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SENATE BILL NO. 1412

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Senate Committee on Rehabilitation and Social Services
on January 30, 2015)

(Patron Prior to Substitute—Senator Norment)

A BILL to amend and reenact § 4.1-216 of the Code of Virginia, relating to alcoholic beverage control; prohibited trade practices.

Be it enacted by the General Assembly of Virginia:

1. That § 4.1-216 of the Code of Virginia is amended and reenacted as follows:

§ 4.1-216. Further limitations on manufacturers, bottlers, importers, brokers or wholesalers; ownership interests prohibited; exceptions; prohibited trade practices.

A. As used in this section:

"Broker" means any person, other than a manufacturer or a licensed beer or wine importer, who regularly engages in the business of bringing together sellers and purchasers of alcoholic beverages for resale and arranges for or consummates such transactions with persons in the Commonwealth to whom such alcoholic beverages may lawfully be sold and shipped into the Commonwealth pursuant to the provisions of this title.

"Manufacturer, bottler, importer, broker or wholesaler of alcoholic beverages" includes any officers or directors of any such manufacturer, bottler, importer, broker or wholesaler.

B. Except as provided in this title, no manufacturer, importer, bottler, broker or wholesaler of alcoholic beverages, whether licensed in the Commonwealth or not, shall acquire or hold any financial interest, direct or indirect, (i) in the business for which any retail license is issued or (ii) in the premises where the business of a retail licensee is conducted.

1. Subdivision B (ii) shall not apply so long as such manufacturer, bottler, importer, broker or wholesaler does not sell or otherwise furnish, directly or indirectly, alcoholic beverages or other merchandise to such retail licensee and such retailer is not required by agreement or otherwise to exclude from sale at his establishment alcoholic beverages of other manufacturers, bottlers, importers, brokers or wholesalers.

2. Service as a member of the board of directors of a corporation licensed as a retailer, the shares of stock of which are sold to the general public on any national or local stock exchange, shall not be deemed to be a financial interest, direct or indirect, in the business or the premises of the retail licensee.

3. A brewery, winery or subsidiary or affiliate thereof, hereinafter collectively referred to as a financing corporation, may participate in financing the business of a wholesale licensee in the Commonwealth by providing debt or equity capital or both but only if done in accordance with the provisions of this subsection.

a. In order to assist a proposed new owner of an existing wholesale licensee, a financing corporation may provide debt or equity capital, or both, if prior approval of the Board has been obtained pursuant to subdivision 3 b of subsection B. A financing corporation which proposes to provide equity capital shall cause the proposed new owner to form a Virginia limited partnership in which the new owner is the general partner and the financing corporation is a limited partner. If the general partner defaults on any financial obligation to the limited partner, which default has been specifically defined in the partnership agreement, or, if the new owner defaults on its obligation to pay principal and interest when due to the financing corporation as specifically defined in the loan documents, then, and only then, shall such financing corporation be allowed to take title to the business of the wholesale licensee. Notwithstanding any other law to the contrary and provided written notice has been given to the Board within two business days after taking title, the wholesale licensee may be managed and operated by such financing corporation pursuant to the existing wholesale license for a period of time not to exceed 180 days as if the license had been issued in the name of the financing corporation. On or before the expiration of such 180-day period, the financing corporation shall cause ownership of the wholesale licensee's business to be transferred to a new owner. Otherwise, on the 181st day, the license shall be deemed terminated. The financing corporation may not participate in financing the transfer of ownership to the new owner or to any other subsequent owner for a period of twenty years following the effective date of the original financing transaction; except where a transfer takes place before the expiration of the eighth full year following the effective date of the original financing transaction in which case the financing corporation may finance such transfer as long as the new owner is required to return such debt or equity capital within the originally prescribed eight-year period. The financing corporation may exercise its right to take title to, manage and operate the business of, the wholesale licensee only once during such eight-year period.

b. In any case in which a financing corporation proposes to provide debt or equity capital in order to

60 assist in a change of ownership of an existing wholesale licensee, the parties to the transaction shall first
61 submit an application for a wholesale license in the name of the proposed new owner to the Board.

62 The Board shall be provided with all documents that pertain to the transaction at the time of the
63 license application and shall ensure that the application complies with all requirements of law pertaining
64 to the issuance of wholesale licenses except that if the financing corporation proposes to provide equity
65 capital and thereby take a limited partnership interest in the applicant entity, the financing corporation
66 shall not be required to comply with any Virginia residency requirement applicable to the issuance of
67 wholesale licenses. In addition to the foregoing, the applicant entity shall certify to the Board and
68 provide supporting documentation that the following requirements are met prior to issuance of the
69 wholesale license: (i) the terms and conditions of any debt financing which the financing corporation
70 proposes to provide are substantially the same as those available in the financial markets to other
71 wholesale licensees who will be in competition with the applicant, (ii) the terms of any proposed equity
72 financing transaction are such that future profits of the applicant's business shall be distributed annually
73 to the financing corporation in direct proportion to its percentage of ownership interest received in return
74 for its investment of equity capital, (iii) if the financing corporation proposes to provide equity capital, it
75 shall hold an ownership interest in the applicant entity through a limited partnership interest and no
76 other arrangement and (iv) the applicant entity shall be contractually obligated to return such debt or
77 equity capital to the financing corporation not later than the end of the eighth full year following the
78 effective date of the transaction thereby terminating any ownership interest or right thereto of the
79 financing corporation.

80 Once the Board has issued a wholesale license pursuant to an application filed in accordance with
81 this subdivision 3 b, any subsequent change in the partnership agreement or the financing documents
82 shall be subject to the prior approval of the Board. In accordance with the previous paragraph, the Board
83 may require the licensee to resubmit certifications and documentation.

84 c. If a financing corporation wishes to provide debt financing, including inventory financing, but not
85 equity financing, to an existing wholesale licensee or a proposed new owner of an existing wholesale
86 licensee, it may do so without regard to the provisions of subdivisions 3 a and 3 b of subsection B
87 under the following circumstances and subject to the following conditions: (i) in order to secure such
88 debt financing, a wholesale licensee or a proposed new owner thereof may grant a security interest in
89 any of its assets, including inventory, other than the wholesale license itself or corporate stock of the
90 wholesale licensee; in the event of default, the financing corporation may take title to any assets pledged
91 to secure such debt but may not take title to the business of the wholesale licensee and may not manage
92 or operate such business; (ii) debt capital may be supplied by such financing corporation to an existing
93 wholesale licensee or a proposed new owner of an existing wholesale licensee so long as debt capital is
94 provided on terms and conditions which are substantially the same as those available in the financial
95 markets to other wholesale licensees in competition with the wholesale licensee which is being so
96 financed; and (iii) the licensee or proposed new owner shall certify to the Board and provide supporting
97 documentation that the requirements of (i) and (ii) of this subdivision 3 c have been met.

98 Nothing in this section shall eliminate, affect or in any way modify the requirements of law
99 pertaining to issuance and retention of a wholesale license as they may apply to existing wholesale
100 licensees or new owners thereof which have received debt financing prior to the enactment of this
101 subdivision 3 c.

102 4. Except for holders of retail licenses issued pursuant to subdivision A 5 of § 4.1-201, brewery
103 licensees may sell beer to retail licensees for resale only under the following conditions: If such brewery
104 or an affiliate or subsidiary thereof has taken title to the business of a wholesale licensee pursuant to the
105 provisions of subdivision 3 a of subsection B, direct sale to retail licensees may be made during the
106 180-day period of operation allowed under that subdivision. Moreover, the holder of a brewery license
107 may make sales of alcoholic beverages directly to retail licensees for a period not to exceed thirty days
108 in the event that such retail licensees are normally serviced by a wholesale licensee representing that
109 brewery which has been forced to suspend wholesale operations as a result of a natural disaster or other
110 act of God or which has been terminated by the brewery for fraud, loss of license or assignment of
111 assets for the benefit of creditors not in the ordinary course of business.

112 5. Notwithstanding any provision of this section, including but not limited to those provisions
113 whereby certain ownership or lease arrangements may be permissible, no manufacturer, bottler, importer,
114 broker or wholesaler of alcoholic beverages shall make an agreement, or attempt to make an agreement,
115 with a retail licensee pursuant to which any products sold by a competitor are excluded in whole or in
116 part from the premises on which the retail licensee's business is conducted.

117 6. *Nothing in this section shall prohibit a winery, brewery, or distillery licensee from paying a*
118 *royalty to a historical preservation entity pursuant to a bona fide intellectual property agreement that (i)*
119 *authorizes the winery, brewery, or distillery licensee to manufacture wine, beer, or spirits based on*
120 *authentic historical recipes and identified with brand names owned and trademarked by the historical*
121 *preservation entity; (ii) provides for royalties to be paid based solely on the volume of wine, beer, or*

spirits manufactured using such recipes and trademarks, rather than on the sales revenues generated from such wine, beer, or spirits; and (iii) has been approved by the Board.

For purposes of this subdivision, "historical preservation entity" means an entity (a) that is exempt from income taxation under § 501(c)(3) of the Internal Revenue Code; (b) whose declared purposes include the preservation, restoration, and protection of a historic community in the Commonwealth that is the site of at least 50 historically significant houses, shops, and public buildings dating to the eighteenth century; and (c) that owns not more than 12 retail establishments in the Commonwealth for which retail licenses have been issued by the Board.

C. Subject to such exceptions as may be provided by statute or Board regulations, no manufacturer, bottler, importer, broker or wholesaler of alcoholic beverages, whether licensed in the Commonwealth or not, shall sell, rent, lend, buy for or give to any retail licensee, or to the owner of the premises in which the business of any retail licensee is conducted, any (i) money, equipment, furniture, fixtures, property, services or anything of value with which the business of such retail licensee is or may be conducted, or for any other purpose; (ii) advertising materials; and (iii) business entertainment, provided that no transaction permitted under this section or by Board regulation shall be used to require the retail licensee to partially or totally exclude from sale at its establishment alcoholic beverages of other manufacturers or wholesalers.

The provisions of this subsection shall apply to manufacturers, bottlers, importers, brokers and wholesalers selling alcoholic beverages to any governmental instrumentality or employee thereof selling alcoholic beverages at retail within the exterior limits of the Commonwealth, including all territory within these limits owned by or ceded to the United States of America.