



## I'm Converting, Do I Need To Qualify?

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When I first began practicing law, conversion was a subject for religious, not corporate, law. Now, the California Corporations Code authorizes a broad range of conversion transactions. Unfortunately, the conversion statutes require a careful understanding of numerous defined terms. For example, California Corporations Code Section 1151 authorizes the conversion of a "corporation" (defined in Section 162) into a "domestic other business entity" (defined in Section 1150(e) by reference to Section 167.7).

When a business entity converts, is there a need to be concerned about the Corporate Securities Law of 1968? California imposes a tripartite classification scheme on securities transactions. Issuer transactions are subject to qualification under Section 25110, Nonissuer transactions are subject to qualification under Section 25130, and recapitalization and reorganization transactions are subject to qualification under Section 25120. These distinctions are important because the method of qualification (permit, notice or coordination) depends on the qualification requirement. Further, exemptions from qualification under the CSL do not necessarily apply to all three qualification requirements.

One might assume that a conversion transaction is subject to qualification under Section 25120(a)(1) as a change in the rights, preferences, privileges, or restrictions of or on outstanding securities. However, Section 25120(a)(4) specifically provides that "entity conversion transactions" are subject to qualification. Under the CSL, an "entity conversion transaction" is defined as a conversion pursuant Section 1151, 1157, 15677.2, 15677.8, 15911.02, 15911.08, 16902, 16908, 17540.2, 17540.8 unless the interests in the entity resulting from the conversion to be held by the equity holders of the entity being converted are not securities (defined in Section 25019). Further, for purposes of Sections 25103 and 25120, an entity conversion transaction is not a change in the rights, preferences, privileges, or restrictions of or on outstanding securities or an exchange of securities by the issuer with its existing security holders exclusively.

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