SB44
155637-5
By Senator Orr
RFD: Finance and Taxation General Fund
First Read: 14-JAN-14
PFD: 11/26/2013
A BILL

TO BE ENTITLED

AN ACT

To amend Section 8-6-11 to provide for an exception to Section 8-6-3 through 8-6-9 for certain investments.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. To amend Section 8-6-11 of the Code of Alabama 1975.

"§8-6-11.

"(a) Except as hereinafter in this section expressly provided, Sections 8-6-3 through 8-6-9 shall not apply to any of the following transactions:

"(1) Any isolated nonissuer transaction, whether effected through a dealer or not;

"(2) Any nonissuer transaction in an outstanding security by a registered dealer if:

"a. The issuer has a class of securities subject to registration under Section 12 of the Securities Exchange Act of 1934 and has been subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934
for not less than 180 days before the transaction; or has
filed and maintained with the commission for not less than 180
days before the transaction information, in such form as the
commission, by rule, specifies, substantially comparable to
the information which the issuer would be required to file
under Section 12(b) or Section 12(g) of the Securities
Exchange Act of 1934, or the securities have been the subject
of an effective registration statement within 180 days before
the transaction, or the issuer is required to file and has
filed all reports under Section 13 of the Securities Exchange
Act of 1934, or the issuer is exempted from registration by
Section 12(g)(3) of the Securities Exchange Act of 1934, it or
its predecessor in interest has been in existence for at least
five years, the security is listed for trading on a foreign
securities exchange and has been trading for at least six
months and continues to trade on such exchange, and the
aggregate market value of shares, the ownership of which is
unrestricted, is not less than $500,000,000; or

"b. The issuer is an investment company registered
under the Investment Company Act of 1940 and has been subject
to the reporting requirements of Section 30 of that act for
not less than 180 days before the transaction; or

"c. The security has a fixed maturity or a fixed
interest or dividend provision and there has been no default
during the current fiscal year, within the three preceding
fiscal years, or during the existence of the issuer and any
predecessors if less than three years in the payment of
principal, interest, or dividends on the security;

"(3) Any nonissuer transaction effected by or
through a registered dealer pursuant to an unsolicited order
or offer to buy;

"(4) Any transaction between the issuer or other
person on whose behalf the offering is made and an underwriter
or among underwriters;

"(5) Any transaction in a bond or other evidence of
indebtedness secured by a real or chattel mortgage or deed of
trust or by an agreement for the sale of real estate or
chattels if the entire mortgage, deed of trust, or agreement,
together with all the bonds or other evidences of indebtedness
secured thereby, is offered and sold as a unit;

"(6) Any sale or the offering for sale of any
security at any judicial, executor's, administrator's,
guardian, or conservator's sale, or at any sale by a receiver
or trustee in insolvency or bankruptcy;

"(7) Any transaction executed by a bona fide pledge
without any purpose of evading this article;

"(8) Any offer or sale to a bank, savings
institution, credit union, trust company, insurance company or
investment company as defined in the Investment Company Act of
1940, pension or profit-sharing trust, or other financial
institution or institutional buyer, or to a dealer, whether
the purchaser is acting for itself or in some fiduciary
capacity;
"(9) Any transaction which is part of an issue of which there are no more than 10 purchasers [other than those designated in subdivision (a)(8) of this section] wherever located, of securities from the issuer during any period of 12 consecutive months if:

"a. The issuer reasonably believes that all the buyers are purchasing for investment and not with a view to distribution, and such issuer exercises reasonable care to assure this investment intent, which reasonable care shall be presumed if the following conditions are satisfied:

"1. Reasonable inquiry to determine if the purchaser is acquiring the securities for himself or herself or for other persons;

"2. Written disclosure to each purchaser prior to sale that the securities have not been registered under the act and, therefore, cannot be resold unless they are registered under the act or unless an exemption from registration is available;

"3. Placement of a legend on the certificate or other document that evidences the securities stating that the securities have not been registered under the act and setting forth or referring to the restrictions on transferability and sale of the securities; and

"b. No commission or other remuneration is paid or given directly or indirectly for soliciting any prospective buyer; and
"c. No public advertising or general solicitation is used in connection with the issue of which the transaction in reliance on this exemption is a part.

"Sections 8-6-3 through 8-6-9 shall not apply to any offer made pursuant to this subdivision (a)(9) in which no sale results.

"But the Securities Commission may by rule or order, as to any security or transaction or any type of security or transaction, withdraw or further condition this exemption or decrease or increase the number of purchasers permitted, or waive the conditions in paragraphs a. and b. of this subdivision (9) with or without the substitution of a limitation on remuneration.

"(10) Any transaction pursuant to an offer to existing security holders of the issuer, including persons who at the time of the transaction are holders of convertible securities, nontransferable warrants or transferable warrants exercisable within not more than 90 days of their issuance, if:

"a. No commission or other remuneration, other than a standby commission, is paid or given directly or indirectly for soliciting any security holder in this state; or

"b. The issuer first files a notice specifying the terms of the offer and the Securities Commission does not by order disallow the exemption within the next five full business days;
"(11) Any offer, but not a sale, of a security for which registration statements have been filed under both this article and the Securities Act of 1933 if no order of denial, suspension, or revocation is in effect and no public proceeding or examination looking toward such an order is pending under either act;

"(12) The issuance of any stock dividend, whether the corporation distributing the dividend is the issuer of the stock or not, if nothing of value is given by stockholders for the distribution other than the surrender of a right to a cash dividend where the stockholder can elect to take a dividend in cash or stock;

"(13) Any transaction incident to a right of conversion or a statutory or judicially approved reclassification, recapitalization, reorganization, quasi-reorganization, stock split, reverse stock split, merger, consolidation, or sale of assets; or

"(14) Any transaction by an issuer if:

"a. The aggregate amount of the total offering, within or without this state, shall not exceed $500,000, less the aggregate offering price of all securities sold within 12 months before the start of and during the offering of securities under this subsection or in reliance on the exemption contained in paragraph a. of subdivision (a)(9) of this section or which have been sold in violation of Section 8-6-4.
b. No person purchases more than $15,000 of the securities offered and sold in reliance upon the exemption contained in this paragraph, except that this limitation on the amount that may be purchased shall not apply to "accredited investors" as defined in 17 Code of Federal Regulations §230.501.

c. A disclosure document is delivered to any purchaser of the securities sold pursuant to this exemption prior to or simultaneously with the execution by the purchaser of a written agreement to purchase, the delivery of a confirmation of sale, or the payment for securities offered by means of such disclosure document, whichever occurs first. The disclosure document under which securities are sold pursuant to this exemption shall contain the following:

1. With respect to the issuer: its name, street address, form of organization, and its telephone number; the state or foreign jurisdiction and the date of its organization; a brief description of the type and location of its business;

2. A brief description of the material risks associated with the purchase of the securities;

3. The use of proceeds from the offering, including a description of expenses, commissions and fees paid in connection with the offering and the net proceeds available for use by the issuer;

4. A description of the capital stock of the issuer if a corporation or the equity ownership if an organization
other than a corporation, including, where appropriate, the
number of shares of capital stock issued and outstanding, the
number of shares owned by management, and the options
outstanding, if any, and the average exercise price for such
options;

"5. The dilution, if any, to purchasers of the
securities offered for sale pursuant to this exemption;

"6. A description of the management of the issuer
and material transactions between the issuer and management;

"7. A statement that additional information
concerning the issuer may be obtained upon request, including,
where applicable, articles of incorporation or partnership
agreement;

"8. The following financial statements which may,
but need not, be certified: (i) a balance sheet of the issuer
or a consolidated balance sheet of the issuer and its
subsidiaries prepared in accordance with generally accepted
accounting principles, as of a date within ninety days prior
to the first offer of sale; and (ii) a profit and loss
statement of the issuer or consolidated statement of the issue
and its subsidiaries prepared in accordance with generally
accepted accounting principles for each of the two fiscal
years preceding the date of the balance sheet referred to
above and for the interim period, if any, between the close of
the most recent of such fiscal years and the date of the
balance sheet and for the corresponding period of the
preceding year or if the issuer and its predecessor have been
in existence for less than two fiscal years, the profit and loss statement for the period for which it has been in existence;

“9. The disclosure document shall contain substantially the following information shown boldly on the outside cover:

“The securities are offered pursuant to a claim of exemption under the Alabama Securities Act. A registration statement relating to these securities has not been filed with the Alabama Securities Commission. The commission does not recommend or endorse the purchase of any securities, nor does it pass upon the accuracy or completeness of this private placement memorandum. Any representation to the contrary is a criminal offense.

“10. The commission may, by rule or order, require as a condition of exemption under this subdivision (a)(14) that the disclosure document contain any designated part of the information as would be required by Part 1 of Form S-18, Code of Federal Regulations 239.28 not otherwise disclosed by this subdivision (a)(14), or permit the omission of any item of information from the disclosure document.

“d. The seller reasonably believes that all buyers are purchasing for investment.

“e. No commission, finders fee or other remuneration shall be paid or given, directly or indirectly, to any person for soliciting any prospective purchaser in this state, unless
such person is registered in this state pursuant to Section 6 of this article.

"f. If the issuer is a corporation, its principal office and a majority of its full-time employees are located in this state.

"g. If the issuer is a limited partnership, at least 80 percent of its assets are located in this state.

"h. At least 80 percent of the proceeds of the offering under this subdivision (a)(14) are used in the issuer's operations in this state.

"i. At least 80 percent of the net proceeds of the offering under this subdivision (a)(14) are committed for use in a specific business.

"j. Securities offered or sold under this subdivision (a)(14) are not offered or sold on credit or credit terms.

"k. Offers and sales which are exempt under this subdivision (a)(14) are not combined with offers and sales by issuers in transactions which are exempt under any other rule or section of this article.

"l. No exemption under this rule shall be available for the securities of any issuer if any of the parties described in Rule 252(c), (d), (e) or (f) of Regulation A, 17 Code of Federal Regulations 230.252(c), (d), (e), and (f), adopted under the Securities Act of 1933 (generally described as: the issuer, any of its predecessors or any affiliated issuer; any of the directors, officers, general partners, or beneficial owners of 10 percent or more of any equity
1 securities of the issuer; any underwriter of the securities or
2 any partner, director, or officer of any such underwriter; or
3 any issuer subject to the reporting requirements of the
4 Securities Exchange Act of 1934 who has failed to file
5 required reports):

"1. Has filed a registration statement which is the subject of a currently effective registration stop order entered pursuant to any state's securities law within five years prior to the filing of the notice required under this exemption.

"2. Has been convicted within five years prior to the filing of the notice required under this exemption of any felony or misdemeanor in connection with the offer, purchase or sale of any security or any felony involving fraud or deceit, including but not limited to forgery, embezzlement, obtaining money under false pretenses, larceny, or conspiracy to defraud.

"3. Is currently subject to any state administrative enforcement order or judgment entered by that state's securities administrator within five years prior to the filing of the notice required under this exemption or is subject to any state's administrative enforcement order or judgment in which fraud or deceit, including but not limited to making untrue statements of material facts and omitting to state material facts, was found and the order or judgment was entered within five years prior to the filing of the notice required under this exemption.
4. Is subject to any state's administrative enforcement order or judgment which prohibits, denies, or revokes the use of any exemption from registration in connection with the offer, purchase, or sale of securities.

5. Is currently subject to any order, judgment, or decree of any court of competent jurisdiction temporarily or preliminarily restraining or enjoining, or is subject to any order, judgment, or decree of any court of competent jurisdiction, permanently restraining or enjoining, such party from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security or involving the making of any false filing with the state entered within five years prior to the filing of the notice required under this exemption.

6. The prohibitions of subparagraphs 1, 2, 3, and 5 above shall not apply if the person subject to the disqualification is duly licensed or registered to conduct securities related business in the state in which the administrative order of judgment was entered against such person or if the broker/dealer employing such party is licensed or registered in this state and the Form B-D filed with this state discloses the order, conviction, judgment, or decree relating to such person. No person disqualified under this subsection may act in a capacity other than that for which the person is licensed or registered.

7. Any disqualification caused by this section may be waived if the state securities administrator or agency of
the state which created the basis for disqualification determines upon a showing of good cause that it is not necessary under the circumstances that the exemption be denied.

"q. The disqualification found in 17 Code of Federal Regulations §230 of Regulation D, shall apply also to offerings made pursuant to Rule 506 of the Code of Federal Regulations.

"m. The issuer shall file with the Securities Commission:

"1. An application for exemption on Form D, 17 Code of Federal Regulations §239.500 no later than five full business days prior to the commencement of the offering in this state. The application for exemption shall include two copies of all information furnished by the issuer to any of the offerees. The commission shall issue an order of exemption, notice of deficiency, or denial of exemption within the five full day business period;

"2. A notice of Part C of Form D, 17 Code of Federal Regulations §239.500, no later than 30 days after the completion date of the offering;

"3. The notice of Form D, 17 Code of Federal Regulations §239.500, required by subparagraphs 1. and 2. above shall be manually signed by a person duly authorized by the issuer;

"4. Every application for exemption provided for in subparagraph 1. above shall be accompanied by a nonrefundable
filing fee of $150. Such filing fee shall be deposited in the
Alabama Securities Commission Fund in the State Treasury to be
drawn upon by the commission for its use in administration of
this article. All applications for exemption and notices on
Form D, 17 Code of Federal Regulations §239.500 shall be
considered filed with the Securities Commission as of the date
on which received at the office of the Securities Commission;
"5. Unless otherwise available, included with or in
the initial notice shall be a consent to service of process as
provided for in Section 8-6-12.
"But the Securities Commission may by rule or order,
as to any security or transaction of any type of security or
transaction, withdraw or further condition this exemption.
"(14) An offering of securities conducted solely in
this state to residents of this state in which:
"a. The issuer of the security shall be a for-profit
corporation or other for-profit entity, or business
cooperative with its principal place of business in the state
of Alabama and registered with the secretary of state.
"b. The transaction shall meet the requirements of
the federal exemption for intrastate offerings in section
77c(a)(11), and SEC rule 147. As such, securities must be
offered to and sold only to persons who are residents of the
state of Alabama at the time of purchase. Prior to any offer
or sale pursuant to this exemption, the seller shall obtain
documentary evidence from each prospective purchaser that
provides the seller with a reasonable basis to believe that such investor is a resident of the state of Alabama.

"c. The sum of all cash and other consideration to be received for all sales of the security in reliance upon this exemption shall not exceed one million dollars ($1,000,000), less the aggregate amount received for all sales of securities by the issuer within the twelve months before the first offer or sale made in reliance upon this exemption.

"d. The issuer shall not accept more than five thousand dollars ($5,000) from any single purchaser unless the purchaser is an accredited investor as defined by Rule 501 SEC regulation D, 17 C.F.R. 230.501.

"e. The issuer must reasonably believe that all purchasers of securities are purchasing for investment and not for sale in connection with a distribution of the security.

"f. A commission or remuneration shall not be paid or given, directly or indirectly, for any person's participation in the offer or sale of securities for the issuer unless the person is registered as a broker-dealer or agent under the Act.

"g. All funds received from investors shall be deposited into a bank or depository institution authorized to do business in Alabama, and all the funds shall be used in accordance with representations made to investors.

"h. Not less than Ten days prior to the use of any general solicitation or within fifteen days after the first sale of the security pursuant to this exemption (provided no
general solicitation has been used prior to such sale),
whichever occurs first, the issuer shall provide a notice to
the commission in writing or electronically on Form CF1. The
notice shall specify that the issuer is conducting an offering
in reliance upon this exemption and shall contain the names
and addresses of the following persons:

"1. The issuer;
"2. Officers, directors and any control person of
the issuer;
"3. All persons who will be involved in the offer or
sale of securities on behalf of the issuer; and
"4. The bank or other depository institution in
which investor funds will be deposited.

"i. The issuer shall not be, either before or as a
result of the offering:
"1. An investment company as defined in section 3 of
the Investment Company Act of 1940, 15 U.S.C. § 80a-3, or
subject to the reporting requirements of Section 13 or 15(d)
78o(d); or
"2. An investment adviser as defined at Code of
Alabama 1975, § 8-6-2(18), nor a person who otherwise provides
investment advice as a service or for a fee.

"j. The issuer shall inform all purchasers that the
securities have not been registered under the act and,
therefore, cannot be resold unless the securities are
registered or qualify for an exemption from registration under
Code of Alabama 1975 §§ 8-6-4 through 8-6-11. In addition, the issuer shall make the disclosures required by subsection (f) or SEC Rule 147, 17 C.F.R. 230.147(f).

"k. This exemption shall not be used in conjunction with any other exemption under the Act except the exemption to institutional investors at § 8-6-11(a)(8) and for offers and sales to controlling persons of the issuer. Sales to controlling persons shall not count toward the limitation in paragraph (14)c.

"l. This exemption shall not be available if the issuer, or any it's officers, controlling people or promoters is subject to a disqualifier enumerated at Code of Alabama 1975, §8-6-9.

"m. Nothing in this exemption shall be construed to alleviate any person from the anti-fraud provisions at Code of Alabama 1975, §8-6-17, nor shall such exemption be construed to provide relief from any other provisions of this Article other than as expressly stated.

"n. Every notice of exemption provided for in paragraph h. above shall be accompanied by a nonrefundable filing fee of $150. Such filing fee shall be deposited in the Alabama Securities Commission Fund in the State Treasury to be drawn upon by the commission for its use in administration of this article.

"But the Securities Commission may by rule or order, as to any security or transaction of any type of security or
transaction, withdraw, further condition or expand this exemption.

"(b) The Securities Commission may by order deny or revoke the exemption specified in this section with respect to a specific security if it finds the sale of such security would work or tend to work a fraud upon the purchasers thereof. No order under this subsection may operate retroactively. No person may be considered to have violated this article by reason of any offer or sale effected after the entry of an order under this subsection if he or she sustains the burden of proof that he or she did not know and in the exercise of reasonable care could not have known of the order. In any proceeding under this article, the burden of proving an exemption from a definition is upon the person claiming it.

"(c) Any individual, corporation, partnership, or association who makes application to the Securities Commission for any exemption from full registration under subdivision (a)(9) of this section shall be assessed a filing fee in the amount of three hundred dollars ($300) upon application for such exemption. The fee shall accompany the application and shall not be refunded whether the application is approved or rejected. Fees collected under this subsection shall be deposited in a special account in the State Treasury for the use of the commission in the administration of this article."

Section 2. This act shall become effective immediately upon its passage and approval by the Governor, or its otherwise becoming law.
Senate

Read for the first time and referred to the Senate committee on Finance and Taxation General Fund ........................................... 14-JAN-14

Read for the second time and placed on the calendar with 1 substitute and................... 15-JAN-14

Read for the third time and passed as amended ............................................. 23-JAN-14

Yeas 31
Nays 0

Patrick Harris
Secretary