



Converting Rice May Be Easier Than Converting To A Flexible Purpose Corporation

By Keith Paul Bishop on February 22, 2012

The process for converting rice sounds like some medieval torture. Rice is soaked, steamed under pressure, and then dried. While not pleasant, conversion can, and does, occur. The same may not be true for converting a corporation into a flexible purpose corporation.

Flexible purpose corporations are corporations formed under Title I, Division 1.5 of the California Corporations Code, Section 2500 *et seq.* This means that FPCs are not formed under the General Corporation Law (Title I, Division 1). While it appears that the legislature contemplated conversion of a GCL corporation into a FP corporation, it failed to provide the actual authority to effect the conversion.

Chapter 11.5 of the GCL was added in 2002 to authorize the conversion of a GCL corporation into a “domestic other business entity” as defined in Section 167.7. The authorizing statute in Section 1151. Other statutes within Chapter 11.5 specify the mechanics of the conversion process. When the legislature enacted the flexible purpose corporation law, it amended two of the procedural statutes (Section 1152 and 1155) but failed to amend Section 1151 to authorize conversions into FP corporations.

While this is a significant omission, it seems fairly clear that the legislature thought that GCL corporations could convert into FP corporations. Otherwise, it would not have added a new paragraph (d) to Section 1152 that begins with “if the corporation is converting into a flexible purpose corporation . . .”.

Nonetheless, it remains to be seen whether the Secretary of State’s office will file conversion documents or whether the courts will recognize a conversion.

Please contact Keith Paul Bishop at Allen Matkins for more information kbishop@allenmatkins.com