

**NEBRASKA DEPARTMENT OF BANKING AND FINANCE  
BUREAU OF SECURITIES**

**INTERPRETATIVE OPINION NO. 11: – CONVERTIBLE SECURITIES AND THE SECTION  
8-1111(14) EXEMPTION**

This Interpretative Opinion discusses the transactional exemption for securities conversions provided by Section 8-1111(14) of the Securities Act of Nebraska (“Act”).

Section 8-1111(14) of the Act provides an exemption from registration for securities sold in:

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.

Section 8-1111(14) encompasses three separate and distinct transactions, as follows:

1. Any transaction incident to a right of conversion;
2. Any transaction incident to a statutory approved reclassification, recapitalization, reorganization, quasi reorganization, stock split, reverse stock split, merger, consolidation or sale of assets.
3. Any transaction incident to a judicially approved reclassification, recapitalization, reorganization, quasi reorganization, stock split, reverse stock split, merger, consolidation or sale of assets.

The “right of conversion” represents the investor’s right to convert debt or equity securities into common stock of the same issuer. Both the convertible securities and the common stock to which they may be converted must be registered simultaneously before the convertible security is offered. When the investor exercises the right of conversion and receives the common stock, the transaction is exempt from registration.

The “statutory approved” reclassification, etc., must be completed in accordance with the statutes governing the particular type of transaction in the state in which the issuer is organized. To claim this exemption, the issuer must prove the existence of the statute authorizing the transaction and its compliance with the statute’s requirements.

The “judicially approved” reclassification, etc., must be completed in accordance with an order from a court having jurisdiction over both the parties to the proceedings and the subject matter of the proceedings. To claim the exemption, the issuer must prove the existence of the court order authorizing the transaction and its compliance with the order’s requirements.

Section 8-1111(14) of the Act does not include an offer to give one security in exchange for another. Examples of transactions not covered by this exemption are:

1. An offer by an issuer to holders of non-convertible bonds to exchange the bonds for common stock.
2. An offer by a holding company to exchange its common stock for common stock held by shareholders of an insurance company, financial institution, or any other company.

Any securities offered in a transaction that neither qualifies for the Section 8-1111(14) exemption, nor for any of the other exemptions provided by Sections 8-1110 and 8-1111, must be registered as provided by Section 8-1104.

Questions regarding this opinion should be addressed to:

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