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would be desirable. Each AGSOC stockholder, in such case, would receive an impressively embossed escrow receipt showing that stock is held in his name. It would also permit the holding of AGSOC shares in escrow for minors until they reach the age of majority, and the establishment by the Board of Directors of reasonable rules and regulations relating to the release of shares from escrow. Such rules and regulations might, for example, establish the criteria by which a stockholder identifies himself as the individual entitled to issuance of his share or shares.

19. This provision authorizes the Board of Directors to have stock transfer functions handled either internally or externally as careful analysis of the merits of those alternatives are evaluated by the Board.

20. The Federal enabling law, Section 1391(c), requires that "eligible individual" means an individual who is, "as of a date specified in the State's enabling legislation" a resident and "who remains a resident of such State between that date and the date of issuance". (See the Federal enabling law and Footnote 16 thereto.) As pointed out in Footnote 16 to the Federal enabling legislation, the term "resident" is not a specific term, and is considerably narrower than the term "domiciliary". A domiciliary is an individual who, by the weight of all evidence pertinent to identification of the place that one regards as his main geographical home, is held to be domiciled in that place. "Residence" is merely one of the types of evidence indicating domicile. Since the question of the identity of the place that one regards as his domicile is a question of intent as evaluated by all pertinent evidence, the Bill has been drawn to require both "residence" and "domicile" to determine eligibility for original issue of AGSOC stock, or for acquisition by subsequent transfer of AGSOC stock. Doubtless the rules and regulations of the Board of Directors will lay down some prima facie criteria for determining who is a "resident", "eligible individual", or "qualified individual", having in mind that the provisions of Section 8 of the Bill intend each of these terms to be equivalent to domicile as well. Ultimately, in case of a dispute, such facts must be determined by the appropriate court.

21. The Bill contemplates that all reasonable efforts will be made by AGSOC to alert all eligible residents of Alaska of its intent to issue shares and to come forward, under such rules and regulations as the Board of Directors may establish, to demonstrate their eligibility and to have their stockholder accounts set-up. Rules and regulations, to be adopted by the Board of Directors, will lay down the appropriate procedures, including the right of parental guardians and legal guardians -- on behalf of minors or incompetent persons -- to establish eligibility for registration as a stockholder of AGSOC.

22. It is intended by the provisions of Paragraph (b) of Section 8 of the Bill to relieve AGSOC from legal liability for

failure to identify and register as a shareholder every person who is eligible to be so registered. The legal burden to get registered is on the eligible stockholder.

23. Paragraphs (b) and (c) of Section 8 of the Bill are intended to establish just and equitable provisions for eligible individuals, who initially fail to identify themselves at the time of the initial issuance of stock by AGSOC and who later seek to do so. The eligible individual can establish his eligibility at any subsequent time and receive his share or shares as the case may be. However, since AGSOC must pay out substantially all its earnings, and cannot be charged with unexpected liabilities for any substantial number of individuals who, through negligence or otherwise, fail to establish their entitlement to AGSOC stock and who thus have had income which otherwise might have been received by them distributed to other shareholders.

24. Implicit in the Bill for a proposed enabling Act permitting the establishment of AGSOC is the idea that economic activities of such magnitude that if their ownership is spread over the entire body of eligible residents (as of a particular time) will be capable of connecting each such stockholder with sufficient capital to provide a significant addition to his annual income. Thus, in effect, one clearly contemplated approach is to use the credit of the State of Alaska for the purpose of bettering the economic status and economic lives of all of its residents. Thus the timeliness of State action to authorize the establishment of private enterprise organizations capable of using the credit of the State for the purpose of building capital ownership into the citizens of the State or acquiring such capital ownership for them, would seem to be not only proper, but long overdue. The State in so doing would be seeking to increase the size of its tax base -- the property and incomes of its citizens -- but also to diminish the incidence of poverty.

It is inevitable that, by separate appropriation Bill or Bills, funds or lines of credit will have to be made available, either by grant or by loan, to the initial Board of Directors for the purpose of organizing the corporation, employing and paying an initial staff, both managerial and clerical and technical, establishing headquarters, reviewing and analyzing investment opportunities, employing accountants, lawyers, investment banking advisors and consultants, and consultants having appropriate expertise in the area of investments deemed by the Board of Directors worthy of investigation for possible acquisition. Our estimate of the funds required would be in the area of \$2.5 to \$3 million.

Since it is intended that AGSOC function as a private enterprise institution, such initial organizational funding would seem most appropriately provided by loan, either from the State, or through guaranty by the State or by a State agency, or in other appropriate manner.

Once a suitable project for initial investment has been ascertained and such investment determined by adequate analysis of qualified experts, feasibility and investment memoranda prepared and approved by the Board of Directors and by potential loan sources, either during a General Session of the Legislature or at a Special Session of the Legislature, action necessary to finance the project acquisition and to provide necessary working capital will be required.

It should be noted that one of the major tasks of the newly organized corporation, should the legislation be adopted, will be the establishment, either within AGSOC or within some contracting organization, such as a major banking firm, of the data bank identifying the eligible residents who are entitled to become its first shareholders. A sizeable amount of clerical work, legal work, development of computer software, development of stock issuance, escrow, and transfer rules and regulations, will precede or need to be carried on simultaneously with the search for suitable investment or investments.

25. Title 10, Section 10.05.012, of the Alaska Business Corporation Act should be amended to exempt a General Stock Ownership Corporation from the provision that "Purchase by a corporation of its own shares, whether direct or indirect, may be made only to the extent that earned surplus is available for the purchase, *** ". Because of the requirement that AGSOC pay out 90% of its income at all times there may not be earned surplus available for purchase of its own shares even though circumstances may convince the Board in a particular case that it do so.

26. Title 10, Section 10.05.186, should be amended to exempt AGSOC from prohibition against classifying directors prior to the first annual meeting of shareholders as it seems desirable to arrange for the initial Board to be divided into three classes with staggered terms to assure a continuity of directorship during the initial start-up period.

27. Title 10, Section 10.05.204, should be amended to provide that AGSOC may pay dividends at any time or from any source to comply with requirements of the Federal law that a GSOC pay out 90% of its income each year.

28. This new section added to Title 45 of the Alaskan Securities Act would provide that shares of AGSOC will not be a security, and the sale of such shares will not be the sale of a security which would require registration under that Act.

29. Title 6, Chapter 25, of Alaska Statutes provides for formation and operation of trust companies. AGSOC should be exempted from the provisions of these laws dealing with and regulating trust businesses generally so long as its trust and escrow activities involve its own stock.

ANALYSIS RECOMMENDED FOR INCLUSION IN THE
LEGISLATIVE FINANCIAL COMMITTEE REPORT
TO ACCOMPANY THE AGSOC BILL

1. THERE ARE TWO SOURCES OF INDIVIDUALLY PRODUCED INCOME:
JOBS AND CAPITAL

An individual may generate personal income either through his labor or through his privately-owned capital. Most people are familiar with both types of income, but rely primarily on employment related income. Most Americans receive only minimal amounts of capital income: a small dividend on some corporate stock or a few dollars interest from a savings account. But, for a few capital related income comprises most of their income. Indeed, for a very few capital income is so large that they cannot consume it all and they reinvest the surplus to create new capital. This generates even larger amounts of capital related surplus income in later years.

There is an important difference between capital and job related income. Job related income is subject to a finite limit based on the number of hours a person can work, his education, health, experience and other personal factors. Capital related income is subject only to the availability of profitable investments and has, in some cases, grown to extremes.

Recognizing that most Americans rely on wages and salaries for survival, efforts have been taken to assure high levels of employment. Government "creates" jobs in the public and private

sectors to insure that the otherwise unemployed have income to purchase the necessities of life.

2. TECHNOLOGY DISPLACES LABOR WITH CAPITAL

Capital and labor both contribute to the production of goods and services. However, labor unaided by capital has very definite limits to its productiveness. Unaided, a laborer will not accomplish much when set to dig an irrigation ditch. Add a small amount of capital in the form of a shovel and the worker can accomplish much more in a given amount of time. As technology progresses and the laborer is equipped with a power shovel, production is increased greatly. The increase in production is attributable to the addition of increasing amounts of capital.

Income reflects the value of the products created by the two components of production, labor and capital. As labor is replaced with capital the flow of income shifts from labor to capital. But, the owners of labor and the owners of capital are quite different. Labor power is broadly owned by the great majority of American workers, while the ownership of capital is highly concentrated. Thus, as the earnings shift from labor to capital, without government interference, more and more income will flow to fewer and fewer people. It is the shifting of income as a result of technology which threatens the foundations of our society. It means that fewer and fewer people

will own an even larger portion of our productive power and the income accompanying it while labor receives an ever decreasing portion.

There are only two solutions to the crisis which we are facing. One would be to simply appropriate income from the wealthy and give it to those who can no longer earn enough income to survive or be comfortable. Under our democratic government the great labor owning majority may be shifting income toward artificially evaluated labor and away from capital through such things as the minimum wage, feather bedded contracts, unemployment compensation, and welfare. An alternative would be to bring those wage earners into the system of capital ownership so that if their labor income should be insufficient income from capital ownership will supplement or replace it.

3. NEW CAPITAL MAY BE ACQUIRED WITH CREDIT

Conventional methods of financing economic development and the creation of new capital rely heavily upon the use of credit. Borrowed money is used to purchase assets which produce income to pay off the loan. Once the loan is retired the asset continues to generate income enriching its owner. The credit route to wealth is used by most corporations and many individuals and may be illustrated by the following example:

Mr. Adams, a man of considerable wealth, wants to build a fourplex which will cost \$200,000. He takes a personal loan from his bank for that amount and builds the apartments. For simplicity assume that no interest is charged on his loan and payments are \$20,000 per year for 10 years. Mr. Adams rents his fourplex for \$2,000 per month or \$24,000 per year leaving him \$4,000 per year for maintenance and other expenses after loan payments of \$20,000. At the end of 10 years Mr. Adams owns the fourplex free and clear of the loan and it continues to generate \$24,000 (or more) per year in income which he is free to spend.

In the example Mr. Adams did not invest his own assets in the fourplex, but used borrowed funds to acquire an asset which would pay for itself. Why doesn't everyone invest the way Mr. Adams does? Because access to credit is limited.

4. ACCESS TO CREDIT IS LIMITED

Access to credit for the acquisition of income producing capital is limited primarily to those who already own some capital. Lenders do not like to take risks. They want

assurance that borrowed money will be repaid even if it is lost in an unsuccessful venture. To assure repayment they look not only to the investment to be undertaken, but to the financial strength of the borrower. Wealthy borrowers are more likely to receive loans because they have other assets on which the bank may call if the investment by the borrower generates insufficient income to retire the loan. This is what leads to the incongruity that those who need most to borrow funds to invest in productive capital are least able, under conventional financing methods to do so, and vice versa.

In more abstract terms existing capital is put "at risk" to assure the lender against the possibility that the new capital will not pay for itself. This means existing capital is a major component, along with the debt, in generating new capital. But, what about the broad group of Americans with no existing capital, what lies in store for them?

5. OUR INSTITUTIONS FOSTER CAPITAL CONCENTRATION

Existing capital is a key to new capital under our present institutions, fostering concentrations of wealth. New capital tends to be generated by those who own existing capital and "the rich get richer." Structural components in our laws encourage capital formation by those who already own capital: the income tax interest deduction encourages debt financing of

growth by corporations making existing shareholders richer; distributions of earnings are discouraged by taxing them as ordinary income preventing leveraged acquisition of corporate stock with repayment through dividends; government loans are made to corporations with assets sufficient to guarantee the loans making the existing shareholders more wealthy.

The concentration of capital in America has been the subject of a number of studies which indicate that the top 5% of Americans own more than half of all our productive wealth. This means that much of the capital related income in our economy flows to a very small group of people. Our existing structure fosters capital concentration in such a way that one would think it a desirable and intended governmental objective.

6. HIGHLY CONCENTRATED CAPITAL OWNERSHIP IS UNHEALTHY

Large concentrations of capital accrue large concentrations of income. There is a finite limit to the amount of income a family can consume and beyond which income is reinvested to increase capital accumulation. The income poured into new capital is not available for consumption. Thus, high concentrations of capital reduce total consumption.

The reduction of total consumption might not be unhealthy if all the needs and wants of our citizens were satisfied.

But, such is not the case and we tax away excess income for transfer payments to those whose labor income is insufficient and who have no capital-related income. We pump up demand by transferring income to the unemployed, the welfare recipients the elderly.

If capital were widely owned the income from capital would supply the needs of those who earn insufficient income from labor. This group's demand for goods and services would finally be satisfied from an income source independent of transfer payments. This demand would stimulate the need for more capital goods to supply the demand and the additional capital, if owned by the same group, would throw off more income to the group.

7. BROADENING OWNERSHIP CAN BE DONE THROUGH CAPITAL FORMATION

Capital ownership can be broadened without reducing the wealth of the rich. Our system of capital formation, biased in favor of the wealthy, can be weighted in favor of everyone. New capital can be formed in a way so that everyone participates in the process without affecting the ownership of existing capital.

The key to broadened capital ownership without confiscation is credit. Credit is a major element in the creation of new capital. Access to credit gives the wealthy access to the new capital created in our economy. New capital is created every

day in the form of pipelines, plants, machinery and equipment. It is estimated that our existing net national wealth of nearly six trillion dollars will double in the next 20 years in much the same way that the wealth of Alaska doubled with the construction of the Trans Alaska Pipeline. If the typical citizen can be given access to credit for capital formation he can share in the economic growth of our society and develop a capital estate for himself.

The average citizen does not have effective access to credit for capital formation because he does not have existing wealth to guarantee the lender's risk. However, joined together with his fellow citizens through his State government he has tremendous borrowing power. The security of a State guarantee can perform the same guarantee function for the average citizen which existing capital does for the wealthy. Through the power of State government the typical citizen can leverage himself into a capital asset which will pay for itself and throw off income to him and his neighbors and his children.

8. LIMITED CAPITAL OWNERSHIP CONTRIBUTES TO POVERTY

Poverty stems from a lack of income. Poverty makes no distinction between sources of income and one is just as poor without capital as he is without a job. Conversely, if one has capital income he may not be destitute even without a job.

Since capital is one of the two available sources of income the lack of widespread capital ownership has ramifications for the level of income within a State. To the extent that capital ownership is widespread, citizens need not rely solely on labor income for survival. Unemployment may require a reduced standard of living, but may not require government support to insure the necessities of life.

For years governments have addressed only one aspect of poverty: jobs. Where jobs were unavailable or could not be created the only solution was to transfer income to the poor from those who had income. But, there is another way to address the roots of poverty and that is through the ownership of capital. If the average citizen can be involved in capital ownership he will have an additional source of income if his job fails. Governments have tinkered with our system to create jobs so people will have income; it is now time to adjust the process of capital formation so that the people will have capital and capital related income as well.

9. A BETTER LIVING STANDARD FOR ALL CITIZENS IS AN APPROPRIATE GOVERNMENT GOAL

It has long been a tradition in America that eradication of poverty and improvement of the general standard of living are appropriate goals for government to pursue. These goals

have been the center piece of many major legislative programs in both Federal and State governments. These goals have been endorsed by the State of Alaska and, having been tested in our courts, found to be proper objectives toward which the power of the State may be exercised.

10. BROADENED CAPITAL OWNERSHIP IS AN APPROPRIATE GOVERNMENT GOAL

Restrictive capital ownership is an impediment to the eradication of poverty and the improvement of the general standard of living, both of which are appropriate government objectives. The broadening of capital ownership contributes to the achievement of those objectives through increasing income available to the groups involved. Therefore, broadening capital ownership is a proper governmental activity undertaken to achieve these goals and becomes a proper goal in and of itself.

The State objectives of broadening capital ownership must be balanced by other State interests such as the protection of private property interests and the maintenance of acceptable levels of state revenues and risks. Thus, it would not be appropriate for the State to redistribute existing privately held wealth. However, the creation of a General Stock Ownership Corporation balances the competing goals and obligations of the State while broadening the ownership of capital.

11. DILUTION OF CAPITAL IS INCOMPATIBLE WITH BROADENED OWNERSHIP

Dilution of capital occurs when a corporation increases the number of shares outstanding without increasing the amount of capital in the corporation. For example a corporation with \$100 of capital and 100 shareholders has net equity per shareholder of \$1.00. If the number of shareholders is increased to 200 without increasing the corporation's capital each original shareholder's book value falls to 50¢. The addition of new shareholders has reduced the value of original shareholder's stock. If the new shareholders are mandated by law the government has effectively appropriated half the value of the original shareholder's stock for the benefit of the new shareholders. Such an appropriation of capital is a violation of the concept of private property and beyond the proper exercise of a State's authority.

12. A CLOSED CLASS IS APPROPRIATE TO THE OBJECTIVE OF BROADENED CAPITAL OWNERSHIP

In the development of a General Stock Ownership Corporation it is necessary to identify certain persons who, within the limits set forth under Federal law, qualify as shareholders. To assure proper functioning of the corporation as a private for profit business enterprise it is necessary to issue stock which shall have all the rights and privileges of private property. Inherent in the concept of stock as private property is the

right of a shareholder to be free from dilution of his stock except upon a majority vote of the shareholders. Therefore, it is appropriate to the objective of broadening capital ownership through the creation of a General Stock Ownership Corporation to close the class of individuals eligible to become shareholders as of a specific date established by the State in the authorizing legislation.

But of course, if the number of Alaskan residents without shares in the Alaska General Stock Ownership Corporation becomes substantial, the Legislature can again address itself to this problem, authorizing another class of stock for all then-qualified residents (with permissive changes in State and Federal laws), and arrange further financing for the development of additional capital assets to support the issuance of additional shares.

FEDERAL ENABLING LAW

REVENUE ACT OF 1978⁽¹⁾

(H.R. 13511)

ENACTING TITLE VI, INTERNAL REVENUE CODE OF 1954, AS AMENDED

GENERAL STOCK OWNERSHIP CORPORATIONS

NOTE: Numbers in parenthesis above the text refer to the explanatory annotations immediately following the text of the legislation.

Sec. 601. ESTABLISHMENT AND TAXATION OF GENERAL STOCK OWNERSHIP CORPORATIONS AND THEIR SHAREHOLDERS.

(a) IN GENERAL - Chapter 1⁽²⁾ (relating to normal taxes and surtaxes) is amended by adding at the end thereof the following new subchapter:

"Subchapter U⁽³⁾ - General Stock Ownership Corporations

"Sec. 1391. Definitions.

"Sec. 1392. Election by general stock ownership corporation.

"Sec. 1393. Corporation taxable income taxed to shareholders.

"Sec. 1394. Rules applicable to distributions of electing general stock ownership corporations.

"Sec. 1395. Adjustments to basis of stock of shareholders.

"Sec. 1396. Minimum distribution.

"Sec. 1397. Special rules applicable to earnings and profits of an electing general stock ownership plan.

"Sec. 1391. DEFINITIONS.

"(a) GENERAL STOCK OWNERSHIP CORPORATION. - For purposes of this subchapter, the term 'general stock ownership corporation' (hereinafter referred to as a 'GSOC') means a domestic⁽⁴⁾ corporation which -

"(1) is not a member of an affiliated group (as defined in section 1504),⁽⁵⁾ and

"(2) is chartered and organized after December 31, 1978, and before January 1, 1984; ⁽⁶⁾

"(3) is chartered by an act of a State legislature ⁽⁷⁾ or as a result of a State-wide referendum;

"(4) has a charter providing -

"(A) for the issuance of only 1 class of stock,

"(B) for the issuance of shares only to eligible individuals ⁽⁸⁾
(as defined in subsection (c));

"(C) for the issuance of at least one share to each eligible individual, ⁽⁹⁾ unless each eligible individual elects within one year after the date of issuance not to receive such share;

"(D) that no share of stock shall be transferable -

"(i) by a shareholder other than by will or the laws of descent and distribution until after the expiration of 5 years from the date such stock is issued by the GSOC except where the shareholder ceases to be a resident of the State; ⁽¹⁰⁾

"(ii) to any person other than a resident individual of the chartering State; ⁽¹¹⁾

"(iii) to any individual who, after the transfer, would own more than 10 shares of the GSOC; ⁽¹²⁾

"(E) that such corporation shall qualify as a GSOC under the Internal Revenue Code; ⁽¹³⁾

"(5) is empowered to invest in properties (but not in properties acquired by it or for its benefit through the right of eminent domain. ⁽¹⁴⁾

For purposes of this subsection, section 1504

(a) shall be applied by substituting '20 percent' for '80 percent' wherever it appears.

"(b) ELECTING GSOC. - For purposes of this subchapter, the term 'electing GSOC' means a GSOC which files an election under section 1392 which, under section 1392, is in effect for such taxable year. ⁽¹⁵⁾

"(c) ELIGIBLE INDIVIDUALS. - For purposes of subsection (a), the term 'eligible individual' means an individual who is, as of a date specified in the State's enabling legislation for the GSOC, a resident of the chartering State and who remains a resident of such State between that date and the date of issuance. ⁽¹⁶⁾

"(d) TREATED AS PRIVATE CORPORATION. - For purposes of this title, a GSOC shall be treated as a private corporation and not as a governmental unit. ⁽¹⁷⁾

"(e) STUDY OF GENERAL STOCK OWNERSHIP CORPORATIONS. - The staff of the Joint Committee on Taxation shall prepare a report on the operation and effects of this subchapter relating to GSOC's. An interim report shall be filed within two years after the first GSOC is formed and a final report shall be filed by September 30, 1983.

"Sec. 1392. ELECTION BY GSOC.

"(a) ELIGIBILITY. - Except as provided in section 1393, any GSOC may elect, in accordance with the provisions of this section, not to be subject to the taxes imposed by this chapter. ⁽¹⁸⁾

"(b) EFFECT. - If a GSOC makes an election under subsection (a) then -

"(1) with respect to the taxable years of the GSOC for which such election is in effect, such corporation shall not be subject to the taxes imposed by this chapter and, with respect to such taxable years and all succeeding taxable years, the provisions of section 1396 shall apply to such GSOC, ⁽¹⁹⁾ and

"(2) with respect to each such taxable year, the provisions of section 1393, 1394, and 1395 shall apply to the shareholders of such GSOC. ⁽²⁰⁾

"(c) WHERE AND HOW MADE. - An election under subsection (a) may be made by a GSOC at such time and in such manner as the Secretary shall prescribe by regulations.

"(d) YEARS FOR WHICH EFFECTIVE. - An election under subsection (a) shall be effective for the taxable year of the GSOC for which it is made and for all succeeding taxable years of the GSOC, unless it is terminated under subsection (f).

"(e) TAXABLE YEAR. - The taxable year of a GSOC shall end on October 31 unless the Secretary consents to a different taxable year." ⁽²¹⁾

"(f) TERMINATION. - The election of a GSOC under subsection (a) shall terminate for any taxable year during which it ceases to be a GSOC and for all succeeding taxable years. ⁽²²⁾ The election of a GSOC under subsection (a) may be terminated at any other time with the consent of the Secretary, effective for the first taxable year with respect to which the Secretary consents and for all succeeding taxable years. ⁽²³⁾

"Sec. 1393. TAXABLE INCOME TAXED TO SHAREHOLDERS.

"(a) GENERAL RULE. - The taxable income of an electing GSOC for any taxable year shall be included in the gross income of the shareholders of such GSOC in the manner and to the extent set forth in this subsection.⁽²⁴⁾

"(1) AMOUNT INCLUDED IN GROSS INCOME. - Each shareholder of an electing GSOC on any day of a taxable year of such GSOC shall include in his gross income for the taxable year with or within which the taxable year of the GSOC ends the amount he would have received if, on each day of such taxable year, there had been distributed pro rata to its shareholders by such GSOC an amount equal to the taxable income of the GSOC for its taxable year divided by the number of days in the GSOC's taxable year.⁽²⁵⁾

"(2) TAXABLE INCOME DEFINED. - For purposes of this section, the term 'taxable income' of a GSOC shall be determined without regard to the deductions allowed by part VIII of subchapter B (other than deductions allowed by section 248, relating to organizational expenditures).⁽²⁶⁾

"(b) SPECIAL RULE FOR INVESTMENT CREDIT.⁽²⁷⁾ - The investment credit of an electing GSOC for any taxable year shall be allowed as a credit to the shareholders of such corporation in the manner and to the extent set forth in this subsection.

"(1) CREDIT. - There shall be apportioned among the shareholders a credit equal to the amount each shareholder would have received if, on each day of such taxable year, there had been distributed pro rata to the shareholders the electing GSOC's net investment credit divided by the number of days in the GSOC's taxable year.

"(2) NET INVESTMENT CREDIT. - For purposes of this paragraph the term 'net investment credit' means the investment credit of the electing GSOC for its taxable year less any tax from recomputing a prior year's investment credit in accordance with section 47.

"(3) RECAPTURE. - There shall be apportioned among the shareholders of a GSOC, in the manner described in paragraph (1), an additional tax equal to the excess of any tax resulting from recomputing a prior year's investment credit in accordance with section 47 over the investment credit of the GSOC for its taxable year.

"Sec. 1394. RULES APPLICABLE TO DISTRIBUTIONS OF AN ELECTING GSOC'S⁽²⁸⁾

"(a) SHAREHOLDER INCOME ACCOUNT. - An electing GSOC shall establish and maintain a shareholder income account⁽²⁹⁾ which account shall be -

"(1) increased at the close of the GSOC's taxable year by an amount equal to the GSOC's taxable income for such year,⁽³⁰⁾ and

"(2) Decreased, but not below zero, on the first day of the GSOC's taxable year by the amount of any GSOC distribution to the shareholders of such GSOC made or treated as made during the prior taxable year.⁽³¹⁾

"(b) TAXATION OF DISTRIBUTION. - Distributions by an electing GSOC shall be treated as -

"(1) a distribution of previously taxed income to the extent such distribution does not exceed the balance of the shareholder income account as of the close of the taxable year of the GSOC,⁽³²⁾ and

"(2) a distribution to which section 301(a) applies but only to the extent such distribution exceeds the balance of the shareholder income account as of the close of the taxable year of the GSOC.⁽³³⁾

"(c) DISTRIBUTIONS NOT TREATED AS A DIVIDEND. - Any amounts includible in the gross income of any individual by reason of ownership of stock in a GSOC shall not be considered as a dividend for purposes of section 116.⁽³⁴⁾

"(d) REGULATIONS. - The Secretary shall have authority to prescribe by regulation, rules for treatment of distribution in respect of shares of stock of the GSOC that have been transferred during the taxable year."⁽³⁵⁾

"Sec. 1395. ADJUSTMENT TO BASIS OF STOCK OF SHAREHOLDERS.⁽³⁶⁾

"The basis of a shareholder's stock in an electing GSOC shall be increased by the amount includible in the gross income of such shareholder under section 1393, but only to the extent to which such amount is actually included in the gross income of such shareholder.

"Sec. 1396. MINIMUM DISTRIBUTIONS.

"(a) GENERAL RULE. - A GSOC shall distribute at least 90 percent of its taxable income for any taxable year by January 31 following the close of such taxable year.⁽³⁷⁾ Any distribution made on or before

January 31 shall be treated as made as of the close of the preceding taxable year.

"(b) IMPOSITION OF TAX IN CASE OF FAILURE TO MAKE MINIMUM DISTRIBUTION.⁽³⁸⁾ - If a GSOC fails to make the minimum distribution requirements described in subsection (a), there is hereby imposed on the GSOC a tax equal to 20 percent of the excess of the amount required to be distributed over the amount actually distributed.

"Sec. 1397. SPECIAL RULES APPLICABLE TO AN ELECTING GSOC.⁽³⁹⁾

"(a) GENERAL RULE. - The current earnings and profits of an electing GSOC as of the close of its taxable year shall not include the amount of taxable income for such year which is required to be included in the gross income of the shareholders of such GSOC under section 1393(a).⁽⁴⁰⁾

"(b) SPECIAL RULE FOR AUDIT ADJUSTMENTS.⁽⁴¹⁾ -

"(1) TAXABLE INCOME. - Taxable income of an electing GSOC shall, in the year of final determination, be increased or decreased, as the case might be, by any adjustment to taxable income for a prior taxable year.

"(2) INVESTMENT CREDIT. - The investment credit of an electing GSOC shall, in the year of final determination, be increased or decreased, as the case might be, by any adjustment to the net investment credit for a prior taxable year.

"(3) METHOD OF MAKING ADJUSTMENTS. - An electing GSOC shall include in gross income for the year of an adjustment the amount described in paragraph (1) and shall take into account the adjustment described in paragraph (2), and shall be liable for payment of interest in the amount that would have been payable by the GSOC under section 6601 (relating to interest on underpayment, nonpayment or extensions of time for payment, of tax) or receivable by the GSOC under section 6611 (relating to interest on overpayments) if such GSOC had been a corporation other than an electing GSOC.

(b) TECHNICAL AMENDMENTS. -

(1) NET OPERATING LOSS DEDUCTION.⁽⁴²⁾ - Paragraph (1) of section 172(b) (relating to net operating loss carrybacks and carryovers) is amended by adding at the end thereof the following new subparagraph:

"(H) In the case of an electing GSOC which has a net operating loss for any taxable year such loss shall not be a net operating loss carry-

back to any taxable year preceding the year of such loss, but shall be a net operating loss carryover to each of the 10 taxable years following the year of such loss."

(2) INCOME TAX COLLECTED AT SOURCE.⁽⁴³⁾ - Section 3402 (relating to income collected at source) is amended by adding at the end thereof the following new subsection:

"(r) EXTENSION OF WITHHOLDINGS TO GSOC DISTRIBUTIONS. -

"(1) GENERAL RULE. - An electing GSOC making any distribution to its shareholders shall deduct and withhold from such payment a tax in an amount equal to 25 percent of such payment.

"(2) COORDINATION WITH OTHER SECTIONS. - For purposes of sections 3403 and 3404 and for purposes of so much of subtitle F (except section 7205) as relates to this chapter, distributions of an electing GSOC to any shareholder which are subject to withholding shall be treated as if they were wages paid by an employer to an employee."

(3) ADJUSTMENTS TO BASIS.⁽⁴⁴⁾ - Section 1016(a) (relating to adjustments of basis) is amended by redesignating paragraph (23) as (22) and by inserting after paragraph (20) the following new paragraph:

"(21) to the extent provided in section 1395 in the case of stock of shareholders of a general stock ownership corporation (as defined in section 1391) which makes the election provided by section 1392; and".

(4) RETURN OF GENERAL STOCK OWNERSHIP CORPORATION.⁽⁴⁵⁾ - Subpart A of part III of subchapter A of Chapter 61 (relating to information returns) is amended by adding at the end thereof the following new section:

"Sec. 6039B. RETURN OF GENERAL STOCK OWNERSHIP CORPORATION.

"Every general stock ownership corporation (as defined in section 1391) which makes the election provided by section 1392 shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowable by subtitle A, the amount of investment credit or additional tax, as the case may be, the names and addresses of all persons owning stock in the corporation at any time during the taxable year, the number of shares of stock owned by each shareholder at all times during the taxable year, the amount of money and other property distributed by the corporation during the taxable year to each shareholder, the date of each such distribution, and such other information, for the purpose of carrying out the provisions of subchapter U of chapter 1, as the Secretary may by regulation

prescribe. Any return filed pursuant to this section shall, for purposes of chapter 66 (relating to limitations), be treated as a return filed by the corporation under section 6012.⁽⁴⁶⁾ Every GSOC shall file an annual report with the Secretary summarizing its operations for such year."⁽⁴⁷⁾

(c) CLERICAL AMENDMENTS.⁽⁴⁸⁾ -

(1) The table of subchapters for chapter 1 is amended by adding at the end thereof the following:

"SUBCHAPTER U. - General stock ownership plans."

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6039B. Return of general stock ownership corporation."

(d) EFFECTIVE DATE.⁽⁴⁹⁾ - The amendments made by this section shall apply with respect to corporations chartered after December 31, 1978, and before January 1, 1984.

1. The Revenue Bill of 1978 was passed by the Congress of the United States on October 14, 1978, and signed into law by President Carter on November 6, 1978. The General Stock Ownership Corporation provisions were included as a Senate amendment to that Bill (H.R. 13511) and appear in the legislation as Title VI.

2. The Internal Revenue Code is organized into chapters, subchapters, sections, and subsections. Chapter 1 of the Internal Revenue Code deals generally with the income tax provisions of the Federal law covering both personal and corporate taxes.

3. The Revenue Act of 1978 amends Chapter 1 of the Internal Revenue Code to add a new subchapter designated as Subchapter U. This subchapter, containing seven sections (Sections 1391-1397), sets forth the Federal tax law regarding General Stock Ownership Corporations.

4. A domestic corporation is a corporation which is organized under the laws of the United States or a state thereof.

5. The Internal Revenue Code, Section 1504, defines an affiliated group for purposes of determining which corporations are eligible to file consolidated returns. Generally, an affiliated group is formed when one corporation acquires 80% or more of the voting stock of one or more other corporations. The 80% or more definition in Section 1504 is to be read as 20% or more for purposes of the GSOC legislation.

Since GSOC stock may not be owned by a corporation or other non-individual, the limitation on membership in affiliated groups applies only to ownership by the GSOC of stock in other corporations. The GSOC, in order to avoid being a member of an affiliated group, may not own 20% or more of the stock in another corporation. Failure to comply with this requirement would appear to jeopardize the special tax treatment available to the GSOC under Federal law.

This limitation was included in the GSOC provisions in order to prevent the GSOC from becoming a holding company for other corporations' stock. Because of the special nature of the GSOC tax advantages this limitation is not particularly significant. The elimination of corporate income taxes for the GSOC may not be extended to corporations owned by the GSOC. Therefore, any subsidiary corporation would be fully subject to the Federal income tax, and dividends paid by such a corporation to the GSOC would be net of Federal taxes. The special tax advantage of the GSOC in eliminating the Federal corporate income tax would therefore be defeated by significant ownership of subsidiary corporations.

6. In keeping with the experimental nature of the General Stock Ownership Corporation legislation, a five year period was provided during which such corporations may be formed. Any corporation not formed within the dates set forth in the Act

will not be eligible for treatment under Federal tax law as a General Stock Ownership Corporation. However, any corporation formed and qualifying under these provisions during the five year period will continue to receive the special tax treatment provided GSOCs indefinitely. There is no limitation on the tax advantages once a corporation is established within the designated time frame.

7. The term charter is used in its broadest sense and means that the corporation must have a special grant of powers from either the State Legislature or a statewide referendum. It would not appear to be acceptable for a state to generally authorize the creation of GSOCs. But, it also does not appear necessary for a state to adopt into the law the actual Articles of Incorporation for the GSOC. Indeed, it may be unacceptable for a Legislature to enact the Articles of Incorporation into law and subsequently allow the stockholders of the corporation to amend the Articles. Amendment of the Articles of Incorporation in such a case would appear to effectively amend the statutes of the authorizing state and this would seem to be an unconstitutional delegation of the power of a State Legislature. Conversely, if the Articles of Incorporation could not be amended by its stockholders, it would not appear to be a private business corporation as Congress contemplates by this law.

8. Eligible individual is defined in Section 1391(c) and will be further discussed in Footnote 16 below.

9. At least one share of stock in the General Stock Ownership Corporation must be issued to each eligible individual unless that individual elects within the first year of ownership not to receive the stock. This language does not appear to preclude charging a purchase price for the stock, but in such an event would seem to require that some accommodation be made for those eligible individuals who are not in a position or who are unwilling to pay for the stock. Generally, the drafters of the legislation contemplated the simple distribution of the stock without charge to eligible individuals, with corporate operations and purchases thereafter financed initially through debt instruments only. This would enable the stockholders to build an equity in the stock through amortization of debt with the earnings of corporate investments.

10. In order to qualify as a General Stock Ownership Corporation, the transfer of corporate stock must be restricted during the first five years following its issuance. Since it was contemplated that stockholders in a General Stock Ownership Corporation would be limited to the residents of the authorizing state, an exception is provided so that if an individual ceases to be a resident or dies during the first five years, his stock may be sold or transferred.

The five year transfer restriction was included in order to give shareholders a period of time during which to become familiar with the benefits of stock ownership. It is hoped that

during the first five years of corporate operations the GSOC would be in a position to distribute dividends, giving its shareholders some experience with the income generating capabilities of capital and giving those interested in the formation of these particular corporations an opportunity to study the reactions of shareholders to this new type of investment.

In order to discourage shareholders from emigrating in order to sell their stock prior to the end of the five year period, it may be necessary to provide for some controlled purchase price. This could be done in the form of an option on the part of the corporation to repurchase stock from an individual emigrating from the authorizing state at a value below either the fair market value or income stream valuation approach. Such a repurchase would be consistent with the private capital nature of the GSOC stock and could return to the shareholder his book equity. Book equity valuation for purposes of a mandatory repurchase during the five year nontransferability period might be appropriate in that this represents the shareholder's share of cash invested in acquiring the asset. This is the case because the distribution of stock was cost free to the shareholder and his only investment at the time of sale will be in the form of what would otherwise be cash distributions applied to the repayment of the debt incurred to buy the underlying assets. Thus the shareholder is paying for his capital out of the income it produces.

In the event that a shareholder whose shares are repurchased at book value has incurred tax liability in excess of his distributions of cash from the corporation, his basis in the stock will be increased accordingly and he will receive a capital loss deduction for the difference between the book value purchase price and his adjusted basis. This loss deduction will offset his future additional income from the GSOC, insuring that he remains whole once the transaction is concluded if the assets purchased by the GSOC have thrown off in income their purchase costs and necessary interest.

11. Transfers of GSOC stock may not be made to individuals who are not "residents" of the authorizing state. This limitation is designed to assure that the GSOC, which must begin life as a corporation owned by the residents of a single state, either continues to be owned by those residents or, if they are permitted to take it out of state and cease to be residents, they must at or before their death transfer their GSOC stock to a qualified resident. Thus, while a holder of GSOC stock may sell or otherwise dispose of his stock, he may not do so to a corporation, trust, partnership, or other artificial person nor to any individual who is not a resident of the authorizing state.

12. This limitation on transfers was included in order to assure that great concentrations of GSOC stock do not develop. The GSOC was conceived as a means of broadening capital ownership and thereby spreading more widely the income benefits from capital. This transfer limitation implements these goals.

13. The requirements of Section 1391(4)(A)-(E) are limitations which must be included in both the GSOC authorizing legislation adopted by the State Legislature and the Articles of Incorporation for the GSOC. The limitation set forth in (E) simply makes it clear that both the authorizing Legislature and the incorporators of the General Stock Ownership Corporation intend to qualify under the provisions of Subchapter U of the Internal Revenue Code.

14. There are generally no limitations on the types of investments which GSOCs may undertake. However, because of the unique relationship between GSOCs and the authorizing State Legislatures, certain members of Congress felt it necessary to clarify that GSOCs may not be used as vehicles through which ownership of existing capital assets can be transferred from one group to another through the exercise of the state's powers of eminent domain. Therefore, this limitation was added to prevent the power of state condemnation from being used to transfer unwillingly ownership of an existing business to a General Stock Ownership Corporation. This language does not preclude the condemnation of a pipeline right of way or the purchase by a General Stock Ownership Corporation of an asset a component of which is acquired by the sellers through condemnation. It is designed only to preclude the direct condemnation of existing business assets and a resale thereof to the GSOC.

15. The General Stock Ownership Corporation, in order to avail itself of the special tax treatment provided under Subchapter U, must file an election with the Secretary of the Treasury under the terms of Section 1392, discussed below at Footnote 18.

16. Eligible individuals are those individuals to whom stock must be issued under the provisions of Section 1391(a)(4)(B). Stock must be issued to individuals who are, as of a specific date set forth in the state's GSOC enabling legislation, residents of the state and who remain residents of the state until the date the stock is actually issued. The statutory language with respect to a specific date was included to allow a State Legislature to select a date certain upon which residency could be determined. It was contemplated that such a date might be one prior to the date of the enabling legislation in order to assure that a flood of immigrants to the state would not be encouraged.

The term resident may be defined by the State Legislature for purposes of the GSOC legislation in any constitutional and acceptable manner. The term resident itself is a legal term of uncertain meaning, the definition of which varies with the use. For purposes of general stock ownership legislation it may be appropriate to use a definition of resident which equates that term with the legal term of "domiciliary". This would give a definition of resident dependent not only upon present mailing address or physical location within the state, but intent, however evidenced, to establish and maintain primary geographical living situs within the State of Alaska.

17. The GSOC is to be treated as a private corporation and therefore is not eligible to issue securities or levy taxes as a governmental unit or municipal corporation.

18. To take advantage of the special provisions of Subchapter U, the General Stock Ownership Corporation must file an election under the provisions of Section 1392. The election is to be made at the time and in the manner described by the Secretary of the Treasury. Section 1392(b) is effective for the taxable year of the GSOC for which it is filed and for all later taxable years unless the election is terminated.

19. If the GSOC makes an election under Section 1392, the GSOC corporation itself is exempt from all the income taxes imposed by Chapter 1 of the Internal Revenue Code for the year in which the election is made and all following years until the election is terminated. The GSOC is, however, subject to the limitations of Section 1396 which requires minimum distributions of GSOC income and imposes a penalty tax in the event of a failure to distribute income in accordance with Section 1396 requirements.

20. While the electing GSOC is exempt from Federal income tax, the income of the corporation is taxed to the shareholders under Sections 1393, 1394 and 1395. These sections set out the rules under which the shareholders are attributed the income of the General Stock Ownership Corporation, provide for tax treatment of GSOC distributions, and establish rules for determining the basis of a shareholder's stock.

21. In order to assure that significant deferral of income does not occur, the General Stock Ownership Corporation is required to operate on a taxable year ending on October 31st. This allows the corporation sufficient time to determine its taxable income for the year and to provide that information to the shareholders prior to the April 15th regular filing deadline for shareholders' returns.

22. It appears that under the Federal legislation there is at least one event which could involuntarily terminate the special tax status of the General Stock Ownership Corporation, and that event would be membership in an affiliated group which is prohibited under the terms of Section 1391(a)(1). Depending on interpretations of the general law, other events might involuntarily terminate the special status of the GSOC, such as a revocation by the State Legislature of a corporation's charter or amendments to the Articles of Incorporation which remove the conditions required by Section 1391(4) and (5).

23. The election of the General Stock Ownership Corporation to qualify under Subchapter U may be terminated at any time with the consent of the Secretary of the Treasury. Voluntary termination of GSOC status under Subchapter U might be sought in the event that a General Stock Ownership Corporation were to incur taxable income, perhaps from recapture on the sale of an asset, substantially in excess of cash available for distribution. At

this point the Board of Directors might elect to terminate GSOC status so that the taxable income of the corporation did not flow through to the shareholders, but remained, under the normal rules of corporate taxation, with the corporation. While it is not expected that such an event is likely to occur, it was felt that an option should be provided to allow voluntary termination of elections.

24. This provision makes it clear that the income of the General Stock Ownership Corporation is to be taxed directly to the shareholders.

25. If an individual is a shareholder of a General Stock Ownership Corporation at any point during the GSOC's taxable year, that individual will be attributed a share of the corporation's income for that taxable year. The income must be included in the return of the shareholder for the shareholder's tax year during which the GSOC year ends. Thus, if an individual is a shareholder of a GSOC at any time during the corporation's fiscal year beginning on November 1, 1980, and ending on October 31, 1981, the shareholder would be required to include his share of GSOC income on his personal return for calendar year 1981.

If an individual is a shareholder of a General Stock Ownership Corporation throughout the entire taxable year of the corporation, his share of GSOC income is determined by dividing the total amount of GSOC income for the year by the number of shares of stock outstanding and then multiplying this per share earnings figure by the number of shares owned by the shareholder. If, however, the shareholder should dispose of his stock during the corporation's taxable year, he will be attributed income from the corporation on the basis of the number of days during the corporation's taxable year during which he was a shareholder. The per share income of the corporation for the entire year would be divided by 365 to determine the per share daily earnings of the corporation and this amount would be multiplied by the number of days during the year which the shareholder owned his stock. The product of this formula would give the earnings attributable to shareholder's part year ownership interest and this amount would be included in the shareholder's taxable year during which the GSOC year ends.

26. The term taxable income is a clearly defined term for the purposes of the Internal Revenue Code. The taxable income of the General Stock Ownership Corporation is to be determined under the normal rules for corporations, although the General Stock Ownership Corporation is not required to pay tax on this income. The General Stock Ownership Corporation is not allowed to deduct those items normally allowed to corporations under Part 8 of Subchapter B. These deductions include the dividend received deduction, the foreign corporation dividend received deduction, public utilities dividends deduction, and other minor tax deductions. The General Stock Ownership Corporation is allowed to deduct the organizational expenses allowed by Section 248 under

Part 8 of Subchapter B of the Internal Revenue Code. Section 248 provides an option to corporations to deduct organizational expenses over a period of not less than sixty months.

27. The Internal Revenue Code allows a tax credit equal to 10% of the purchase price of certain types of new and used property. This 10% credit is a dollar for dollar offset against taxes due rather than a deduction from gross income in arriving at taxable income. The property eligible for the investment tax credit is generally depreciable tangible personal property, excluding buildings and structural components, used by an individual or corporation engaged in a trade or business and having a useful life of at least three years. The investment tax credit may be taken on the taxpayer's return during the year in which the taxpayer places such an asset into use in his trade or business. In the event that the taxpayer disposes of an asset on which he has taken an investment tax credit prior to the required seven year holding period, he is subject to recapture by the Federal Government of all or a portion of the investment tax credit in the form of additional tax liability. The sections of the Internal Revenue Code applicable to investment tax credits and investment tax credit recapture include Sections 38, 46, 47, and 48.

The 10% investment tax credit is not allowed to a General Stock Ownership Corporation. This is unimportant, however, since the General Stock Ownership Corporation has no tax liability and therefore could not avail itself of the tax credit in any event. Section 1393(b) provides that the investment tax credit to which a General Stock Ownership Corporation would be entitled if it were taxable shall flow through to the shareholders in much the same manner as income. The investment tax credit and any recapture of investment tax credit generated by the sale of corporate assets will be netted at the corporate level. If there is a net investment tax credit, that amount will be prorated to the shareholders in the same manner as income. If there is a net investment tax credit recapture, this amount will be prorated as well, but will be characterized as additional tax liability to the shareholders. It is not expected that the corporation will operate in such a way as to generate any significant amount of net investment credit recapture.

28. Distributions of corporate income are normally taxed as ordinary income to the extent that they constitute dividends paid out of the earnings of the corporation. Distributions in excess of the accumulated earnings of the corporation are treated as a reduction in the shareholder's basis in his stock and to the extent they exceed the shareholder's basis are taxed at capital gains rates. Additional rules are necessary for distributions from General Stock Ownership Corporations since the distributions do not bear direct relationship to the amount of tax which the shareholders may pay. The rules of Section 1394 are designed to indicate whether a distribution of cash from a General Stock Ownership Corporation is a distribution of

income which has already been taxed to the shareholders, a distribution of capital reducing the shareholder's basis in his shares, or a capital gain.

29. The shareholder income account is simply a bookkeeping entry of the corporation designed to keep track of the relationship between taxable income of the GSOC attributed to the shareholders and cash distributions by the GSOC to its shareholders.

30. The shareholder income account is increased at the close of each GSOC taxable year by an amount equal to the GSOC's taxable income in order to indicate the total amount of taxable income which has been attributed to the shareholders and is taxable to them.

31. The shareholder income account is decreased to a minimum balance of zero at the beginning of each GSOC taxable year by the amount of distributions made to the shareholders from the GSOC during the prior year. Thus the account which has been increased by the amount of GSOC taxable income for the prior year is immediately decreased by the amount of distributions made from the GSOC during the same year. Any balance remaining in the GSOC income account after these entries have been made will show the amount of GSOC income in excess of cash distributions on which the GSOC shareholders have paid tax. A General Stock Ownership Corporation is required by Section 1396 to distribute at least 90% of its taxable income for any taxable year ending October 31st by January 31st of the following year. Any distribution made on or before January 31st is to be treated as if it were made as of the close of the preceding taxable year ending October 31st. This means that distributions made within three months of the close of the GSOC's taxable year will be treated as made during the preceding taxable year for purposes of the shareholder income account.

32. To the extent that distributions of the General Stock Ownership Corporation do not exceed the amount in the shareholder income account as of the close of the taxable year (the taxable income of the GSOC for the current year and any taxable income in excess of the distributions from prior years), the distribution will be treated as a distribution of income which has already been taxed to the shareholders and therefore will come to the shareholders tax free.

33. If the distribution should exceed the balance of the shareholder income account, the account would be netted out at zero and distributions in excess of the account would be dealt with under Section 301(a) of the Internal Revenue Code. Section 301 provides that distributions which are not a dividend within the meaning of Code Section 316 (which such GSOC distributions would not be) are treated first as a reduction of the shareholder's basis in his stock and, to the extent the distribution exceeds the shareholder's basis, the distribution is treated as a capital gain. Distributions which are treated as a capital gain will

either be treated as a short term or long term capital gain depending on the time period during which the shareholder has owned his stock.

34. Section 116 of the Internal Revenue Code provides a \$100.00 exclusion for individuals receiving dividends on corporate stock. This provision is a simplified way of eliminating the double taxation of dividends for the recipients of small dividend amounts. Since the double taxation of dividends has been completely eliminated for all shareholders in a General Stock Ownership Corporation, it was felt that this additional tax concession was unnecessary. Therefore, the income attributable to an individual taxpayer from a General Stock Ownership Corporation is not eligible for the \$100.00 dividend exclusion provided by Section 116.

35. Distributions from the General Stock Ownership Corporation of cash or other property may not directly parallel the tax liability of the respective owners of stock in a situation where a sale of stock occurred during the taxable year. It was felt appropriate to provide the Secretary of the Treasury with regulatory authority to determine the best means of adjusting the relative tax statuses of the seller and buyer and to establish rules for the allocation of distribution rights between the two parties.

36. Generally, in a conventional corporation, the basis of a shareholder in his corporate stock equals the price paid for that stock. Upon a sale of the stock, the shareholder determines his taxable gain by deducting his basis from the sale's proceeds. It is this amount which is referred to in the tax laws as a capital gain. The shareholder in a General Stock Ownership Corporation which distributes its stock free of charge to the shareholders will have a basis in his stock at the time of receipt equal to zero. In the event that distribution of the stock should result in a tax liability to the shareholder because the Internal Revenue Service has imputed income to him from the receipt of stock, the shareholder would receive a basis in the stock equal to the value at which the stock is assessed for purposes of Federal income taxation.

Section 1395 provides a special rule for determining the basis of stock in General Stock Ownership Corporations. Assuming that no income is imputed to the shareholder upon receipt of his shares, he will have a zero basis in the stock at the time of receipt. The basis in his stock will then be increased for the amount of GSOC income which is attributed to him for tax purposes. This means that as he pays tax on General Stock Ownership Corporation income the basis in his stock will increase. The basis will be decreased for distributions from the General Stock Ownership Corporation reflecting the shareholder's receipt of income on which he has paid tax. In the normal course of events, a General Stock Ownership Corporation shareholder will have a basis in his stock which reflects the difference between the income of the corporation on which he has been taxed

less the cash distributions which he has received from the corporation. If the corporation distributes all of its taxable income, the shareholder will continue to have a zero basis in his stock and the entire proceeds of any sale thereof will be treated for tax purposes as a capital gain.

37. In order to assure that the shareholders of the General Stock Ownership Corporation have cash on hand sufficient to cover the tax liability generated by the income attributed to them from the General Stock Ownership Corporation, the corporation is required to distribute to its shareholders at least 90% of its taxable income for the year ending October 31st on or before the following January 31st. This distribution would normally allow the shareholders to have cash on hand to pay their personal taxes for the year ending December 31st on the following April 15th when those taxes become due.

38. In order to insure that the General Stock Ownership Corporation makes the distributions required by Section 1396, a penalty is provided for failure to do so. This penalty is an additional tax (deductible by the General Stock Ownership Corporation) equal to 20% of the amount which the GSOC failed to distribute on a timely basis. Thus, if the General Stock Ownership Corporation had taxable income for the year of \$100.00 and distributed only \$80.00 by January 31st of the following year, it would fail to comply with the requirements of Section 1396. Section 1396 requires a 90% distribution of taxable income and would have required the corporation to distribute \$90.00 to its shareholders by January 31st of the following year rather than \$80.00. A 20% tax would be levied on the difference between the amount which should have been distributed (\$90.00) and the amount which was in fact distributed (\$80.00). Thus, the tax would be 20% of \$10.00 or \$2.00.

39. Section 1397 sets forth special rules applicable to a General Stock Ownership Corporation and a number of technical amendments to other sections of the Internal Revenue Code necessary to the operation of the GSOC provisions.

40. Earnings and profits is a technical term under the Internal Revenue Code and is composed essentially of the undistributed retained earnings of the corporation. Current earnings and profits are determined on an annual basis and if undistributed are added to earnings and profits generally. Distributions by a corporation are treated as dividends and taxed as ordinary income to the extent of a corporation's earnings and profits. Therefore, it is important in dealing with a General Stock Ownership Corporation, whose income is taxed to the shareholders, to assure that income which is so taxed is not included in earnings or profits. This general rule sets forth that position and assures that current earnings and profits for a General Stock Ownership Corporation do not include income of the corporation which is taxed to its shareholders.

41. When the Internal Revenue Service audits a taxpayer, it may find that an overpayment to the government has been made by the taxpayer or that the taxpayer owes additional taxes to the government. It may be several years before an audit of a taxpayer is completed and a final determination of his tax status for a particular year is determined. Normally an adjustment is made in the taxpayer's tax liability for the year being audited and that adjustment is paid by the taxpayer or the government in the year in which the audit is completed.

In the case of a General Stock Ownership Corporation, audit adjustments are treated in a modified manner. Since the shareholders of the General Stock Ownership Corporation are taxed directly on the income of the corporation, any error in the corporation's tax status for a particular year will be reflected on the individual returns of each shareholder. It would be very clumsy and complicated to adjust the tax status of each GSOC shareholder for such an error. If audit adjustments were handled in this manner, it might well happen that hundreds of thousands of shareholders would find themselves being audited by the Internal Revenue Service because of the tax treatment of a particular item by the General Stock Ownership Corporation. To avoid this result, audit adjustments for General Stock Ownership Corporations are to be made at the corporate level and reflected in the income of the corporation for the year in which a final determination of the tax audit is completed. This means that if the General Stock Ownership Corporation understated its income for a particular year due to the error in the tax treatment of a particular item, the adjustment for that error would be made in the year of the final determination and the corporation would have additional income in that year as a result of the adjustment. In addition, the corporation may be liable for interest payments and penalties which will be computed in the normal manner under Section 6601 of the Code. In the event that the General Stock Ownership Corporation overstated its income and therefore the shareholders had tax liability in excess of the correct amount, adjustments would be made in the form of a reduction to the current year General Stock Ownership Corporation income and a cash payment by the government equal to the interest due on overpayments under Internal Revenue Code Section 6611.

42. This provision amends the net operating loss deduction provisions of Section 172(b) to provide for a ten year carryover of net operating losses for General Stock Ownership Corporations. This means that if the General Stock Ownership Corporation for any year should incur a net operating loss (total deductible costs of operation in excess of the current year's income) the corporation can carry this loss over and use it as a deduction against future years' income for a period of ten years from the year in which the loss was incurred.

43. Section 3402 of the Internal Revenue Code provides for the withholding of taxes by employers directly from employees' paychecks. In order to assure that the shareholders of a General

Stock Ownership Corporation are not attributed income on which they are unable to pay the tax, the GSOC is required to withhold from each cash distribution to its shareholders an amount equal to 25% of the cash payment. This amount will be paid to the Federal Government and be credited to the shareholders as an advance payment of the tax due. This provision creates a new Section 3402(r) which sets forth the general rule on withholding and ties the GSOC withholding provisions into the general rules dealing with withholding on wages. Of particular note is the provision in Section 3402(n) which provides an exemption from the withholding provisions for individuals who have filed a withholding exemption certificate with the General Stock Ownership Corporation certifying that the shareholder incurred no tax liability for the preceding taxable year and anticipates that he will incur no tax liability for the current year.

44. This provision simply cross-references the basic provisions for the General Stock Ownership Corporation set forth in Section 1395 back into the general basis provisions in the capital gains sections of the Code at Section 1016(a).

45. This provision sets forth requirements for an information return to be filed by the General Stock Ownership Corporation with the Internal Revenue Service. This return is an information return only as the GSOC itself is exempt from Federal income taxes. The information on the return must include a statement of the General Stock Ownership Corporation's income for the year, investment credits, the names and addresses of the shareholders, the number of shares owned by each, the amount of GSOC distributions to each shareholder, the date of each distribution, and any other information which the Secretary of the Treasury may prescribe by regulation.

46. For purposes of the statute of limitations on income tax audits and crimes, the return of a General Stock Ownership Corporation is to be treated as a return filed under Code Section 6012, which sets forth who must file income tax returns. Other procedural provisions of the Internal Revenue Code are tied into Code Section 6012 so that the General Stock Ownership Corporation will be covered by the normal rules regarding filing requirements, audits and the rights of taxpayers.

47. In addition to filing an annual information return with the Internal Revenue Service, the General Stock Ownership Corporation is required to file its annual report with the Secretary of the Treasury. It is contemplated that this annual report would be significantly more detailed than a normal corporate annual report and would address such questions as the effect of the GSOC on distributions of income and wealth, the level of transfer payments made or required, the social and demographic profiles of GSOC shareholders, the level of economic understanding of GSOC shareholders, and possible beneficial revisions of General Stock Ownership Corporation legislation.

48. This provision simply amends the index and tables of the Internal Revenue Code to provide for the inclusion of Subchapter U.

49. The operative dates for Subchapter U are set forth in this provision which makes it clear that the Subchapter U changes apply to corporations formed within the December 31, 1978 - January 1, 1984 time frame. It is clear from the language in this provision that the tax benefits of Subchapter U will continue after January 1, 1984, for any corporation formed within this time frame and continuing to comply with the provisions of Subchapter U.

ARTICLES OF INCORPORATION
OF
ALASKA GENERAL STOCK OWNERSHIP CORPORATION

We, the undersigned natural persons, each being over the age of nineteen (19) years, having been appointed as incorporators by the Hon. Jay Hammond, Governor of the State of Alaska, under the provisions of the Alaska General Stock Ownership Corporation Act of said State, (the "Alaska GSOC Act"), and the Alaska Business Corporation Act, as amended by said Alaska GSOC Act, and as it may be amended from time to time, (the "Corporation Act"), do hereby adopt the following Articles of Incorporation:

ARTICLE I

NAME

Section 1.01. The name of this Corporation (the "Corporation") is: ALASKA GENERAL STOCK OWNERSHIP CORPORATION, but the Corporation may with equal propriety be identified as "AGSOC" or "Alaska GSOC".

ARTICLE II

DURATION

Section 2.01. The period of duration of the Corporation is perpetual.

ARTICLE III

PURPOSES

Section 3.01. The purposes for which the Corporation is organized are:

- (a) to qualify as a General Stock Ownership Corporation under Subchapter U of the Internal Revenue Code of 1954, as amended; and
- (b) to further and carry out the purposes and achieve the objectives of the Alaska GSOC Act; and
- (c) to do everything necessary, desirable, advisable, or convenient for the furtherance and accomplishment of such purposes; and
- (d) to engage in any lawful act or activity authorized by the Alaska GSOC Act and the Corporation Act except, however, that the Corporation may not invest in properties acquired by it or for its benefit through the right of eminent domain.

ARTICLE IV

SHARES

Section 4.01. The aggregate number of shares which the Corporation shall have authority to issue is five million (5,000,000). Such shares shall be common stock of a single class, shall be without par value, and shall be deemed fully paid and non-assessable upon issuance.

ARTICLE V

ISSUANCE AND TRANSFER OF SHARES

Section 5.01. The rights, preferences, limitations, and terms and conditions for the issuance and transferability of the common stock of the Corporation are as follows:

(a) shares of the Corporation may be issued only to eligible individuals as defined by the Alaska GSOC Act;

(b) shareholders of the Corporation must be natural persons;

(c) initial issuance of shares of the Corporation will be made on the basis of at least one (1) share to each eligible individual who qualified as such on the date of issuance;

(d) each such eligible individual will have a period of one (1) year from the date of issuance to elect not to receive the share(s) allocated to him;

(e) shares registered in the name of each eligible individual upon original issue will be held in escrow by the Corporation for a period of five (5) years from the date of issuance or until the shareholder shall reach the age of majority, as defined by Alaska law, or until the shareholder shall have complied with all reasonable rules and regulations of AGSOC pertaining to the release of such shares from escrow, whichever of said events shall be the last to occur, except in the event of death of the shareholder or upon the shareholder ceasing to be a resident of the State of Alaska. Shares acquired by each eligible individual upon original issue by AGSOC shall not be sold, pledged, assigned, mortgaged, subjected to encumbrance, voluntarily or involuntarily, or otherwise transferable by the shareholder prior to the expiration of the five (5) year period after initial issuance, nor until the shareholder shall reach the age of majority, as defined by Alaska law, or until the shareholder shall have complied with all reasonable rules and regulations of AGSOC pertaining to the release of such shares from escrow, whichever of said events shall be the last to

occur, except in the event of death of the shareholder or upon the shareholder ceasing to be a resident of the State of Alaska;

(f) during the first five (5) years following initial issuance, the Corporation shall have a right of first refusal to purchase any shares of the Corporation proposed to be transferred, other than by gift, by will, or by the laws of descent and distribution, at a price exercisable in the manner set forth in the By-Laws of the Corporation;

(g) no share of the Corporation may be transferred by a shareholder:

(1) to any individual who, as of the date of transfer, is not a resident of the State of Alaska;

(2) to any individual who, after the transfer, would own more than ten (10) shares of the Corporation;

(h) upon the death of a shareholder, after the first five (5) years following issuance or in the event the Corporation does not exercise its right of first refusal to purchase during said five (5) year period, ownership of his shares shall be transferred in accordance with his last will and testament or under the applicable laws of intestacy, except that:

(1) shares may be transferred only to a resident of the State of Alaska; and

(2) in the event a deceased shareholder fails to dispose of his share or shares by will and has no heirs who are natural persons under the applicable laws of intestacy who are residents of Alaska, such share or shares shall escheat to the Corporation;

(i) no shareholder shall have a preemptive right to acquire additional or treasury shares of the Corporation;

(j) except in the case of shares owned by minors and as may be otherwise provided in the By-Laws of the Corporation as to shares purchased and held in general account escrow by the Corporation, each share of common stock shall be entitled to one (1) vote on each matter submitted to a vote at a meeting of shareholders. No share of common stock shall be entitled to vote at any meeting of shareholders if such share, at the time of such meeting, is owned or held in violation of the provisions of the Alaska GSOC Act, or in violation of these Articles or the By-Laws as established by the Board of Directors, or of any rule or regulation promulgated by the Corporation thereunder;

(k) the presence in person or by proxy of the holders of one-third (1/3rd) (or such greater number as may be fixed by statute or by the By-Laws in any case) of the outstanding shares of stock of the Corporation entitled to vote shall be necessary to, and shall, constitute a quorum at any meeting of shareholders. When a quorum is present, the affirmative vote of a majority of shares represented at the meeting, in person or by proxy, and entitled to vote on the subject matter shall be the act of the shareholders. Provided, however, that these Articles can only be amended by the affirmative vote of two-thirds (2/3rds) of the shares present or represented by proxy at a meeting and entitled to vote thereat; and

(l) the shares of stock of the Corporation may not be cumulatively voted.

Section 5.02. The holders of the Corporation's shares shall be entitled to receive, when and as declared by the Board of Directors, dividends either in cash, in property, or in shares of stock of the Corporation.

Section 5.03. Each share of common stock shall vest in the holder all rights of a shareholder in a business corporation organized under the Alaska Business Corporation Act and the Alaska GSOC Act.

ARTICLE VI

MANAGEMENT

Section 6.01. The management of the Corporation shall be vested in a Board of Directors. Subject to the provisions of the Alaska GSOC Act respecting qualifications of directors, the number, terms and method of election of directors shall be as prescribed in the By-Laws of the Corporation.

ARTICLE VII

DIRECTORS

Section 7.01. The number of directors constituting the initial Board of Directors of the Corporation shall be nine (9). The directors shall be divided into three (3) classes, Class One, Class Two, and Class Three, each consisting of three (3) directors. Class One directors shall each have a term of one (1) year and until their successors are elected and qualified; Class Two directors shall have a term of two (2) years and until their successors are elected and qualified, and Class Three directors shall each have a term of three (3) years and until their successors are elected and qualified. The names and addresses of the persons who are to serve as the initial directors until their successors are elected and qualified are:

1.

2.

3.

4.

5.

6.

7.

8.

9.

ARTICLE VIII

OFFICE AND AGENT

Section 8.01. The address of the Corporation's initial registered office shall be:

Section 8.02. The name of the Corporation's initial registered agent is:

ARTICLE IX

AMENDMENTS

Section 9.01. Subject to the Alaska GSOC Act, these Articles may be amended, restated or repealed from time to time in accordance with the Corporation Act.

ARTICLE X

Section 10.01. The names and addresses of the incorporators are:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.

IN WITNESS WHEREOF, the incorporators have hereunto set their hands this _____ day of _____, 1979.

BY-LAWS
OF
ALASKA GENERAL STOCK OWNERSHIP CORPORATION

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BY-LAWS
OF
ALASKA GENERAL STOCK OWNERSHIP CORPORATION

ARTICLE I

OFFICES

Section 1.01. Registered Office. The registered office of the Corporation shall be in the City of _____, Alaska.

Section 1.02. Other Offices. The Corporation may also have offices at such other places, either within or without the State of Alaska, as the Board of Directors may from time to time authorize.

ARTICLE II

SHAREHOLDERS

Section 2.01. Meetings. Annual and special meetings of the shareholders entitled to vote shall be held at the Corporation's principal place of business in _____, Alaska, or at such other place within or without the State of Alaska as the Board of Directors may from time to time determine.

Section 2.02. Annual Meeting. The annual meeting of the shareholders for the election of directors shall be held at _____ local time at the place of meeting on the _____ after the first _____ in _____ of each year, or if that day shall be a holiday at the place of the meeting, then on the next succeeding business day. Failure to hold the annual meeting at the designated time shall not work any forfeiture or dissolution of the Corporation, but if the meeting shall not be called and held within three (3) months after the time therefor as above provided, five percent (5%) of the shareholders by written petition filed with the Secretary of the Corporation at least thirty (30) days before the date proposed for such meeting may call such meeting in _____, Alaska.

Section 2.03. Special Meetings. A special meeting of the shareholders may be requested at any time by the Chairman of the Board, the President, or the Board of Directors, or by holders of not less than one-fifth (1/5th) of all the shares of stock of the Corporation outstanding and entitled to vote at such meeting. Upon any such request, it shall be the duty of the Secretary promptly to call such special meeting to be held on such date as the Secretary may fix, giving notice thereof in accordance with Section 2.05 of these By-Laws. If the Secretary shall neglect or refuse to issue such call, the Chairman of the Board, the President, or the Board of Directors, or

the person or persons making the request, may so do.

Section 2.04. Adjournments. Any annual or special meeting of shareholders may be adjourned from time to time by a majority of the votes of the shareholders present in person or represented by proxy at the meeting and entitled to vote thereat.

Section 2.05. Notice or Waiver of Notice. Except as hereinafter otherwise provided, notice of each meeting of the shareholders, whether annual or special, shall be given to each shareholder of record entitled to vote at such meeting by delivering a written or printed notice thereof to him personally or by mailing or telegraphing such notice to him, charges prepaid, addressed to him at his address as it appears on the books of the Corporation, not less than ten (10) days (or such greater period as may be required by law in a particular case) and not more than fifty (50) days before the day on which the meeting is to be held. Every such notice shall state the place, day and hour of the meeting and, in the case of special meetings, state the business to be transacted at, and the purpose of, the meeting. Attendance by any shareholder, in person or by proxy, at any meeting of which he is entitled to notice shall constitute a waiver by him of notice of such meeting except where such attendance is for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. A written waiver of notice of any meeting signed by a person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to giving of such notice to such person or persons. When a meeting is adjourned it shall not be necessary except when required by law to give any notice of the adjourned meeting or of the business to be transacted thereat otherwise than by announcement at the meeting at which such adjournment is taken.

Section 2.06. Quorum. A shareholders' meeting shall not be organized for the transaction of business unless a quorum is present. The presence in person or by proxy of the holders of one-third (1/3rd) of the outstanding shares of stock of the Corporation entitled to vote shall be necessary to, and shall, constitute a quorum. Provided, however, that if a quorum is found to exist at any duly organized meeting, a quorum shall be deemed to continue to exist until final adjournment of such meeting, whether on the same day or a later day, notwithstanding the withdrawal of the holders of enough shares to leave less than the number necessary to constitute a quorum.

Section 2.07. Organization. At each meeting of the shareholders the Chairman of the Board or the President, or in the absence of the Chairman of the Board and the President, a chairman chosen by a majority of the votes of the shareholders present in person or represented by proxy at the meeting and entitled to vote thereat shall act as chairman of such meeting and preside thereat. The Secretary of the Corporation, or in his absence, an Assistant Secretary, shall act as secretary at all meetings of the shareholders. In the absence from any such meeting of

the Secretary and all the Assistant Secretaries, the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.08. Order of Business. The order of business to be followed at any meeting at which a quorum is present shall be as established by the chairman of the meeting, unless objection thereto shall be made by a shareholder, in which event the order of business shall be established by a majority of the votes of the shareholders present in person or represented by proxy at the meeting and entitled to vote thereat.

Section 2.09. Voting - Voting List - Proxies.

(a) Except as in the Articles of Incorporation or these By-Laws or by applicable law otherwise provided, every shareholder of record entitled to vote shall have the right at every shareholders' meeting to one (1) (non-cumulative) vote for each share entitled to be voted standing in his name on the books of the Corporation at the time determined in accordance with Section 6.07 of these By-Laws. At an election for directors every shareholder entitled to vote may vote the number of shares owned by him for as many persons as there are directors to be elected and for whose election he has a right to vote. At least five (5) days before each meeting of shareholders, the Secretary shall make a complete list of the shareholders entitled to vote at the meeting arranged in alphabetical order with the address of and the number of shares held by each. Such list shall be kept on file at the principal place of business of the Corporation or at the registered office of the Corporation, and shall be subject to inspection, for any proper purpose, at any time during usual business hours, by any shareholder entitled to vote. The original share ledger or transfer book, or a duplicate thereof, shall be prima facie evidence as to who are the shareholders entitled to examine such lists or to vote at any meeting of the shareholders.

(b) Any shareholder may vote either in person or by proxy. A proxy may authorize the casting of votes in any manner authorized by the Articles of Incorporation, as the holder of such proxy may determine in his discretion, or may require that such votes be cast in a particular manner. Every proxy shall be executed in writing by the shareholder or by his duly authorized attorney-in-fact and filed with the Secretary or, if the Secretary shall so direct, with the Inspectors of Election. No proxy shall be valid after eleven (11) months from the date of its execution, unless a longer period is expressly provided therein. Each proxy shall be revocable at the pleasure of the person executing it or his personal representatives or assigns.

(c) Upon the written demand of not less than five percent (5%) of the shareholders present at any meeting either in person or represented by proxy, the vote upon any matter shall be by ballot. On a vote by ballot, each ballot shall be signed by the shareholder voting or by the holder of his proxy, and shall

state the number of shares voted. At all meetings of the shareholders, all matters (except the election of directors and matters the manner of deciding which is especially regulated by statute, the Articles of Incorporation or these By-Laws) shall be decided by a majority of the votes of the shareholders of the Corporation present in person or represented by proxy and entitled to vote at such meeting. Shares owned by the Corporation or held in general account escrow for the benefit of the Corporation shall not be voted and shall not be counted in determining the existence of a quorum or in determining the total number of outstanding shares for voting purposes.

Section 2.10. Inspectors of Election. The Board of Directors, in advance of any meeting of shareholders, shall appoint three (3) Inspectors of Election to act at the meeting or any adjournment thereof. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the chairman of the meeting. Each Inspector of Election shall, promptly upon his appointment, subscribe an oath or affirmation faithfully to execute his duties with strict impartiality. The Inspectors of Election shall determine all questions touching the qualifications of votes and, with respect to each vote by ballot, shall collect and count the ballots and report in writing to the secretary of the meeting the result of the vote. The Inspectors of Election need not be shareholders of the Corporation. No person who is an officer or director of the Corporation, or who is a candidate for election as director, shall be eligible to be an Inspector of Election.

Section 2.11. Election of Directors.

(a) At each annual meeting, or special meeting of shareholders held in lieu thereof, the shareholders entitled to vote shall elect three (3) directors, in the manner provided in the Articles of Incorporation, to serve until the expiration of the term for which they are elected or until their successors are elected and qualified.

(b) No vote may be counted for the election of any person as a director unless such person shall have been proposed for nomination to be a candidate for election by a written notice signed by a shareholder and mailed by registered or certified mail to the Secretary not less than ten (10) nor more than fifty (50) days before the date of the meeting, provided that in the event of the death or incapacity of any person so proposed the proposer shall be entitled to make a substitute nomination at the meeting. The Secretary shall, upon the written request of any shareholder entitled to vote at any meeting, give to such shareholder a list of the names of those proposed for nomination and their proposers.

(c) No vote may be counted for the election of any person as a director unless each written solicitation, by him or by his proposer, of proxies to vote shares in favor of his election as

a director shall have included a statement of his interests in the General Stock Ownership Corporation in such reasonable detail as the Board of Directors may require. No vote may be counted for the election of any person as a director unless such a statement shall have been filed with the Secretary. Such statements shall be produced and kept open at the time and place of the meeting, and during the whole time of the meeting shall be subject to inspection by any shareholder entitled to vote.

Section 2.12. Appointment of Independent Public Accountants. At each annual meeting, the shareholders, after receiving a recommendation of the Board of Directors, shall appoint Independent Public Accountants for the purpose of auditing and certifying the annual financial statements of the Corporation for its current fiscal year, as sent to shareholders or otherwise published by the Corporation. In case the shareholders shall fail to appoint such Independent Public Accountants or if the Independent Public Accountants so appointed by the shareholders shall decline to act, or shall resign, or for some other reason shall be unable to perform their duties, the Board of Directors shall appoint other Independent Public Accountants to perform the duties herein provided.

ARTICLE III

BOARD OF DIRECTORS

Section 3.01. General Powers. The property, affairs and business of the Corporation shall be managed by the Board of Directors.

Section 3.02. Number, Term of Office and Qualifications. The Board of Directors shall consist of nine (9) members, at least five (5) of whom shall be residents of Alaska at the time of appointment or election and at all times while holding office as such director. The Board shall be divided into three (3) classes consisting of three (3) directors each and shall hold office as follows:

(a) The initial Board of Directors consisting of nine (9) members of three (3) classes, of three (3) each, whether appointed by the Governor pursuant to the Alaska GSOC Act or appointed to fill vacancies by the directors so appointed by the Governor, shall serve for the term for which they were appointed, and until their successors have been duly elected and qualified, with the term of office of the Class One directors to expire at the first annual meeting of shareholders held after the initial issuance of the common stock, or at any special meeting of shareholders held in lieu thereof, that of Class Two directors shall expire at the second annual meeting, or at any special meeting of shareholders held in lieu thereof, and that of Class Three directors shall expire at the third annual meeting, or at any special meeting of shareholders held in lieu thereof.

(b) At each annual meeting thereafter, the number of directors equal to the number of directors whose terms expire shall be elected to serve for a period of three (3) years and until their successors are elected and qualified.

Section 3.03. The Chairman of the Board. At the meeting of the Board of Directors specified in Section 5.02 of these By-Laws, the Board, by a vote of a majority of all of the members thereof, shall elect from among its members a Chairman of the Board of Directors, to serve in such capacity at the pleasure of the Board. He shall, if present, preside at all meetings of the Board. He shall perform such other duties as from time to time may be assigned to him by the Board. In his capacity as Chairman of the Board, he shall not be an officer of the Corporation, but he shall be eligible to serve, in addition, as an officer of the Corporation, including President, pursuant to Article V of these By-Laws. The President of the Corporation, in the absence of the Chairman of the Board, shall in all respects act in the stead of the Chairman of the Board during such absence.

Section 3.04. Organization of Directors' Meetings. At all meetings of the Board of Directors the Chairman of the Board, or, in his absence, the President, or in the absence of the Chairman of the Board and the President, a chairman chosen by a majority of the directors present shall act as chairman of such meeting and preside thereat. The Secretary, or in his absence, an Assistant Secretary, shall act as secretary at all meetings of the Board. In the absence from any such meeting of the Secretary and all the Assistant Secretaries, the chairman may appoint any person to act as secretary of the meeting.

Section 3.05. Resignations. Any director of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Such resignation shall take effect at the time received unless another time is specified therein. The acceptance of such resignation shall not be necessary to make it effective.

Section 3.06. Regular Meetings. Regular meetings of the Board of Directors shall be held within the State of Alaska or elsewhere at such regular intervals as may be fixed by resolution adopted by a majority of the whole Board and upon such notice, or without notice, as shall be specified in said resolution.

Section 3.07. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, the President or any three (3) of the directors. Notice of each such meeting shall be mailed to each director at his address appearing on the books of the Corporation or supplied by him to the Corporation for the purpose of notice, at least five (5) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, charges pre-

paid, or delivered to him personally not later than the third (3rd) day before the day on which the meeting is to be held. Every such notice shall specify the place, day and hour of the meeting and the general nature of the business to be transacted. A waiver of notice of any meeting in writing signed by the director entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance of a director at any meeting shall constitute a waiver by him of notice of such meeting except where a director attends for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Whenever a meeting of the Board of Directors shall be adjourned it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted thereat otherwise than by announcement at the meeting at which such adjournment is taken.

Section 3.08. Quorum, Manner of Acting and Adjournment. At each meeting of the Board of Directors the presence of five (5) directors shall be necessary to constitute a quorum for the transaction of business; provided that, if a quorum is found to exist at any time during the course of any such meeting, a quorum shall be deemed to continue to exist until final adjournment of such meeting. Except as otherwise specifically provided by statute, the Articles of Incorporation or these By-Laws, the acts of a majority of the directors present at a meeting at which a quorum has been found to exist for the purpose of transacting business shall be the acts of the Board of Directors. A majority of the directors present at any meeting may adjourn the meeting from time to time. Except as otherwise provided in the Articles of Incorporation, each director shall be entitled to one (1) vote. Voting rights of directors may not be exercised by proxy. Notwithstanding the foregoing, during an emergency period following a national catastrophe, a majority of the surviving members of the Board of Directors who have not been rendered incapable of acting or attending shall constitute a quorum.

Section 3.09. Special Meetings for Filling Vacancies in Board. Any vacancy among the directors, shall be filled at a meeting of the remaining directors. Such a meeting shall be held whenever called by the Chairman of the Board, the President, or three (3) of the directors. Notice of any such meeting shall be given to, or may be waived by, each director in accordance with the provisions of Section 3.07 of these By-Laws. A majority of the directors remaining in office shall be necessary to constitute a quorum at any such meeting, and the affirmative vote of a majority of the directors remaining in office shall be necessary to fill the vacancy. A majority of the directors present at any such meeting, whether or not they shall constitute a quorum, may adjourn the meeting from time to time, and it shall not be necessary to give any notice of the adjourned meeting otherwise than by announcement at the meeting at which such adjournment is taken.

Section 3.10. Compensation. Directors shall receive such reasonable compensation for their services as members of the Board or of any committee thereof, and such reimbursement for expenses incurred in connection with such services (including attendance at meetings), as the Board of Directors may by resolution from time to time prescribe; provided, however, that nothing herein contained shall preclude any director from serving the Corporation in any other capacity or from receiving compensation for any such services.

Section 3.11. Outside Interests of Directors. Pursuant to procedures to be established by the Board of Directors from time to time, each director, upon assuming office and at least annually thereafter, shall file with the Secretary a statement identifying any entity (individual proprietorship, partnership, association, corporation or other business entity) with which the Corporation to his knowledge does or contemplates doing a substantial volume of business, and of which he is a director, officer, trustee or employee, or in which he has a substantial financial interest. For purposes of this Section, the term "substantial financial interest" shall mean any financial interest with a fair value in excess of \$10,000, or any ownership interest in excess of five per centum (5%) without regard to value, including any such interest known to the director, officer or employee, as the case may be, of his spouse or minor child.

ARTICLE IV

COMMITTEES

Section 4.01. Executive Committee. The Board of Directors, by resolution adopted by a majority of the whole Board, may designate three (3) of the directors then in office to constitute an Executive Committee. To the extent specifically provided by resolution adopted by a majority of the whole Board, the Executive Committee shall have and may exercise the authority of the Board of Directors in the management of the property, affairs and business of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. The Board may designate one (1) member of the Committee to act as its chairman.

Section 4.02. Committee on Conflicts of Interest. The Board of Directors, by resolution adopted by a majority of the whole Board, may designate not less than three (3) nor more than five (5) of the directors then in office as a Committee on Conflicts of Interest. The Committee, if established, shall (i) consult with the directors and officers of the Corporation concerning the establishment and administration of policies and programs in respect of conflicts of interest (including the establishment of procedures pursuant to Section 3.11 of these By-Laws and the adoption of rules and regulations pursuant to Section 5.13 of these By-Laws), (ii) consider and make recommendations to the Board upon matters relating to such policies and

programs and the administration thereof, and (iii) exercise such authority as may from time to time be granted to it by resolution adopted by the Board upon matters pertaining to conflicts of interest. The Board may designate one (1) member of the Committee to act as its chairman. A director who is also an officer or employee of the Corporation shall not be eligible to serve as a member of the Committee.

Section 4.03. Committee on Compensation and Employee Benefit Arrangements. The Board of Directors, by resolution adopted by a majority of the whole Board, may designate not less than three (3) nor more than five (5) of the directors then in office to constitute a Committee on Compensation and Employee Benefit Arrangements. The Committee, if established, shall (i) consider and make recommendations to the Board with respect to the rates and manner of payment of the compensation to be paid to officers of the Corporation, (ii) after receiving the recommendations of the principal officers of the Corporation, consider and make recommendations to the Board as to the rates and manner of payment of the compensation to be paid to employees of the Corporation (other than officers) whose rate of compensation shall exceed such rate as shall be fixed from time to time by the Board, (iii) upon request, consult with the principal officers of the Corporation upon matters of policy relating to the compensation of employees of the Corporation, (iv) consider and make recommendations to the Board with respect to the adoption, modification or termination of any employee stock ownership plan, pension plan, profit-sharing plan, stock bonus plan, stock option plan or other incentive or benefit plan or arrangement applicable to any or all of the officers and employees of the Corporation, (v) exercise the authority which may be granted to the Committee by any such plan. The Board may designate one (1) member of the Committee to act as its chairman. A director who is also an officer of the Corporation shall not be eligible to serve as a member of the Committee.

Section 4.04. Audit Committee. The Board of Directors, by resolution adopted by a majority of the whole Board, may designate not less than three (3) nor more than five (5) of the directors then in office to constitute an Audit Committee. The Committee, if established, shall (i) consider and make recommendations to the Board with respect to the employment of a firm of Independent Public Accountants; which recommendation if accepted by the Board, shall be subject to the provisions of Section 2.12 of these By-Laws, (ii) confer with the Corporation's Independent Public Accountants to determine the scope of the audit that such accountants will perform, (iii) receive reports from the Independent Public Accountants and transmit such reports to the Board, and after the close of the fiscal year, transmit to the Board the financial statements certified by such accountants, (iv) inquire into, examine and make comments on the accounting procedures of the Corporation and the reports of the Independent Public Accountants, and (v) consider and make recommendations to the Board upon matters presented

to it by the officers of the Corporation pertaining to the audit practices and procedures adhered to by the Corporation. The Board may designate one (1) member of the Committee to act as its chairman.

Section 4.05. Committees in General. The Board of Directors may appoint such other committees, and chairmen thereof, as it may deem appropriate to perform such functions as it may designate, provided that no committee shall be appointed or disbanded unless notice of such proposed action shall have been given to, or waived by, each director in accordance with the provisions of Section 3.07 of these By-Laws.

Section 4.06. Committee Procedure. Each member of any committee shall continue to be a member of that committee only during the pleasure of the Board of Directors, provided that no existing member of a committee shall be removed from such membership and no new member shall be appointed unless notice of such proposed action shall have been given to, or waived by, each director in accordance with the provisions of Section 3.07 of these By-Laws. Except as otherwise provided by the Board of Directors, a majority of a committee shall constitute a quorum thereof, and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the committee, provided that any committee may, by unanimous approval of its members, take action without a meeting of the committee. Meetings of each committee shall be called by the secretary at the request of the chairman of the committee or any two (2) members of the committee. Each committee shall keep minutes of its meetings and shall render to the Board of Directors at its next ensuing regular meeting, a report of all action taken by the committee since the last meeting of the Board at which a report was made, or if no such previous report was made, since the appointment of the committee. Each committee shall also render such other reports, at such other times, as the Board may request.

ARTICLE V

OFFICERS

Section 5.01. Officers. The officers of the Corporation shall be a President, such Vice Presidents as may from time to time be elected by the Board of Directors, a Secretary, a Treasurer and a Comptroller. The Board of Directors may elect such other officers, including assistant officers, as it may deem necessary, each of whom shall have such authority and perform such duties as the Board of Directors may from time to time determine.

Section 5.02. Election, Term of Office and Qualifications. The officers of the Corporation shall be elected at least annually by vote of a majority of the whole Board of Directors. Such annual election shall be held at the first meeting of the Board of Directors following the annual election of directors.

Each officer shall hold his office until his successor shall have been duly elected and qualified in his stead or until he shall resign or shall have been removed in the manner herein-after provided. Except as may be provided otherwise by law, any two (2) or more offices may be held by the same person.

Section 5.03. Removal. Any officer elected by the Board of Directors may be removed by vote of a majority of the whole Board of Directors whenever in its judgment the best interest of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 5.04. Resignation. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Such resignation shall take effect at the time received unless another time is specified therein. The acceptance of such resignation shall not be necessary to make it effective.

Section 5.05. Vacancies. Any vacancy in any office because of death, resignation, removal, disqualification or any other cause may be filled by the Board of Directors at any regular or special meeting thereof.

Section 5.06. The President. The President shall have all the authority and perform all the duties normally incident to the office of President and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 5.07. The Vice Presidents. Each Vice President shall have such powers and perform such duties as from time to time may be assigned to him by the Board of Directors.

Section 5.08. The Secretary. The Secretary shall (a) see that all notices are duly given in accordance with law and these By-Laws; (b) be custodian of the seal of the Corporation and affix such seal to all certificates of stock of the Corporation prior to their issue and to all documents the execution of which, on behalf of the Corporation under its seal, is authorized by the Board of Directors or the Executive Committee, if any, or by any officer or agent of the Corporation to whom power to authorize the affixing of such seal shall have been delegated; (c) keep, or cause to be kept, in books provided for the purpose, minutes of the meetings of the shareholders, of the Board of Directors, and of each committee of the Board; (d) keep or arrange to be kept registers of the shareholders of stock in accordance with Section 6.01 of these By-Laws; (e) see that the books, reports, statements, certificates, voting lists and all other documents and records required by law are properly kept and filed; (f) sign such instruments as require the signature of the Secretary; and (g) in general perform all the duties incident to the Office of Secretary, and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 5.09. The Treasurer. The Treasurer shall (a) have charge and custody of, and be responsible for, all funds and securities of the Corporation and deposit all such funds in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of these By-Laws; (b) receive, and give receipts for, monies due and payable to the Corporation from any source whatsoever; (c) sign such documents as shall require the signature of the Treasurer; and (d) perform such other duties as from time to time may be assigned to him by the Board of Directors. The Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such sureties as the Board of Directors shall determine.

Section 5.10. Comptroller. The Comptroller shall keep, or cause to be kept at such office of the Corporation as the Board of Directors shall from time to time by resolution designate, and shall be responsible for the keeping of, correct records of the business and transactions of the Corporation and at all reasonable times shall exhibit such records to any of the directors of the Corporation upon application at the office of the Corporation where such records are kept. The Comptroller shall perform such other duties as from time to time may be assigned to him by the Board of Directors.

Section 5.11. Duties of Officers May Be Delegated. Subject to the approval of the Board of Directors, which approval may be of a general or specific nature, any officer of the Corporation may delegate to any employee of the Corporation, for the period set forth in such delegation, but not to exceed the term of office of the person making such delegation, any authority or duty of his office; provided, however, that any such delegation shall not be effective until such delegation and the approval relating thereto are evidenced in writing and filed in the Office of the Secretary of the Corporation.

Section 5.12. Compensation. The compensation of the officers shall be fixed from time to time by the Board of Directors. No officer of the Corporation shall, without prior full disclosure in writing to the Board of Directors and express approval thereof by the Board of Directors, receive any salary from any source other than the Corporation during his period of employment by the Corporation.

Section 5.13. Outside Interests of Officers and Employees. The Board of Directors from time to time may adopt rules and regulations governing the conduct of officers or key employees with respect to matters in which they have a financial interest adverse to the interests of the Corporation. Such rules and regulations may forbid officers or key employees from participating personally and substantially in corporate action with respect to any contract, transaction or other matter in which, to the knowledge of any such officer or employee, he or any member of his immediate family has a financial interest, unless (a) such officer or employee makes full disclosure of the cir-

cumstances to the Board or its delegate and the Board or its delegate determines that the interest is not adverse, or is not so substantial as to affect the integrity of the services of such officer or employee, or (b) on the basis of standards to be established in such rules or regulations, the financial interest is too remote or too inconsequential to affect the integrity of such services. Such rules and regulations may also prohibit, or establish appropriate limits upon, the ownership by such officer or employee, or member of his immediate family, of securities of any firm or corporation doing a substantial volume of business with the Corporation.

ARTICLE VI

SHARES AND THEIR ISSUANCE AND TRANSFER

Section 6.01. Certificates for Shares.

(a) Shares of stock of the Corporation shall be represented by certificates for shares in such form, including the form of electronically-stored data, as the Board of Directors may from time to time prescribe. No certificate representing any share shall be issued initially to anyone except a qualified individual as defined by the Alaska GSOC Act. Each certificate representing shares of common stock shall state that the transfer of the shares represented thereby is subject to the provisions of the Alaska GSOC Act, the Articles of Incorporation, and the By-Laws of this Corporation. Shares of common stock shall be held in trust (escrow) for the account of each eligible individual for a period of five (5) years from initial issuance pursuant to the Alaska GSOC Act and for such additional period or periods of time as the Articles of Incorporation, By-Laws, or escrow and stock transfer regulations adopted pursuant to the By-Laws of the Corporation may provide. Certificates for shares of stock of the Corporation shall be numbered and registered in the order in which they shall be issued.

(b) A record shall be kept of the name of the person in which each certificate for shares of stock of the Corporation shall be issued, the number of shares represented thereby, the date thereof, and, in case of cancellation, the date of the cancellation thereof. A record shall also be kept of the declarations made as provided in Section 6.02 of these By-Laws by each person, in whose name a certificate for shares of common stock is issued.

(c) No certificate for shares of stock of the Corporation shall be valid unless it shall have been signed by the President or a Vice President and by the Secretary or an Assistant Secretary and shall have been impressed with the corporate seal; provided, however, that to the extent permitted by law, the signatures of such officers or any of them and such corporate seal may be facsimile, and such certificates may be in the form of stored electronic data.

Section 6.02. Declarations Required. No issue or transfer of shares of common stock shall be registered on the books of the Corporation, and no certificate for shares shall be issued, except after execution and delivery to the Corporation, by or on behalf of the person in whose name such shares are to be registered and in whose name the certificate for such shares is to be issued, of an application containing declarations, in such form as may be prescribed by rules or regulations of the Board of Directors, with reference to the limitations on ownership of shares set forth in Section 5.01 of the Articles of Incorporation and to the qualifications of persons to whom shares may be issued set forth in the Alaska GSOC Law, the Articles of Incorporation, or in the By-Laws or in the stock transfer regulations adopted pursuant thereto.

Section 6.03. Transfer of Stock. Except as otherwise provided by law, transfer of shares of stock of the Corporation shall be made on the books of the Corporation only by the holder thereof, or by his attorney thereunto authorized by a power of attorney duly executed and filed with the Secretary, and on surrender of the certificate or certificates, if issued, for such shares properly endorsed and the payment of all taxes on the transfer thereof. The Corporation shall have the right to treat the person whose name is registered upon its books as the holder of any shares of its stock as the absolute owner of such shares, and, except as otherwise provided in the By-Laws or in regulations duly adopted pursuant thereto, such person shall have the exclusive right to vote and to receive dividends thereon.

Section 6.04. Right of First Refusal by Corporation. As provided in Section 5.01 of the Articles of Incorporation, before any initial shareholder can sell or transfer his initial share(s) of common stock, during the first five (5) years after issuance, such initial shareholder shall first offer said share(s) to the Corporation and the Corporation may exercise its right of first refusal in the following manner: (a) The initial shareholder shall deliver a notice in writing by mail or otherwise to the Secretary of the Corporation stating his intention to sell or transfer such share(s). (b) Within thirty (30) days thereafter, the President or his delegate shall, subject to any limitations imposed by the Articles of Incorporation or by law, have the prior right to purchase such share(s) on the following terms and conditions: (i) Purchase will be at book value as determined by the Corporation's Independent Public Accountants as of the end of the quarter immediately preceding offer to sell or transfer either for cash or in installments over a period not to exceed five (5) years. (ii) Should the Corporation fail to purchase such share(s) at the expiration of the thirty (30) day period, or prior thereto decline to purchase such share(s), the shareholder may dispose of his share(s) to any person qualified as a resident as of the date of transfer to hold shares of the Corporation.

Section 6.05. Lost, Destroyed and Mutilated Certificates. The holder of any shares of stock of the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of the certificate therefor, and the Board of Directors may, in its discretion, cause a new certificate or certificates to be issued to him, upon the surrender of the mutilated certificate, or in the case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction, and the deposit of a bond, in such form and amount and with such sureties as the Board of Directors may require.

Section 6.06. Regulations. The Board of Directors may make such rules and regulations as it may deem expedient concerning the issue, escrow, transfer and registration of certificates for shares of stock of the Corporation. It may appoint one or more transfer agents and one or more registrars of transfers, and may require all certificates of stock to bear the signature of either a transfer agent or a registrar or both. The Corporation may act as its own transfer agent, and, through the internally established trust and escrow department or division, as the escrow holder or trustee for its own shares. It may not, however, act both as transfer agent and as registrar for its own shares.

Section 6.07. Closing Transfer Books - Fixing Record Date, Etc. Insofar as permitted by law, the Board of Directors shall have power to close the stock transfer books of the Corporation for a period not exceeding fifty (50) days preceding the date of any meeting of the shareholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect. If the stock transfer books are so closed for the purpose of determining shareholders entitled to notice of or vote at a meeting of shareholders, such books shall be closed for at least ten (10) days immediately preceding the date of such meeting. If the stock transfer books are so closed for any purpose, written or printed notice of the closing shall be mailed at least ten (10) days before the closing to each shareholder of record of the Corporation at his address appearing on the records of the Corporation, or supplied by him to the Corporation for the purpose of notice. While the stock transfer books of the Corporation are closed, no transfer of shares shall be made thereon. In lieu of closing the stock transfer books as aforesaid, the Board of Directors may, in its discretion, fix a time, not more than fifty (50) days prior to the date of any meeting of shareholders or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect, and, in the case of a meeting of shareholders, not less than ten (10) days before the date of the meeting, as a record date for the determination of shareholders entitled to notice of, or to vote at any such meeting, or entitled to receive payment of any such dividend or distribu-

tion, or to receive any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of shares. If a record date shall be fixed as aforesaid, such persons as shall be shareholders of record on the date so fixed, and only such persons, shall be entitled to notice of, or to vote at, such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date so fixed as aforesaid. If the stock transfer books of the Corporation shall not be closed as herein provided and if a record date for the determination of shareholders entitled to receive notice of, or to vote at, any shareholders' meeting shall not be fixed as herein provided, the date on which notice of the meeting is given shall be in accordance with Section 2.05 of these By-Laws and shall be the record date for such determination.

Section 6.08. Corporate Records. The Corporation shall keep at its principal place of business (a) the original or a duplicate record of the proceedings of the shareholders and directors, (b) the original or a copy of its By-Laws, including all amendments or alterations thereto to date, certified by the Secretary, and (c) appropriate, correct and complete books and records of account. The Corporation shall keep at its principal place of business or at the registered office of the Corporation in _____, Alaska, the original or a duplicate share register of shares.

ARTICLE VII

SEAL

The Corporation shall have a corporate seal, which shall be in the form of a circle and shall bear the full name of the Corporation and the words and figures "Incorporated _____, Alaska", or words and figures of similar import.

ARTICLE VIII

INDEMNIFICATION

Section 8.01.

(a) The Corporation may indemnify each and every person against any and all expenses and liabilities incurred by him or imposed on him in connection with any claim, action, suit or proceeding (whether actual or threatened, brought by or in the right of the Corporation or otherwise, civil, criminal, administrative or investigative, including appeals) to which he may be or is made a party by reason of his being or having been a director, officer or employee of the Corporation, or at its request of any other corporation in which it owns shares of stock or of which it is a creditor; provided, however, that there shall be no indemnification (i) as to amounts paid in settlement or

other disposition of any threatened or pending action, or in satisfaction of a judgment rendered in an action, by or in the right of the Corporation or such other corporation, or (ii) as to matters in respect of which it shall be adjudged in such action, suit or proceeding that such person was liable for negligence or misconduct in the performance of his duty to the Corporation or such other corporation and, in the case of any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful.

(b) Any such person shall be entitled to indemnification as of right (i) if he has been wholly successful, on the merits or otherwise, with respect to any claim, action, suit or proceeding, or (ii) except as hereinabove provided, in respect of matters as to which the Board of Directors, acting by a quorum consisting of directors not parties to such claim, action, suit or proceeding, or a court or independent legal counsel shall have determined that he acted in good faith for a purpose which he reasonably believed to be in the best interests of the Corporation or such other corporation and, in addition, in the case of any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. The Board of Directors or such court or independent counsel shall have the power to determine that such person is entitled to indemnification as to some matters even though he is not so entitled as to others. The termination of any claim, action, suit or proceeding by judgment, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not in itself create a presumption that any such person did not act in good faith for a purpose which he reasonably believed to be in the best interests of the Corporation and, in the case of any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful.

(c) Amounts paid in indemnification of expenses and liabilities may include, but shall not be limited to, counsel fees and other fees, costs and disbursements, and judgments, fines or penalties against and amounts paid in settlement by such person. The Corporation may advance expenses to, or where appropriate may itself at its expense undertake the defense of, any such person; provided, however, that he shall have undertaken to repay or to reimburse such expenses if it should be ultimately determined that he is not entitled to indemnification under this Article.

(d) Payments of indemnification made pursuant to this Article shall be reported to the stockholders in the next proxy statement or otherwise, except that no such payments need be reported if such person has been wholly successful on the merits or otherwise.

(e) The provisions of this Article shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act occurring before or after the adoption hereof.

(f) The rights of indemnification provided for in this Article shall not be deemed to exclude any rights to which any such person may otherwise be entitled by any provision of law, Articles of Incorporation, By-Law, contract, vote of stockholders or otherwise; and all such rights shall enure to the benefit of the heirs, executors, administrators, or other legal representatives of such persons.

(g) If any part of this Article shall be found, in any action, suit or proceeding, to be invalid or ineffective, the validity and the effectiveness of the remaining parts shall not be affected.

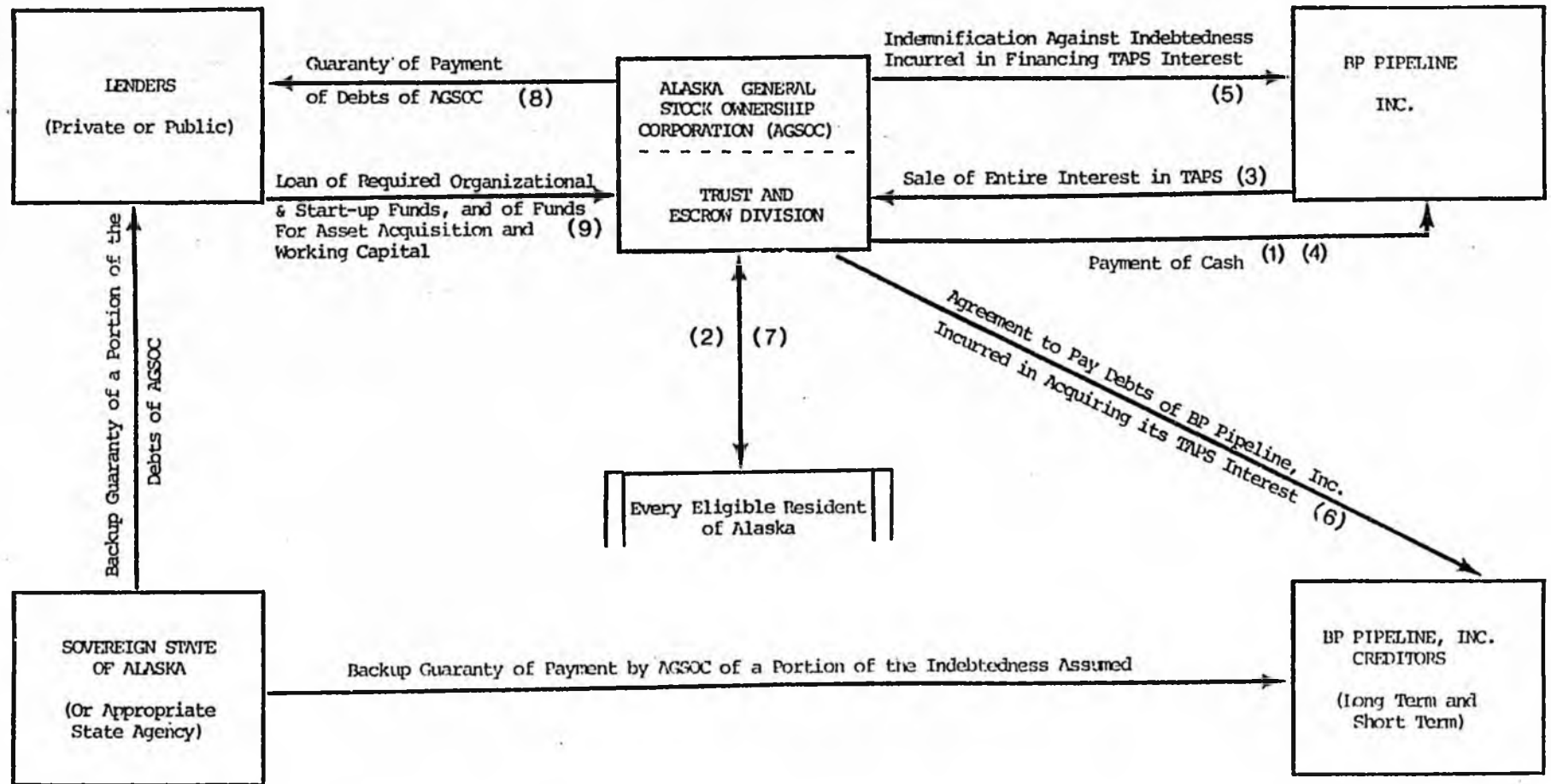
ARTICLE IX

AMENDMENTS

Any of these By-Laws may be altered, amended or repealed, and new By-Laws may be adopted, by the affirmative vote of a majority of the whole Board; provided that (a) such action may be taken only at a meeting of the Board called for such purpose; (b) the notice of such meeting shall state the substance of the By-Law to be made or repealed, or of the alteration or amendment; and (c) the notice of such meeting shall be mailed, telegraphed or delivered personally to each director, at least five (5) days before the date of which the meeting is to be held.

ILLUSTRATIVE DIAGRAM

ILLUSTRATIVE APPLICATION OF THE PURCHASE BY ALASKA GENERAL STOCK OWNERSHIP CORPORATION (AGSOC) OF A PARTICULAR ASSET, NAMELY THE INTEREST OF BP PIPELINE, INC. IN THE TRANS-ALASKA PIPELINE



(1) Payment by AGSOC of the cash initially required to close the transaction. This would provide AGSOC with the cash necessary to pay BP Pipeline, Inc. its cash requirement for the assets to be acquired by AGSOC and would enable AGSOC to retain necessary working capital.

(2) It is tentatively proposed that one share of the stock of AGSOC would be issued to the AGSOC TRUST AND ESCROW DIVISION for each eligible individual prior to its acquisition of any operating assets or anything of net asset value, so that the initial issuance in escrow would merely be the acquisition of a right of indefinite future value and thus not constitute an income taxable event to the shareholder. A U.S. Treasury ruling to this effect will doubtless be sought prior to the issue of stock. All shares issued by AGSOC would be held in escrows established for each individual resident as of the time of such purchase, as "resident" shall be defined by the State Legislature. As valuable assets are acquired by AGSOC, presumably the shares beneficially or directly owned by stockholders would acquire value. The term of the escrow would presumably be established by By-laws of AGSOC or by rules and regulations adopted pursuant thereto. The escrow of initially issued stock presumably would continue at least until expiration of the non-transferability period of five years established by Title VI of the Internal Revenue Code, and until the age of majority under Alaskan law (presently age 19) for under-age stockholders, and until compliance by the shareholders with reasonable rules and regulations of AGSOC covering release of the stock from escrow. While full details can only be developed by the Board of Directors of AGSOC, we presume that AGSOC could function to facilitate transfers of stock between individuals for stock ultimately released from escrow. It is, of course, a political question as to how qualified residents, for purposes of the plan, will be defined. The character of the Federal GSOC law is such that presumably AGSOC could operate much like a closed-end investment fund.

(3) This diagram is based upon the assumption that the entire interest of BP Pipeline, Inc. in TAPS will be purchased by AGSOC. There is also evidence that the seller would be willing to negotiate a sale of 12.5% interest in TAPS rather than 15.84%. Many considerations will enter into the Board of Director's decision whether to buy 12.5% or a greater amount. Among these considerations would be the relationship of the Alaskan oil interest to the resulting AGSOC carrier capacity, the economics of transporting for others, the resulting marketing problems for AGSOC, etc.

(4) The preliminary financial data suggest that the seller would sell its interest at a price that will make it whole, assuming that preferential rights of other TAPS owners are not exercised. Presumably this figure would be adjusted, depending upon negotiations and upon the closing date.

(5) AGSOC under this financial design, would agree to hold the seller harmless from liability for any of the presently outstanding debt of \$1.212 billion.

(6) AGSOC would assume the obligation to pay the debts outstanding of the seller incurred in connection with the seller's acquisition of its interest in TAPS.

(7) These hatch-marks are intended to represent, in the aggregate, each of the qualified residents of the State of Alaska whose eligibility would be defined by the Alaska General Stock Ownership enabling law. Each resident would have an individual escrow account in the escrow facility built in AGSOC by its enabling legislation and By-laws. It should not be an objection to the plan as a whole that the purchase of a single asset, although a substantial one, or even of several substantial assets for a defined body of qualified residents, does not solve all of the economic problems of everyone (in the State of Alaska) forever.

(8) AGSOC would directly guarantee the repayment to lenders of funds loaned to AGSOC initially and from time to time.

(9) The lenders would initially loan AGSOC the cash required for organization, staffing and start-up of operations, as well as funds for the acquisition of operating assets and initial working capital. This illustration assures the making of guaranties, within the limitations set forth in the Alaska GSOC law and in other applical law pledging the general credit of the State of Alaska, and thus a minimum interest rate should be available. While the guarantee by the State of Alaska of up to twenty-five percent (25%) of the funding, upon proper vote of the citizen shareholders, is contemplated by this proposal, the general credit of AGSOC would, of course, stand behind the entire debt.

THE LEGISLATURE OF THE STATE OF ALASKA
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. SSHB 240 / SSSB 170
 Title Creating the Alaska General Stock Ownership Corporation
 Requested by Legislative Finance Date 3/12/79

II. FISCAL DETAIL
 Agency Affected Department of Revenue
 Program Category Affected Development
 BRU, Program, or Subprogram(s) Affected new ERU
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
100 PERSONAL SERVICES		834.0 *				
200 TRAVEL		163.2 *				
300 CONTRACTUAL		1184.4 *				
400 COMMODITIES		180.0 *				
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
800 MISC. & INTEREST		276.0 *				
TOTAL		2,637.6				

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

* Breakout is for informational purposes only. Funds would be appropriated as a grant to AGSOC or as capital to a reserve fund to guarantee a loan to AGSOC. Attachment provides further cost breakout.

IV. DATE 3/12/79 PREPARED BY Milt Barker
 AGENCY Legislative Finance Division
 Original: Legislative Finance PHONE 465-3795 (from information provided by Kelso & Co., Inc. attached)
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

AGSOC ESTIMATED
(First 12 Months)

EXPENSE AND VARIANCE STATEMENT

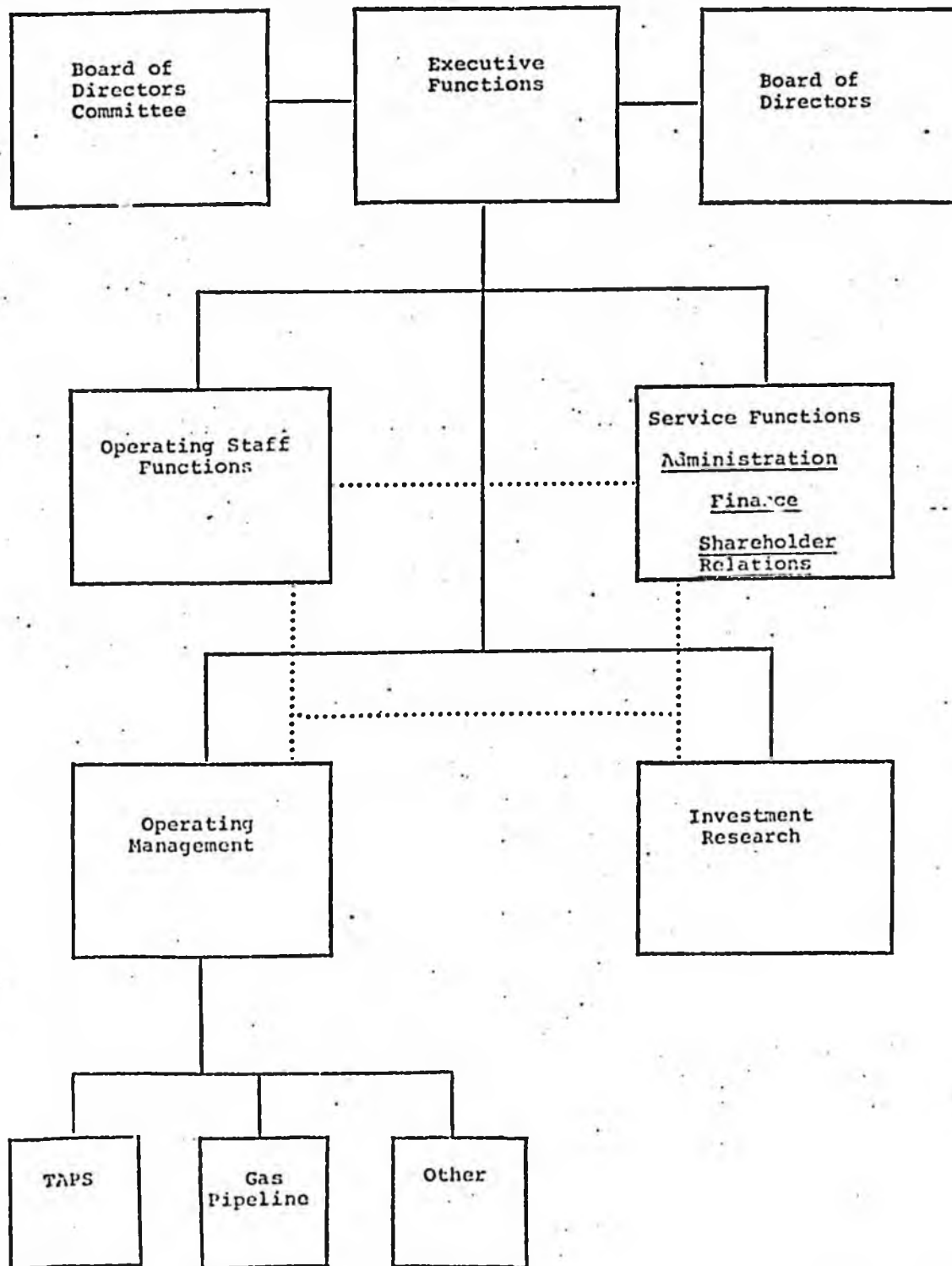
Department Total - All Departments Ex. Operating

THIS MONTH			LINE NO.	19	YEAR-TO-DATE	
ACTUAL	BUDGET	VARIANCE *			ACTUAL	VARIANCE *
	17,000		1	OFFICERS SALARIES		
	38,500		2	OTHER SALARIES		
	---		3	BONUSES PAID		
	14,000		4	EMPLOYEE BENEFITS		
	12,500		5	RECRUITMENT & TRAINING		
			6			
	82,000		7	TOTAL PAYROLL & PERSONNEL		
	2,500		8	TELEPHONE & TELETYPE		
	100		9	TELEGRAMS & CABLES		
	---		10	TICKERS & QUOTATION SERVICES		
	15,000		11	PRINTING & SUPPLIES		
	12,500		12	POSTAGE		
			13			
	30,100		14	TOTAL COMMUNICATIONS		
	7,500		15	RENT		
	---		16	DEPRECIATION & AMORTIZATION		
	1,000		17	EQUIPMENT RENTAL		
	200		18	MAINTENANCE & REPAIRS		
	65,000		19	E.D.P. SERVICE BUREAU EXPENSES		
	750		20	INSURANCE - NON PAYROLL		
			21			
	74,450		22	TOTAL OCCUPANCY & EQUIPMENT		
	1,000		23	ADVERTISING & PROMOTIONAL		
	250		24	PUBLICATIONS		
	1,000		25	TRAVEL		
	100		26	ENTERTAINMENT & MEETINGS		
	200		27	MEMBERSHIP DUES & ASSESSMENTS		
	200		28	ASSOCIATION DUES & ASSESSMENTS		
			29			
	2,750		30	TOTAL BUSINESS DEVELOPMENT		
	---		31	ERRORS & BAD DEBTS		
	3,000		32	OUTSIDE RESEARCH SERVICES		
	4,500		33	PROFESSIONAL SERVICES		
	---		34	TAXES PAID		
	20,000		35	INTEREST PAID - SUB. CAPITAL		
	---		36	INTEREST PAID - OTHER		
	---		37	BANK SERVICE CHARGES		
	3,000		38	MISCELLANEOUS OTHER		
			39			
	30,500		40	TOTAL OTHER EXPENSE		
	219,800+		41	TOTAL PERIOD EXPENSES		
			42			
			43			
			44			
			45			

* () Unfavorable Variance

AGSOC

Functional Block Diagram



Original sponsors: Colletta, Stimson,
and Fahrenkamp

Offered: 4/27/79
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 170

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to general stock ownership corpora-
7 tions and creating the Alaska General Stock Ownership
8 Corporation; changing Rule 23.1, Rules of Civil Procedure,
9 and providing for an effective date."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 * Section 1. AS 10 is amended by adding a new chapter to read:

12 CHAPTER 50. GENERAL STOCK OWNERSHIP CORPORATIONS.

13 ARTICLE 1. SUBSTANTIVE PROVISIONS.

14 Sec. 10.50.005. PURPOSES. A general stock ownership corporation
15 may be organized under this chapter for any lawful purpose unless limited
16 by the chartering legislation of a corporation.

17 Sec. 10.50.010. GENERAL STOCK OWNERSHIP CORPORATIONS. (a) A
18 corporation organized under this chapter is a general stock ownership
19 corporation and shall be formed in accordance with subchapter U, chapter
20 1 of the Internal Revenue Code of 1954, as amended (26 U.S.C. secs.
21 1391 - 1397), and with this chapter. A corporation is subject to the
22 provisions of this chapter and subchapter U, chapter 1 of the Internal
23 Revenue Code of 1954, as amended (26 U.S.C. sec. 1391 - 1397).

24 (b) A corporation is not an agency, instrumentality, or political
25 subdivision of the state for any purpose.

26 Sec. 10.50.015. GENERAL POWERS. A corporation may

27 (1) have perpetual succession in its corporate name unless a
28 limited period of duration is stated in its articles of incorporation;

29 (2) sue and be sued in its corporate name;

1 (3) adopt a corporate seal and alter it, and use it by having
2 it or a facsimile of it impressed, affixed or reproduced;

3 (4) buy, lease, or otherwise acquire, own, hold, improve, use
4 and otherwise deal in, real or personal property or any interest in
5 property, except that the corporation may not invest in property ac-
6 quired by it, or for its benefit, through the right of eminent domain;

7 (5) sell or otherwise dispose of all or any part of its
8 property and assets;

9 (6) lend money to its employees other than its officers and
10 directors, and otherwise assist its employees, officers and directors;

11 (7) buy or otherwise acquire, own, hold, vote, use, sell,
12 mortgage, lend, pledge, or otherwise dispose of, and otherwise use and
13 deal in shares or other interests in, or obligations of, other corpora-
14 tions, associations, partnerships or individuals, or in direct or in-
15 direct obligations of the United States or of any other government,
16 state, territory, or municipality or of any instrumentality of them;

17 (8) make contracts and incur liabilities, borrow money at the
18 rates of interest the corporation determines, issue notes, bonds, and
19 other obligations, and secure its obligations by mortgage or pledge of
20 all or any of its property, franchise and income;

21 (9) lend money for its corporate purposes, invest and rein-
22 vest its funds, and take and hold real and personal property as security
23 for the payment of funds loaned or invested;

24 (10) conduct business, carry on operations, and have offices
25 and exercise the powers granted by this chapter in a state, territory,
26 district, or possession of the United States, or in a foreign country;

27 (11) elect or appoint officers and agents of the corporation,
28 define their duties, and fix their compensation;

29 (12) make and alter bylaws not inconsistent with its articles

1 of incorporation or with the laws of the state, for the administration
2 and regulation of the affairs of the corporation;

3 (13) donate for the public welfare or for charitable, scienti-
4 fic or educational purposes, and in time of war donate in aid of war
5 activities;

6 (14) transact lawful business in time of war in aid of the
7 United State in the prosecution of the war;

8 (15) pay pensions and establish pension plans, pension trusts,
9 profit-sharing plans, and other incentive plans for its directors,
10 officers and employees;

11 (16) cease its corporate activities and surrender its corporate
12 franchise;

13 (17) have and exercise the powers of a limited or general
14 partner or a joint adventurer in association with one or more persons,
15 corporations, partnerships or associations;

16 (18) have and exercise lawful powers necessary to carry out
17 the purposes for which the corporation is organized.

18 Sec. 10.50.020. INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES
19 AND AGENTS; INSURANCE. (a) A corporation may indemnify a person who
20 was or is a party or is threatened to be made a party to a threatened,
21 pending, or completed action or proceeding, whether civil, criminal,
22 administrative, or investigative, other than an action by or in the
23 right of the corporation, by reason of the fact that he is or was a
24 director, officer, employee or agent of the corporation, or is or was
25 serving at the request of the corporation as a director, officer,
26 employee or agent of another corporation, partnership, joint venture,
27 trust or other enterprise. Indemnification may be against expenses
28 including attorney fees, judgments, fines, and amounts paid in settle-
29 ment actually and reasonably incurred by him in connection with the

1 action or proceeding if he acted in good faith and in a manner he
2 reasonably believed to be in or not opposed to the best interests of the
3 corporation, and, with respect to a criminal action or proceeding, had
4 no reasonable cause to believe his conduct was unlawful. The termina-
5 tion of an action or proceeding by judgment, order, settlement, convic-
6 tion, or upon a plea of nolo contendere or its equivalent, does not, of
7 itself, create a presumption that the person did not act in good faith
8 and in a manner which he reasonably believed to be in or not opposed to
9 the best interests of the corporation, and, with respect to a criminal
10 action or proceeding, had reasonable cause to believe that his conduct
11 was unlawful.

12 (b) A corporation may indemnify a person who was or is a party or
13 is threatened to be made a party to a threatened, pending or completed
14 action by or in the right of the corporation to procure a judgment in
15 its favor by reason of the fact that he is or was a director, officer,
16 employee, or agent of the corporation, or is or was serving at the re-
17 quest of the corporation as a director, officer, employee, or agent of
18 another corporation, partnership, joint venture, trust or other enter-
19 prise. Indemnification may be against expenses, including attorney
20 fees, actually and reasonably incurred by him in connection with the
21 defense or settlement of the action if he acted in good faith and in a
22 manner he reasonably believed to be in or not opposed to the best inter-
23 ests of the corporation. However, indemnification may not be made for
24 any claim, issue or matter as to which the person has been adjudged to
25 be liable for negligence or misconduct in the performance of his duty to
26 the corporation except to the extent that the court in which the action
27 was brought determines upon application that, despite the adjudication
28 of liability, in view of all the circumstances of the case the person is
29 fairly and reasonably entitled to indemnity for the expenses which the

1 court considers proper.

2 (c) To the extent that a director, officer, employee or agent of a
3 corporation has been successful on the merits or otherwise in defense of
4 an action or proceeding referred to in (a) or (b) of this section, or in
5 defense of any claim, issue or matter in the action or proceeding, he
6 shall be indemnified against expenses, including attorney fees, actually
7 and reasonably incurred by him in connection with it.

8 (d) Indemnification under (a) or (b) of this section, unless
9 ordered by a court, shall be made by the corporation only as authorized
10 in the specific case upon a determination that indemnification of the
11 director, officer, employee or agent is proper in the circumstances
12 because he has met the applicable standard of conduct set out in (a) and
13 (b) of this section. This determination shall be made

14 (1) by the board of directors by a majority vote of a quorum
15 consisting of directors who were not parties to the action or proceed-
16 ing, or

17 (2) if such a quorum is not obtainable, or, even if obtain-
18 able if a quorum of disinterested directors so directs, by independent
19 legal counsel in a written opinion, or

20 (3) by the stockholders.

21 (e) Expenses incurred in defending a civil or criminal action or
22 proceeding may be paid by the corporation in advance of the final dis-
23 position of the action or proceeding as authorized by the board of
24 directors in the specific case upon receipt of an undertaking by or on
25 behalf of the director, officer, employee or agent to repay the amount
26 unless it is ultimately determined that he is entitled to be indemni-
27 fied by the corporation as authorized in this section.

28 (f) The indemnification provided by this section is not exclusive
29 of any other rights to which a person seeking indemnification may be

1 entitled under any bylaw, agreement, vote of stockholders or disinter-
2 ested directors or otherwise, both as to action in his official capacity
3 and as to action in another capacity while holding the office, and
4 continues as to a person who has ceased to be a director, officer,
5 employee or agent, and inures to the benefit of the heirs, executors and
6 administrators of that person.

7 (g) A corporation may purchase and maintain insurance on behalf of
8 a person who is or was a director, officer, employee or agent of the
9 corporation, or is or was serving at the request of the corporation as a
10 director, officer, employee or agent of another corporation, partner-
11 ship, joint venture, trust or other enterprise against any liability
12 asserted against him and incurred by him in such a capacity, or arising
13 out of his status as such, whether or not the corporation would have the
14 power to indemnify him against the liability under the provisions of
15 this section.

16 Sec. 10.50.030. DEFENSE OF ULTRA VIRES. No act of a corporation
17 and no conveyance or transfer of real or personal property to or by a
18 corporation is invalid because the corporation did not have capacity or
19 power to perform the act or to convey or receive the property. However,
20 lack of capacity or power may be asserted as follows.

21 (1) The assertion may be made in a proceeding by a share-
22 holder against the corporation to enjoin the performance of any act or
23 the transfer of real or personal property by or to the corporation. If
24 the unauthorized act or transfer sought to be enjoined is being or to be
25 performed or made under a contract to which the corporation is a party,
26 the court may, if the parties to the contract are parties to the pro-
27 ceeding and if the court considers it equitable, set aside and enjoin
28 the performance of the contract, and in so doing may allow compensation
29 to the corporation or to the other parties to the contract for the loss

1 or damage sustained by either of them resulting from the action of the
2 court in setting aside and enjoining the performance of the contract.
3 The court may not award anticipated profits to be derived from the
4 performance of the contract as a loss or damage sustained.

5 (2) The assertion may be made in a proceeding by the corpora-
6 tion, whether acting directly or through a receiver, trustee, or other
7 legal representative, or through shareholders in a representative suit,
8 against the incumbent or former officers or directors of the corpora-
9 tion.

10 (3) The assertion may be made in a proceeding by the attorney
11 general to dissolve the corporation, or to enjoin the corporation from
12 the transaction of unauthorized business.

13 Sec. 10.50.035. CORPORATE NAME. The corporate name shall contain
14 the words "general stock ownership corporation" or an abbreviation of
15 these words. It may not contain a word or phrase which indicates or
16 implies that it is organized for a purpose other than the purpose con-
17 tained in the articles of incorporation. It may not be the same as, or
18 deceptively similar to, the name of a domestic corporation existing
19 under the laws of the state or a foreign corporation authorized to
20 transact business in the state, or a name which has been reserved or
21 registered as provided in this chapter.

22 Sec. 10.50.040. RESERVATION OF CORPORATE NAME. (a) The exclusive
23 right to the use of a corporate name may be reserved by

24 (1) a person intending to organize a corporation under this
25 chapter;

26 (2) a corporation intending to change its name.

27 (b) Reservation of a corporate name is made by filing an applica-
28 tion with the commissioner. If the commissioner finds that the name is
29 available for corporate use, and not a reserved or registered business

1 name as set out in AS 10.35.010 - 10.35.090, he shall reserve it for the
2 exclusive use of the applicant for a period of two years. A reservation
3 of corporate name may be renewed for one year.

4 (c) The holder of a reserved corporate name may transfer the right
5 to the exclusive use of the corporate name to another person by filing a
6 notice of transfer with the commissioner, signed by the holder and
7 specifying the name and address of the transferee.

8 Sec. 10.50.045. FOREIGN GENERAL STOCK OWNERSHIP CORPORATIONS.
9 Corporations organized under the laws of another state shall be governed
10 according to AS 10.05.

11 Sec. 10.50.050. REGISTERED OFFICE AND REGISTERED AGENT. A corpor-
12 ation shall continuously maintain in the state a registered office which
13 may be, but need not be, the same as its place of business, and a regis-
14 tered agent. The registered agent may be either an individual resident
15 of the state whose business office is the same as the registered office,
16 or a corporation organized under AS 10.05 whose business office is the
17 same as the registered office.

18 Sec. 10.50.055. FILING LIST OF REGISTERED CORPORATIONS WITH SUPER-
19 IOR COURT. The commissioner shall file a list of the name of each
20 corporation, the address of the registered office, and the name and
21 address of the registered agent with each clerk of the superior court.
22 The commissioner shall provide a periodic supplement to the list indi-
23 cating additions, deletions and changes at least once every six months.
24 The commissioner shall make the list available to the public for a fee
25 prescribed by him.

26 Sec. 10.50.060. CHANGE OF REGISTERED OFFICE OR AGENT. (a) A
27 corporation may change its registered office, agent, or both, by filing
28 with the department a verified statement signed by the president or
29 vice-president setting out

- 1 (1) the name of the corporation;
- 2 (2) the address of its registered office;
- 3 (3) the address of its new registered office if the regis-
- 4 tered office is to be changed;
- 5 (4) the name of its registered agent;
- 6 (5) the name of its new registered agent, if its registered
- 7 agent is to be changed;
- 8 (6) that the change is authorized by resolution of its board
- 9 of directors.

10 (b) If the commissioner finds that the verified statement complies
11 with this chapter, he shall file it in his office. The change becomes
12 effective when the statement is filed.

13 Sec. 10.50.065. REGISTRATION OF REGISTERED AGENT. (a) If the
14 registered agent of a corporation changes the location of his office
15 from one address to another within a city or town, or from one city or
16 town in the state to another, he may change the registered office for
17 each corporation for whom he is acting as registered agent by filing in
18 the office of the commissioner a statement setting out

- 19 (1) the name of the agent;
- 20 (2) the address of his office before change;
- 21 (3) the address to which the office is changed; and
- 22 (4) a list of corporations for whom he is furnishing a regis-
- 23 tered office.

24 (b) The statement in (a) of this section must be executed by the
25 registered agent in his individual name and, if the agent is a corpora-
26 tion it must be executed by its president or a vice-president and veri-
27 fied by him. The statement must be delivered to the commissioner and if
28 he finds that the statement complies with this chapter, he shall file it
29 in his office. The change becomes effective when the statement is

1 filed.

2 (c) A registered agent may resign by filing a written notice,
3 executed in duplicate, with the commissioner. The written notice of
4 resignation shall set out the latest address of the principal office of
5 the corporation and the names, addresses and titles of the most recent
6 officers of the corporation known by the agent. The commissioner shall
7 immediately mail a copy of the notice to the corporation at its princi-
8 pal office. The appointment of the agent terminates 30 days after
9 receipt of the notice by the commissioner.

10 Sec. 10.50.070. SERVICE OF PROCESS ON CORPORATION. (a) The
11 registered agent of a corporation is an agent upon whom process, notice
12 or demand required or permitted by law to be served upon the corporation
13 may be served.

14 (b) When a corporation fails to appoint or maintain a registered
15 agent in the state, or when its registered agent cannot, with reasonable
16 diligence, be found at the registered office, the commissioner is an
17 agent of the corporation upon whom the process, notice, or demand may be
18 served. Service is made upon the commissioner as agent by leaving with
19 him, or with a clerk having charge of the corporation department of his
20 office, duplicate copies of the process, notice or demand. When pro-
21 cess, notice or demand is served on the commissioner, he shall immedi-
22 ately forward a copy of it by registered mail to the corporation at its
23 registered office. Service on the commissioner is returnable in not
24 less than 30 days.

25 (c) The commissioner shall keep a record of processes, notices and
26 demands served upon him showing the time of service and his action with
27 reference to the service. This chapter does not limit or affect the
28 right to serve process, notice or demand required or permitted by law to
29 be served upon a corporation in any other manner permitted by law.

1 Sec. 10.50.075. CREATION AND ISSUANCE OF SHARES. A corporation
2 may create and issue the number of shares stated in its articles of
3 incorporation and as provided in AS 10.50.320(a)(5) - (7). The shares
4 shall be without par value.

5 Sec. 10.50.080. CONSIDERATION FOR SHARES. (a) Shares may be
6 issued without consideration or for consideration fixed by the share-
7 holders before the issuance. Consideration for shares shall be fixed by
8 a vote of a majority of the shares voting on the issue.

9 (c) Treasury shares may be disposed of by the corporation for
10 consideration not more than the book value of the shares.

11 Sec. 10.50.085. PAYMENT FOR SHARES. (a) Consideration for the
12 issuance of shares if required may be paid, in whole or in part, in
13 money, in other property, tangible or intangible, or in labor or ser-
14 vices actually performed for the corporation. When payment of the
15 consideration for shares is received by the corporation, the shares are
16 considered fully paid and nonassessable.

17 (b) A promissory note or future service does not constitute pay-
18 ment or part payment for shares of a corporation.

19 Sec. 10.50.090. JUDGMENT OF BOARD OR SHAREHOLDER AS TO VALUE OF
20 CONSIDERATION CONCLUSIVE. In the absence of fraud in the transaction,
21 the judgment of the board of directors or the shareholders as to the
22 value of the consideration received for shares is conclusive.

23 Sec. 10.50.095. EXPENSES OF ORGANIZATION, REORGANIZATION AND
24 FINANCING. The reasonable charges and expenses of organization or
25 reorganization of a corporation, and the reasonable expenses of and
26 compensation for the sale or underwriting of its shares, may be paid or
27 allowed by the corporation out of the consideration received by it in
28 payment for its shares without rendering the shares not fully paid and
29 nonassessable.

1 Sec. 10.50.100. CERTIFICATES REPRESENTING SHARES. The shares of a
2 corporation shall be represented by certificates signed by the president
3 or vice-president and the secretary or an assistant secretary of the
4 corporation. and may be sealed with the seal of the corporation or a
5 facsimile of the seal. The signatures of the president or vice-presi-
6 dent and the secretary or assistant secretary on a certificate may be
7 facsimiles if the certificate is countersigned by a transfer agent, or
8 registered by a registrar, other than the corporation itself or an
9 employee of the corporation. If an officer who has signed or whose
10 facsimile signature has been placed on a certificate ceases to be an
11 officer before the certificate is issued, it may be issued by the cor-
12 poration with the same effect as if he were an officer at the date of
13 its issue.

14 Sec. 10.50.105. INFORMATION REQUIRED TO BE STATED ON CERTIFICATE.
15 Each certificate representing shares shall state on the face

16 (1) that the corporation is organized under the laws of the
17 state;

18 (2) the name of the person to whom issued;

19 (3) the number of shares which the certificate represents;

20 (4) a statement that the shares are without par value.

21 Sec. 10.50.110. FULL PAYMENT REQUIRED FOR CERTIFICATE. A certi-
22 ficate may not be issued for a share until the share is fully paid if
23 consideration is required.

24 Sec. 10.50.115. ISSUANCE OF FRACTIONAL SHARES. (a) A corporation
25 may issue a certificate for a fractional share.

26 (b) A certificate for a fractional share entitles the holder to
27 exercise voting rights, to receive dividends, and to participate in the
28 assets of the corporation in the event of liquidation.

29 Sec. 10.50.120. LIABILITY OF SUBSCRIBERS AND SHAREHOLDERS. (a) A

1 holder of or subscriber to shares of a corporation is under no obliga-
2 tion to the corporation or its creditors with respect to the shares
3 other than the obligation to pay to the corporation the full considera-
4 tion for which the shares were issued or to be issued.

5 (b) An assignee or transferee of shares or of a subscription for
6 shares in good faith and without knowledge or notice that the full
7 consideration has not been paid is not personally liable to the corpora-
8 tion or its creditors for any unpaid portion of the consideration.

9 (c) An executor, administrator, conservator, guardian, trustee,
10 assignee for the benefit of creditors, or receiver is not personally
11 liable to the corporation as a holder of or subscriber to shares of a
12 corporation but the estate and funds held by him are liable.

13 (d) A pledgee or other holder of shares as collateral security is
14 not personally liable as a shareholder.

15 Sec. 10.50.125. BYLAWS. The board of directors shall adopt the
16 initial bylaws of a corporation in accordance with AS 10.50.335. The
17 power to alter, amend or repeal the bylaws or to adopt new bylaws is
18 vested in the board of directors and the shareholders. The bylaws may
19 contain provisions for the regulation and management of the affairs of
20 the corporation consistent with law and the articles of incorporation.

21 Sec. 10.50.130. MEETINGS OF SHAREHOLDERS. (a) Meetings of share-
22 holders shall be held in the state, as may be provided in the bylaws.
23 The board of directors shall designate the place of the meeting.

24 (b) An annual meeting of the shareholders shall be held at the
25 time provided in the bylaws. Failure to hold the annual meeting at the
26 designated time does not work a forfeiture or dissolution of the corpora-
27 tion.

28 (c) Special meetings of the shareholders may be called by the
29 president, by the board of directors, by the holders of not less than

1 1,000 shares, or by the other officers or persons provided in the
2 articles of incorporation or the bylaws.

3 (d) The shareholders of a corporation may participate in a meeting
4 of the shareholders by communicating simultaneously with the other
5 shareholders from places designated in the notice of meeting by means of
6 conference telephones or other communications equipment, so long as all
7 shareholders participating in the meeting can hear one another.

8 Sec. 10.50.135. NOTICE OF SHAREHOLDERS' MEETINGS. (a) Beginning
9 not less than 150 days before a meeting of shareholders, the corporation
10 shall notify the shareholders of the time and manner in which (1) nomi-
11 nations for the board of directors of the corporation may be made and
12 (2) issues may be placed on the corporation ballot for consideration by
13 the shareholders. Notice shall be by publication in newspapers in all
14 regions of the state and shall appear at least weekly for not less than
15 four weeks.

16 (b) Written or printed notice stating the place, day and hour of
17 the meeting and, in case of a special meeting, the purpose for which the
18 meeting is called, shall be delivered not less than 60 nor more than 90
19 days before the date of the meeting, either personally or by mail, by or
20 at the direction of the president, the secretary, or the officer or
21 persons calling the meeting, to each shareholder of record entitled to
22 vote at the meeting. If mailed, the notice is considered delivered when
23 deposited in the United States mail addressed to the shareholder at his
24 address as it appears on the stock transfer books of the corporation,
25 with postage prepaid.

26 Sec. 10.50.140. CLOSING OF TRANSFER BOOKS AND FIXING RECORD DATE.

27 (a) To determine the shareholders entitled to notice of or to vote at a
28 meeting of shareholders or an adjournment of a meeting, or entitled to
29 receive payment of a dividend, or in order to make a determination of

1 shareholders for any other proper purpose, the board of directors of a
2 corporation may provide that the stock transfer books shall be closed
3 for a stated period not exceeding 90 days. If the stock transfer books
4 are closed to determine shareholders entitled to notice of or to vote at
5 a meeting of shareholders, they shall be closed for at least 60 days
6 immediately preceding the meeting.

7 (b) Instead of closing the stock transfer books, the bylaws, or in
8 the absence of an applicable bylaw the board of directors, may fix in
9 advance a date as the record date for the determination of shareholders.
10 This record date shall be not more than 90 days and, in case of a meeting
11 of shareholders, not less than 60 days before the date on which the
12 particular action requiring the determination of shareholders is to be
13 taken. If the stock transfer books are not closed and no record date is
14 fixed for the determination of shareholders entitled to notice of or to
15 vote at a meeting of shareholders, or shareholders entitled to receive
16 payment of a dividend, the date on which notice of the meeting is mailed
17 or the date on which the resolution of the board of directors declaring
18 the dividend is adopted is, as the case may be, the record date for the
19 determination of shareholders. When a determination of shareholders
20 entitled to vote at a meeting of shareholders is made, the determination
21 applies to an adjournment of the meeting except when the determination
22 has been made through the closing of the stock transfer books and the
23 stated period of closing has expired.

24 Sec. 10.50.145. VOTING LIST. (a) At least 60 days before each
25 meeting of shareholders, the officer or agent having charge of the stock
26 transfer books for shares of a corporation shall make a list of the
27 shareholders entitled to vote at the meeting or an adjournment of the
28 meeting, arranged in alphabetical order, with the address of and the
29 number of shares held by each. The list shall be kept on file at the