

# Arkansas Benefit Corporation How-To Guide

## Overview

Unlike traditional corporations that make business decisions primarily to maximize shareholder value, benefit corporations aim to create value for all of their stakeholders. Status as a benefit corporation requires a company's management to consider the impact of its business on stakeholders (such as employees, suppliers and communities where they operate) while also fulfilling fiduciary duties to shareholders. Benefit corporations also have some legal responsibilities that differ from typical business corporations. For example, benefit corporations must use a third-party performance standard to prepare an annual report to shareholders that reports on the corporation's social and environmental performance. This guide will help to explain the process for forming a benefit corporation and for converting an existing company into a benefit corporation in Arkansas. The full text of Arkansas's Benefit Corporation Act (Arkansas Code Annotated § 4-36-101, et seq.) is available at the [Arkansas State Legislature's website](#). As with most legal matters, you should consult with a legal professional before taking any action.

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## Forming a Brand New Entity as a Benefit Corporation

In Arkansas, the process for forming a benefit corporation tracks closely to the process of forming any other type of corporation. You must file articles of incorporation with the Arkansas Secretary of State and must state in that filing that the corporation is creating a benefit corporation.

### Step #1: Select an available name for your company

Your company's name cannot be the same as or too closely resemble another Arkansas corporation's name. The name that you choose must also include the word "company", "corporation", "limited", or "incorporated", or an abbreviation of one of those words.

#### Actions

- Check the availability of your preferred name using the [Arkansas Secretary of State's Business Entity Search](#).
- Reserve an available name for 120 days by filing an [Application for Reservation of Corporate Name](#) with the Arkansas Secretary of State.

### Step #2: Choose a statutory agent, incorporator, and directors

You will need to designate a statutory agent, incorporator, and directors. Every Arkansas corporation must have a statutory agent that agrees to accept legal documents on behalf of the corporation if it is sued. The initial directors can be appointed by the incorporator, which should be documented in written resolutions that are signed by the incorporator.

Your company may also, but is not required to, appoint an individual to serve as a benefit director. A benefit director, in addition to his/her normal duties as a director, is responsible for issuing an opinion in the annual benefit report on the benefit corporation's progress in promoting its general public benefit and any specific public benefits during that year. The person serving as benefit director must be "independent," meaning that he/she has no material relationship with the benefit corporation or any of its subsidiaries. Examples of a material relationship include owning 5% or more of the company's (or one of its subsidiaries') outstanding shares, or having an immediate family member who has been an executive officer, other than the benefit officer, of the company (or one its subsidiaries) within the past three years.

Fill the Following Roles		
<b>Registered Agent</b>	<ul style="list-style-type: none"> <li>An individual who has an Arkansas address or an individual or business entity that is listed with the Arkansas Secretary of State as a commercial registered agent.</li> </ul>	☑
<b>Incorporator(s)</b>	<ul style="list-style-type: none"> <li>The person(s) who initiate the process of incorporating the company by signing and filing the articles of incorporation. A corporation can have more than one incorporator, each of whom must be at least 21 years old.</li> </ul>	☑
<b>Directors</b>	<ul style="list-style-type: none"> <li>Members of your corporate board tasked with overseeing the affairs of your company.</li> </ul>	☑
<b>Benefit Director (Optional)</b>	<ul style="list-style-type: none"> <li>An independent director whose role is to opine on the company's compliance with its general public benefit and specific public benefit(s) in the annual benefit report.</li> </ul>	☑

Draft the Following Documents		
<b>Resolutions of the Incorporator</b>	<ul style="list-style-type: none"> <li>Resolutions can be used to appoint the directors. Resolutions should be written and signed by the incorporators.</li> </ul>	☑

### Step #3: Draft your articles of incorporation and file them with the Arkansas Secretary of State

Articles of incorporation can be created either by using a standard form provided by the Arkansas Secretary of State or by drafting your own articles of incorporation. Below we describe what must be included in your company's articles of incorporation, as well as optional items that are permitted, but not required, by the Benefit Corporation Act.

**Statement of Status:** Your company's articles of incorporation must state explicitly that the company is a benefit corporation. This can be accomplished by including the following language to your articles of incorporation: "This corporation is a benefit corporation."

**Purpose:** By virtue of the Benefit Corporation Act, all benefit corporations automatically have the purpose of creating a material positive impact on society and the environment. This is called "general public benefit." You also have the option of identifying one or more "specific public benefit" purposes in your articles.

**Optional: Include a Specific Public Benefit or Benefits In Your Articles of Incorporation**

Arkansas permits benefit corporations to include one or more specific public benefit purposes in their articles of incorporation. Examples of “specific public benefits” include:

- Providing low-income or underserved individuals or communities with beneficial products or services.
- Promoting economic opportunity for individuals or communities beyond the creation of jobs in the normal course of business.
- Preserving the environment.
- Improving human health.
- Promoting the arts, sciences, or advancement of knowledge.
- Increasing the flow of capital to entities with a public benefit purpose.
- Conferring any other particular benefit on society or the environment as specified in the benefit corporation’s articles of incorporation.

*Note: In Arkansas, any amendment of the articles of incorporation to amend, add, or delete a specific public benefit must be approved by your shareholders by a “minimum status vote” (i.e., by the holders of at least two-thirds of the outstanding shares of each class of shares entitled to vote, regardless of any voting limitations imposed by the articles of incorporation or bylaws).*

**Standard of Conduct:** The directors of a benefit corporation are required to consider the effect that their actions or inaction has on the following:

- The shareholders of the benefit corporation;
- The employees and work force of the benefit corporation, its subsidiaries, and its suppliers;
- The interests of customers as beneficiaries of the general public benefit or specific public benefit purposes of the benefit corporation;
- Community and societal factors, including those of each community in which offices or facilities of the benefit corporation, its subsidiaries, or its suppliers are located;
- The local and global environment;
- The short-term and long-term interests of the benefit corporation, including benefits that may accrue to the benefit corporation from its long-term plans and the possibility that these interests may be best served by the continued independence of the benefit corporation; and
- The ability of the benefit corporation to accomplish its general public benefit purpose and a specific public benefit purpose.

Your company may require directors to prioritize certain of the above-mentioned interests in pursuit of your company’s general public benefit purpose or specific public benefit purpose, if any, by including a provision in the articles of incorporation that it intends to give priority to certain considerations over others.

**Standing for Benefit Enforcement Proceedings:** Certain parties may bring a claim against a benefit corporation by commencing a “benefit enforcement proceeding.”

If the articles of incorporation are silent about this issue, benefit enforcement proceedings may be commenced only by:

- the benefit corporation itself;
- a director of the benefit corporation;
- a shareholder; or
- a person or a group owning 5% or more of the outstanding shares of the benefit corporation.

You may also include a provision in your articles of incorporation or bylaws to authorize any other person or group to commence a benefit enforcement proceeding.

Using Arkansas’s Standard Form to Create Your Articles of Incorporation	Drafting Your Articles of Incorporation Without a Standard Form
<b><u>Required Items</u></b>	<b><u>Required Actions</u></b>
<ul style="list-style-type: none"> <li>• Access the Benefit Corporation Articles of Incorporation form via the <a href="#">Arkansas Secretary of State’s website</a>.</li> <li>• Complete the form by following the accompanying instructions.</li> <li>• Include the signature of each incorporator, and indicate that each person is signing in the capacity as an incorporator.</li> </ul>	<ul style="list-style-type: none"> <li>• Include each provision required by <a href="#">Arkansas Code Annotated § 4-26-202</a>.</li> <li>• Put the provisions in the order in which they appear in the statute.</li> <li>• Follow as closely as possible the wording of the statute.</li> <li>• Do not forget to include the provision stating that the corporation is a benefit corporation.</li> </ul>
<b><u>Optional</u></b>	
<ul style="list-style-type: none"> <li>• Include one or more specific public benefit purpose(s).</li> <li>• Identify one or more considerations that the board must prioritize over other considerations.</li> <li>• Identify additional persons who are authorized to commence a benefit enforcement proceeding.</li> </ul>	

**Step #4: Draft corporate bylaws to establish governance rules for your business****Actions**

- Consider some of the unique responsibilities of benefit corporations before crafting your bylaws.
- A benefit officer, if any, performs management duties related to carrying out the general public benefit and, if applicable, the specific public benefit(s). The benefit officer is also responsible for preparing the annual benefit report. He/she may be the same person as the benefit director. If the benefit corporation has chosen to appoint a benefit officer, the corporation should consider whether to include provisions in its bylaws setting forth the duties and powers of the position.

*Note: Arkansas benefit corporations must file an annual benefit report. Consider including procedures for the creation of this report in your bylaws to help ensure that your business and its purposes are aligned.*

**Step #5: Draft resolutions to be adopted at an initial meeting of the directors or by unanimous written consent in lieu of a meeting**

After your corporation is formed or in connection with its formation, you should hold a meeting of the directors, at which the board's resolutions are adopted and recorded in corporate minutes. Alternatively, a meeting of the directors is not required if all directors consent in a signed writing to the proposed resolutions and those consents are included in the corporation's minutes or filed with the corporate records.

**Actions**

- Hold your first board of directors meeting or obtain written consent to:
  - Appoint corporate officers.
  - Adopt bylaws.
  - Authorize the issuance of stock.
  - Authorize, approve, and ratify any other preliminary tasks related to the formation of the benefit corporation.

**Step #6: Post-formation considerations**

After forming your benefit corporation, you should consider taking additional steps to address requirements unique to benefit corporations in Arkansas. For example, you can establish procedures for filing the "annual benefit report," which must be filed with the Arkansas Secretary of State. Additionally, you must provide the annual benefit report to your shareholders before the stated due date of your annual franchise tax or at the same time you deliver annual financial reports to your shareholders. Arkansas also requires the benefit corporation to post the report to the public portion of the company's website. If you do not have a website, your benefit

report must be provided free of charge to anyone who requests it. For help with generating your annual benefit report, access the online tool [here](#).

The preparation of your annual benefit report requires your company to choose a standard for defining, reporting, and assessing your corporation's overall corporate social and environmental performance. This is known as the "third-party standard." The standard you select must be comprehensive and independent. For more information on third-party standards, visit [benefitcorp.net](http://benefitcorp.net).

#### Actions

- Choose a third-party standard.
- Set a timeline with key dates for the preparation and filing of your annual benefit report.
- Deliver your report to each shareholder along with the annual financial report or before the stated due date of your annual franchise tax.
- File your report with the Arkansas Secretary of State at the same time that you deliver it to your shareholders.
- Post the annual report on your website.

#### **Summary: To Form a New Benefit Corporation**

- **In connection with formation:**
  - Draft articles of incorporation.
  - Deliver to the Arkansas Secretary of State:
    - Articles of incorporation.
    - Payment of filing fee.
  - Draft:
    - Resolutions of the incorporator(s).
    - Resolutions of the board, to be adopted at a meeting or by written consent in lieu of a meeting.
    - Bylaws.
- **Post-formation:**
  - Choose a third-party standard.
  - Prepare the annual benefit report.
  - File the annual benefit report with the Arkansas Secretary of State.
  - Send the annual benefit report to all shareholders along with the annual financial report or before the stated due date of your annual franchise tax.
  - Post the annual benefit report publically on the company's website.

## Converting Your Company into a Benefit Corporation

An existing corporation can become a benefit corporation by amending its articles of incorporation to include a statement that the organization is a benefit corporation. This How-To Guide addresses the steps required for an existing corporation to become a benefit corporation in Arkansas.

For entities like Limited Liability Companies, Limited Partnerships, or other types of entities that are not standard business corporations, transitioning to a benefit corporation must be accomplished through a conversion or merger. If your existing company is not a business corporation and you would like it to become one, you should seek the assistance of a legal professional.

### Step #1: Conduct due diligence and plan ahead

There are no tax implications for an existing corporation that elects to become a benefit corporation, but this transition may impact your organization in other ways. You should review your corporate documents and contracts to determine if any updates or changes may be necessary or desirable after your company becomes a benefit corporation. You should also consider all of the changes and steps that you may need to take as you transition your business into a benefit corporation, like putting procedures in place to measure your social and environmental impact.

<u>Required Actions</u>
<ul style="list-style-type: none"> <li>• <b>Analyze and plan for business implications including:</b> <ul style="list-style-type: none"> <li>○ Legal requirements.</li> <li>○ Corporate governance considerations.</li> </ul> </li> <li>• <b>Draft amendments to the articles of incorporation:</b> <ul style="list-style-type: none"> <li>○ Include a statement that the corporation is a benefit corporation.</li> </ul> </li> </ul>
<u>Optional Actions</u>
<ul style="list-style-type: none"> <li>• <b>Draft amendments to bylaws, if any:</b> <ul style="list-style-type: none"> <li>○ Draft amendments to your bylaws governing the management of the benefit corporation.</li> </ul> </li> </ul>



Due Diligence		
<b>Contracts</b>	<ul style="list-style-type: none"> <li>Review contracts including any bank or loan documents to determine if any consents, notices or other actions are required in connection with your company's amendment of its articles of incorporation.</li> </ul>	☑
<b>Corporate Organizational Documents</b>	<ul style="list-style-type: none"> <li>Review corporate charter and bylaws to determine if you would like or need to make any changes as a result of electing benefit corporation status.</li> <li>Review corporate charter, bylaws and any voting or other shareholder agreements to determine if any consents, notices or other actions are required in connection with your company's amendment of its articles of incorporation.</li> </ul>	☑

## Step #2: Draft amendments to the articles of incorporation

You must amend the articles of incorporation to include a statement that your company is a benefit corporation. You can do this by completing and filing a "Certificate of Amendment to Add or Amend a Benefit Designation" which can be found at the [Arkansas Secretary of State's website](#). If you originally drafted your articles of incorporation, you may draft your own amendments and file them with the Secretary. Below we describe what amendments to the articles of incorporation you must make, as well as optional amendments that are permitted, but not required, by the Benefit Corporation Act.

**Statement of Status:** You must include an amendment to the articles of incorporation that states explicitly that the company is a benefit corporation. This can be accomplished by drafting an amendment that includes the following language: "This corporation is a benefit corporation."

**Purpose:** By virtue of the Benefit Corporation Act, all benefit corporations automatically have the purpose of creating a material positive impact on society and the environment. This is called "general public benefit." You also have the option of amending the articles of incorporation to identify one or more "specific public benefit" purposes in your articles.

### **Optional: Include Specific Public Benefits In Your Articles of Incorporation**

Arkansas permits benefit corporations to include one or more specific public benefit purposes in their articles of incorporation. Examples of “specific public benefits” include:

- Providing low-income or underserved individuals or communities with beneficial products or services.
- Promoting economic opportunity for individuals or communities beyond the creation of jobs in the normal course of business.
- Protecting or restoring the environment.
- Improving human health.
- Promoting the arts, sciences, or advancement of knowledge.
- Increasing the flow of capital to entities with a purpose to benefit society or the environment.
- Conferring any other particular benefit on society or the environment as specified in the benefit corporation’s articles of incorporation.

*Note: In Arkansas, you may amend the articles of incorporation to amend, add or delete a specific public benefit if approved by your shareholders by a “minimum status vote” (i.e., by the holders of at least two-thirds of the outstanding shares of each class of shares entitled to vote, regardless of any voting limitations imposed by the articles of incorporation or bylaws).*

Your company may amend the articles of incorporation to include the following optional provisions or deviations from the default provisions of Arkansas’s Benefit Corporation Act:

**Standard of Conduct:** The directors of a benefit corporation are required to consider the effect that their actions or inaction has on the following:

- The shareholders of the benefit corporation.
- The employees and workforce of the benefit corporation, its subsidiaries, and its suppliers.
- The interests of customers as beneficiaries of the general public benefit or specific public benefit purposes of the benefit corporation.
- Community and societal factors, including those of each community in which offices or facilities of the benefit corporation, its subsidiaries, or its suppliers are located.
- The local and global environment.
- The short-term and long-term interests of the benefit corporation, including benefits that may accrue to the benefit corporation from its long-term plans and the possibility that these interests may be best served by the continued independence of the benefit corporation.
- The ability of the benefit corporation to accomplish its general public benefit purpose and any specific public benefit purpose.

You may amend the articles of incorporation to require directors to prioritize certain of the above-mentioned interests in pursuit of your company’s general public benefit purpose or

specific public benefit purpose, if any, by including a provision in the articles of incorporation that it intends to give priority to certain considerations over others.

**Standing for Benefit Enforcement Proceedings:** Certain parties may bring a claim against a benefit corporation by commencing a “benefit enforcement proceeding.”

If the articles of incorporation are silent about this issue, benefit enforcement proceedings may be commenced only by:

- the benefit corporation itself;
- a director of the benefit corporation;
- a shareholder; or
- a person or a group owning 5% or more of the outstanding shares of the benefit corporation.

You may also include a provision in your articles of incorporation to authorize any other person or group to commence a benefit enforcement proceeding.

Using Arkansas’s Standard Form to Amend Your Articles of Incorporation	Drafting Amendments to Your Articles of Incorporation
<b><u>Required Items</u></b>	<b><u>Required Actions</u></b>
<ul style="list-style-type: none"> <li>• Find the Certificate of Amendment on the <a href="#">Arkansas Secretary of State website</a>.</li> <li>• Complete required information.</li> <li>• File the certificate with the Arkansas Secretary of State.</li> </ul>	<ul style="list-style-type: none"> <li>• Include each provision required by <a href="#">Arkansas Code Annotated § 4-26-304</a>.</li> <li>• Put the provisions in the order in which they appear in the statute.</li> <li>• Follow as closely as possible the wording of the statute.</li> <li>• Do not forget to include the provision stating that the corporation is a benefit corporation.</li> </ul>
<b><u>Optional Amendments</u></b>	
<ul style="list-style-type: none"> <li>• Include one or more specific public benefit purpose(s).</li> <li>• Identify one or more considerations that the board must prioritize over other considerations.</li> <li>• Identify additional persons who are authorized to commence a benefit enforcement proceeding.</li> </ul>	

### **Step #3: Obtain board approval of the amendments at a meeting of the directors or by unanimous written consent in lieu of a meeting**

The board of directors will have to approve any amendments to the existing articles of incorporation and any amendments to the bylaws by adopting resolutions that reflect the board's approval of the amendments, using the procedures laid out in [Arkansas Code Annotated § 4-26-302-03](#), your current articles of incorporation, and bylaws. You may convene a special meeting to vote on your plan or conduct a vote during one of your scheduled board meetings. The amendments must be approved by a majority of the board at a meeting where a quorum is present. The board must then adopt resolutions approving the amendments and record the resolutions in the minutes.

Alternatively, if your bylaws so allow, the board may adopt the resolutions in lieu of a meeting if all directors consent in a signed writing to the proposed actions and those consents are included in the corporation's minutes or filed with the corporate records. Check your articles of incorporation and your bylaws for any additional requirements for board approval of amendments that they may impose.

#### **Actions**

- Review your articles of incorporation and bylaws to determine the procedures required for the board to adopt amendments to those documents.
- Propose your amendments at a regular meeting or a special meeting of the board of directors and vote on the proposal, or obtain the written signed consent of all directors authorizing the amendments.
- Document the board's approval with resolutions recorded in the meeting minutes.

*Note: If by vote, the board must approve the amendments by a majority vote in favor of the amendments at a meeting where a quorum is present.*

### **Step #4: Obtain shareholder approval of the amendments and the election of benefit corporation status**

Your shareholders will have to approve the decision to become a benefit corporation and the required amendments to the articles of incorporation. Shareholders can approve the amendment by voting at a shareholder meeting or by signing a written consent. When voting to amend the articles of incorporation to include the statement that the corporation is a benefit corporation, the amendment must be passed by a "minimum status vote," in which the holders of at least two-thirds of the outstanding shares of each class of shares entitled to vote, regardless of any voting limitations imposed by the articles of incorporation or bylaws, approve the amendment.

A shareholder meeting is not required if the action is approved by all of the shareholders evidenced by one or more consents describing the proposed action or amendment, signed by each shareholder and included in the minutes or filed with the corporate records reflecting the

action approved. Check your articles of incorporation and your bylaws for any additional requirements for shareholder approval of amendments that they may impose.

#### Actions

- Review your articles of incorporation and bylaws to determine the procedures required for the shareholders to adopt amendments to those documents.
- Hold a vote on any amendments to your articles of incorporation or draft a consent and have it signed by all shareholders.
- Document the shareholders' approval in the meeting minutes or corporate records.

*Note: The amendment to the articles stating that the corporation is a benefit corporation must be approved by a "minimum status vote" of shareholders (i.e., by the holders of at least two-thirds of the outstanding shares of each class of shares entitled to vote, regardless of any voting limitations imposed by the articles of incorporation or bylaws).*

#### **Step #5: File the amendments to the articles of incorporation**

File the certificate of amendment with the Arkansas Secretary of State. Alternatively, file your approved amendments to your articles of incorporation with the Arkansas Secretary of State.

#### **Step #6: Post-conversion considerations**

After forming your benefit corporation, you should consider taking additional steps to address requirements unique to benefit corporations in Arkansas. For example, you can establish procedures for filing the "annual benefit report," which must be filed with the Arkansas Secretary of State. Additionally, you must provide the annual benefit report to your shareholders before the stated due date of your annual franchise tax or at the same time you deliver annual financial reports to your shareholders. Arkansas also requires the benefit corporation to post the report to the public portion of the company's website. If you do not have a website, your benefit report must be provided free of charge to anyone who requests it. For help with generating your annual benefit report, access the online tool [here](#).

The preparation of your annual benefit report requires your company to choose a standard for defining, reporting, and assessing your corporation's overall corporate social and environmental performance. This is known as the "third-party standard." The standard you select must be comprehensive and independent. For more information on third-party standards, visit [benefitcorp.net](http://benefitcorp.net).

### Actions

- Choose a third-party standard.
- Set a timeline with key dates for the preparation and filing of your annual benefit report.
- Deliver your report to each shareholder along with the annual financial report or before the stated due date of your annual franchise tax.
- File your report with the Arkansas Secretary of State at the same time that you deliver it to your shareholders.
- Post the annual report on your website.

### **Summary: To Convert to a Benefit Corporation**

- **In connection with conversion:**
  - Draft:
    - Amendment(s) to the articles of incorporation.
    - Resolutions of the board approving the amendment(s) to be adopted at a meeting or by written consent in lieu of a meeting.
    - Stockholder consent.
    - Amended bylaws (optional).
  - File with the Arkansas Secretary of State:
    - Certificate of Amendment.
    - Payment of filing fee.
- **Post-conversion:**
  - Choose a third-party standard.
  - Prepare the annual benefit report.
  - File the annual benefit report with the Arkansas Secretary of State.
  - Send the annual benefit report to all shareholders within 120 days of fiscal yearend, concurrently with any other annual reports you send to shareholders.
  - Post the annual benefit report publically on the company's website.