

### From the Business Group

On June 7, 2012, Washington State started recognizing a new form of for-profit corporation, “the social purpose corporation” to address the increasing desire of corporations to build social values into their corporate identities. Only a handful of other states currently authorize formation of this type of entity.

#### What is a social purpose corporation?

A social purpose corporation is a for-profit corporation organized to carry out its business purpose in a manner that promotes positive short-term or long-term effects of, or minimizes adverse short-term or long-term effects of, the corporation's activities upon any or all of (1) the corporation's employees, suppliers or customers; (2) the local, state, national or world community; or (3) the environment. In addition to these requirements, a social purpose corporation may have one or more specific social purposes.

#### How does a social purpose corporation differ from a standard for-profit corporation?

A for-profit corporation has a fiduciary duty to maximize profits and earnings for its shareholders. In contrast, a social purpose corporation is organized in a manner that allows the corporation to make decisions which may not be compatible with, and in some cases, may be contrary to maximizing profits and earnings for shareholders. This includes decisions with respect to the sale, merger, acquisition or other similar actions of the corporation.

Unlike a standard for-profit corporation, the officers and directors of a social purpose corporation are allowed to consider and give weight to one or more of the social purposes of the corporation in fulfilling their duties, unless the articles of incorporation state otherwise. Their actions (or inactions) are assumed to be in the corporation's best interest if they reasonably believe they are promoting the corporation's social purpose. In other words, officers and directors can make decisions that advance the corporation's social mission without the risk of legal liability, even if their decisions reduce shareholder value as a result.

#### Are there any tax benefits to being a social purpose corporation?

No. A social purpose corporation is a for-profit corporation and is taxed as such.

#### How can a corporation become a social purpose corporation?

New and existing corporations can become social purpose corporations. A new corporation elects to be governed as a social purpose corporation by filing articles of incorporation that satisfy the specific requirements of the social purpose corporation law. For existing corporations, an election to become a social purpose corporation must be recommended by the board of directors and approved by a 2/3 majority of the voting shareholders. An existing corporation must also file amended articles of incorporation in accordance with the new law.

#### If an existing corporation elects to become a social purpose corporation, does it have to change its legal name?

Yes. The social purpose corporation's name must include the words “social purpose corporation” or “SPC.”

### Are there any reporting requirements for a social purpose corporation?

Yes. Within four months of the close of the corporation's fiscal year, the board of directors must provide the shareholders with a social purpose report. The report may include, among other things, a discussion of the corporation's social purposes, short- and long-term goals, specific actions taken during the prior year further the corporation's social purposes, the actions to be taken in the coming year, and the standards used to evaluate the corporation's performance in advancing its social purposes. The report must also be made available to the general public, free of charge, on the corporation's website.

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