1965

The Securities Acts and (Hopefully) How to Avoid Them

John W. Edmonds III

Follow this and additional works at: http://scholarship.richmond.edu/lawreview
Part of the Banking and Finance Law Commons, and the Securities Law Commons

Recommended Citation
Available at: http://scholarship.richmond.edu/lawreview/vol2/iss3/3

This Article is brought to you for free and open access by UR Scholarship Repository. It has been accepted for inclusion in University of Richmond Law Review by an authorized administrator of UR Scholarship Repository. For more information, please contact scholarshiprepository@richmond.edu.
The Securities Acts and (Hopefully) How to Avoid Them

JOHN W. EDMONDS, III*

With the boom and bust of the twenties and thirties, there developed a new legal concept—regulation of the sale and issuances of securities. It is an unfortunate comment upon the business ethics of some Americans that such laws were felt necessary. Nevertheless, such laws apply to the honest and the dishonest, and to the sophisticated as well as the credulous.

These various acts have been denominated as "good laws." They have also been criticized as "confusing." And perhaps "good" and "confusing" is an apt description.

The primary Federal Act is the Securities Act of 1933. Other Federal statutes are the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Trust Indenture Act of 1939, and the Investment Company Act of 1940. These Acts are not within the scope of this discussion, since generally their coverage is not as great as that of the 1933 Act.


These Acts regulating securities accomplish their ends in refined (and confusing) ways. They act primarily upon two groups: (1) the corporations that issue the securities, and (2) the persons who market the securities generally called underwriters, brokers or dealers. This article deals primarily only with the first group. The

*Member, Richmond, Virginia State and American Bar Associations. B.A. 1953, LL.B., 1956, University of Richmond. Partner of Tucker, Mays, Moore and Reed, Richmond, Virginia.
technique of public protection is accomplished through two fundamental approaches. First, the laws generally try to prohibit fraud and dishonesty, and, second, they compel disclosure to the public and to regulatory authorities of facts deemed important either to the regulatory authorities or to the investing public.

It is not the purpose of this article to delve into the mechanics of securities registration. Such registration is generally effected by the filing of a statement (usually called a registration statement) with a regulatory authority (such as the Securities and Exchange Commission at the Federal level or the State Corporation Commission at the State level) and by requiring the divulging of certain facts to the investing public through the use of a prospectus, or offering circular. For example, the regulatory authority would usually require the statement to be filed with it to state whether any of the principals involved have been convicted of certain crimes within a certain period of years or have been connected with other activities which might tend to cast a doubt upon their basic integrity in promoting a corporation.

The prospectus, or offering circular, will usually contain certain information deemed vital to the investing public. For example, the prospectus will indicate the number of shares owned by the directors and chief executive officers. One might be attracted to invest into a certain corporation headed by a war hero, the board of which is composed of several prominent businessmen. However, the investor's enthusiasm might wane if he found that neither the war hero nor the prominent businessmen had any substantial stock ownership in the corporation. The investor's enthusiasm might also lessen if he found that the principal asset of the company, i.e., real estate, was acquired from the majority stockholder at a high or exorbitant value. This is not to say that all contracts between a corporation and its directors and officers are suspect. The securities acts generally work
upon the theory that the investing public is entitled to be aware of these facts, whether misleading or not.

Justice Louis D. Brandeis sums up this disclosure theory in his treatise, OTHER PEOPLES’ MONEY (1914), in which he stated, “Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.”

At the same time, the small or privately held corporation was so much a part of our economic life that, it was inevitable that different rules had to be drawn for it and the big corporation. The real problem was where to draw the line.

The securities laws work upon the theory that we draft one set of laws for the big corporation and then exempt from the operation of such laws or portions of such laws those transactions which, because of their smallness or because of the sophistication of the parties involved, do not warrant the interference of government for the protection of the parties involved.

Nowhere will the broad brush approach of the Securities Act appear more evident than in §2 (1) of the Securities Act of 1933 defining “security.”

The term ‘security’ means any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, or, in general, any interest or instrument commonly known as a ‘security’, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guaranty of, or warrant or right to subscribe to or purchase, any of the foregoing.

The definition of “security” contained in §13.1-501 (j) of the Virginia Securities Act is no less comprehen-
sive. In brief, any evidence of indebtedness or evidence of ownership of interest is a security.

With this in mind, let us try to visualize a small corporation which is to be set up. The ingenuity of man, and of lawyers in particular, has devised many different legal relationships to evidence an ownership interest or a debtor interest in a business. Quite often you will find an instrument which is a combination of debt and ownership. For example, in the case of a convertible debenture, the security holder is a debtor, if things go bad, but, if the company succeeds, he converts his interest into stock and becomes an equity holder.

In the small corporation, you will certainly have common stock. From that point you may issue preferred stock, debentures (which may be subordinated or not or which may be convertible or not), stock warrants, notes, bonds and what have you. Generally, your client's big problem will be to find someone to put up the money rather than to determine in what form the money is to be evidenced.

All of these ownership or creditor interests discussed above are securities within the purview of the broad definitions of the Federal Securities Act and the Virginia Securities Act. How do we escape the requirement of registering under these Acts?

At this point, it should be said that the title of this article is a misnomer. Although you may hope to avoid the requirements of registration and of writing a prospectus, you can't avoid the securities laws completely.

In the case of the Securities Act of 1933, first turn to Section 3 of the Act. We should remember that the Securities Act of 1933 was enacted at a time when there was some question as to how far Congress had the power to regulate intrastate commerce under its power to regulate interstate commerce. And, perhaps in recognition of its own lack of power, it enacted what is familiarly known as the Intrastate Exemption, found in Section 3
(a) (11), exempting any security which is part of an issue "... offered and sold only to persons resident within a single State or Territory, where the issuer of such security is a person resident and doing business within, or, if a corporation, incorporated by and doing business within, such State or Territory."

At first glance, this seems very simple. If one has a Virginia corporation and offers and sells its stock only to persons who are residents of Virginia, then the Federal Securities Acts seem to be inapplicable. But watch for one pitfall. Under Section 2 (3), the terms "offer to sell" or "offer" include "every attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest in a security, for value." Thus the definition of "offer" you learned in contracts is not applicable, and you cannot avoid the provisions of the Act by asking the non-resident to "make me an offer," and, if he refuses to make an offer, then declaring that you still have your intrastate exemption preserved.

Another pitfall of the intrastate offering is that you may initially start off with the purpose of selling only to Virginia residents. However, in such case it may develop that you cannot sell the securities in Virginia but you are approached by one person outside of Virginia who is willing and desirous of taking a large block of securities. If any of the securities are sold or even offered to a non-resident, the exemption is lost for the whole plan of issuing securities, and those securities sold previously (under the same plan) to residents would have been sold in violation of the statute. If there were no other exemption available, your client could be subject to the criminal and civil provisions of the Securities Act.

Another problem arises where the purchaser represents that he is a resident of Virginia or, shall we say, represents that he is "from Richmond." When the sale is consummated, you then find that he means that, al-
though he now resides in New York, he really considers himself a Virginian. Your intrastate exemption probably just went down the drain.

Another more nebulous concept is that of completion of "ultimate distribution." For example, you have a Virginia corporation which sells all its authorized securities to residents of the State of Virginia. It later develops that one of these residents bought the securities intending to resell all or a part of them to a resident of another state and did so sell them. The Intrastate exemption would be unavailable because the ultimate distribution of the securities would not have been completed prior to the purchase of a security by the resident of the other state. But not all sales or transfers to non-residents subsequent to the initial issue and distribution do destroy the initial exemption. For example, if after ten years a stockholder were to transfer his stock by gift to a new grandson who resided in Florida, no one would seriously contend that the initial issue had lost its character as an intrastate issue.

Despite these problems, you will quite often find the intrastate exemption helpful in avoiding the Federal Securities Act.

Another exemption which serves primarily to illustrate the broad scope of the Federal Securities Act is subsection (2) of Section 3, exempting securities issued or guaranteed by the United States or any Territory or any State.

There is another class of exemptions from the Federal Act for corporations which are generally subject to regulations (as to securities or as to their general operation) by another regulatory agency, either Federal or State. Under this classification you will find an exemption for securities issued or guaranteed by banks. There is a similar exemption for securities issued by building and loan associations or savings and loan associations, or for securities issued by common or contract carriers.
subject to certain provisions of the Interstate Commerce Act, as well as for securities in the form of an insurance or endowment policy or annuity contract issued by a corporation which is subject to the supervision of the insurance commission of any State or Territory. The price of exemptions in these instances is regulation by another agency, Federal or State.

Another functional classification among the exemptions is the exemption for any note, draft, bill of exchange, or bankers acceptance which arises out of a current transaction and which has a maturity time of issue not exceeding nine months.

Perhaps the most important exemption to have at your finger tips is what is commonly known as the "private offering" exemption under Section 4 of the Securities Act of 1933. This section does not exempt the securities themselves but only exempts certain transactions from the operation of Section 5 relating to registration. Thus an exemption under Section 4, or a private offering exemption, will not protect you against a dishonest act if such act is otherwise within the purview of the Securities Act of 1933.

Despite all the discussion about the private offering exemption, you will not find the phrase "private offering" in the Securities Act. Specifically, Section 4 of the Securities Act will exempt from registration "... transactions by issuer not involving any public offering . . . ." The concept of private offering arises from the fact that, if there is no public offering involved, then, as some lawyer once reasoned, the offering must be a "private" offering. In any event, the phrase is well established at this time.

Well, then, what is a private offering? For many years the primary criterion was considered to be the number of offerees when the security was offered. As a practical matter, the numerical limitation is still the most practical test, if we are to have any of that certainty that a
lawyer adores. (For a more complete discussion, see Victor and Bedrick, *Private Offering: Hazards for the Unwary*, 45 Va. L. Rev. 869 (1959).)

The United States Supreme Court undertook to define the private offering exemption in *SEC v. Ralston Purina Co.*, 346 U. S. 119, 73 S. Ct. 981, 97 L. Ed. 1494 (1953). The Court defined "not involving any public offering" as the type of offering in which the offerees are shown to be able to fend for themselves. In brief, the Securities Act of 1933 protects only those who need protection. And if you follow this rationale to its ultimate conclusion, you will find the rule is that if all your offerees are sophisticated, hard-headed business men then the registration provisions of Sections 5 and 6 are not applicable.

As a general rule of thumb, it is still thought that an offering to not more than 25 or 30 persons is generally one not involving a public offering. This rule of thumb of 25 or 30 is perhaps what has been called "a concession to the shortness of life." Obviously the Securities and Exchange Commission could not concern itself with every stock offering where there were very few persons involved. The authors of the law review article cited above raise the valid question of whether you can safely rely on this rule of thumb if one of the offerees is an unsophisticated old lady.

If the offerees in question are all large and wealthy financial institutions such as insurance companies, banks, and perhaps mutual funds, the permissible number of offerees may run in excess of the 25 or 30 persons figure. Don't forget that all the offerees have to be sophisticated for this to take place. And as in the case of rotten apples, one unsophisticated offeree who didn't buy may forfeit the exemption where the offering was in excess of the 25 or 30 persons specified in the rule of thumb.

To draw an extreme case, suppose certain securities were offered to 50 banks and insurance companies, and
one day-laborer. The day-laborer decided not to buy, and only three insurance companies decided to take up the securities. You would not have a private offering under Section 4 of the Securities Act.

Another problem which turns up to haunt us is the ultimate distribution concept. Suppose you originally sell securities to only five persons. Under any rule of thumb, this seems to be clearly a private offering if the securities come to rest at such point. But, if one of these persons were to go out and offer or sell his securities to 40 persons and these 40 persons were to be reasonably considered as the ultimate distributees of the securities, then you probably would have no private offering exemption.

To protect the unwary against such a problem, it is customary in many cases to take the so-called "investment letter." The purchaser signs a letter representing that he is purchasing the securities for investment only and that he has no present intention of reselling or redistributing the securities. If in fact he had no such intention, the exemption would seem to be preserved if it otherwise qualified. However, if your corporation acted in the most reasonable and prudent manner in taking such letter, with all the good faith that man is capable of, you would still lose the private offering exemption if this one black-heart investor misrepresented his position and immediately distributed the securities to a large class.

Nevertheless, in most small corporations you will probably be able to conclude that you have an offering which is exempt as a private offering under the Federal Securities Act.

Also in Section 4, you will find an exemption for transactions by any person other than an issuer, underwriter, or dealer, and for transactions by a dealer taking place after a specified waiting period upon offer to the public.
You will also find that Section 4 (2) is an exemption for "[b]rokers' transactions, executed upon customers' orders on any exchange or in the open or counter market, but not the solicitation of such orders."

Despite the many exemptions detailed in the Federal Act, the two primary exemptions available in the case of small business corporations are the intrastate exemption and the private offering exemption.

The Virginia Act is similar, in some respects, to the Federal Act, and it also differs in others. It does contain a private offering exemption comparable, though not identical, to the Federal Act. It does not contain an intrastate exemption for obvious reasons.

If you really want to learn something about the Virginia Act, I suggest you read an excellent analysis by John W. Riely, The Virginia Securities Act: A Blue Sky Primer, 45 Va. L. Rev. 303 (1959). Before turning to a detailed analysis of the exemptions under the Act, let's refer to one other problem. If you do not have an exempt transaction under §13.1-514 (b) or (c), or if the security is not an exempt security as defined in §13.1-514 (a) and as such exemption is further carried forward in §13.1-501 (b) in its definition of "agent," then you better determine whether your client should obtain either an agent's license or a broker-dealer license under §13.1-504 et seq. Under §13.1-522 relating to civil liabilities, the agent (e.g., an officer of the corporation) who merely delivers the security, without obtaining a license as required under §13.1-504, can find himself liable for the consideration paid for the security.

The exemption section of the Virginia Securities Act (§13.1-514) is similar to the Federal Act in that it exempts both securities and transactions. For example, it also exempts securities issued or guaranteed by the United States, any State, or any political subdivision. It also exempts securities issued or guaranteed by Canada and certain other foreign governments.
In subsection (a) (3), we find an exemption for certain bank securities, and in subsection (4) and subsection (5) we find exemptions for savings and loan associations and insurance companies, respectively.

Other regulated companies are exempted under subsection (6), which relates to credit unions or industrial loan associations, and subsection (7) relating to railroads and common carriers. There is also an exemption in subsection (9) for religious, educational, and charitable organizations. Before relying upon any of these exemptions, it would be wise to read and analyze the exact wording of the statute.

Under exempt transactions, we find an exemption for an “isolated transaction” by the owner or pledgee of a security. There is also an exemption for certain transactions not involving the issuer of the security.

In §13.1-514 (b) (7), we find an exemption for “Any offer or sale to a corporation, investment company or pension or profit-sharing trust or to a broker-dealer.” In Virginia all corporations are presumed sophisticated and able to fend for themselves in purchasing securities.

Nevertheless, the exemption section upon which you will rely most often in the selling of stock of a small, privately held corporation is the exemption provided by §13.1-514 (b) (8). Because of its wide use, it is desirable to set forth the subsection in its entirety:

Sales by an issuer of its securities to not more than thirty persons, if all the buyers represent in writing, that they are purchasing for investment and the seller reasonably accepts their representations as true; but any resale by any such buyer within one year from the date of purchase shall be prima facie evidence of a violation of this chapter. (Emphasis supplied.)

This section is probably the nearest Virginia counterpart to the private offering exemption under the Secu-
The Securities Act of 1933. The first important distinction is that you need not worry about the number of offerees but only the number of actual sales. And under the section it appears that if one person buys at fifteen different times then this would still be treated as only one sale, or rather a sale to one person. Note, however, that if one buyer fails to represent in writing that he is purchasing for investment, the exemption is lost. The statute does not state whether this representation must be made before any money is accepted, or before the stock is issued, or within one year after the sale. A prudent lawyer will take this investment representation prior to the passing of cash (if possible) and, at the very minimum, prior to the actual issuance of the stock by the corporation. This representation in writing is not required by statute under the Federal Act. However in practice it is often required.

It should be standard practice in setting up a corporation, even for one stockholder, to have a subscription agreement, and in this subscription agreement there should be a legend similar to the following:

I hereby represent that I am purchasing this stock for investment and not with any view to resale, or distribution.

Also note that the corporation is not necessarily liable by the fact of a false representation if it "reasonably accepts" the representation as true.

Some lawyers have adopted the practice of refusing to transfer stock within one year, unless the stockholder sets forth the reasons why he wishes to sell the stock, and it appears to the corporation (or its lawyer) that the facts surrounding the sale all arose subsequent to the purchase of the stock and that in fact the prohibition has not been violated. You can debate ad infinitum as to whether the corporation has a right to do this.
Perhaps you will take another precaution and provide on the stock certificate that it is not subject to transfer within one year without the prior consent of the corporation. This legend must be endorsed on the stock certificate to comply with §13.1-415 of the Uniform Stock Transfer Act or §8-204 of the Uniform Commercial Code. This is done in an attempt to avoid the second portion of subsection (b) (8) of §13.1-415, which provides that any resale to any buyer within one year from the date of purchase shall be *prima facie* evidence of a violation of the chapter. Now, if the purchaser did not in fact buy with the intention of purchase for investment and the seller did not reasonably accept this representation as true, then under the specific words of the statute it seems that the exemption is lost even though the stock is not transferred until ten years later. Nevertheless, you do avoid the burden of proof problem because the resale after one year is not *prima facie* evidence of a violation of the chapter.

You can also get into another interesting debate as to whether the prohibition on transfer for one year, but without a requirement that the corporation purchase the stock or approve the purchaser, is in fact a reasonable restriction on transfer. This is beyond the scope of this note, but in view of the provisions of subsection (b) (8) it would seem the prohibition is reasonable.

The test of sophistication of the *Ralston Purina Co.* case, *supra*, seems inapplicable under the Virginia Act. If the little old lady represents her investment purpose in writing and less than 30 others do likewise, the exemption is preserved. On the other side of the coin, 31 sophisticated, hardheaded bankers who purchase for investment are not within the exemption.

Another problem in this area is whether you can lump these two exemptions together. For example, assume you sell to thirty private individuals who represent they are purchasing for investment, and to one corporation, and
combine the exemptions of subsection (b) (7) and subsection (b) (8). It seems clear that if you are relying upon the exemption of subsection (b) (8), you should also require corporations to represent in writing that they are purchasing for investment. Subsection (b) (8) states that “all the buyers” must make the representation in writing. Failure to take this representation in writing from a corporation when there are thirty purchasers or less will not render the sale to the corporation non-exempt. But it will render the sale to individuals under the same plan exempt. Now, if you initially sell to thirty persons who make the necessary representations and make them in good faith, and five years later you desire to sell additional stock and have a corporation purchaser, it would seem that you are safe as to the thirty initial purchasers because of the private offering exemption and that you are also safe as to the subsequent purchase because of the “corporation” exemption. However, if you have thirty-one purchasers at the time of the initial issue and you time the sales so that the corporation is the thirty-first purchaser, the author is unsure as to the correct application of the statute. Technically, you may have complied with the statute. It remains to be seen whether the State Corporation Commission would apply the “issue” concept, and if so whether they would hold that this was all a part of one proposed issue, and hence the mere fact that the corporation was thirty-first in number would not alter the transaction.

Once you have sold to thirty persons, you apparently no longer have a private offering exemption under the Virginia statute even though the sale is to one person and separated by five years from any other sale. The result does seem inconsistent with the purpose of the act.

By this time, you are probably asking yourself the question—is all this really necessary?

Both the Federal Act and the Virginia Act contain
criminal penalties. Under §24 of the Federal Securities Act of 1933, any person who willfully violates any of the provisions of the title or the rules and regulations of the SEC, or who willfully in the registration statement makes any untrue statement of material fact, shall upon conviction be fined not more than $5,000, or imprisoned for not more than five years, or both. But this does require a willful violation, and perhaps this is one area in which ignorance of the law may be an excuse. (And you may wish for this reason you had never read this article.)

The criminal penalties in the Virginia Act as found in §13.1-520 provide that anyone who shall commit any act declared unlawful by this chapter shall be deemed guilty of a misdemeanor and on conviction shall be punished by a fine of not less than $100 nor more than $5,000, or by confinement in jail for not less than thirty days nor more than one year, or by both such fine and imprisonment.

There is a helpful statute of limitations of two years from the date of the offense in this criminal statute. Notice that the Virginia statute does not require in terms that the violation be willful. It is to be hoped that its provision would not be invoked except upon a case of a willful violation or in a case where the person was guilty of gross negligence in not finding out what the law prohibited.

Perhaps a more practical remedy for violation of these laws is the civil liability contained therein.

The Federal Securities Acts provide for civil liabilities for selling or offering to sell an unregistered security which should have been registered under the Securities Act of 1933. There are also civil liabilities for false statements, which liabilities are beyond the scope of this article. The statute in effect provides that such purchaser may receive "the consideration paid for such security with interest thereon less the amount of any
income received thereon.’ If he still owns a security, he must tender the security. If he is no longer the owner of security, he is not entitled to recover his full consideration, but he is entitled to recover the damages. This would seem to be the difference between the consideration paid and what he sold the stock for, but the Act does not provide the measure of damages. There is a helpful statute of limitations in §13 of the Federal Securities Act providing that no action shall be brought to enforce a liability under §12 (1) (selling unregistered securities) unless brought within one year after the violation upon which it is based, and that in no event shall any action be brought to enforce such a liability more than three years after the security was bona fide offered to the public.

There has been some dispute as to whether the purchaser is the favored object of the statute and therefore gets the choice of the one or three-year statute. It seems to this author upon the clear wording of the statute that the issuer in fact gets the benefit of whichever period is shorter. I believe this is borne out by the history of the statute as well as the few lower court cases decided thereunder. Dack v. Shanman, 227 F. Supp. 26 (S.D.N.Y. 1964); Newberg v. American Dryer Corp., 195 F. Supp. 345 (E. D. Pa. 1961); Premier Industries, Inc. v. Delaware Valley Financial Corp., 185 F. Supp. 694 (E. D. Pa. 1960).

Virginia also has its civil penalty, and if you sell a security which is required to be registered under Virginia law and it is not registered, then the purchaser is entitled to recover the consideration paid for such security, together with interest thereon at the rate of six percent per annum, costs and reasonable attorney’s fees, less the amount of any income received; or if he no longer owns the security, he may sue for the substantial equivalent in damages. Under Virginia law, any
person who materially participates or aids in such a sale, or who directly or indirectly controls the corporation, is also subject to the civil liability. Such person can avoid liability by sustaining the burden of proof that he did not know, and in the exercising of reasonable care could not have known, of the existence of the fact or reason for which the liability is alleged to exist.

The Virginia Act specifically provides a two-year statute of limitations from the time of the transaction upon which it is based.

The Virginia statute also contains a helpful way to avoid liability in this area. If the corporation or any person liable makes a written offer before suit is brought to refund the consideration paid, together with interest at the rate of six percent (less the amount of income received), or to pay damages in the case where the purchaser no longer owns the security, the purchaser is not entitled to maintain a suit if he has refused or failed to accept such offer within thirty days of its receipt. There is the question in the statute as to whether a purchaser, having once refused within the thirty-day period, can later change his mind. The author feels that the language of the statute is such that any refusal should terminate the investor's rights, notwithstanding the fact that the thirty-day period had not run at that time. It still may be more prudent to let the thirty-day period run rather than invite a lawsuit.

By failing to register what you thought you sold as stock, you have in effect sold stock which is convertible into a debt by virtue of the purchaser's invoking the civil liabilities under either the Federal or the State Act. It is thought there are many corporations which violate the statute, but in most cases the applicable period of limitations has probably run. So long as the corporation succeeds there usually is no real problem, because the stock has probably enhanced in value and
no one is going to attempt to invoke his civil liability rights if he can in fact sell his stock for more than he paid for it.

However, even if the corporation succeeds, or is apparently succeeding, this civil liability can turn up to haunt the corporation. The corporation can succeed to such an extent that it needs to raise capital by sale of more stock, or to obtain a loan from a financial institution or other lender who is aware of the provisions of the statute. If upon investigation either the purchaser of the stock or the prospective lender finds that the corporation is still subject to huge contingent liabilities under the civil penalties of either the Federal or Virginia Securities Act, it may be unwilling to invest its money in the stock, or, being a prudent lender, it may be unwilling to lend its money to a corporation which has such a big contingent liability. Complying with these statutes as an initial matter is somewhat of a burden. Coming back a year later and trying to clean up the securities acts violations when there are several stockholders (and perhaps one or two disgruntled stockholders or stockholders who do not understand the securities acts and distrust either the management or the management's lawyers) can be quite a problem.

In conclusion it can be said that a basic familiarity with the requirements of the securities acts and how to obtain an exemption from registration under them may well save you and your client a lot of grief at a much later date. It is hoped that this article will aid you in achieving this end.