

501A.715 Indemnification.

1. *Definitions.* As used in this section, all of the following apply:

a. “*Official capacity*” means any of the following:

(1) With respect to a director, the position of director in a cooperative.

(2) With respect to a person other than a director, the elective or appointive office or position held by the person, member of a committee of the board, the employment relationship undertaken by an employee of the cooperative, or the scope of the services provided by members of the cooperative who provide services to the cooperative.

(3) With respect to a director, chief executive officer, member, or employee of the cooperative who, while a director, chief executive officer, or member or employee of the cooperative, is or was serving at the request of the cooperative or whose duties in that position involve or involved service as a governor, director, manager, officer, member, partner, trustee, employee, or agent of another organization or employee benefit plan, the position of that person as a governor, director, manager, officer, member, partner, trustee, employee, or agent, as the case may be, of the other organization or employee benefit plan.

b. “*Predecessor entity*” includes a domestic cooperative or foreign cooperative that was the predecessor of the cooperative referred to in this section in a merger or other transaction in which the predecessor entity’s existence ceased upon consummation of the transaction.

c. “*Proceeding*” means a threatened, pending, or completed civil, criminal, administrative, arbitration, or investigative proceeding, including a proceeding by or in the right of the cooperative.

d. “*Special legal counsel*” means counsel who has not represented the cooperative or a related organization, or a director, manager, member of a committee of the board, or employee whose indemnification is in issue.

2. *Indemnification.*

a. Subject to the provisions of subsection 4, a cooperative shall indemnify a person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person against judgments, penalties, and fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorney fees and disbursements incurred by the person in connection with the proceeding, if, with respect to the acts or omissions of the person complained of in the proceeding, any of the following applies:

(1) All of the following apply:

(a) The person has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorney fees and disbursements incurred by the person in connection with the proceeding with respect to the same acts or omissions.

(b) The person acted in good faith.

(c) The person has not received an improper personal benefit.

(d) The person has not committed an act for which liability can be eliminated or limited under section 501A.714.

(e) In the case of a criminal proceeding, the person had no reasonable cause to believe the conduct was unlawful.

(2) (a) In the case of an act or omission occurring in the official capacity described in subsection 1, paragraph “a”, subparagraph (1) or (2), the person reasonably believed that the conduct was in the best interests of the cooperative.

(b) In the case of an act or omission occurring in the official capacity described in subsection 1, paragraph “a”, subparagraph (3), the person reasonably believed that the conduct was not opposed to the best interests of the cooperative. If the person’s acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the cooperative if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan.

b. The termination of a proceeding by judgment, order, settlement, conviction, or upon a

plea of nolo contendere or its equivalent does not, of itself, establish that the person did not meet the criteria set forth in this subsection.

3. *Advances.*

a. Subject to the provisions of subsection 4, if a person is made or threatened to be made a party to a proceeding, the person is entitled, upon written request to the cooperative, to payment or reimbursement by the cooperative of reasonable expenses, including attorney fees and disbursements incurred by the person in advance of the final disposition of the proceeding, as follows:

(1) Upon receipt by the cooperative of a written affirmation by the person of a good-faith belief that the criteria for indemnification set forth in subsection 2 have been satisfied, and a written undertaking by the person to repay all amounts paid or reimbursed by the cooperative, if it is ultimately determined that the criteria for indemnification have not been satisfied.

(2) After a determination that the facts then known to those making the determination would not preclude indemnification under this section.

b. The written undertaking required by this subsection is an unlimited general obligation of the person making it, but need not be secured and shall be accepted without reference to financial ability to make the repayment.

4. *Prohibition or limit on indemnification or advances.* The articles or bylaws either may prohibit indemnification or advances of expenses otherwise required by this section or may impose conditions on indemnification or advances of expenses in addition to the conditions contained in subsection 2 or 3, including, without limitation, monetary limits on indemnification or advances of expenses if the conditions apply equally to all persons or to all persons within a given class. A prohibition or limit on indemnification or advances of expenses shall not apply to or affect the right of a person to indemnification or advances of expenses with respect to any acts or omissions of the person occurring before the effective date of a provision in the articles or the date of adoption of a provision in the bylaws establishing the prohibition or limit on indemnification or advances of expenses.

5. *Reimbursement to witnesses.* This section does not require, or limit the ability of, a cooperative to reimburse expenses, including attorney fees and disbursements incurred by a person in connection with an appearance as a witness in a proceeding at a time when the person has not been made or threatened to be made a party to a proceeding.

6. *Determination of eligibility.*

a. All determinations whether indemnification of a person is required because the criteria set forth in subsection 2 have been satisfied and whether a person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in subsection 3 must be made as follows:

(1) By the board by a majority of a quorum, if the directors who are, at the time, parties to the proceeding are not counted for determining either a majority or the presence of a quorum.

(2) If a quorum under subparagraph (1) cannot be obtained, by a majority of a committee of the board consisting solely of two or more directors not at the time parties to the proceeding duly designated to act in the matter by a majority of the full board, including directors who are parties.

(3) If a determination is not made under subparagraph (1) or (2), by special legal counsel selected either by a majority of the board or a committee by vote under subparagraph (1) or (2), or if the requisite quorum of the full board cannot be obtained and the committee cannot be established, by a majority of the full board, including directors who are parties.

(4) If a determination is not made under subparagraphs (1) through (3), by the affirmative vote of the members, but the membership interests held by parties to the proceeding must not be counted in determining the presence of a quorum and are not considered to be present and entitled to vote on the determination.

(5) If an adverse determination is made under subparagraphs (1) through (4) or paragraph "b" or if a determination is not made under subparagraphs (1) through (4) or paragraph "b" within sixty days either after the later to occur of the termination of a proceeding or a written request for indemnification to the cooperative, or a written request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person's liability took place upon application of the

person and any notice the court requires. The person seeking indemnification or payment or reimbursement of expenses under this subparagraph has the burden of establishing that the person is entitled to indemnification or payment or reimbursement of expenses.

b. With respect to a person who is not, and was not at the time of the act or omission complained of in the proceedings, a director, chief executive officer, or person possessing, directly or indirectly, the power to direct or cause the direction of the management or policies of the cooperative, the determination whether indemnification of this person is required because the criteria set forth in subsection 2 have been satisfied and whether such person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in subsection 3 may be made by an annually appointed committee of the board, having at least one member who is a director. The committee shall report at least annually to the board concerning its actions.

7. *Insurance.* A cooperative may purchase and maintain insurance on behalf of a person in that person's official capacity against any liability asserted against and incurred by the person in or arising from that capacity, whether or not the cooperative would have been required to indemnify the person against the liability under the provisions of this section.

8. *Disclosure.* A cooperative that indemnifies or advances expenses to a person in accordance with this section in connection with a proceeding by or on behalf of the cooperative shall report to the members in writing the amount of the indemnification or advance and to whom and on whose behalf it was paid not later than the next meeting of members.

9. *Indemnification of other persons.* Nothing in this section must be construed to limit the power of the cooperative to indemnify persons other than a director, chief executive officer, member, employee, or member of a committee of the board of the cooperative by contract or otherwise.

2005 Acts, ch 135, §49; 2006 Acts, ch 1010, §130; 2006 Acts, ch 1030, §56, 85, 89; 2012 Acts, ch 1023, §99, 157

Referred to in §501A.711

[T] Code editor directive applied

[T] Subsection 2, paragraph a, subparagraph (2), subparagraph division (b) amended