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ARIZONA CORPORATION COMMISSION

JAMES MATTHEWS
EXECUTIVE SECRETARY

SECURITIES DIVISION
Office: (602) 542-4242
FAX: (602) 542-3583

February 10, 1994

Sylvester Orsi, Esq.
Crosby, Guenzel, Davis, Kessner & Kuester
Lincoln Benefit Building
134 South 13th St., Suite 400
Lincoln, Nebraska 68508-1981

RE: Acceptance Insurance Companies Inc. (f/k/a Stoneridge Resources, Inc.) Employee Stock Purchase Plan
A.R.S. § 44-1844(A)(14)

Dear Mr. Orsi:

On the basis of the facts set forth in your letters of January 28, 1994 and February 3, 1994 and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transaction take place as set forth in your letter. Since the exemption is available under A.R.S. § 44-1844(A)(14), we decline to opine on whether the Plan Interests are a separable security from the underlying common stock offered under the Plan.

As this position is premised upon the facts set forth in your letters, it should not be relied on for any other set of facts or by any other person. Please also note that this position applies only to the registration requirements of the Act; the anti-fraud provisions of the Act continue to be applicable.

We have attached photocopies of your letters. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Dee Ridell Harris".

DEE RIDDELL HARRIS
Director of Securities

DRH:ph
Enclosures

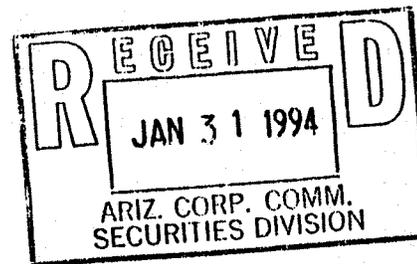
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THOMAS R. PANSING (1917-1973)
ROBERT C. GUENZEL (RETIRED)
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January 28, 1994

REQUEST FOR NO-ACTION LETTER

Ms. Leslie Block
Associate General Council
State of Arizona
Corporations Commission
Securities Division, Third Floor
1300 West Washington Street
Phoenix, AZ 85007



Ladies/Gentlemen:

We are writing on behalf of Acceptance Insurance Companies Inc. (f/k/a Stoneridge Resources, Inc.) ("Acceptance") to request that the Corporation Commission issue a No-Action Letter, specifying that the Securities Division will not recommend an enforcement action for violation of the Securities Act of Arizona should the transactions contemplated in the enclosed Employee Stock Purchase Plan (the "Plan") occur in reliance upon the following interpretations: (1) that the arrangement set forth in the Plan is not a security independent of the common stock of Acceptance purchased pursuant to the Plan; (2) that, even if the Plan is a security independent of the underlying common stock, the transactions contemplated by the Plan do not involve an offer or sale of such security within the meaning of Ariz. Rev. Stat. §44-1801(18); or (3) that the arrangement contemplated by the Plan is exempt from registration pursuant to Ariz. Rev. Stat. §44-1844(14).

Acceptance

Acceptance is incorporated under the laws of the State of Delaware, with its common stock publicly held and listed for trading on the New York Stock Exchange ("NYSE"). Acceptance conducts insurance operations through its subsidiaries domiciled in Arizona, Iowa, Nebraska and North Carolina. Acceptance focuses on insurance programs in which special underwriting, marketing or claims handling approaches give it a competitive advantage in underwriting particular risks and serving the needs of particular geographic regions or groups of insureds or particular insurance agents.

The Plan

The Employee Stock Purchase Plan is a broad-based benefit plan qualified under Section 423 and related sections of the Internal Revenue Code. The Plan is intended to provide eligible employees who wish to become shareholders of Acceptance a convenient method of doing so. In order to become eligible, an individual must: (1) be an employee of the Company at the Offering Date; (2) have been employed by the Company for more than one year; (3) be employed customarily for more than 20 hours per week; and (4) be employed customarily for more than five months in any calendar year.

The first Offering Date occurred July 1, 1993. The next Offering Date begins January 1, 1994. In order to purchase shares in this offering, eligible employees must subscribe by the 30th day following the offering date, on or about January 30, 1994.

The purchase price for such stock is the lower of the amounts determined under the following formulas:

- (a) The purchase price shall be equal to 85% of the closing sale price of the shares on the New York Stock Exchange on the termination date of the phase, or when the subscription agreement is paid in full, whichever first occurs. If there is no sale of the shares on such date, then the last reported bid price on the Exchange on such date; or
- (b) The purchase price shall be equal to 85% of the mean of the closing sale price of the shares on the New York Stock Exchange on the commencement date of a phase, and the closing sale price of the shares on the New York Stock Exchange on the termination date of the phase, or when the subscription agreement is paid in full, whichever first occurs. If there is no sale of the shares on such dates, then the last reported bid price on the Exchange on such dates.

Notwithstanding the foregoing, in no event may the purchase price be less than the estimated book value of the Company's common stock as of the termination date of the phase, as determined in good faith by the Board of Directors.

Eligible employees may not contribute more than 10% of such eligible employee's compensation, nor more than \$25,000 in any calendar year. Each participating employee may cancel his or her subscription at any time prior to full payment, whereupon he or she will be refunded all money he or she has paid in, without penalty. Further, the employee shall be entitled to interest on

the funds deducted from his or her payroll. And, there is no fee charged to participants in the Plan. Therefore, it can readily be seen that the Plan offers the employees less risk than an individual purchasing on the open market, and prevents an employee from contributing an undue portion of his or her compensation towards such investment.

The Trustee under the Plan simply acts as an exchange agent, handling all money paid by employees and delivering stock certificates upon issuance. Finally, the Plan is administered by a disinterested Compensation Committee of Board of Directors.

Are Plan Interests a Security?

Ariz. Rev. Stat. §44-1801(22) defines "security" as follows:

[A]ny note, stock, treasury stock, bond, commodity investment contract, commodity option, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, reorganization 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, real property investment contract, 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, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

The Plan interests do not fall squarely with any listed security. Nor do the Plan interests constitute an "investment contract" within the meaning of Ariz. Rev. Stat. §44-1801(22). Under Arizona law, an investment contract is a transaction where:

- (1) an individual is led to invest money
- (2) in a common enterprise
- (3) with the expectation that he will earn a profit solely through the efforts of others.

Daggett v. Jackie Fine Arts, Inc., 733 P.2d 1142 (Ariz. App. 1986).

The Ninth Circuit Court of Appeals decided an analogous case in First Citizens Savings and Loan Association v. Worthen Bank and Trust Company, N.A. 919 F.2d 510 (9th Cir. 1990). In Worthen, a savings and loan association ("First Citizens") sued a bank which acted as principal in a loan participation agreement with First Citizen, alleging among other things securities fraud. The participation agreement was intended to fund a \$57 million phased-construction loan for a real estate development in Surprise, Arizona. The Bank was the principal lender, with First Citizen's being one of 20 other savings and loan institutions participating in the financing. The Ninth Circuit Court of Appeals denied the securities fraud claim, holding that the participation agreement was not a "investment contract" within the meaning of the Arizona securities laws. The Court noted that "the ultimate question is whether the funding party contributed risk capital subject to the entrepreneurial or managerial efforts of others." Id. at 516. Because First Citizens did not seek an investment in the Bank, but rather in a commercial loan transaction, there was no separate investment in the participation agreement.

By analogy, the employees of Acceptance are making no separate investment in the Plan. Rather, Acceptance and the Plan Trustees simply serve an administrative function, and are not developing a business or profit. Not only does the plan not expose its participants to risk independent of the underlying securities, but in fact reduces the amount of economic risk by lowering the purchase price that any participant would otherwise have to pay in an open-market transaction.

Accordingly, on behalf of Acceptance, we request that the Corporation Commission issue a No-Action Letter, specifying that the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona in connection with the issuance of Plan interests because such Plan interests are not separate securities.

Is There a "Sale"?

Ariz. Rev. Stat. §44-1841 prohibits any person from selling or offering for sale in Arizona any securities unless such securities have been registered, or unless an exemption from such registration exists. Ariz. Rev. Stat. §44-1801(18) defines "sale" or "sell" as follows:

[A] sale or other disposition of a security or interest in a security for value, and includes a contract to make such sale or disposition. A security given or delivered

with, or as a bonus on account of, a purchase of securities or other thing shall be conclusively presumed to constitute a part of the subject of the purpose and to have been sold for value.

As stated previously, participants in the Plan give no additional value for their Plan interests independent of the underlying common stock. Consequently, the only sale involved in a plan transaction is the sale of the underlying common stock of Acceptance, for which an exemption from such registration exists under Ariz. Rev. Stat. §44-1843(A)(7). Section 44-1843(a)(7) exempts "[s]ecurities listed or approved for listing upon the issuance thereof upon the New York stock exchange,"

The common stock of Acceptance issued in connection with the Plan has been listed for trading with the New York Stock Exchange. Likewise, such stock has been registered with the Securities and Exchange Commission on Form S-8, Registration No. 33-67180. Pursuant to such registration, Acceptance must deliver to each participant, when such participant become eligible, all material information necessary to make an investment decision.

Accordingly, on behalf of Acceptance, we request that the Corporation Commission issue a No-Action Letter, specifying that the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona in connection with the issuance of Plan interests because such issuance involves no sale or offer of a security.

Exemption Under Section 44-1844(14)

Even if the Corporation Commission determines that a sale or offer of a security will take place in connection with the issuance of Plan interests, such transactions are exempt from registration. Ariz. Rev. Stat. §44-1844(14) exempts the following transactions:

The sale or issuance of any investment contract or other security in connection with an employee's pension, profit sharing, stock purchase, stock bonus, savings, thrift, stock option or other similar employee benefit plan which meets the requirements for qualification under the United States internal revenue code.

(emphasis added).

The underscored language modifies each listed type of benefit plan, including "stock purchase." We interpret the underscored language to mean all employee benefit plans which satisfy the requirements under the Internal Revenue Code (the "Code") for obtaining certain tax advantages. The Code provides that there is no tax either on the grant or the exercise of certain "qualified" incentive stock options ("ISOs") and certain qualified options issued under an employee stock purchase plan, together commonly known as statutory "options." In exchange for such tax advantages, the Code imposes restrictions on both the employer and employee. In the case of employee stock purchase plans, Code Section 423 and related sections of the Code, set forth such restrictions as to employee stock purchase plans such as the Plan.

Accordingly, on behalf of Acceptance, we request that the Corporation Commission issue a No-Action Letter, specifying that the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona in connection with the issuance of Plan interests because such transactions are exempt under Section 44-1844(14).

Discussion

Given that there is no investment by Plan participants separate from the underlying common stock of Acceptance, and given further that such stock is sold at a significant discount from the price such participants would have to pay on the open market, we submit that the arrangement set forth in Plan involves no separate security or transaction raising the specter of the risks associated with the protections afforded by the securities laws. Rather, the Plan merely provides a convenient means for employees of Acceptance to obtain an ownership interest in the Company, and in fact reduces the risk of purchasing the underlying common stock, for which the State of Arizona already grants an exemption. Furthermore, the underlying stock is registered with the Securities and Exchange Commission, which in turn requires delivery of all material information to Plan participants.

For these reasons and the reasons set forth herein, we request that the Director issue a No-Action Letter, specifying that the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transactions contemplated in the Plan occur in reliance upon the following interpretations: (1) that the arrangement set forth in the Plan is not a security independent of the common stock of Acceptance purchase pursuant to the Plan; (2) that even if the Plan is a security independent of the underlying common stock, the transactions contemplated by the Plan do not involve an offer

or sale of such security within the meaning of Ariz. Rev. Stat. §44-1801(18); or (3) that the arrangement contemplated by the Plan is exempt from registration pursuant to Ariz. Rev. Stat. §44-1844(14).

Also enclosed is a check in the amount of \$200.00 representing the filing fee for this letter, as well as a copy of this letter which I now ask that you date stamp and return to the undersigned in the enclosed stamped, self-addressed envelope. If you should have any questions, please do not hesitate to contact me.

Sincerely yours,

CROSBY, GUENZEL, DAVIS,
KESSNER & KUESTER

By


Sylvester J. Orsi

SJO:eak/accept/1-27

Enclosures

LAW OFFICES

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FAX (402) 434-7303

February 3, 1994

Ms. Pam Hesse
State of Arizona
Corporations Commission
Securities Division, Third Floor
1300 West Washington Street
Phoenix, AZ 85007

Re: Acceptance Insurance Companies Inc. (f/k/a Stoneridge
Resources, Inc.); Employee Stock Purchase Plan

Dear Ms. Hesse:

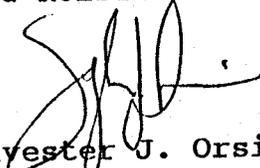
As I indicated to you in our telephone conversation of
February 3, 1994, the Employee Stock Purchase Plan of Acceptance
Insurance Companies Inc. is ongoing in nature. We therefore
request the No-Action Letter to insure future compliance.

If you should have any questions, please do not hesitate to
contact me.

Sincerely yours,

CROSBY, GUENZEL, DAVIS,
KESSNER & KUESTER

By


Sylvester J. Orsi

SJO:eak/accept/2-3