



# California Corporate & Securities Law

## **Placed On This Isthmus of A Middle State – Flexible Purpose Corporation Bill Faces Nonprofit Opposition**

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Previously, I've [discussed](#) the effort to create a new species of corporation – the flexible purpose corporation. To this end, Senator [Mark DeSaulnier](#) has introduced [SB 201](#). The Senate Judiciary Committee heard and passed the bill yesterday afternoon. However, some interesting opposition has surfaced.

### **Charities Fear Diversion**

At the Committee's hearing, witnesses from the [California Association of Nonprofits](#), the [Blood Centers of California](#), the [California Society of Association Executives](#) each argued that the formation of flexible purpose corporations could siphon off much-needed resources from effective existing nonprofits by redirecting donor dollars from charitable contributions to flexible purpose corporation investments.

### **Proponents Emphasize For-Profit Status and Disclosure**

Witnesses from the working group that developed the legislation, the Corporations Committee of the [Business Law Section](#) of the California State Bar, and [Omidyar Network](#) testified in support of the bill. They emphasized that flexible purpose corporations are for-profit corporations that will not enjoy favorable tax treatment vis-à-vis other for-profit corporations. The proponents of SB 201 also emphasized the disclosure requirements of the bill (I'll write more about that subject in another post).

### **What about AB 361?**

Senator DeSaulnier also denied that SB 201 is in competition with [AB 361](#) which Assembly Member [Jared Huffman](#) introduced as a spot bill (see this earlier [post](#)). AB 361 has been an unpleasant surprise to the working group that developed SB 201 and that worked hard to reach out to a wide range of constituencies.

It remains to be seen whether the flexible purpose corporation idea will result in too much diversion for charities and too little profits for investors.

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