



DEBRA BOWEN | SECRETARY OF STATE | STATE OF CALIFORNIA
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June 28, 2013

The Honorable Mark Leno, Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814
Attention: Ms. Jody Martin

Dear Senator Leno:

Attached please find my office's report on the status of flexible purpose corporations, in accordance with Supplemental Report language in Item number 0890-001-0228 of the Budget Act of 2012-13, AB 1464 (Blumenfield), Chapter 21, Statutes of 2012.

If you have any questions about this report, please feel free to contact me at (916) 653-7244.

Sincerely,

A handwritten signature in black ink that reads 'Debra Bowen'.

Debra Bowen
Secretary of State

Attachment

cc: Mr. Gregory Schmidt, Secretary of the Senate
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Ms. Diane Boyer-Vine, Legislative Counsel
Ms. Tina McGee, Legislative Analyst's Office

Secretary of State's Office
Business Programs Division,
Supplemental Language Report
Budget Letter 12-16; Item 0890-001-0228
June 28, 2013

AB 1464 (Blumenfield), Chapter 21, Statutes of 2012, the Budget Act of 2012-13, contained Supplemental Report language in Item number 0890-001-0288 requiring the Secretary of State's office to report to the Legislature by June 30, 2013, on (1) the number of entities that have filed for the status of a flexible purpose corporation, per the requirements of SB 201 (DeSaulnier), Chapter 740, Statutes of 2011, and (2) the workload required by the Secretary of State to fulfill the requirements of Chapter 740.

The Business Programs Division of the Secretary of State's office is the central filing office for business entity documents filed pursuant to the California Corporations Code, the California Financial Code, and the California Insurance Code.

SB 201 (DeSaulnier), Chapter 740, Statutes of 2011, created a new domestic stock corporation species called Flexible Purpose Corporations and added Division 1.5 to Title 1 of the California Corporations Code as applicable law governing this new type of corporation. SB 201 took effect January 1, 2012.

Also taking effect on January 1, 2012, was AB 361 (Huffman), Chapter 728, Statutes of 2011, which created a new domestic stock corporation subtype similar to a Flexible Purpose Corporation called a Benefit Corporation.

As the laws creating Flexible Purpose Corporations and Benefit Corporations took effect at the same time and are very similar, this report includes information on Flexible Purpose Corporations and Benefit Corporations.

Number of Flexible Purpose Corporations & Benefit Corporations

In the 17 months ending May 31, 2013 since the laws authorizing Flexible Purpose Corporations and Benefit Corporations took effect, 83 Flexible Purpose Corporation documents were reviewed and 142 Benefit Corporation documents were reviewed. Of those documents reviewed for legal compliance, 31 Flexible Purpose Corporations have been created and 103 Benefit Corporations have been created.

Workload Data for Flexible Purpose Corporations & Benefit Corporations

California law authorizes the Secretary of State to file a corporate document only if the document complies with law. Because of the new and complex legal issues involved with Flexible Purpose Corporations and Benefit Corporations, all document review, customer communications, and legal research is performed by attorneys in the Business Programs Division. Each Flexible Purpose Corporation and Benefit Corporation document is tracked, reviewed for legal compliance by Business Programs Division attorneys and returned to the customer with any deficiencies noted in a detailed deficiency memo or, if the document is not

deficient, it is filed with the Secretary of State, imaged and made a permanent record. Amendment, conversion and merger issues associated with these types of corporations are expected to increase as these entity types mature and the business community is more aware of their existence.

In addition to reviewing documents, Business Programs Division attorneys receive and respond to daily inquiries from private attorneys and the general public regarding Flexible Purpose Corporations and Benefit Corporations. Attorney time also has been spent developing procedures, conducting training, reviewing issues, doing legal research, drafting legal memos, and reducing filing backlogs.