

Statute file



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ARIZONA CORPORATION COMMISSION

February 27, 1995

Russell P. Dawn, Esq.
Rothgerber, Appel, Powers & Johnson
Suite 3000, One Tabor Center
1200 Seventeenth Street
Denver, CO 80202-5839

RE: No- Action Request- Shrewsbury State Bank
A.R.S. § 44-1844(A)(6)

Dear Mr. Dawn:

On the basis of the facts set forth in your letter of February 8, 1995, 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.

As this position is premised upon the facts set forth in your letter, 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 a photocopy of your letter. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

DEE RIDDELL HARRIS
Director of Securities

DRH:nc
Attachment

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February 8, 1995

VIA FEDERAL EXPRESS

Leslie Block, Esq.
Associate General Counsel
Arizona Corporation Commission
Division of Securities
1300 West Washington Street
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Phoenix, Arizona 85007

Re: Request for No Action

Dear Leslie:

On behalf of Shrewsbury State Bank (the "Bank"), we respectfully request that the Arizona Corporation Commission issue a No-Action Letter determining that the transaction (the "Share Exchange") through which shares of Shrewsbury Bancorporation (the "Company") will be issued, is an exempt transaction under section 44-1844(A)(6) of the Securities Act of Arizona, and therefore need not be registered under section 44-1841.

STATEMENT OF FACTS

The Bank is a state non-member bank chartered under and governed by the laws of the State of New Jersey. The Bank has shareholders in 21 states, including Arizona, holding a total of 1,347,705 issued and outstanding shares. The Board of Directors of the bank has deemed it to be in the best interests of the shareholders to reorganize the Bank such that the Bank will be 100% owned by a bank holding company, which will in turn be owned by those shareholders who currently own shares of stock in the Bank. Toward that end, the Board of Directors is proposing a Share Exchange pursuant to section 14A:10-13 of the New Jersey Business Corporation Act.

The Share Exchange will be effected as follows: the Company will be organized as a corporation under the laws of New Jersey, and will authorize stock in approximately the same amount as the issued and outstanding stock of the Bank. A Plan of Exchange will be presented to the Boards of Directors of both the Bank and

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the Company for their approval. If approved, the Board of Directors of the Bank will submit the Plan of Exchange to the shareholders of the Bank for their consideration. If a majority of the shares entitled to vote on the Share Exchange cast votes in favor of the Plan of Exchange, then the Plan of Exchange will be put into effect (subject, of course, to receiving all necessary federal and state regulatory approvals).

Bank shareholders will, if eligible, be permitted to exercise dissenters' rights under the New Jersey Business Corporation Act. All shares of Bank stock owned by shareholders of the Bank not dissenting will be converted into the right to receive shares of stock in the Company, and will be canceled on the books of the Bank. All shares of Bank stock owned by dissenting shareholders will be converted into the right to receive cash in an amount equalling the fair value of the shares, and such shares will also be canceled on the books of the Bank. The Bank will then issue to the Company a certificate representing shares of Bank stock in an amount equal to the total number of shares of Bank stock previously issued and outstanding. The Company will issue to the former shareholders of the Bank not dissenting certificates for shares of its common stock, one cent par value, in an amount equal to the number of shares of Bank stock represented by certificates surrendered to an exchange agent. The Company will also remit cash to the dissenting shareholders in the appropriate amount.

Thus, upon completion of the Share Exchange, the Company will have as its sole asset 100% of the issued and outstanding stock of the Bank, and 100% of the issued and outstanding shares of the Company will be owned, in turn, by the former shareholders of the Bank except dissenters.

The Share Exchange is subject to the approval of the New Jersey Commissioner of Banks. In addition, pursuant to section 3(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)), as amended by section 319 of the Riegle Community Development Act (Public Law No. 103-325) (1994), the Company must provide public notice of the transaction and a certification of the transaction to the Board of Governors of the Federal Reserve System (the "Board"). The shares of stock issued by the Company are exempt from registration with the Securities and Exchange Commission ("SEC") under section 3(a)(12) of the Securities Act of 1933 (15 U.S.C. 77c(a)), as added by section 320 of the Riegle

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Community Development Act, supra. Section 3(a)(12) is an exemption from registration specifically for securities issued in connection with a bank holding company formation in which the former shareholders of a bank become shareholders of a bank holding company owning 100% of the shares of the bank.

The deposits of the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC"), and the Bank is subject to supervision by both the FDIC and the New Jersey Commissioner of Banks.

LEGAL ANALYSIS

Arizona Revised Statutes section 44-1844(A)(6) exempts from registration securities issued in:

any transaction or series of transactions incident to a statutory or judicially approved reorganization, merger, triangular merger, consolidation, or sale of assets, incident to a vote by securities holders pursuant to the articles of incorporation, the applicable corporate statute or other controlling statute, a partnership agreement or the controlling agreement among securities holders.

The Share Exchange described above fits well within the intended scope of section 44-1844(A)(6). First, the reorganization by Share Exchange is statutory; that is, section 14A:10-13 of the New Jersey Business Corporation Act specifically provides for Share Exchange transactions.

Second, the Share Exchange is a "reorganization" within the meaning of section 44-1844(A)(6). The business owned by the shareholders will be the same after the Share Exchange as before. Only the corporate organization will have changed. Precisely the same result could be achieved by merger under New Jersey law by a technique commonly known as a "phantom bank merger." In such a transaction, a bank is chartered pursuant to state law, and its shares are issued to a newly organized bank holding company incorporated under state law in exchange for adequate capitalization. The "target" bank (in our case, Shrewsbury State Bank) is then merged with and into the newly chartered bank, the shares of the target bank are canceled, and the former shareholders of the target bank are issued shares of stock in the

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newly organized bank holding company. The only substantive difference between a merger and the Share Exchange under New Jersey law is that the cost of a merger is substantially higher than the cost of the Share Exchange. The outcome of each transaction is the same, as are the voting rights and dissenters' rights of the shareholders in each transaction. The New Jersey Legislature provided for the Share Exchange as a means of effecting a reorganization in a more cost-effective manner than by merger.

And third, the Share Exchange is pursuant to a vote by all securities holders affected by the transaction. The Company will not have shareholders before the Share Exchange is effected, and those that it will have after the Share Exchange, will have had their opportunity to vote on the Share Exchange as shareholders of the Bank.

Additionally, the Securities Division has issued No-Action Letters in circumstances similar to those of this Share Exchange. Indeed, the No-Action Letter at ¶ 9633 of the Commerce Clearing House Blue Sky Law Reporter addresses a share exchange proposed under precisely the same section of the New Jersey Business Corporation Act as that under which this Share Exchange is being proposed. The two transactions are only slightly distinguishable in that the shares involved in the previous transaction are registered under section 12(b) of the Securities Exchange Act of 1934, and are listed on the American Stock Exchange, whereas the shares involved in this Share Exchange are exempt from federal registration. Such a distinction is irrelevant under the language of section 44-1844(A) (6).

Another relevant No-Action Letter is found at ¶ 9650 of the Commerce Clearing House Blue Sky Law Reporter. That transaction involved the conversion of a federal mutual savings bank owned by its depositors into a federal stock savings bank owned by a holding company which would, in turn, be owned in part by the former depositor/owners of the federal mutual savings bank. Indeed, the No-Action Letter was issued despite that the reorganization involved the issuance of holding company shares through a "community offering," in addition to exchange of shares for depositors' ownership interests, and thus was less clearly within the scope of the statute than is this Share Exchange. See also ¶¶ 9652, 9659.

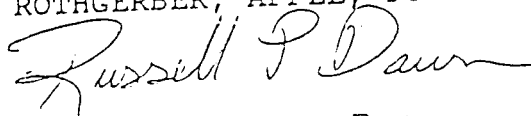
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CONCLUSION

We believe that the Share Exchange is within the scope of section 44-1844(A)(6) as a statutory reorganization. The Share Exchange provides the same protections for shareholders and the same outcome as does a statutory merger, but for substantially less cost. The value of the shares of Company stock issued in the transaction will not materially differ from that of the shares of Bank stock acquired in the Exchange. Finally, Congress recognized in its passage of the Riegle Community Development Act that the Share Exchange is the preferable means of accomplishing a bank reorganization/bank holding company formation, and that such transactions do not present a risk of fraud necessitating extensive regulatory oversight. We look forward to your confirmation of this opinion.

Very truly yours,

ROTHGERBER, APPEL, POWERS & JOHNSON



Russell P. Dawn, Esq.

RPD/mc

cc: Woody Davis
Tennyson Grebenar