC. 33.~~

7 *SEC. 34.* Section 2517 of the Corporations Code is amended  
8 to read:

9 2517. “Surviving social purpose corporation” means a social  
10 purpose corporation into which one or more other corporations or  
11 one or more other business entities is merged.

12 ~~SEC. 34.~~

13 *SEC. 35.* Section 2600 of the Corporations Code is amended  
14 to read:

15 2600. (a) One or more natural persons, partnerships,  
16 associations, social purpose corporations, or corporations, domestic  
17 or foreign, may form a social purpose corporation under this  
18 division by executing and filing articles of incorporation.

19 (b) If initial directors are named in the articles, each director  
20 named in the articles shall sign and acknowledge the articles. If  
21 initial directors are not named in the articles, the articles shall be  
22 signed by one or more incorporators who shall be persons described  
23 in subdivision (a).

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

27 ~~SEC. 35.~~

28 *SEC. 36.* Section 2600.5 of the Corporations Code is amended  
29 to read:

30 2600.5. (a) An existing business association organized as a  
31 trust under the laws of this state or of a foreign jurisdiction may  
32 incorporate under this division upon approval by its board of  
33 trustees or similar governing body and approval by the affirmative  
34 vote of two-thirds of the outstanding voting shares of beneficial  
35 interest, or a greater proportion of the outstanding shares of  
36 beneficial interest or the vote of those other classes of shares of  
37 beneficial interest as may be specifically required by its declaration  
38 of trust or bylaws, and the filing of articles with a certificate  
39 attached pursuant to this chapter.

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

5 (c) The articles filed pursuant to this section shall be signed by  
6 the president, or any vice president, and the secretary, or any  
7 assistant secretary, of the existing association and shall be  
8 accompanied by a certificate signed and verified by those officers  
9 signing the articles and stating that the incorporation of the  
10 association has been approved by the trustees and by the required  
11 vote of holders of shares of beneficial interest in accordance with  
12 subdivision (a).

13 (d) Upon the filing of articles pursuant to this section, the social  
14 purpose corporation shall succeed automatically to all of the rights  
15 and property of the association being incorporated and shall be  
16 subject to all of its debts and liabilities in the same manner as if  
17 the ~~socially responsible~~ *social purpose* corporation had itself  
18 incurred them. The incumbent trustees of the association shall  
19 constitute the initial directors of the social purpose corporation  
20 and shall continue in office until the next annual meeting of the  
21 shareholders or their earlier death, resignation, or removal. All  
22 rights of creditors and all liens upon the property of the association  
23 shall be preserved unimpaired. Any action or proceeding pending  
24 by or against the association may be prosecuted to judgment, which  
25 shall bind the social purpose corporation, or the social purpose  
26 corporation may be proceeded against or substituted in its place.

27 (e) The filing for record in the office of the county recorder of  
28 any county in this state in which any of the real property of the  
29 association is located of a copy of the articles filed pursuant to this  
30 section, certified by the Secretary of State, shall evidence record  
31 ownership in the social purpose corporation of all interests of the  
32 association in and to the real property located in that county.

33 ~~SEC. 36.~~

34 *SEC. 37.* Section 2601 of the Corporations Code is amended  
35 to read:

36 2601. (a) The Secretary of State shall not file articles setting  
37 forth a name in which “bank,” “trust,” “trustee,” or related words  
38 appear, unless the certificate of approval of the Commissioner of  
39 Financial Institutions is attached to the articles. This subdivision  
40 does not apply to the articles of any ~~socially responsible~~ *social*

1 *purpose* corporation subject to the Banking Law on which is  
2 endorsed the approval of the Commissioner of Financial  
3 Institutions.

4 (b) (1) The Secretary of State shall not file articles that set  
5 forth a name that is likely to mislead the public or that is the same  
6 as, or resembles so closely as to tend to deceive, the name of a  
7 domestic corporation, the name of a domestic social purpose  
8 corporation, or the name of a foreign corporation that is authorized  
9 to transact intrastate business or has registered its name pursuant  
10 to Section 2101, a name that a foreign corporation has assumed  
11 under subdivision (b) of Section 2106, a name that will become  
12 the record name of a corporation or social purpose corporation or  
13 a foreign corporation upon the effective date of a filed corporate  
14 instrument where there is a delayed effective date pursuant to  
15 subdivision (c) of Section 110 or subdivision (c) of Section 5008,  
16 or a name that is under reservation for another corporation or  
17 ~~socially responsible~~ *social purpose* corporation pursuant to this  
18 title, except that a social purpose corporation may adopt a name  
19 that is substantially the same as an existing corporation or social  
20 purpose corporation, foreign or domestic, which is authorized to  
21 transact intrastate business or has registered its name pursuant to  
22 Section 2101, upon proof of consent by the domestic or foreign  
23 corporation or ~~socially responsible~~ *social purpose* corporation and  
24 a finding by the Secretary of State that under the circumstances  
25 the public is not likely to be misled. The use by a social purpose  
26 corporation of a name in violation of this section may be enjoined  
27 notwithstanding the filing of its articles by the Secretary of State.

28 (2) ~~A corporation formed pursuant to this division as a “flexible  
29 purpose corporation” before January 1, 2015, shall continue its  
30 existence as a social purpose corporation. A corporation formed  
31 pursuant to this division before January 1, 2015, may, but is not  
32 required to, change its name to replace “flexible purpose  
33 corporation” with “social purpose corporation” and may, but is  
34 not required to, amend its articles of incorporation to replace the  
35 term “flexible purpose corporation” with “social purpose  
36 corporation” as applicable in any statements contained in the  
37 articles. Any reference to a “flexible purpose corporation” or any  
38 abbreviation of that term in the articles of incorporation of a  
39 corporation formed pursuant to this division before January 1,  
40 2015, shall also be a reference to “social purpose corporation.”~~

1 (2) A corporation formed pursuant to this division before  
 2 January 1, 2015, may elect to change its status from a flexible  
 3 purpose corporation to a social purpose corporation by amending  
 4 its articles of incorporation to change its name to replace “flexible  
 5 purpose corporation” with “social purpose corporation” and to  
 6 replace the term “flexible purpose corporation” with “social  
 7 purpose corporation” as applicable in any statements contained  
 8 in the articles. For any flexible purpose corporation formed prior  
 9 to January 1, 2015, that has not amended its articles of  
 10 incorporation to change its status to a social purpose corporation,  
 11 any reference in this division to social purpose corporation shall  
 12 be deemed a reference to “flexible purpose corporation.”

13 (c) Any applicant may, upon payment of the fee prescribed in  
 14 the Government Code, obtain from the Secretary of State a  
 15 certificate of reservation of any name not prohibited by subdivision  
 16 (b), and upon the issuance of the certificate the name stated in the  
 17 certificate shall be reserved for a period of 60 days. The Secretary  
 18 of State shall not, however, issue certificates reserving the same  
 19 name for two or more consecutive 60-day periods to the same  
 20 applicant or for the use or benefit of the same person, partnership,  
 21 firm, corporation, or social purpose corporation. No consecutive  
 22 reservations shall be made by or for the use or benefit of the same  
 23 person, partnership, firm, corporation, or social purpose corporation  
 24 of names so similar as to fall within the prohibitions of subdivision  
 25 (b).

26 ~~SEC. 37.~~

27 *SEC. 38.* Section 2602 of the Corporations Code is amended  
 28 to read:

29 2602. The articles of incorporation shall set forth:

30 (a) The name of the social purpose corporation that shall contain  
 31 the words ~~“socially responsible~~ “social purpose corporation” or  
 32 an abbreviation of those words.

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

34 (A) “The purpose of this social purpose corporation is to engage  
 35 in any lawful act or activity for which a social purpose corporation  
 36 may be organized under Division 1.5 of the California Corporations  
 37 Code, other than the banking business, the trust company business  
 38 or the practice of a profession permitted to be incorporated by the  
 39 California Corporations Code, for the benefit of the ~~long-term and~~  
 40 ~~the short-term~~ overall interests of the social purpose corporation

1 and its shareholders and in furtherance of the following enumerated  
2 purposes \_\_\_\_.”

3 (B) “The purpose of this social purpose corporation is to engage  
4 in the profession of \_\_\_\_ (with the insertion of a profession  
5 permitted to be incorporated by the California Corporations Code)  
6 and any other lawful activities, other than the banking or trust  
7 company business, not prohibited to a social purpose corporation  
8 engaging in that profession by applicable laws and regulations,  
9 for the benefit of the ~~long-term and the short-term~~ *overall* interests  
10 of the social purpose corporation and its shareholders and in  
11 furtherance of the following enumerated purposes \_\_\_\_.”

12 (2) A statement that a purpose of the ~~socially responsible~~ *social*  
13 *purpose* corporation is to engage in one or more of the following  
14 purposes, in addition to the purpose stated pursuant to paragraph  
15 (1):

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

18 (B) The purpose of promoting positive ~~short-term or long-term~~  
19 effects of, or minimizing adverse ~~short-term or long-term~~ effects  
20 of, the social purpose corporation’s activities upon any of the  
21 following:

22 (i) The social purpose corporation’s employees, suppliers,  
23 customers, and creditors.

24 (ii) The community and society.

25 (iii) The environment.

26 (3) (A) ~~For corporations~~ *any corporation organized under this*  
27 *division before January 1, 2015, that has not elected to change its*  
28 *status to a social purpose corporation, a statement that the*  
29 *corporation is organized as a flexible purpose corporation under*  
30 *the Corporate Flexibility Act of 2011. Such a corporation is not*  
31 *required to revise the statements required in paragraphs (1) and*  
32 *(2) to conform to the changes made by the act adding this*  
33 *subparagraph.*

34 (B) ~~For corporations~~ *any corporation organized under this*  
35 *division on and after January 1, 2015, or that has elected to change*  
36 *its status to a social purpose corporation pursuant to paragraph*  
37 *(2) of subdivision (b) of Section 2601, a statement that the*  
38 *corporation is organized as a social purpose corporation under the*  
39 *Social Purpose Corporations Act.*

1 (4) If the social purpose corporation is a social purpose  
2 corporation subject to the Banking Law (Division 1 (commencing  
3 with Section 99) of the Financial Code), the articles shall set forth  
4 a statement of purpose that is prescribed by the applicable provision  
5 of the Banking Law (Division 1 (commencing with Section 99)  
6 of the Financial Code).

7 (5) If the social purpose corporation is a social purpose  
8 corporation subject to the Insurance Code as an insurer, the articles  
9 shall additionally state that the business of the social purpose  
10 corporation is to be an insurer.

11 (6) If the social purpose corporation is intended to be a  
12 professional corporation within the meaning of the Moscone-Knox  
13 Professional Corporation Act (Part 4 (commencing with Section  
14 13400) of Division 3), the articles shall additionally contain the  
15 statement required by Section 13404. The articles shall not set  
16 forth any further or additional statement with respect to the  
17 purposes or powers of the ~~socially responsible~~ *social purpose*  
18 corporation, except by way of limitation or except as expressly  
19 required by any law of this state, other than this division, or any  
20 federal or other statute or regulation, including the Internal Revenue  
21 Code and regulations thereunder as a condition of acquiring or  
22 maintaining a particular status for tax purposes.

23 (7) If the social purpose corporation is a close social purpose  
24 corporation, a statement as required by subdivision (a) of Section  
25 158.

26 (c) The name and street address in this state of the social purpose  
27 corporation's initial agent for service of process in accordance  
28 with subdivision (b) of Section 1502.

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

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

32 (f) If the social purpose corporation is authorized to issue only  
33 one class of shares, the total number of shares that the social  
34 purpose corporation is authorized to issue.

35 (g) If the social purpose corporation is authorized to issue more  
36 than one class of shares, or if any class of shares is to have two or  
37 more series, the articles shall state:

38 (1) The total number of shares of each class that the social  
39 purpose corporation is authorized to issue and the total number of  
40 shares of each series that the social purpose corporation is

1 authorized to issue or that the board is authorized to fix the number  
2 of shares of any such series.

3 (2) The designation of each class and the designation of each  
4 series or that the board may determine the designation of any such  
5 series.

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

23 ~~SEC. 38.~~

24 *SEC. 39.* Section 2603 of the Corporations Code is amended  
25 to read:

26 2603. The articles of incorporation may set forth:

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

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

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

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

34 (4) A provision limiting the duration of the social purpose  
35 corporation's existence to a specified date.

36 (5) A provision requiring, for any or all corporate actions, except  
37 as provided in Section 303, subdivision (b) of Section 402.5,  
38 subdivision (c) of Section 708, and Section 1900, the vote of a  
39 larger proportion or of all of the shares of any class or series, or  
40 the vote or quorum for taking action of a larger proportion or of

1 all of the directors, than is otherwise required by Division 1  
2 (commencing with Section 100) or this division.

3 (6) So long as consistent with the purpose of the social purpose  
4 corporation as set forth in the articles in accordance with  
5 subdivision (b) of Section 2602, a provision limiting or restricting  
6 the business in which the social purpose corporation may engage  
7 or the powers which the social purpose corporation may exercise,  
8 or both.

9 (7) A provision conferring upon the holders of any evidences  
10 of indebtedness, issued or to be issued by the social purpose  
11 corporation, the right to vote in the election of the directors and  
12 on any other matters on which shareholders may vote.

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

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

19 (10) Provisions eliminating or limiting the personal liability of  
20 a director for monetary damages in an action brought by or in the  
21 right of the social purpose corporation for breach of a director's  
22 duties to the ~~socially responsible~~ *social purpose* corporation and  
23 its shareholders, as set forth in Section 2700, subject to the  
24 following:

25 (A) The provision may not eliminate or limit the liability of  
26 directors (i) for acts or omissions that involve intentional  
27 misconduct or a knowing and culpable violation of law, (ii) for  
28 acts or omissions that a director believes to be contrary to the best  
29 interests of the social purpose corporation or its shareholders and  
30 its corporate purposes as expressed in its articles, or that involve  
31 the absence of good faith on the part of the director, (iii) for any  
32 transaction from which a director derived an improper personal  
33 benefit, (iv) for acts or omissions that show a reckless disregard  
34 for the director's duty to the social purpose corporation or its  
35 shareholders in circumstances in which the director was aware, or  
36 should have been aware, in the ordinary course of performing a  
37 director's duties, of a risk of serious injury to the ~~socially~~  
38 ~~responsible~~ *social purpose* corporation, its shareholders, or its  
39 corporate purposes as expressed in its articles, (v) for acts or  
40 omissions that constitute an unexcused pattern of inattention that

1 amounts to an abdication of the director's duty to the social purpose  
2 corporation, its shareholders, or its corporate purposes as expressed  
3 in its articles pursuant to Section 2602, or (vi) under Section 310  
4 or 2701.

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

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

12 (11) A provision authorizing, whether by bylaw, agreement, or  
13 otherwise, the indemnification of agents of the social purpose  
14 corporation for breach of duty to the social purpose corporation  
15 and its shareholders, provided, however, that the provision may  
16 not provide for indemnification of any agent for any acts or  
17 omissions or transactions from which a director may not be relieved  
18 of liability as described in subparagraphs (A), (B), and (C) of  
19 paragraph (10).

20 Notwithstanding this subdivision, bylaws may require, for all  
21 or any actions by the board, the affirmative vote of a majority of  
22 the authorized number of directors. Nothing contained in this  
23 subdivision shall affect the enforceability, as between the parties  
24 thereto, of any lawful agreement not otherwise contrary to public  
25 policy.

26 (b) Reasonable restrictions upon the right to transfer or  
27 hypothecate shares of any class or classes or series, except that no  
28 restriction shall be binding with respect to shares issued prior to  
29 the adoption of the restriction unless the holders of those shares  
30 voted in favor of the restriction.

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

33 (d) Any other provision, not in conflict with law, for the  
34 management of the business and for the conduct of the affairs of  
35 the social purpose corporation, including any provision that is  
36 required or permitted by this division to be stated in the bylaws.

37 ~~SEC. 39.~~

38 *SEC. 40.* Section 2604 of the Corporations Code is amended  
39 to read:

1 2604. Subject to any limitation contained in the articles, to  
2 compliance with any other applicable laws, and to consistency  
3 with the special purpose of the social purpose corporation, any  
4 social purpose corporation other than a social purpose corporation  
5 subject to the Banking Law or a professional social purpose  
6 corporation may engage in any business activity. A social purpose  
7 corporation subject to the Banking Law or a professional-socially  
8 responsible *social purpose* corporation may engage in any business  
9 activity not prohibited by the respective statutes and regulations  
10 to which it is subject.

11 ~~SEC. 40.~~

12 *SEC. 41.* Section 2605 of the Corporations Code is amended  
13 to read:

14 2605. Subject to any limitations contained in the articles, to  
15 compliance with other provisions of this division and any other  
16 applicable laws, and to consistency with the special purpose of the  
17 social purpose corporation, a social purpose corporation shall have  
18 all the powers of a natural person in carrying out its business  
19 activities, including, without limitation, the power to:

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

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

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

25 (d) Subject to the provisions of Section 510, issue, purchase,  
26 redeem, receive, take or otherwise acquire, own, hold, sell, lend,  
27 exchange, transfer or otherwise dispose of, pledge, use, and  
28 otherwise deal in and with its own shares, bonds, debentures, and  
29 other securities.

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

33 (f) Pay pensions, and establish and carry out pension,  
34 profit-sharing, share bonus, share purchase, share option, savings,  
35 thrift, and other retirement, incentive, and benefit plans, trusts, and  
36 provisions for any or all of the directors, officers, and employees  
37 of the social purpose corporation or any of its subsidiaries or  
38 affiliates, and to indemnify and purchase and maintain insurance  
39 on behalf of any fiduciary of these plans, trusts, or provisions.

1 (g) Subject to the provisions of Section 315, assume obligations,  
2 enter into contracts, including contracts of guaranty or suretyship,  
3 incur liabilities, borrow and lend money and otherwise use its  
4 credit, and secure any of its obligations, contracts, or liabilities by  
5 mortgage, pledge, or other encumbrance of all or any part of its  
6 property, franchises, and income.

7 (h) Participate with others in any partnership, joint venture, or  
8 other association, transaction, or arrangement of any kind, whether  
9 or not that participation involves sharing or delegation of control  
10 with or to others.

11 ~~SEC. 41.~~

12 *SEC. 42.* Section 2700 of the Corporations Code is amended  
13 to read:

14 2700. (a) A director shall perform the duties of a director,  
15 including duties as a member of any committee of the board upon  
16 which the director may serve, in good faith, in a manner the director  
17 believes to be in the best interests of the ~~socially responsible~~ *social*  
18 *purpose* corporation and its shareholders, and with that care,  
19 including reasonable inquiry, as an ordinarily prudent person in a  
20 like position would use under similar circumstances.

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

25 (1) An officer or employee of the ~~socially responsible~~ *social*  
26 *purpose* corporation whom the director believes to be reliable and  
27 competent in the matters presented.

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

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

37 (c) In discharging his or her duties, a director shall consider  
38 those factors, and give weight to those factors, as the director  
39 deems relevant, including the ~~short-term and long-term~~ *overall*  
40 prospects of the social purpose corporation, the best interests of

1 the social purpose corporation and its shareholders, and the  
2 purposes of the social purpose corporation as set forth in its articles.

3 (d) A person who performs the duties of a director in accordance  
4 with subdivisions (a), (b), and (c) shall have no liability based  
5 upon any alleged failure to discharge the person's obligations as  
6 a director. The liability of a director for monetary damages may  
7 be eliminated or limited by a social purpose corporation's articles  
8 to the extent provided in paragraph (10) of subdivision (a) of  
9 Section 2603.

10 (e) Notwithstanding any of the purposes set forth in its articles,  
11 a social purpose corporation shall not be deemed to hold any of  
12 its assets for the benefit of any party other than its shareholders.  
13 However, nothing in this division shall be construed as negating  
14 existing charitable trust principles or the Attorney General's  
15 authority to enforce any charitable trust created.

16 (f) Nothing in this section, express or implied, is intended to  
17 create or grant or shall create or grant any right in or for any person  
18 or any cause of action by or for any person, and a director shall  
19 not be responsible to any party other than the social purpose  
20 corporation and its shareholders.

21 ~~SEC. 42.~~

22 *SEC. 43.* Section 2701 of the Corporations Code is amended  
23 to read:

24 2701. (a) Subject to Section 2700, directors of a social purpose  
25 corporation who approve any of the following corporate actions  
26 shall be jointly and severally liable to the social purpose  
27 corporation for the benefit of all of the creditors or shareholders  
28 entitled to institute an action under subdivision (c):

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

32 (2) The distribution of assets to shareholders after institution of  
33 dissolution proceedings of the social purpose corporation, without  
34 paying or adequately providing for all known liabilities of the  
35 social purpose corporation, excluding any claims not filed by  
36 creditors within the time limit set by the court in a notice given to  
37 creditors under Chapter 18 (commencing with Section 1800) of  
38 Division 1, Chapter 20 (commencing with Section 1900) of  
39 Division 1, and Chapter 20 (commencing with Section 2000).

1 (3) The making of any loan or guaranty contrary to Section  
2 2715.

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

7 (c) Suit may be brought in the name of the social purpose  
8 corporation to enforce the liability as follows:

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

12 (2) Under paragraph (2) or (3) of subdivision (a) against any or  
13 all directors liable, by any one or more creditors of the social  
14 purpose corporation whose debts or claims arose prior to the time  
15 of any of the corporate actions specified in paragraph (2) or (3) of  
16 subdivision (a) and who have not consented to the corporate action,  
17 regardless of whether they have reduced their claims to judgment.

18 (3) Under paragraph (3) of subdivision (a) against any or all  
19 directors liable, by any one or more holders of shares outstanding  
20 at the time of any corporate action specified in paragraph (3) of  
21 subdivision (a) who have not consented to the corporate action,  
22 without regard to the provisions of Section 2900.

23 (d) The damages recoverable from a director under this section  
24 shall be the amount of the illegal distribution, or if the illegal  
25 distribution consists of property, the fair market value of that  
26 property at the time of the illegal distribution, plus interest thereon  
27 from the date of the distribution at the legal rate on judgments until  
28 paid, together with all reasonably incurred costs of appraisal or  
29 other valuation, if any, of that property or loss suffered by the  
30 social purpose corporation as a result of the illegal loan or guaranty,  
31 respectively, but not exceeding the liabilities of the social purpose  
32 corporation owed to nonconsenting creditors at the time of the  
33 violation and the injury suffered by nonconsenting shareholders.

34 (e) Any director sued under this section may implead all other  
35 directors liable and may compel contribution, either in that action  
36 or in an independent action against directors not joined in that  
37 action.

38 (f) Directors liable under this section shall also be entitled to  
39 be subrogated to the rights of the ~~socially responsible~~ *social*  
40 *purpose* corporation:

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

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

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

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

11 ~~SEC. 43.~~

12 *SEC. 44.* Section 2702 of the Corporations Code is amended  
13 to read:

14 2702. (a) For the purposes of this section:

15 (1) “Agent” means any person who is or was a director, officer,  
16 employee, or other agent of the ~~socially responsible~~ *social purpose*  
17 corporation, or is or was serving at the request of the social purpose  
18 corporation as a director, officer, employee, or agent of another  
19 foreign or domestic corporation, partnership, joint venture, trust,  
20 or other enterprise, or was a director, officer, employee, or agent  
21 of a foreign or domestic corporation which was a predecessor  
22 corporation of the social purpose corporation or of another  
23 enterprise at the request of the predecessor corporation.

24 (2) “Proceeding” means any threatened, pending, or completed  
25 action or proceeding, whether civil, criminal, administrative, or  
26 investigative.

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

30 (b) Subject to the standards and restrictions, if any, set forth in  
31 its articles or bylaws, and subject to the limitations required by  
32 paragraph (11) of subdivision (a) of Section 2603, a social purpose  
33 corporation may indemnify and hold harmless any agent or any  
34 other person from and against any and all claims and demands  
35 whatsoever.

36 (c) Expenses incurred in defending any proceeding may be  
37 advanced by the social purpose corporation prior to the final  
38 disposition of the proceeding. The provisions of subdivision (a)  
39 of Section 315 do not apply to advances made pursuant to this  
40 subdivision.

1 (d) A social purpose corporation may purchase and maintain  
2 insurance on behalf of any of its agents against any liability  
3 asserted against or incurred by the agent in that capacity or arising  
4 out of the agent’s status as an agent regardless of whether the social  
5 purpose corporation would have the power to indemnify the agent  
6 against that liability under this section. The fact that a social  
7 purpose corporation owns all or a portion of the shares of the  
8 company issuing a policy of insurance shall not render this  
9 subdivision inapplicable if either of the following conditions are  
10 satisfied:

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

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

17 (B) The company issuing the policy provides procedures for  
18 processing claims that do not permit that company to be subject  
19 to the direct control of the social purpose corporation that  
20 purchased that policy.

21 (C) The policy issued provides for some manner of risk sharing  
22 between the issuer and purchaser of the policy, on one hand, and  
23 some unaffiliated person or persons, on the other, such as by  
24 providing for more than one unaffiliated owner of the company  
25 issuing the policy or by providing that a portion of the coverage  
26 furnished will be obtained from some unaffiliated insurer or  
27 reinsurer.

28 (e) This section does not apply to any proceeding against any  
29 trustee, investment manager, or other fiduciary of an employee  
30 benefit plan in that person’s capacity as such, even though the  
31 person may also be an agent as defined in subdivision (a) of the  
32 employer social purpose corporation. A social purpose corporation  
33 shall have power to indemnify a trustee, investment manager, or  
34 other fiduciary to the extent permitted by subdivision (f) of Section  
35 2605.

36 ~~SEC. 44.~~

37 *SEC. 45.* Section 2800 of the Corporations Code is amended  
38 to read:

39 2800. (a) All certificates representing shares of a social purpose  
40 corporation shall contain, in addition to any other statements

1 required by this section, the following conspicuous language on  
2 the face of the certificate.

3  
4 “This entity is a social purpose corporation organized under  
5 Division 1.5 of the California Corporations Code. The articles of  
6 this corporation state one or more purposes required by law. Refer  
7 to the articles on file with the Secretary of State, and the bylaws  
8 and any agreements on file with the secretary of the corporation,  
9 for further information.”

10  
11 (b) There shall also appear on the certificate, the initial  
12 transaction statement, and written statements, unless stated or  
13 summarized under subdivision (a) or (b) of Section 417, the  
14 statements required by all of the following, to the extent applicable:

15 (1) The fact that the shares are subject to restrictions upon  
16 transfer.

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

20 (3) The fact that the shares are subject to a voting agreement  
21 under subdivision (a) of Section 706 or an irrevocable proxy under  
22 subdivision (e) of Section 705 or restrictions upon voting rights  
23 contractually imposed by the social purpose corporation.

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

25 (5) The fact that the shares are convertible and the period for  
26 conversion.

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

30 (c) Unless stated on the certificate, the initial transaction  
31 statement, and written statements as required by subdivision (a),  
32 no restriction upon transfer, no right of redemption and no voting  
33 agreement under subdivision (a) of Section 706, no irrevocable  
34 proxy under subdivision (e) of Section 705, and no voting  
35 restriction imposed by the social purpose corporation shall be  
36 enforceable against a transferee of the shares without actual  
37 knowledge of the restriction, right, agreement, or proxy. With  
38 regard only to liability to assessment or for the unpaid portion of  
39 the subscription price, unless stated on the certificate as required  
40 by subdivision (a), that liability shall not be enforceable against a

1 transferee of the shares. For the purpose of this subdivision,  
2 “transferee” includes a purchaser from the social purpose  
3 corporation.

4 (d) All certificates representing shares of a close social purpose  
5 corporation shall contain, in addition to any other statements  
6 required by this section, the following conspicuous legend on the  
7 face thereof:

8  
9 “This social purpose corporation is a close social purpose  
10 corporation. The number of holders of record of its shares of all  
11 classes cannot exceed \_\_\_\_ (a number not in excess of 35). Any  
12 attempted voluntary inter vivos transfer which would violate this  
13 requirement is void. Refer to the articles, bylaws, and any  
14 agreements on file with the secretary of the social purpose  
15 corporation for further restrictions.”

16  
17 (e) Any attempted voluntary inter vivos transfer of the shares  
18 of a close social purpose corporation that would result in the  
19 number of holders of record of its shares exceeding the maximum  
20 number specified in its articles is void if the certificate contains  
21 the legend required by subdivision (c).

22 (f) Notwithstanding any other subdivision, the certificates  
23 representing shares of a corporation formed pursuant to this  
24 division as a “flexible purpose corporation” before January 1,  
25 2015, shall continue to be valid even if the certificates reference  
26 a “flexible purpose corporation.” A corporation formed pursuant  
27 to this division before January 1, 2015, may, but is not required  
28 to, reissue certificates to replace “flexible purpose corporation”  
29 with “social purpose corporation” as applicable. Any reference to  
30 a “flexible purpose corporation” or any abbreviation of that term  
31 in certificates representing shares of a corporation formed pursuant  
32 to this division before January 1, 2015, shall also be a reference  
33 to “social purpose corporation.”

34 ~~SEC. 45.~~

35 *SEC. 46.* Section 2900 of the Corporations Code is amended  
36 to read:

37 2900. (a) As used in this section:

38 (1) “Social purpose corporation” includes an unincorporated  
39 association.

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

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

5 (4) “Shares” includes memberships in an unincorporated  
6 association.

7 *(b) Shareholders of a social purpose corporation may maintain*  
8 *a derivative lawsuit to enforce the requirements set forth in*  
9 *subdivision (c) of Section 2700.*

10 ~~(b)~~

11 (c) No action may be instituted or maintained in right of any  
12 domestic or foreign social purpose corporation under this section  
13 by any party other than a shareholder of the social purpose  
14 corporation.

15 ~~(e)~~

16 (d) No action may be instituted or maintained in right of any  
17 domestic or foreign social purpose corporation by any holder of  
18 shares or of voting trust certificates of the social purpose  
19 corporation unless both of the following conditions exist:

20 (1) The plaintiff alleges in the complaint that plaintiff was a  
21 shareholder, of record or beneficially, or the holder of voting trust  
22 certificates at the time of the transaction or any part thereof of  
23 which plaintiff complains or that plaintiff’s shares or voting trust  
24 certificates thereafter devolved upon plaintiff by operation of law  
25 from a holder who was a holder at the time of the transaction or  
26 any part thereof complained of. Any shareholder who does not  
27 meet these requirements may nevertheless be allowed, in the  
28 discretion of the court, to maintain the action on a preliminary  
29 showing to and determination by the court, by motion and after a  
30 hearing, at which the court shall consider the evidence by affidavit  
31 or testimony, as it deems material, of all of the following:

32 (A) There is a strong prima facie case in favor of the claim  
33 asserted on behalf of the social purpose corporation.

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

35 (C) The plaintiff acquired the shares before there was disclosure  
36 to the public or to the plaintiff of the wrongdoing of which plaintiff  
37 complains.

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

1 (E) The requested relief will not result in unjust enrichment of  
2 the social purpose corporation or any shareholder of the social  
3 purpose corporation.

4 (2) The plaintiff alleges in the complaint with particularity  
5 plaintiff's efforts to secure from the board the action as plaintiff  
6 desires, or the reasons for not making that effort, and alleges further  
7 that plaintiff has either informed the ~~socially responsible~~ *social*  
8 *purpose* corporation or the board in writing of the ultimate facts  
9 of each cause of action against each defendant or delivered to the  
10 social purpose corporation or the board a true copy of the complaint  
11 which plaintiff proposes to file.

12 ~~(d)~~

13 (e) In any action referred to in subdivision ~~(b)~~ (c), at any time  
14 within 30 days after service of summons upon the ~~socially~~  
15 ~~responsible~~ *social purpose* corporation or upon any defendant who  
16 is an officer or director of the social purpose corporation, or held  
17 that office at the time of the acts complained of, the social purpose  
18 corporation or the defendant may move the court for an order,  
19 upon notice and hearing, requiring the plaintiff to furnish a bond  
20 as hereinafter provided. The motion shall be based upon one or  
21 both of the following grounds:

22 (1) There is no reasonable possibility that the prosecution of  
23 the cause of action alleged in the complaint against the moving  
24 party will benefit the social purpose corporation or its shareholders.

25 (2) The moving party, if other than the ~~socially responsible~~  
26 *social purpose* corporation, did not participate in the transaction  
27 complained of in any capacity.

28 The court on application of the ~~socially responsible~~ *social*  
29 *purpose* corporation or any defendant may, for good cause shown,  
30 extend the 30-day period for an additional period or periods not  
31 exceeding 60 days.

32 ~~(e)~~

33 (f) At the hearing upon any motion pursuant to subdivision ~~(e)~~  
34 (d), the court shall consider the evidence, written or oral, by  
35 witnesses or affidavit, as may be material to the ground or grounds  
36 upon which the motion is based, or to a determination of the  
37 probable reasonable expenses, including attorney's fees, of the  
38 social purpose corporation and the moving party that will be  
39 incurred in the defense of the action. If the court determines, after  
40 hearing the evidence adduced by the parties, that the moving party

1 has established a probability in support of any of the grounds upon  
2 which the motion is based, the court shall fix the amount of the  
3 bond, not to exceed fifty thousand dollars (\$50,000), to be  
4 furnished by the plaintiff for reasonable expenses, including  
5 attorney's fees, which may be incurred by the moving party and  
6 the social purpose corporation in connection with the action,  
7 including expenses for which the social purpose corporation may  
8 become liable pursuant to Section 2702. A ruling by the court on  
9 the motion shall not be a determination of any issue in the action  
10 or of the merits thereof. If the court, upon the motion, makes a  
11 determination that a bond shall be furnished by the plaintiff as to  
12 any one or more defendants, the action shall be dismissed as to  
13 the defendant or defendants, unless the bond required by the court  
14 has been furnished within such reasonable time as may be fixed  
15 by the court.

16 ~~(f)~~

17 (g) If the plaintiff, either before or after a motion is made  
18 pursuant to subdivision~~(e)~~ (d), or any order or determination  
19 pursuant to the motion, furnishes a bond in the aggregate amount  
20 of fifty thousand dollars (\$50,000) to secure the reasonable  
21 expenses of the parties entitled to make the motion, the plaintiff  
22 shall be deemed to have complied with the requirements of this  
23 section and with any order for a bond theretofore made, and any  
24 motion then pending shall be dismissed and no further or additional  
25 bond shall be required.

26 ~~(g)~~

27 (h) If a motion is filed pursuant to subdivision~~(e)~~ (d), no  
28 pleadings need be filed by the social purpose corporation or any  
29 other defendant and the prosecution of the action shall be stayed  
30 until 10 days after the motion has been disposed of.

31 ~~SEC. 46.~~

32 *SEC. 47.* Section 3000 of the Corporations Code is amended  
33 to read:

34 3000. (a) A proposed amendment to the articles of a social  
35 purpose corporation shall be approved by the outstanding shares  
36 of a class, regardless of whether that class is entitled to vote thereon  
37 by the provisions of the articles, if the amendment would:

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

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

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

6 (4) Change the rights, preferences, privileges, or restrictions of  
7 the shares of that class.

8 (5) Create a new class of shares having rights, preferences, or  
9 privileges prior to the shares of that class, or increase the rights,  
10 preferences, or privileges or the number of authorized shares of  
11 any class having rights, preferences, or privileges prior to the shares  
12 of that class.

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

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

18 (b) A proposed amendment shall be approved by an affirmative  
19 vote of at least two-thirds of the outstanding shares of each class,  
20 or a greater vote if required in the articles, regardless of whether  
21 that class is entitled to vote thereon by the provisions of the articles,  
22 if the amendment would materially alter any special purpose of  
23 the social purpose corporation stated in the articles pursuant to  
24 paragraph (2) of subdivision (b) of Section 2602, regardless of  
25 whether that purpose, as amended, would comply with the  
26 provisions of that paragraph.

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

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

34 ~~SEC. 47.~~

35 *SEC. 48.* Section 3001 of the Corporations Code is amended  
36 to read:

37 3001. (a) A social purpose corporation may, by amendment  
38 of its articles pursuant to this section, ~~convert~~ *change its status* to  
39 *that of* a nonprofit public benefit corporation, nonprofit mutual

1 benefit corporation, nonprofit religious corporation, or cooperative  
2 corporation.

3 (b) The amendment of the articles to ~~convert~~ *change its status*  
4 to a nonprofit corporation shall revise the statement of purpose,  
5 delete the authorization for shares and any other provisions relating  
6 to authorized or issued shares, make other changes as may be  
7 necessary or desired, and, if any shares have been issued, provide  
8 either for the cancellation of those shares or for the ~~conversion~~  
9 *change* of those shares to memberships of the nonprofit  
10 corporation. The amendment of the articles to ~~convert~~ *change*  
11 *status* to a cooperative corporation shall revise the statement of  
12 purpose, make other changes as may be necessary or desired, and,  
13 if any shares have been issued, provide for the cancellation of those  
14 shares or for the ~~conversion~~ *change* of those shares to memberships  
15 of the cooperative corporation, if necessary.

16 (c) If shares have been issued, an amendment to ~~convert~~ *change*  
17 *status* to a nonprofit corporation shall be approved by all of the  
18 outstanding shares of all classes regardless of limitations or  
19 restrictions on their voting rights and an amendment to ~~convert~~  
20 *change status* to a cooperative corporation shall be approved by  
21 the outstanding shares of each class regardless of limitations or  
22 restrictions on their voting rights.

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

28 (e) Notwithstanding subdivision (c), if a ~~socially responsible~~  
29 *social purpose* corporation is a mutual water company within the  
30 meaning of Section 2705 of the Public Utilities Code and under  
31 the terms of the ~~conversion~~ *status change* each outstanding share  
32 is converted to a membership of a nonprofit mutual benefit  
33 corporation, an amendment to ~~convert~~ *change* to a nonprofit mutual  
34 benefit corporation shall be approved by the outstanding shares of  
35 each class regardless of limitations or restrictions on their voting  
36 rights.

37 ~~SEC. 48.~~

38 *SEC. 49.* Section 3002 of the Corporations Code is amended  
39 to read:

1 3002. (a) A social purpose corporation may, by amendment  
2 of its articles pursuant to this section, ~~convert to a domestic change~~  
3 ~~its status to that of a business~~ corporation.

4 (b) The amendment of the articles to ~~convert change status to~~  
5 ~~a domestic business~~ corporation shall revise the statement of  
6 purpose to delete any provisions in the articles that are permitted  
7 by Section 2602, but that are not permitted to be in the articles of  
8 a domestic corporation.

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

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

24 ~~SEC. 49.~~

25 *SEC. 50.* Section 3100 of the Corporations Code is amended  
26 to read:

27 3100. (a) A social purpose corporation may sell, lease, convey,  
28 exchange, transfer, or otherwise dispose of all or substantially all  
29 of its assets when the principal terms of the transaction are  
30 approved by the board and are approved by an affirmative vote of  
31 at least two-thirds of the outstanding shares of each class, or a  
32 greater vote if required in the articles, regardless of whether that  
33 class is entitled to vote thereon by the provisions of the articles,  
34 either before or after approval by the board and before the  
35 transaction. A transaction constituting a reorganization shall be  
36 subject to Chapter 12 (commencing with Section 1200) of Division  
37 1 and Chapter 10 (commencing with Section 3400) of this division  
38 and shall not be subject to this section, other than subdivision (d).  
39 A transaction constituting a conversion shall be subject to Chapter  
40 11.5 (commencing with Section 1150) of Division 1 and Chapter

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

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

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

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

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

31 ~~SEC. 50.~~

32 *SEC. 51.* Section 3200 of the Corporations Code is amended  
33 to read:

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

1 social purpose corporation. The articles may provide for a lesser  
2 vote, but not less than a majority of the outstanding shares of each  
3 class.

4 ~~SEC. 51.~~

5 *SEC. 52.* Section 3201 of the Corporations Code is amended  
6 to read:

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

19 ~~SEC. 52.~~

20 *SEC. 53.* Section 3202 of the Corporations Code is amended  
21 to read:

22 3202. If a disappearing social purpose corporation in a merger  
23 is a social purpose corporation governed by this division and the  
24 surviving corporation is a nonprofit public benefit corporation, a  
25 nonprofit mutual benefit corporation, or a nonprofit religious  
26 corporation, the merger shall be approved by all of the outstanding  
27 shares of all classes of the disappearing social purpose corporation,  
28 regardless of limitations or restrictions on their voting rights,  
29 notwithstanding any provision of Chapter 10 (commencing with  
30 Section 3400).

31 ~~SEC. 53.~~

32 *SEC. 54.* Section 3203 of the Corporations Code is amended  
33 to read:

34 3203. (a) Any one or more social purpose corporations may  
35 merge with one or more other business entities. One or more  
36 domestic social purpose corporations not organized under this  
37 division and one or more foreign corporations may be parties to  
38 the merger. Notwithstanding this section, the merger of any number  
39 of social purpose corporations with any number of other business  
40 entities may be effected only if:

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

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

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

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

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

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

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

30 (4) The manner of converting the shares of each constituent  
31 social purpose corporation into shares, interests, or other securities  
32 of the surviving party. If any shares of any constituent social  
33 purpose corporation are not to be converted solely into shares,  
34 interests, or other securities of the surviving party, the agreement  
35 of merger shall state (A) the cash, rights, securities, or other  
36 property that the holders of those shares are to receive in exchange  
37 for the shares, which cash, rights, securities, or other property may  
38 be in addition to or in lieu of shares, interests, or other securities  
39 of the surviving party, or (B) that the shares are canceled without  
40 consideration.

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

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

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

34 (d) Notwithstanding its prior approval, an agreement of merger  
35 may be amended prior to the filing of the agreement of merger or  
36 the certificate of merger, as is applicable, if the amendment is  
37 approved by the board of each constituent social purpose  
38 corporation and, if the amendment changes any of the principal  
39 terms of the agreement, by the outstanding shares, if required by  
40 Chapter 10 (commencing with Section 3400), in the same manner

1 as the original agreement of merger. If the agreement of merger  
2 as so amended and approved is also approved by each of the other  
3 parties to the agreement of merger, the agreement of merger as so  
4 amended shall then constitute the agreement of merger.

5 (e) The board of a constituent social purpose corporation may,  
6 in its discretion, abandon a merger, subject to the contractual rights,  
7 if any, of third parties, including other parties to the agreement of  
8 merger, without further approval by the outstanding shares, at any  
9 time before the merger is effective.

10 (f) Each constituent social purpose corporation shall sign the  
11 agreement of merger by its chairperson of the board, president, or  
12 a vice president and also by its secretary or an assistant secretary  
13 acting on behalf of their respective corporations.

14 (g) (1) If the surviving party is a domestic social purpose  
15 corporation, or if a domestic corporation or a foreign corporation,  
16 a public benefit corporation, a mutual benefit corporation, a  
17 religious corporation, or a corporation organized under the  
18 Consumer Cooperative Corporation Law (Part 2 (commencing  
19 with Section 12200) of Division 3) is a party to the merger, after  
20 required approvals of the merger by each constituent social purpose  
21 corporation through approval of the board and any approval of the  
22 outstanding shares required by Chapter 10 (commencing with  
23 Section 3400) and by the other parties to the merger, the surviving  
24 party shall file a copy of the agreement of merger with an officers'  
25 certificate of each constituent domestic social purpose corporation  
26 and foreign social purpose corporation attached stating the total  
27 number of outstanding shares of each class entitled to vote on the  
28 merger, and identifying any other person or persons whose approval  
29 is required, that the agreement of merger in the form attached or  
30 its principal terms, as required, were approved by that social  
31 purpose corporation by a vote of a number of shares of each class  
32 that equaled or exceeded the vote required, specifying each class  
33 entitled to vote and the percentage vote required of each class and,  
34 if applicable, by that other person or persons whose approval is  
35 required, or that the merger agreement was entitled to be and was  
36 approved by the board alone, as provided in Section 3401, in the  
37 case of a social purpose corporation subject to that section. If equity  
38 securities of a parent party are to be issued in the merger, the  
39 officers' certificate of that controlled party shall state either that  
40 no vote of the shareholders of the parent party was required or that

1 the required vote was obtained. In lieu of an officers' certificate,  
2 a certificate of merger, on a form prescribed by the Secretary of  
3 State, shall be filed for each constituent other business entity. The  
4 certificate of merger shall be executed and acknowledged by each  
5 domestic constituent limited liability company by all managers of  
6 the limited liability company, unless a lesser number is specified  
7 in its articles or organization or operating agreement, and by each  
8 domestic constituent limited partnership by all general partners,  
9 unless a lesser number is provided in its certificate of limited  
10 partnership or partnership agreement, and by each domestic  
11 constituent general partnership by two partners, unless a lesser  
12 number is provided in its partnership agreement, and by each  
13 foreign constituent limited liability company by one or more  
14 managers and by each foreign constituent general partnership or  
15 foreign constituent limited partnership by one or more general  
16 partners, and by each constituent reciprocal insurer by the  
17 chairperson of the board, president, or vice president, and by the  
18 secretary or assistant secretary, or, if a constituent reciprocal insurer  
19 has not appointed those officers, by the chairperson of the board,  
20 president, or vice president, and by the secretary or assistant  
21 secretary of the constituent reciprocal insurer's attorney-in-fact,  
22 and by each other party to the merger by those persons required  
23 or authorized to execute the certificate of merger by the laws under  
24 which that party is organized, specifying for that party the provision  
25 of law or other basis for the authority of the signing persons. The  
26 certificate of merger shall set forth, if a vote of the shareholders,  
27 members, partners, or other holders of interests of the constituent  
28 other business entity was required, a statement setting forth the  
29 total number of outstanding interests of each class entitled to vote  
30 on the merger and that the agreement of merger in the form  
31 attached or its principal terms, as required, were approved by a  
32 vote of the number of interests of each class that equaled or  
33 exceeded the vote required, specifying each class entitled to vote  
34 and the percentage vote required of each class, and any other  
35 information required to be set forth under the laws under which  
36 the constituent other business entity is organized, including, if a  
37 domestic limited partnership is a party to the merger, subdivision  
38 (a) of Section 15911.14, if a domestic partnership is a party to the  
39 merger, subdivision (b) of Section 16915, and, if a domestic limited  
40 liability company is a party to the merger, subdivision (a) of

1 Section 17552. The certificate of merger for each constituent  
2 foreign other business entity, if any, shall also set forth the statutory  
3 or other basis under which that foreign other business entity is  
4 authorized by the laws under which it is organized to effect the  
5 merger. The merger and any amendment of the articles of the  
6 surviving social purpose corporation, if applicable, contained in  
7 the agreement of merger shall be effective upon filing of the  
8 agreement of merger with an officer's certificate of each constituent  
9 domestic corporation and foreign corporation and a certificate of  
10 merger for each constituent other business entity, subject to  
11 subdivision (c) of Section 110 and subject to the provisions of  
12 subdivision (j), and the several parties thereto shall be one entity.  
13 If a domestic reciprocal insurer organized after 1974 to provide  
14 medical malpractice insurance is a party to the merger, the  
15 agreement of merger or certificate of merger shall not be filed until  
16 there has been filed the certificate issued by the Insurance  
17 Commissioner approving the merger pursuant to Section 1555 of  
18 the Insurance Code. The Secretary of State may certify a copy of  
19 the agreement of merger separate from the officers' certificates  
20 and certificates of merger attached thereto.

21 (2) If the surviving entity is an other business entity, and no  
22 public benefit corporation, mutual benefit corporation, religious  
23 corporation, or corporation organized under the Consumer  
24 Cooperative Corporation Law (Part 2 (commencing with Section  
25 12200) of Division 3) is a party to the merger, after required  
26 approvals of the merger by each constituent social purpose  
27 corporation through approval of the board and any approval of the  
28 outstanding shares required by Chapter 10 (commencing with  
29 Section 3400) and by the other parties to the merger, the parties  
30 to the merger shall file a certificate of merger in the office of, and  
31 on a form prescribed by, the Secretary of State. The certificate of  
32 merger shall be executed and acknowledged by each constituent  
33 domestic and foreign social purpose corporation by its chairperson  
34 of the board, president, or a vice president and also by its secretary  
35 or an assistant secretary and by each domestic constituent limited  
36 liability company by all managers of the limited liability company,  
37 unless a lesser number is specified in its articles of organization  
38 or operating agreement, and by each domestic constituent limited  
39 partnership by all general partners, unless a lesser number is  
40 provided in its certificate of limited partnership or partnership

1 agreement, and by each domestic constituent general partnership  
2 by two partners, unless a lesser number is provided in its  
3 partnership agreement, and by each foreign constituent limited  
4 liability company by one or more managers and by each foreign  
5 constituent general partnership or foreign constituent limited  
6 partnership by one or more general partners, and by each  
7 constituent reciprocal insurer by the chairperson of the board,  
8 president, or vice president, and by the secretary or assistant  
9 secretary, or, if a constituent reciprocal insurer has not appointed  
10 those officers, by the chairperson of the board, president, or vice  
11 president, and by the secretary or assistant secretary of the  
12 constituent reciprocal insurer's attorney-in-fact. The certificate of  
13 merger shall be signed by each other party to the merger by those  
14 persons required or authorized to execute the certificate of merger  
15 by the laws under which that party is organized, specifying for  
16 that party the provision of law or other basis for the authority of  
17 the signing persons. The certificate of merger shall set forth all of  
18 the following:

19 (A) The name, place of incorporation or organization, and the  
20 Secretary of State's file number, if any, of each party to the merger,  
21 separately identifying the disappearing parties and the surviving  
22 party.

23 (B) If the approval of the outstanding shares of a constituent  
24 social purpose corporation was required by Chapter 10  
25 (commencing with Section 3400), a statement setting forth the  
26 total number of outstanding shares of each class entitled to vote  
27 on the merger and that the principal terms of the agreement of  
28 merger were approved by a vote of the number of shares of each  
29 class entitled to vote and the percentage vote required of each  
30 class.

31 (C) The future effective date or time, not more than 90 days  
32 subsequent to the date of filing of the merger, if the merger is not  
33 to be effective upon the filing of the certificate of merger with the  
34 Secretary of State.

35 (D) A statement, by each party to the merger that is a domestic  
36 corporation not organized under this division, a foreign corporation  
37 or foreign other business entity, or an other business entity, of the  
38 statutory or other basis under which that party is authorized by the  
39 laws under which it is organized to effect the merger.

1 (E) Any other information required to be stated in the certificate  
2 of merger by the laws under which each respective party to the  
3 merger is organized, including, if a domestic limited liability  
4 company is a party to the merger, subdivision (a) of Section 17552,  
5 if a domestic partnership is a party to the merger, subdivision (b)  
6 of Section 16915, and, if a domestic limited partnership is a party  
7 to the merger, subdivision (a) of Section 15911.14.

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

9 Unless a future effective date or time is provided in a certificate  
10 of merger, in which event the merger shall be effective at that  
11 future effective date or time, a merger shall be effective upon the  
12 filing of the certificate of merger with the Secretary of State and  
13 the several parties thereto shall be one entity. The surviving other  
14 business entity shall keep a copy of the agreement of merger at its  
15 principal place of business which, for purposes of this subdivision,  
16 shall be the office referred to in Section 17057 if a domestic limited  
17 liability company, at the business address specified in paragraph  
18 (5) of subdivision (a) of Section 17552 if a foreign limited liability  
19 company, at the office referred to in subdivision (a) of Section  
20 16403 if a domestic general partnership, at the business address  
21 specified in subdivision (f) of Section 16911 if a foreign  
22 partnership, at the office referred to in subdivision (a) of Section  
23 15901.14 if a domestic limited partnership, or at the business  
24 address specified in paragraph (5) of subdivision (a) of Section  
25 15911.14 if a foreign limited partnership. Upon the request of a  
26 holder of equity securities of a party to the merger, a person with  
27 authority to do so on behalf of the surviving other business entity  
28 shall promptly deliver to that holder, a copy of the agreement of  
29 merger. A waiver by that holder of the rights provided in the  
30 foregoing sentence shall be unenforceable. If a domestic reciprocal  
31 insurer organized after 1974 to provide medical malpractice  
32 insurance is a party to the merger the agreement of merger or  
33 certificate of merger shall not be filed until there has been filed  
34 the certificate issued by the Insurance Commissioner approving  
35 the merger in accordance with Section 1555 of the Insurance Code.

36 (h) (1) A copy of an agreement of merger certified on or after  
37 the effective date by an official having custody thereof has the  
38 same force in evidence as the original and, except as against the  
39 state, is conclusive evidence of the performance of all conditions  
40 precedent to the merger, the existence on the effective date of the

1 surviving party to the merger, and the performance of the  
2 conditions necessary to the adoption of any amendment to the  
3 articles, if applicable, contained in the agreement of merger.

4 (2) For all purposes for a merger in which the surviving entity  
5 is a domestic other business entity and the filing of a certificate of  
6 merger is required by paragraph (2) of subdivision (g), a copy of  
7 the certificate of merger duly certified by the Secretary of State is  
8 conclusive evidence of the merger of the constituent corporations,  
9 either by themselves or together with the other parties to the  
10 merger, into the surviving other business entity.

11 (i) (1) Upon a merger pursuant to this section, the separate  
12 existences of the disappearing parties to the merger cease and the  
13 surviving party to the merger shall succeed, without other transfer,  
14 to all the rights and property of each of the disappearing parties to  
15 the merger and shall be subject to all the debts and liabilities of  
16 each in the same manner as if the surviving party to the merger  
17 had itself incurred them.

18 (2) All rights of creditors and all liens upon the property of each  
19 of the constituent social purpose corporations and other parties to  
20 the merger shall be preserved unimpaired, provided that those liens  
21 upon property of a disappearing party shall be limited to the  
22 property affected thereby immediately prior to the time the merger  
23 is effective.

24 (3) Any action or proceeding pending by or against any  
25 disappearing social purpose corporation or disappearing party to  
26 the merger may be prosecuted to judgment, which shall bind the  
27 surviving party, or the surviving party may be proceeded against  
28 or substituted in its place.

29 (4) Nothing in this section shall be construed to affect the  
30 liability a general partner of a disappearing limited partnership or  
31 general partnership may have in connection with the debts and  
32 liabilities of the disappearing limited partnership or general  
33 partnership existing prior to the time the merger is effective.

34 (j) (1) The merger of domestic social purpose corporations with  
35 foreign corporations or foreign other business entities in a merger  
36 in which one or more other business entities is a party shall comply  
37 with subdivision (a) and this subdivision.

38 (2) If the surviving party is a domestic ~~socially responsible~~  
39 *social purpose* corporation or domestic other business entity, the  
40 merger proceedings with respect to that party and any domestic

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

20 (3) If the surviving party is a domestic social purpose  
21 corporation or domestic other business entity, the certificate of  
22 merger or the agreement of merger with attachments shall be filed  
23 as provided in subdivision (g) and thereupon, subject to subdivision  
24 (c) of Section 110 or paragraph (2) of subdivision (g), as applicable,  
25 the merger shall be effective as to each domestic constituent social  
26 purpose corporation and domestic constituent other business entity.

27 (4) If the surviving party is a foreign corporation or foreign  
28 other business entity, the merger shall become effective in  
29 accordance with the law of the jurisdiction in which the surviving  
30 party is organized, but, except as provided in paragraph (5), the  
31 merger shall be effective as to any domestic disappearing social  
32 purpose corporation as of the time of effectiveness in the foreign  
33 jurisdiction upon the filing in this state of a copy of the agreement  
34 of merger with an officers' certificate of each constituent foreign  
35 and domestic social purpose corporation and a certificate of merger  
36 of each constituent other business entity attached, which officers'  
37 certificates and certificates of merger shall conform to the  
38 requirements of paragraph (1) of subdivision (g). If one or more  
39 domestic other business entities is a disappearing party in a merger  
40 pursuant to this subdivision in which a foreign other business entity

1 is the surviving entity, a certificate of merger required by the laws  
2 under which that domestic other business entity is organized,  
3 including subdivision (a) of Section 15911.14, subdivision (b) of  
4 Section 16915, or subdivision (a) of Section 17552, as is applicable,  
5 shall also be filed at the same time as the filing of the agreement  
6 of merger.

7 (5) If the date of the filing in this state pursuant to this  
8 subdivision is more than six months after the time of the  
9 effectiveness in the foreign jurisdiction, or if the powers of a  
10 domestic disappearing social purpose corporation are suspended  
11 at the time of effectiveness in the foreign jurisdiction, the merger  
12 shall be effective as to the domestic disappearing social purpose  
13 corporation as of the date of filing in this state.

14 (6) In a merger described in paragraph (3) or (4), each foreign  
15 disappearing social purpose corporation that is qualified for the  
16 transaction of intrastate business shall by virtue of the filing  
17 pursuant to this subdivision, subject to subdivision (c) of Section  
18 110, automatically surrender its right to transact intrastate business  
19 in this state. The filing of the agreement of merger or certificate  
20 of merger, as is applicable, pursuant to this subdivision, by a  
21 disappearing foreign other business entity registered for the  
22 transaction of intrastate business in this state shall, by virtue of  
23 that filing, subject to subdivision (c) of Section 110, automatically  
24 cancel the registration for that foreign other business entity, without  
25 the necessity of the filing of a certificate of cancellation.

26 ~~SEC. 54.~~

27 *SEC. 55.* Section 3300 of the Corporations Code is amended  
28 to read:

29 3300. For purposes of this chapter, the following definitions  
30 shall apply:

31 (a) “Converted social purpose corporation” means a social  
32 purpose corporation that results from a conversion of an other  
33 business entity or a foreign other business entity or a foreign  
34 corporation pursuant to Section ~~4158~~ 3307.

35 (b) “Converted entity” means a domestic other business entity  
36 that results from a conversion of a social purpose corporation under  
37 this chapter.

38 (c) “Converting social purpose corporation” means a social  
39 purpose corporation that converts into a domestic ~~or foreign~~ other  
40 business entity pursuant to this chapter.

1 (d) “Converting entity” means an other business entity or a  
2 foreign other business entity or foreign corporation that converts  
3 into a social purpose corporation pursuant to Section ~~3607~~ 3307.

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

6 (f) “Foreign other business entity” has the meaning provided in  
7 Section ~~171.05~~ 171.07.

8 (g) “Other business entity” has the meaning provided in Section  
9 174.5.

10 ~~SEC. 55.~~

11 *SEC. 56.* Section 3301 of the Corporations Code is amended  
12 to read:

13 3301. (a) A social purpose corporation may be converted into  
14 a domestic other business entity pursuant to this chapter if, pursuant  
15 to the proposed conversion, each of the following conditions is  
16 met:

17 (1) Each share of the same class or series of the converting  
18 social purpose corporation shall, unless all the shareholders of the  
19 class or series consent, be treated equally with respect to any cash,  
20 rights, securities, or other property to be received by, or any  
21 obligations or restrictions to be imposed on, the holder of that  
22 share.

23 (2) The conversion is approved by an affirmative vote of at least  
24 two-thirds of the outstanding shares of each class, or a greater vote  
25 if required in the articles, regardless of whether that class is entitled  
26 to vote thereon by the provisions of the articles.

27 (3) Nonredeemable common shares of the converting social  
28 purpose corporation shall be converted only into nonredeemable  
29 equity securities of the converted entity unless all of the  
30 shareholders of the class consent.

31 (4) Paragraph (1) shall not restrict the ability of the shareholders  
32 of a converting social purpose corporation to appoint one or more  
33 managers, if the converted entity is a limited liability company,  
34 or one or more general partners, if the converted entity is a limited  
35 partnership, in the plan of conversion or in the converted entity’s  
36 governing documents.

37 (b) Notwithstanding subdivision (a), the conversion of a social  
38 purpose corporation into a domestic other business entity may be  
39 effected only if both of the following conditions are met:

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

3 (2) The social purpose corporation complies with any and all  
4 other requirements of any other law that applies to conversion to  
5 the converted entity.

6 ~~SEC. 56.~~

7 *SEC. 57.* Section 3302 of the Corporations Code is amended  
8 to read:

9 3302. (a) A social purpose corporation that desires to convert  
10 to a domestic other business entity shall approve a plan of  
11 conversion. The plan of conversion shall state all of the following:

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

13 (2) The jurisdiction of the organization of the converted entity  
14 and of the converting social purpose corporation and the name of  
15 the converted entity after conversion.

16 (3) The manner of converting the shares of each of the  
17 shareholders of the converting social purpose corporation into  
18 securities of, or interests in, the converted entity.

19 (4) The provisions of the governing documents for the converted  
20 entity, including the articles and bylaws, partnership agreement  
21 or limited liability company articles of organization and operating  
22 agreement, to which the holders of interests in the converted entity  
23 are to be bound.

24 (5) Any other details or provisions that are required by the laws  
25 under which the converted entity is organized, or that are desired  
26 by the converting social purpose corporation.

27 (b) The plan of conversion shall be approved by the board of  
28 the converting social purpose corporation, and the principal terms  
29 of the plan of the conversion shall be approved by at least  
30 two-thirds of the outstanding shares of each class, or a greater vote  
31 if required in the articles, regardless of whether that class is entitled  
32 to vote thereon by the provisions of the articles of the converting  
33 social purpose corporation. The approval of at least two-thirds of  
34 the outstanding shares may be given before or after approval by  
35 the board. If the plan is approved, shareholders with dissenting  
36 shares, as defined in subdivision (b) of Section 1300, may exercise  
37 dissenters' rights pursuant to Section 3305 and Chapter 13  
38 (commencing with Section 1300) of Division 1.

39 (c) If the social purpose corporation is converting into a general  
40 or limited partnership or into a limited liability company, then in

1 addition to the approval of the shareholders set forth in subdivision  
2 (b), the plan of conversion shall be approved by each shareholder  
3 who will become a general partner or manager, as applicable, of  
4 the converted entity pursuant to the plan of conversion unless the  
5 shareholders have dissenters' rights pursuant to Section 3305 and  
6 Chapter 13 (commencing with Section 1300) of Division 1.

7 (d) Upon the effectiveness of the conversion, all shareholders  
8 of the converting social purpose corporation, except those that  
9 exercise dissenters' rights as provided in Section 3305 and Chapter  
10 13 (commencing with Section 1300) of Division 1, shall be deemed  
11 parties to any agreement or agreements constituting the governing  
12 documents for the converted entity adopted as part of the plan of  
13 conversion, regardless of whether a shareholder has executed the  
14 plan of conversion or those governing documents for the converted  
15 entity. Any adoption of governing documents made pursuant  
16 thereto shall be effective at the effective time or date of the  
17 conversion.

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

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

33 (g) The converted entity shall keep the plan of conversion at  
34 the principal place of business of the converted entity if the  
35 converted entity is a domestic partnership, or at the office at which  
36 records are to be kept under Section 15901.14 if the converted  
37 entity is a domestic limited partnership, or at the office at which  
38 records are to be kept under Section ~~17057~~ 17701.13 if the  
39 converted entity is a domestic limited liability company. Upon the  
40 request of a shareholder of a converting ~~flexible~~ *social* purpose

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

6 ~~SEC. 57.~~

7 *SEC. 58.* Section 3303 of the Corporations Code is amended  
8 to read:

9 3303. (a) After the approval, as provided in Section 3302, of  
10 a plan of conversion by the board and the outstanding shares of a  
11 social purpose corporation converting into a domestic other  
12 business entity, the converting social purpose corporation shall  
13 cause the filing of all documents required by law to effect the  
14 conversion and create the converted entity, which documents shall  
15 include a certificate of conversion or a statement of conversion as  
16 required by Section 3304, and the conversion shall thereupon be  
17 effective.

18 (b) A copy of the statement of partnership authority, certificate  
19 of limited partnership, or articles of organization complying with  
20 Section 1155, duly certified by the Secretary of State on or after  
21 the effective date, shall be conclusive evidence of the conversion  
22 of the social purpose corporation.

23 ~~SEC. 58.~~

24 *SEC. 59.* Section 3304 of the Corporations Code is amended  
25 to read:

26 3304. (a) To convert a social purpose corporation:

27 (1) If the social purpose corporation is converting into a  
28 domestic limited partnership, a statement of conversion shall be  
29 completed on the certificate of limited partnership for the converted  
30 entity.

31 (2) If the social purpose corporation is converting into a  
32 domestic partnership, a statement of conversion shall be completed  
33 on the statement of partnership authority for the converted entity,  
34 or if no statement of partnership authority is filed, then a certificate  
35 of conversion shall be filed separately.

36 (3) If the social purpose corporation is converting into a  
37 domestic limited liability company, a statement of conversion shall  
38 be completed on the articles of organization for the converted  
39 entity.

1     ~~(4) If the social purpose corporation is converting into a~~  
2     ~~domestic corporation, a statement of conversion shall be completed~~  
3     ~~on the articles for the converted entity.~~

4     (b) Any statement or certificate of conversion of a converting  
5     social purpose corporation shall be executed and acknowledged  
6     by those officers of the converting social purpose corporation as  
7     would be required to sign an officers' certificate, and shall set forth  
8     all of the following:

9     (1) The name and the Secretary of State's file number of the  
10    converting social purpose corporation.

11    (2) A statement of the total number of outstanding shares of  
12    each class entitled to vote on the conversion, that the principal  
13    terms of the plan of conversion were approved by a vote of the  
14    number of shares of each class which equaled or exceeded the vote  
15    required under Section 3602, specifying each class entitled to vote  
16    and the percentage vote required of each class.

17    (3) The name, form, and jurisdiction of organization of the  
18    converted entity.

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

21    (d) The filing with the Secretary of State of a statement of  
22    conversion on an organizational document or a certificate of  
23    conversion as set forth in subdivision (a) shall have the effect of  
24    the filing of a certificate of dissolution by the converting social  
25    purpose corporation and no converting social purpose corporation  
26    that has made the filing is required to file a certificate of election  
27    under Section 1901 or a certificate of dissolution under Section  
28    1905 as a result of that conversion.

29    (e) Upon the effectiveness of a conversion pursuant to this  
30    chapter, a converted entity that is a domestic partnership, domestic  
31    limited partnership, or domestic limited liability company shall  
32    be deemed to have assumed the liability of the converting social  
33    purpose corporation to prepare and file or cause to be prepared  
34    and filed all tax and information returns otherwise required of the  
35    ~~converting socially responsible~~ *social purpose* corporation under  
36    the Corporation Tax Law (Part 11 (commencing with Section  
37    23001) of Division 2 of the Revenue and Taxation Code) and to  
38    pay any tax liability determined to be due pursuant to that law.

1 ~~SEC. 59.~~

2 *SEC. 60.* Section 3305 of the Corporations Code is amended  
3 to read:

4 3305. The shareholders with dissenting rights, as defined in  
5 subdivision (b) of Section 1300, of a converting social purpose  
6 corporation shall have all of the rights under Chapter 13  
7 (commencing with Section 1300) of Division 1 of the shareholders  
8 of a corporation involved in a reorganization requiring the approval  
9 of its outstanding shares, and the converting social purpose  
10 corporation shall have all of the obligations under Chapter 13  
11 (commencing with Section 1300) of Division 1 of a corporation  
12 involved in the reorganization. Solely for purposes of applying the  
13 provisions of Chapter 13 (commencing with Section 1300) of  
14 Division 1, and not for purposes of this chapter, a conversion  
15 pursuant to Section 3301 or ~~4157~~ 3307 shall be deemed to  
16 constitute a reorganization.

17 *SEC. 61.* Section 3307 is added to the Corporations Code, to  
18 read:

19 3307. (a) *An other business entity or a foreign other business*  
20 *entity or a foreign corporation may be converted into a social*  
21 *purpose corporation pursuant to this chapter only if the converting*  
22 *entity is authorized by the laws under which it is organized to effect*  
23 *the conversion.*

24 (b) *An other business entity or a foreign other business entity*  
25 *or a foreign corporation that desires to convert into a social*  
26 *purpose corporation shall approve a plan of conversion or other*  
27 *instrument as is required to be approved to effect the conversion*  
28 *pursuant to the laws under which that entity is organized.*

29 (c) *The conversion of an other business entity or a foreign other*  
30 *business entity or a foreign corporation shall be approved by the*  
31 *number or percentage of the partners, members, shareholders, or*  
32 *other holders of interest of the converting entity that is required*  
33 *by the laws under which that entity is organized, or a greater or*  
34 *lesser percentage as may be set forth in the converting entity's*  
35 *partnership agreement, articles of organization, operating*  
36 *agreement, articles of incorporation, or other governing document*  
37 *in accordance with applicable laws.*

38 (d) *The conversion by an other business entity or a foreign other*  
39 *business entity or a foreign corporation shall be effective under*  
40 *this chapter upon the filing with the Secretary of State of the*

1 articles of incorporation of the converted corporation, containing  
2 a statement of conversion that complies with subdivision (e).

3 (e) A statement of conversion of an entity converting into a  
4 social purpose corporation pursuant to this chapter shall set forth  
5 all of the following:

6 (1) The name, form, and jurisdiction of organization of the  
7 converting entity.

8 (2) The Secretary of State's file number, if any, of the converting  
9 entity.

10 (3) If the converting entity is a foreign other business entity or  
11 a foreign corporation, the statement of conversion shall contain  
12 the following:

13 (A) A statement that the converting entity is authorized to effect  
14 the conversion by the laws under which it is organized.

15 (B) A statement that the converting entity has approved a plan  
16 of conversion or other instrument as is required to be approved  
17 to effect the conversion pursuant to the laws under which the  
18 converting entity is organized.

19 (C) A statement that the conversion has been approved by the  
20 number or percentage of the partners, members, shareholders, or  
21 other holders of interest of the converting entity that is required  
22 by the laws under which that entity is organized, or a greater or  
23 lesser percentage as may be set forth in the converting entity's  
24 partnership agreement, articles of organization, operating  
25 agreement, articles of incorporation, or other governing document  
26 in accordance with applicable laws.

27 (f) The filing with the Secretary of State of articles of  
28 incorporation containing a statement pursuant to subdivision (e)  
29 shall have the effect of the filing of a certificate of cancellation by  
30 a converting foreign limited liability company or foreign limited  
31 partnership, and no converting foreign limited liability company  
32 or foreign limited partnership that has made the filing is required  
33 to file a certificate of cancellation under Section 17708.06 or  
34 15909.07 as a result of that conversion. If a converting entity is a  
35 foreign corporation qualified to transact business in this state, the  
36 foreign corporation shall, by virtue of the filing, automatically  
37 surrender its right to transact intrastate business.

38 ~~SEC. 60.~~

39 SEC. 62. Section 3400 of the Corporations Code is amended  
40 to read:

1 3400. A reorganization or a share exchange tender offer shall  
2 be approved by the board of all of the following:

3 (a) Each constituent social purpose corporation in a merger  
4 reorganization.

5 (b) The acquiring social purpose corporation in an exchange  
6 reorganization.

7 (c) The acquiring social purpose corporation and the social  
8 purpose corporation whose property and assets are acquired in a  
9 sale-of-assets reorganization.

10 (d) The acquiring social purpose corporation in a share exchange  
11 tender offer.

12 (e) The social purpose corporation in control of any constituent  
13 or acquiring domestic or foreign social purpose corporation or  
14 other business entity under subdivision (a), (b), or (c) and whose  
15 equity securities are issued, transferred, or exchanged in the  
16 reorganization, hereafter a “parent party.”

17 ~~SEC. 61.~~

18 *SEC. 63.* Section 3401 of the Corporations Code is amended  
19 to read:

20 3401. (a) The principal terms of a reorganization shall be  
21 approved by the outstanding shares of each class of each social  
22 purpose corporation the approval of whose board is required under  
23 Section 3400, 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 social purpose corporation or parent party shall be required if the  
27 rights, preferences, 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 is required by  
33 subdivision (a) if the social purpose corporation, or its shareholders  
34 immediately before the reorganization, or both, shall own,  
35 immediately after the reorganization, equity securities, other than  
36 any warrant or right to subscribe to or purchase those equity  
37 securities, of the surviving or acquiring social purpose corporation  
38 or a parent party possessing more than five-sixths of the voting  
39 power of the surviving or acquiring social purpose corporation or  
40 parent party. In making the determination of ownership by the

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

11 (c) Notwithstanding subdivisions (a) and (b), the principal terms  
12 of a reorganization shall be approved by the outstanding shares of  
13 the surviving social purpose corporation in a merger reorganization,  
14 as otherwise required by Chapter 10 (commencing with Section  
15 3400), if any amendment is made to its articles that would  
16 otherwise require that approval.

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

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

39 (f) Notwithstanding subdivisions (a) and (b), the principal terms  
40 of a reorganization shall be approved by a vote of at least two-thirds

1 of the outstanding shares of each class, or a greater vote if required  
2 in the articles, of a social purpose corporation that is a party to a  
3 merger reorganization, regardless of whether that class is entitled  
4 to vote thereon by the provisions of the articles, if holders of shares  
5 of that class receive interests of a surviving other business entity  
6 in the merger that is not a social purpose corporation, or receive  
7 interests of a surviving 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.~~

23 *SEC. 64.* Section 3500 of the Corporations Code is amended  
24 to read:

25 3500. (a) The board of a social purpose corporation shall cause  
26 an annual report to be sent to the shareholders not later than 120  
27 days after the close of the fiscal year. The annual report shall  
28 contain (1) a balance sheet as of the end of that fiscal year and an  
29 income statement and a statement of cashflows for that fiscal year,  
30 accompanied by any report thereon of independent accountants  
31 or, if there is no report, the certificate of an authorized officer of  
32 the social purpose corporation that the statements were prepared  
33 without audit from the books and records of the corporation, and  
34 (2) the information 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 social purpose corporation's stated purpose or  
38 purposes as set forth in its articles pursuant to paragraph (2) of  
39 subdivision (b) of Section 2602, and, to the extent consistent with  
40 reasonable confidentiality requirements, shall cause the special

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

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

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

21 (3) Identification and discussion of material actions, including  
22 the intended impact of those actions, that the social purpose  
23 corporation expects to take in the short term and long term with  
24 respect to achievement of its special purpose objectives.

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

33 (5) Identification and discussion of any material operating and  
34 capital expenditures incurred by the ~~socially responsible~~ *social*  
35 *purpose* corporation during the fiscal year in furtherance of  
36 achieving the special purpose objectives, a good faith estimate of  
37 any additional material operating or capital expenditures the social  
38 purpose corporation expects to incur over the next three fiscal  
39 years in order to achieve its special purpose objectives, and other  
40 material expenditures of resources incurred by the social purpose

1 corporation during the fiscal year, including employee time, in  
2 furtherance of achieving the special purpose objectives, including  
3 a discussion of the extent to which that capital or use of other  
4 resources serves purposes other than and in addition to furthering  
5 the achievement of the special purpose objectives.

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

13 (d) If no annual report for the last fiscal year has been sent to  
14 shareholders, the social purpose corporation shall, upon the written  
15 request of any shareholder made more than 120 days after the end  
16 of that fiscal year, deliver or mail to the person making the request  
17 within 30 days following the request, the statements required by  
18 subdivisions (a) and (b) for that fiscal year.

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

1 prepared without audit from the books and records of the social  
2 purpose corporation.

3 ~~SEC. 63.~~

4 *SEC. 65.* Section 3501 of the Corporations Code is amended  
5 to read:

6 3501. (a) The board shall cause a special purpose current report  
7 to be sent to the shareholders not later than 45 days following the  
8 occurrence of any one or more of the events specified in  
9 subdivision (b) or (c), and, to the extent consistent with reasonable  
10 confidentiality requirements, shall cause the special purpose current  
11 report to be made publicly available by posting it on the social  
12 purpose corporation's Internet Web site or providing it through  
13 similar electronic means.

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

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

31 (1) Withhold expenditures or a group of related or planned  
32 expenditures, whether temporarily or permanently, that were to  
33 have been made in furtherance of the special purpose as  
34 contemplated in the most recent annual report, whether those  
35 planned expenditures were an operating expenditure, a capital  
36 expenditure, or some other expenditure of corporate resources,  
37 including, but not limited to, employee time, whether the planned  
38 expenditure was direct or indirect, and whether the planned  
39 expenditure to be made would have been categorized as overhead  
40 or otherwise, in any case, where the planned expenditure was likely

1 to have had a material positive impact on the social purpose  
2 corporation's impact in furtherance of its special purpose  
3 objectives, as contemplated in the most recent annual report.

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

6 ~~SEC. 64.~~

7 *SEC. 66.* Section 3502 of the Corporations Code is amended  
8 to read:

9 3502. (a) Nothing contained in subdivision (b) of Section 3500  
10 or Section 3501 shall require a detailing or itemization of every  
11 relevant expenditure incurred, or planned or action taken or  
12 planned, by the corporation. Management and the board shall use  
13 their discretion in providing that information, including the  
14 reasonable detail that a reasonable investor would consider  
15 important in understanding the corporation's objectives, actions,  
16 impacts, measures, rationale, and results of operations as they  
17 relate to the nature and achievement of the special purpose  
18 objectives.

19 (b) Where best practices emerge for providing the information  
20 required by subdivision (b) of Section 3500 or Section 3501, use  
21 of those best practices shall create a presumption that the social  
22 purpose corporation caused all the information required by those  
23 provisions to be provided. This presumption can only be rebutted  
24 by showing that the reporting contained either a misstatement of  
25 a material fact or omission of a material fact.

26 (c) Notwithstanding subdivision (b) of Section 3500 and Section  
27 3501, under no circumstances shall the ~~socially responsible~~ *social*  
28 *purpose* corporation be required to provide information that would  
29 result in a violation of state or federal securities laws or other  
30 applicable laws.

31 (d) The social purpose corporation and its officers and directors  
32 are expressly excluded from liability for any and all forward  
33 looking statements supplied in the report required by subdivision  
34 (b) of Section 3500 and Section 3501, so long as those statements  
35 are supplied in good faith. Statements are deemed to be forward  
36 looking as that term is defined in the federal securities laws.

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

1 (f) Unless otherwise provided by the articles or bylaws, and if  
2 approved by the board of directors, the reports specified in Sections  
3 3500 and 3501 and any accompanying material sent pursuant to  
4 this section may be sent by electronic transmission by the  
5 corporation.

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

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

29 (i)

30 (h) The requirements described in Section 3500 shall be satisfied  
31 if a corporation with an outstanding class of securities registered  
32 under Section 12 of the Securities Exchange Act of 1934 both  
33 complies with Section 240.14a-16 of Title 17 of the Code of  
34 Federal Regulations, as amended from time to time, with respect  
35 to the obligation of a corporation to furnish an annual report to  
36 shareholders pursuant to Section 240.14a-3(b) of Title 17 of the  
37 Code of Federal Regulations, and includes the information required  
38 by subdivision (b) of Section 3500 in the annual report.

39 (j)

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

9 ~~(k)~~

10 (j) In addition to the penalties provided for in this division, the  
11 superior court of the proper county shall enforce the duty of making  
12 and mailing or delivering the information and financial statements  
13 required by Sections 3500 and 3501 and, for good cause shown,  
14 may extend the time therefor.

15 ~~(l)~~

16 (k) In any action or proceeding with respect to Section 3500 or  
17 3501, if the court finds the failure of the ~~socially responsible~~ *social*  
18 *purpose* corporation to comply with the requirements of those  
19 sections to have been without justification, the court may award  
20 an amount sufficient to reimburse the shareholder for the reasonable  
21 expenses incurred by the shareholder, including attorney's fees,  
22 in connection with the action or proceeding.

23 ~~(m)~~

24 (l) Section 3500 and Section 3501 apply to any domestic social  
25 purpose corporation and also to a foreign social purpose  
26 corporation having its principal executive office in this state or  
27 customarily holding meetings of its board in this state.

28 ~~(n)~~

29 (m) All reports and notices required by Section 3500 and Section  
30 3501 shall be maintained by the social purpose corporation, in an  
31 electronic form for a period of not less than 10 years.

32 ~~SEC. 65.~~

33 *SEC. 67.* Section 3503 of the Corporations Code is amended  
34 to read:

35 3503. Any officers, directors, employees, or agents of a social  
36 purpose corporation who do any of the following shall be liable  
37 jointly and severally for all the damages resulting therefrom to the  
38 social purpose corporation or any person injured by those actions  
39 who relied on those actions or to both:

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

10 (b) Make or cause to be made in the books, minutes, records,  
11 or accounts of a social purpose corporation any entry that is false  
12 in any material particular knowing it to be false.

13 (c) Remove, erase, alter, or cancel any entry in any books or  
14 records of the social purpose corporation, with intent to deceive.

15 (d) With respect to the reports required pursuant to subdivision  
16 (b) of Section 3500 and Section 3501, omit to state any material  
17 fact necessary in order to make the statements contained therein,  
18 in light of the circumstances under which those statements were  
19 made, not misleading in a material respect, knowing the omission  
20 to be misleading.

21 *SEC. 68. Section 5813.5 of the Corporations Code is amended*  
22 *to read:*

23 5813.5. (a) A public benefit corporation may amend its articles  
24 to change its status to that of a mutual benefit corporation, *a social*  
25 *purpose corporation*, a religious corporation, a business  
26 corporation, or a cooperative corporation by complying with this  
27 section and the other sections of this chapter.

28 The Secretary of State shall notify the Franchise Tax Board, in  
29 the manner and at the times agreed upon by the Secretary of State  
30 and the Franchise Tax Board, of any amendments to a public  
31 benefit corporation's articles.

32 (b) If the public benefit corporation has any assets, an  
33 amendment to change its status to a mutual benefit corporation,  
34 ~~business~~ *social purpose* corporation, or cooperative corporation  
35 shall be approved in advance in writing by the Attorney General.  
36 If the public benefit corporation has no assets, the Attorney General  
37 shall be given a copy of the amendment at least 20 days before the  
38 amendment is filed.

39 (c) Amended articles authorized by this section shall include  
40 the provisions which would have been required (other than the

1 initial street address and initial mailing address of the corporation  
2 and the name of the initial agent for service of process if a  
3 statement has been filed pursuant to Section 6210), and may in  
4 addition only include those provisions which would have been  
5 permitted, in original articles filed by the type of corporation  
6 (mutual benefit, religious, business, *social purpose*, or cooperative)  
7 into which the public benefit corporation is changing its status.

8 (d) In the case of a change of status to a business corporation,  
9 *social purpose corporation*, or cooperative corporation, if the  
10 Franchise Tax Board has issued a determination exempting the  
11 corporation from tax as provided in Section 23701 of the Revenue  
12 and Taxation Code, the corporation shall be subject to Section  
13 23221 of the Revenue and Taxation Code upon filing the certificate  
14 of amendment.

15 *SEC. 69. Section 7813.5 of the Corporations Code is amended*  
16 *to read:*

17 7813.5. (a) A mutual benefit corporation may amend its articles  
18 to change its status to that of a public benefit corporation, a  
19 religious corporation, a business corporation, *a social purpose*  
20 *corporation*, or a cooperative corporation by complying with this  
21 section and the other sections of this chapter.

22 (b) Except as authorized by Section 7811 or unless the  
23 corporation has no members, an amendment to change its status  
24 to a public benefit corporation or religious corporation shall: (i)  
25 be approved by the members (Section 5034), and the fairness of  
26 the amendment to the members shall be approved by the  
27 Commissioner of Corporations pursuant to Section 25142; (ii) be  
28 approved by the members (Section 5034) in an election conducted  
29 by written ballot pursuant to Section 7513 in which no negative  
30 votes are cast; or (iii) be approved by 100 percent of the voting  
31 power.

32 (c) Amended articles authorized by this section shall include  
33 the provisions which would have been required (other than the  
34 initial street address and initial mailing address of the corporation  
35 and the name of the initial agent for service of process if a  
36 statement has been filed pursuant to Section 8210), and may in  
37 addition only include those provisions which would have been  
38 permitted, in original articles filed by the type of corporation  
39 (public benefit, religious, business, *social purpose*, or cooperative)  
40 into which the mutual benefit corporation is changing its status.

1 (d) At the time of filing a certificate of amendment to change  
2 status to a public benefit corporation, ~~a corporation shall furnish~~  
3 ~~an additional copy of the certificate of amendment to the Secretary~~  
4 ~~of State who shall forward that a copy of the filed certificate to~~  
5 the Attorney General.

6 (e) In the case of a change of status to a business corporation,  
7 *social purpose corporation*, or a cooperative corporation, if the  
8 Franchise Tax Board has issued a determination exempting the  
9 corporation from tax as provided in Section 23701 of the Revenue  
10 and Taxation Code, the corporation shall be subject to Section  
11 23221 of the Revenue and Taxation Code upon filing the certificate  
12 of amendment.

13 *SEC. 70. Section 9621 of the Corporations Code is amended*  
14 *to read:*

15 9621. (a) A religious corporation may amend its articles to  
16 change its status to that of (1), a public benefit corporation, by  
17 complying with this section and the other sections of Chapter 8  
18 (commencing with Section 5810) of Part 2 (made applicable  
19 pursuant to Section 9620) or (2), a mutual benefit corporation,  
20 business corporation, *a social purpose corporation*, or cooperative  
21 corporation by complying with Chapter 8 (commencing with  
22 Section 5810) of Part 2.

23 (b) Amended articles authorized by this section shall include  
24 the provisions which would have been required (other than the  
25 initial street address and initial mailing address of the corporation  
26 and the name of the initial agent for service of process if a  
27 statement has been filed pursuant to Section 6210, made applicable  
28 pursuant to Section 9660) and may in addition only include those  
29 provisions which would have been permitted, in original articles  
30 filed by the type of corporation (public benefit, mutual benefit,  
31 business, *social purpose*, or cooperative) into which the religious  
32 corporation is changing its status.

33 *SEC. 71. Section 12504 of the Corporations Code is amended*  
34 *to read:*

35 12504. (a) A corporation may amend its articles to change its  
36 status to that of a nonprofit public benefit corporation, a nonprofit  
37 mutual benefit corporation, a nonprofit religious corporation, ~~or a~~  
38 business corporation, *or a social purpose corporation* by  
39 complying with this section and the other sections of this chapter.

1 (b) Except as authorized by Section 12501 or unless the  
2 corporation has no members, an amendment to change its status  
3 to a nonprofit public benefit corporation or a nonprofit religious  
4 corporation shall: (1) be approved by the members (Section 12224),  
5 and the fairness of the amendment to the members shall be  
6 approved by the Commissioner of Corporations pursuant to Section  
7 25142; or (2) be approved by the members (Section 12224) in an  
8 election conducted by written ballot pursuant to Section 12463 in  
9 which no negative votes are cast; or (3) be approved by 100 percent  
10 of the voting power.

11 (c) Amended articles authorized by this section shall include  
12 the provisions which would have been required (other than the  
13 initial street address and initial mailing address of the corporation  
14 and the name of the initial agent for service of process if a  
15 statement has been filed pursuant to Section 12570), and may in  
16 addition only include those provisions which would have been  
17 permitted, in original articles filed by the type of corporation  
18 (nonprofit public benefit, nonprofit mutual benefit, nonprofit  
19 religious, ~~or~~ business, *or social purpose*) into which the corporation  
20 is changing its status.

21 (d) At the time of filing a certificate of amendment to change  
22 status to a nonprofit public benefit corporation, ~~a corporation shall~~  
23 ~~furnish an additional copy of the certificate of amendment to the~~  
24 Secretary of State ~~who shall forward that a copy of the filed~~  
25 *certificate* to the Attorney General.