

Act No. 129
Public Acts of 1993
Approved by the Governor
July 21, 1993
Filed with the Secretary of State
July 22, 1993

**STATE OF MICHIGAN
87TH LEGISLATURE
REGULAR SESSION OF 1993**

Introduced by Reps. Bankes, McNutt, McBryde, Stille, Bullard, Dolan, Walberg, Middleton, Gire, Hill, Dalman, Pitoniak, Brackenridge, Bender, Dobb, DeLange, Freeman and Nye

ENROLLED HOUSE BILL No. 4533

AN ACT to amend sections 108, 209, 561, 562, 563, 564, 565, 567, and 569 of Act No. 162 of the Public Acts of 1982, entitled "An act to revise, consolidate, and classify the laws relating to the organization and regulation of certain nonprofit corporations; to prescribe their duties, rights, powers, immunities, and liabilities; to provide for the authorization of foreign nonprofit corporations within this state; to impose certain duties on certain state departments; to prescribe fees; to prescribe penalties for violations of this act; and to repeal certain acts and parts of acts," sections 108 and 209 as amended by Act No. 39 of the Public Acts of 1990 and sections 561, 562, 563, 564, 565, and 569 as amended by Act No. 170 of the Public Acts of 1987, being sections 450.2108, 450.2209, 450.2561, 450.2562, 450.2563, 450.2564, 450.2565, 450.2567, and 450.2569 of the Michigan Compiled Laws; and to add section 556.

The People of the State of Michigan enact:

Section 1. Sections 108, 209, 561, 562, 563, 564, 565, 567, and 569 of Act No. 162 of the Public Acts of 1982, sections 108 and 209 as amended by Act No. 39 of the Public Acts of 1990 and sections 561, 562, 563, 564, 565, and 569 as amended by Act No. 170 of the Public Acts of 1987, being sections 450.2108, 450.2209, 450.2561, 450.2562, 450.2563, 450.2564, 450.2565, 450.2567, and 450.2569 of the Michigan Compiled Laws, are amended and section 556 is added to read as follows:

Sec. 108. (1) "Member" means a person having a membership in a corporation in accordance with the provisions of its articles of incorporation or bylaws.

(2) "Nondirector volunteer" means an individual, other than a volunteer director, performing services for a nonprofit corporation who does not receive compensation or any other type of consideration for the services other than reimbursement for expenses actually incurred.

(3) "Nonprofit corporation" means a corporation incorporated to carry out any lawful purpose or purposes not involving pecuniary profit or gain for its directors, officers, shareholders, or members.

(4) "Person" means an individual, partnership, corporation, association, or any other legal entity.

(5) "Predecessor act" means an act or part of an act repealed by this act, or an act or part of an act repealed by an act that this act repeals.

Sec. 209. The articles of incorporation may contain any provision not inconsistent with any of the following:

(a) A provision of this act or another statute of this state regarding the management of a corporation or creating, defining, limiting, or regulating the powers of the corporation, its directors, members, or shareholders, or a class of shareholders or members.

(b) A provision that is required or permitted under this act to be included in the bylaws.

(c) A provision that eliminates the personal liability of a volunteer director to the corporation, its shareholders, or its members for monetary damages for a breach of the director's fiduciary duty. The provision shall not eliminate or limit the liability of a director for any of the following:

(i) A breach of the director's duty of loyalty to the corporation or its shareholders or members.

(ii) Acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law.

(iii) A violation of section 551(1).

(iv) A transaction from which the director derived an improper personal benefit.

(v) An act or omission occurring before the effective date of the provision.

(vi) An act or omission that is grossly negligent.

(d) For a tax exempt corporation under section 501(c)(3) of the internal revenue code, a provision that the corporation assumes all liability to any person other than the corporation, its shareholders, or its members for all acts or omissions of a volunteer director occurring on or after January 1, 1988 incurred in the good faith performance of the volunteer director's duties.

(e) A provision that a nonprofit corporation assumes the liability for all acts or omissions of a nondirector volunteer occurring on or after the effective date of the provision if all of the following are met:

(i) The volunteer was acting or reasonably believed he or she was acting within the scope of his or her authority.

(ii) The volunteer was acting in good faith.

(iii) The volunteer's conduct did not amount to gross negligence or willful and wanton misconduct.

(iv) The volunteer's conduct was not an intentional tort.

(v) The volunteer's conduct was not a tort arising out of the ownership, maintenance, or use of a motor vehicle for which tort liability may be imposed as provided in section 3135 of the insurance code of 1956, Act No. 218 of the Public Acts of 1956, being section 500.3135 of the Michigan Compiled Laws.

Sec. 556. If the corporation's articles of incorporation contain a provision authorized under section 209(e), then a claim for monetary damages for a nondirector volunteer's acts or omissions shall not be brought or maintained against a nondirector volunteer. The claim shall be brought and maintained against the corporation.

Sec. 561. Unless otherwise provided by law or its articles of incorporation or bylaws, a corporation has the power to indemnify a person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, other than an action by or in the right of the corporation, by reason of the fact that the person is or was a director, officer, employee, nondirector volunteer, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, nondirector volunteer, or agent of another foreign or domestic corporation, business corporation, partnership, joint venture, trust, or other enterprise, whether for profit or not for profit, against expenses including attorneys' fees, judgments, penalties, fines, and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit, or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation or its shareholders or members, and with respect to any criminal action or proceeding, if the person had no reasonable cause to believe that conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the corporation or its shareholders or members and, with respect to any criminal action or proceeding, had reasonable cause to believe that the conduct was unlawful.

Sec. 562. Unless otherwise provided by law or its articles of incorporation or bylaws, a corporation has the power to indemnify a person who was or is a party to or is threatened to be made a party to a threatened, pending, or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee, nondirector volunteer, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, nondirector volunteer, or agent of another foreign or domestic corporation, business corporation, partnership, joint venture, trust, or other enterprise whether for profit or not against expenses, including actual and reasonable attorneys' fees, and amounts paid in settlement incurred by the person in connection with the action or suit if the person acted in good faith and in a manner the person

reasonably believed to be in or not opposed to the best interests of the corporation or its shareholders or members. However, indemnification shall not be made for a claim, issue, or matter in which the person has been found liable to the corporation unless and only to the extent that the court in which the action or suit was brought has determined upon application that, despite the adjudication of liability but in view of all circumstances of the case, the person is fairly and reasonably entitled to indemnification for expenses which the court considers proper.

Sec. 563. (1) Unless otherwise provided by law or its articles of incorporation or bylaws, to the extent that a director, officer, employee, nondirector volunteer, or agent of a corporation has been successful on the merits or otherwise in defense of an action, suit, or proceeding referred to in section 561 or 562, or in defense of a claim, issue, or matter in the action, suit, or proceeding, the successful party shall be indemnified against expenses, including actual and reasonable attorneys' fees, incurred in connection with the action, suit, or proceeding and in any action, suit, or proceeding brought to enforce the mandatory indemnification provided in this subsection.

(2) An indemnification under section 561 or 562, unless ordered by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, nondirector volunteer, or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in sections 561 and 562. This determination shall be made in any of the following ways:

(a) By a majority vote of a quorum of the board consisting of directors who were not parties to the action, suit, or proceeding.

(b) If the quorum described in subdivision (a) is not obtainable, then by a majority vote of a committee of directors who are not parties to the action. The committee shall consist of not less than 2 disinterested directors.

(c) By independent legal counsel in a written opinion.

(d) By the shareholders or members.

(3) If a person is entitled to indemnification under section 561 or 562 for a portion of expenses including attorneys' fees, judgments, penalties, fines, and amounts paid in settlement but not for the total amount thereof, the corporation may indemnify the person for the portion of the expenses, judgments, penalties, fines, or amounts paid in settlement for which the person is entitled to be indemnified.

Sec. 564. Expenses incurred in defending a civil or criminal action, suit, or proceeding described in section 561 or 562 may be paid by the corporation in advance of the final disposition of the action, suit, or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee, nondirector volunteer, or agent to repay the expenses if it is ultimately determined that the person is not entitled to be indemnified by the corporation. The undertaking shall be by unlimited general obligation of the person on whose behalf advances are made but need not be secured.

Sec. 565. (1) The indemnification or advancement of expenses provided under sections 561 to 564 is not exclusive of other rights to which a person seeking indemnification or advancement of expenses may be entitled under the articles of incorporation, bylaws, or a contractual agreement. However, the total amount of expenses advanced or indemnified from all sources combined shall not exceed the amount of actual expenses incurred by the person seeking indemnification or advancement of expenses.

(2) The indemnification provided in sections 561 to 564 and this section continues as to a person who ceases to be a director, officer, employee, nondirector volunteer, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person.

Sec. 567. A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, nondirector volunteer, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, nondirector volunteer, or agent of another corporation, business corporation, partnership, joint venture, trust, or other enterprise against any liability asserted against the person and incurred by the person in any such capacity or arising out of the person's status as such, whether or not the corporation would have power to indemnify the person against such liability under sections 561 to 565.

Sec. 569. For purposes of sections 561 to 567, "corporation" includes all constituent corporations absorbed in a consolidation or merger and the resulting or surviving corporation or business corporation, so that a person who is or was a director, officer, employee, nondirector volunteer, or agent of the constituent corporation or is or was serving at the request of the constituent corporation as a director, officer, partner, trustee, employee, nondirector volunteer, or agent of another foreign or domestic corporation, business corporation, partnership, joint venture, trust, or other enterprise whether for profit or not shall stand in the same position under the provisions of this section with respect to the resulting or surviving corporation or business corporation as the person would if the person had served the resulting or surviving corporation or business corporation in the same capacity.

This act is ordered to take immediate effect.

Co-Clerk of the House of Representatives.

Secretary of the Senate.

Approved -----

Governor.