

HOUSE BILL No. 4996

September 18, 2013, Introduced by Reps. Jenkins, Graves, Zorn, Somerville, Kelly, Pscholka, Rendon, Schmidt, Johnson, Kurtz, Schor and Nesbitt and referred to the Committee on Commerce.

A bill to amend 2008 PA 551, entitled
"Uniform securities act (2002),"
by amending sections 202 and 504 (MCL 451.2202 and 451.2504), and
by adding section 202a.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 202. (1) The following transactions are exempt from the
2 requirements of sections 301 to 306 and 504:

3 (a) An isolated nonissuer transaction, whether effected by or
4 through a broker-dealer or not.

5 (b) A nonissuer transaction by or through a broker-dealer
6 registered or exempt from registration under this act, and a resale
7 transaction by a sponsor of a unit investment trust registered
8 under the investment company act of 1940, in a security of a class
9 that has been outstanding in the hands of the public for at least

1 90 days, if all of the following are met at the date of the
2 transaction:

3 (i) The issuer of the security is engaged in business, the
4 issuer is not in the organizational stage or in bankruptcy or
5 receivership, and the issuer is not a blank check, blind pool, or
6 shell company that has no specific business plan or purpose or has
7 indicated that its primary business plan is to engage in a merger
8 or combination of the business with, or an acquisition of, an
9 unidentified person.

10 (ii) The security is sold at a price reasonably related to its
11 current market price.

12 (iii) The security does not constitute the whole or part of an
13 unsold allotment to, or a subscription or participation by, the
14 broker-dealer as an underwriter of the security or a
15 redistribution.

16 (iv) A nationally recognized securities manual or its
17 electronic equivalent designated by rule or order under this act or
18 a record filed with the securities and exchange commission that is
19 publicly available contains all of the following:

20 (A) A description of the business and operations of the
21 issuer.

22 (B) The names of the issuer's executive officers and the names
23 of the issuer's directors, if any.

24 (C) An audited balance sheet of the issuer as of a date within
25 18 months before the date of the transaction or, in the case of a
26 reorganization or merger, and when the parties to the
27 reorganization or merger each had an audited balance sheet, a pro

1 forma balance sheet for the combined entity.

2 (D) An audited income statement for each of the issuer's 2
3 immediately previous fiscal years or for the period of existence of
4 the issuer, whichever is shorter, or, in the case of a
5 reorganization or merger when each party to the reorganization or
6 merger had audited income statements, a pro forma income statement.

7 (v) Any of the following requirements are met:

8 (A) The issuer of the security has a class of equity
9 securities listed on a national securities exchange registered
10 under section 6 of the securities exchange act of 1934, 15 USC 78f,
11 or designated for trading on the national association of securities
12 dealers automated quotation system.

13 (B) The issuer of the security is a unit investment trust
14 registered under the investment company act of 1940.

15 (C) The issuer of the security, including its predecessors,
16 has been engaged in continuous business for at least 3 years.

17 (D) The issuer of the security has total assets of at least
18 \$2,000,000.00 based on an audited balance sheet as of a date within
19 18 months before the date of the transaction or, in the case of a
20 reorganization or merger when the parties to the reorganization or
21 merger each had an audited balance sheet as of a date within 18
22 months before the date of the transaction, a pro forma balance
23 sheet for the combined entity.

24 (c) A nonissuer transaction by or through a broker-dealer
25 registered or exempt from registration under this act in a security
26 of a foreign issuer that is a margin security defined in
27 regulations or rules adopted by the board of governors of the

1 federal reserve system.

2 (d) A nonissuer transaction by or through a broker-dealer
3 registered or exempt from registration under this act in an
4 outstanding security if the guarantor of the security files reports
5 with the securities and exchange commission under the reporting
6 requirements of section 13 or 15(d) of the securities exchange act
7 of 1934, 15 USC 78m or 78o.

8 (e) A nonissuer transaction by or through a broker-dealer
9 registered or exempt from registration under this act in a security
10 that meets 1 or more of the following:

11 (i) Is rated at the time of the transaction by a nationally
12 recognized statistical rating organization in 1 of its 4 highest
13 rating categories.

14 (ii) Has a fixed maturity or a fixed interest or dividend, if
15 both of the following are met:

16 (A) A default has not occurred during the current fiscal year
17 or within the 3 previous fiscal years or during the existence of
18 the issuer and any predecessor if less than 3 fiscal years, in the
19 payment of principal, interest, or dividends on the security.

20 (B) The issuer is engaged in business, is not in the
21 organizational stage or in bankruptcy or receivership, and is not
22 and has not been within the previous 12 months a blank check, blind
23 pool, or shell company that has no specific business plan or
24 purpose or has indicated that its primary business plan is to
25 engage in a merger or combination of the business with, or an
26 acquisition of, an unidentified person.

27 (f) A nonissuer transaction by or through a broker-dealer

1 registered or exempt from registration under this act effecting an
2 unsolicited order or offer to purchase.

3 (g) A nonissuer transaction executed by a bona fide pledgee
4 without any purpose of evading this act.

5 (h) A nonissuer transaction by a federal covered investment
6 adviser with investments under management in excess of
7 \$100,000,000.00 acting in the exercise of discretionary authority
8 in a signed record for the account of others.

9 (i) A transaction in a security, whether or not the security
10 or transaction is otherwise exempt, in exchange for 1 or more bona
11 fide outstanding securities, claims, or property interests, or
12 partly in exchange and partly for cash, if the terms and conditions
13 of the issuance and exchange or the delivery and exchange and the
14 fairness of the terms and conditions have been approved by the
15 administrator at a hearing.

16 (j) A transaction between the issuer or other person on whose
17 behalf the offering is made and an underwriter, or among
18 underwriters.

19 (k) A transaction in a note, bond, debenture, or other
20 evidence of indebtedness secured by a mortgage or other security
21 agreement if all of the following are met:

22 (i) The note, bond, debenture, or other evidence of
23 indebtedness is offered and sold with the mortgage or other
24 security agreement as a unit.

25 (ii) A general solicitation or general advertisement of the
26 transaction is not made.

27 (iii) A commission or other remuneration is not paid or given,

1 directly or indirectly, to a person not registered under this act
2 as a broker-dealer or as an agent.

3 (l) A transaction by an executor, administrator of an estate,
4 sheriff, marshal, receiver, trustee in bankruptcy, guardian, or
5 conservator.

6 (m) A sale or offer to sell to any of the following:

7 (i) An institutional investor.

8 (ii) A federal covered investment adviser.

9 (iii) Any other person exempted by rule or order under this act.

10 (n) A sale or an offer to sell securities by or on behalf of
11 an issuer, if the transaction is part of a single issue in which
12 all of the following are met:

13 (i) There are not more than 25 purchasers in this state during
14 any 12 consecutive months, other than those designated in
15 subdivision (m).

16 (ii) There is no general solicitation or general advertising
17 used in connection with the offer to sell or sale of the
18 securities.

19 (iii) A commission or other remuneration is not paid or given,
20 directly or indirectly, to a person other than a broker-dealer
21 registered under this act or an agent registered under this act for
22 soliciting a prospective purchaser in this state.

23 (iv) The issuer reasonably believes that all the purchasers in
24 this state other than those designated in subdivision (m) are
25 purchasing for investment.

26 (o) A transaction under an offer to existing security holders
27 of the issuer, including persons that at the date of the

1 transaction are holders of convertible securities, options, or
2 warrants, if a commission or other remuneration, other than a
3 standby commission, is not paid or given, directly or indirectly,
4 for soliciting a security holder in this state.

5 (p) An offer to sell, but not a sale, of a security not exempt
6 from registration under the securities act of 1933 if both of the
7 following are met:

8 (i) A registration or offering statement or similar record as
9 required under the securities act of 1933 has been filed, but is
10 not effective, or the offer is made in compliance with rule 165
11 adopted under the securities act of 1933, 17 CFR 230.165.

12 (ii) A stop order of which the offeror is aware has not been
13 issued against the offeror by the administrator or the securities
14 and exchange commission, and an audit, inspection, or proceeding
15 that is public and may culminate in a stop order is not known by
16 the offeror to be pending.

17 (q) An offer to sell, but not a sale, of a security exempt
18 from registration under the securities act of 1933 if all of the
19 following are met:

20 (i) A registration statement has been filed under this act, but
21 is not effective.

22 (ii) A solicitation of interest is provided in a record to
23 offerees in compliance with a rule adopted by the administrator
24 under this act.

25 (iii) A stop order of which the offeror is aware has not been
26 issued by the administrator under this act, and an audit,
27 inspection, or proceeding that may culminate in a stop order is not

1 known by the offeror to be pending.

2 (r) A transaction involving the distribution of the securities
3 of an issuer to the security holders of another person in
4 connection with a merger, consolidation, exchange of securities,
5 sale of assets, or other reorganization to which the issuer, or its
6 parent or subsidiary, and the other person, or its parent or
7 subsidiary, are parties.

8 (s) A rescission offer, sale, or purchase under section 510.

9 (t) An offer or sale of a security to a person not resident in
10 this state and not present in this state if the offer or sale does
11 not constitute a violation of the laws of the state or foreign
12 jurisdiction in which the offeree or purchaser is present and is
13 not part of an unlawful plan or scheme to evade this act.

14 (u) An offer or sale of a security pursuant to an employee's
15 stock purchase, savings, option, profit-sharing, pension, or
16 similar employees' benefit plan, including any securities, plan
17 interests, and guarantees issued under a compensatory benefit plan
18 or compensation contract, contained in a record, established by the
19 issuer, its parents, its majority-owned subsidiaries, or the
20 majority-owned subsidiaries of the issuer's parent for the
21 participation of their employees including any of the following:

22 (i) Offers or sales of those securities to directors; general
23 partners; trustees, if the issuer is a business trust; officers; or
24 consultants and advisors.

25 (ii) Family members who acquire those securities from those
26 persons through gifts or domestic relations orders.

27 (iii) Former employees, directors, general partners, trustees,

1 officers, consultants, and advisors if those individuals were
2 employed by or providing services to the issuer when the securities
3 were offered.

4 (iv) Insurance agents who are exclusive insurance agents of the
5 issuer, its subsidiaries or parents, or who derive more than 50% of
6 their annual income from those organizations.

7 (v) A transaction involving any of the following:

8 (i) A stock dividend or equivalent equity distribution, whether
9 the corporation or other business organization distributing the
10 dividend or equivalent equity distribution is the issuer or not, if
11 nothing of value is given by stockholders or other equity holders
12 for the dividend or equivalent equity distribution other than the
13 surrender of a right to a cash or property dividend if each
14 stockholder or other equity holder may elect to take the dividend
15 or equivalent equity distribution in cash, property, or stock.

16 (ii) An act incident to a judicially approved reorganization in
17 which a security is issued in exchange for 1 or more outstanding
18 securities, claims, or property interests, or partly in exchange
19 and partly for cash.

20 (iii) The solicitation of tenders of securities by an offeror in
21 a tender offer in compliance with rule 162 adopted under the
22 securities act of 1933, 17 CFR 230.162.

23 (w) Subject to subsection (2), a nonissuer transaction in an
24 outstanding security by or through a broker-dealer registered or
25 exempt from registration under this act, if both of the following
26 are met:

27 (i) The issuer is a reporting issuer in a foreign jurisdiction

1 designated in subsection (2)(a), or by rule or order of the
2 administrator, and has been subject to continuous reporting
3 requirements in the foreign jurisdiction for not less than 180 days
4 before the transaction.

5 (ii) The security is listed on the foreign jurisdiction's
6 securities exchange that has been designated in subsection (2)(a),
7 or by rule or order under this act, or is a security of the same
8 issuer that is of senior or substantially equal rank to the listed
9 security or is a warrant or right to purchase or subscribe to any
10 of the foregoing.

11 **(X) ANY OFFER OR SALE OF A SECURITY BY AN ISSUER UNDER SECTION**
12 **202A.**

13 (2) For purposes of subsection (1)(w), both of the following
14 apply:

15 (a) Canada, together with its provinces and territories, is a
16 designated foreign jurisdiction and the Toronto stock exchange,
17 inc., is a designated securities exchange.

18 (b) After an administrative hearing in compliance with
19 applicable state law, the administrator, by rule or order under
20 this act, may revoke the designation of a securities exchange under
21 subsection (1)(w) or this subsection if the administrator finds
22 that revocation is necessary or appropriate in the public interest
23 and for the protection of investors.

24 **SEC. 202A. (1) EXCEPT AS OTHERWISE PROVIDED IN THIS ACT, AN**
25 **OFFER OR SALE OF A SECURITY BY AN ISSUER IS EXEMPT FROM THE**
26 **REQUIREMENTS OF SECTIONS 301 TO 306 AND 504 IF THE OFFER OR SALE**
27 **MEETS ALL OF THE FOLLOWING REQUIREMENTS:**

1 (A) THE ISSUER OF THE SECURITY IS AN ENTITY THAT IS
2 INCORPORATED OR ORGANIZED UNDER THE LAWS OF THIS STATE AND IS
3 AUTHORIZED TO DO BUSINESS IN THIS STATE.

4 (B) THE TRANSACTION MEETS THE REQUIREMENTS OF THE FEDERAL
5 EXEMPTION FOR INTRASTATE OFFERINGS IN SECTION 3(A)(11) OF THE
6 SECURITIES ACT OF 1933, 15 USC 77C(A)(11), AND SEC RULE 147, 17 CFR
7 230.147.

8 (C) THE SUM OF ALL CASH AND OTHER CONSIDERATION TO BE RECEIVED
9 FOR ALL SALES OF THE SECURITY IN RELIANCE ON THIS EXEMPTION DOES
10 NOT EXCEED THE FOLLOWING AMOUNTS:

11 (i) ONE MILLION DOLLARS, LESS THE AGGREGATE AMOUNT RECEIVED FOR
12 ALL SALES OF SECURITIES BY THE ISSUER WITHIN THE 12 MONTHS BEFORE
13 THE FIRST OFFER OR SALE MADE IN RELIANCE ON THIS EXEMPTION, IF THE
14 ISSUER HAS NOT UNDERGONE AND MADE AVAILABLE TO EACH PROSPECTIVE
15 INVESTOR AND THE ADMINISTRATOR THE DOCUMENTATION RESULTING FROM A
16 FINANCIAL AUDIT WITH RESPECT TO ITS MOST RECENTLY COMPLETED FISCAL
17 YEAR THAT MEETS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

18 (ii) TWO MILLION DOLLARS, LESS THE AGGREGATE AMOUNT RECEIVED
19 FOR ALL SALES OF SECURITIES BY THE ISSUER WITHIN THE 12 MONTHS
20 BEFORE THE FIRST OFFER OR SALE MADE IN RELIANCE ON THIS EXEMPTION,
21 IF THE ISSUER HAS UNDERGONE AND MADE AVAILABLE TO EACH PROSPECTIVE
22 INVESTOR AND THE ADMINISTRATOR THE DOCUMENTATION RESULTING FROM A
23 FINANCIAL AUDIT WITH RESPECT TO ITS MOST RECENTLY COMPLETED FISCAL
24 YEAR THAT MEETS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

25 (D) THE ISSUER HAS NOT ACCEPTED MORE THAN \$10,000.00 FROM ANY
26 SINGLE PURCHASER UNLESS THE PURCHASER IS AN ACCREDITED INVESTOR AS
27 DEFINED BY RULE 501 OF SEC REGULATION D, 17 CFR 230.501.

1 (E) AT LEAST 10 DAYS BEFORE THE COMMENCEMENT OF AN OFFERING OF
2 SECURITIES IN RELIANCE ON THIS EXEMPTION OR THE USE OF ANY PUBLICLY
3 AVAILABLE WEBSITE IN CONNECTION WITH AN OFFERING OF SECURITIES IN
4 RELIANCE ON THIS EXEMPTION, THE ISSUER FILES A NOTICE WITH THE
5 ADMINISTRATOR, IN WRITING OR IN ELECTRONIC FORM AS SPECIFIED BY THE
6 ADMINISTRATOR, THAT CONTAINS ALL OF THE FOLLOWING:

7 (i) A NOTICE OF CLAIM OF EXEMPTION FROM REGISTRATION,
8 SPECIFYING THAT THE ISSUER WILL BE CONDUCTING AN OFFERING IN
9 RELIANCE ON THIS EXEMPTION, ACCOMPANIED BY THE FILING FEE SPECIFIED
10 IN THIS SECTION.

11 (ii) A COPY OF THE DISCLOSURE STATEMENT TO BE PROVIDED TO
12 PROSPECTIVE INVESTORS IN CONNECTION WITH THE OFFERING. THE
13 DISCLOSURE STATEMENT MUST CONTAIN ALL OF THE FOLLOWING:

14 (A) A DESCRIPTION OF THE ISSUER, ITS TYPE OF ENTITY, THE
15 ADDRESS AND TELEPHONE NUMBER OF ITS PRINCIPAL OFFICE, ITS HISTORY,
16 ITS BUSINESS PLAN, AND THE INTENDED USE OF THE OFFERING PROCEEDS,
17 INCLUDING ANY AMOUNTS TO BE PAID, AS COMPENSATION OR OTHERWISE, TO
18 ANY OWNER, EXECUTIVE OFFICER, DIRECTOR, MANAGING MEMBER, OR OTHER
19 PERSON OCCUPYING A SIMILAR STATUS OR PERFORMING SIMILAR FUNCTIONS
20 ON BEHALF OF THE ISSUER.

21 (B) THE IDENTITY OF EACH PERSON THAT OWNS MORE THAN 10% OF THE
22 OWNERSHIP INTERESTS OF ANY CLASS OF SECURITIES OF THE ISSUER.

23 (C) THE IDENTITY OF THE EXECUTIVE OFFICERS, DIRECTORS, AND
24 MANAGING MEMBERS OF THE ISSUER, AND ANY OTHER INDIVIDUALS WHO
25 OCCUPY SIMILAR STATUS OR PERFORM SIMILAR FUNCTIONS IN THE NAME OF
26 AND ON BEHALF OF THE ISSUER, INCLUDING THEIR TITLES AND THEIR PRIOR
27 EXPERIENCE.

1 (D) THE TERMS AND CONDITIONS OF THE SECURITIES BEING OFFERED
2 AND OF ANY OUTSTANDING SECURITIES OF THE ISSUER, THE MINIMUM AND
3 MAXIMUM AMOUNT OF SECURITIES BEING OFFERED, IF ANY, AND EITHER THE
4 PERCENTAGE OWNERSHIP OF THE ISSUER REPRESENTED BY THE OFFERED
5 SECURITIES OR THE VALUATION OF THE ISSUER IMPLIED BY THE PRICE OF
6 THE OFFERED SECURITIES.

7 (E) THE IDENTITY OF ANY PERSON THAT HAS BEEN OR WILL BE
8 RETAINED BY THE ISSUER TO ASSIST THE ISSUER IN CONDUCTING THE
9 OFFERING AND SALE OF THE SECURITIES, INCLUDING THE OWNER OF ANY
10 WEBSITES, BUT EXCLUDING ANY PERSON ACTING SOLELY AS AN ACCOUNTANT
11 OR ATTORNEY AND ANY EMPLOYEES WHOSE PRIMARY JOB RESPONSIBILITIES
12 INVOLVE THE OPERATING BUSINESS OF THE ISSUER RATHER THAN ASSISTING
13 THE ISSUER IN RAISING CAPITAL, AND FOR EACH PERSON IDENTIFIED IN
14 RESPONSE TO THIS SUB-SUBPARAGRAPH, A DESCRIPTION OF THE
15 CONSIDERATION BEING PAID TO THAT PERSON FOR THAT ASSISTANCE.

16 (F) A DESCRIPTION OF ANY LITIGATION OR LEGAL PROCEEDINGS
17 INVOLVING THE ISSUER OR ITS MANAGEMENT.

18 (G) THE NAME AND ADDRESS OF ANY WEBSITE THAT WILL BE USED IN
19 CONNECTION WITH THE OFFERING, INCLUDING ITS UNIFORM RESOURCE
20 LOCATOR OR URL.

21 (iii) AN ESCROW AGREEMENT WITH A BANK OR OTHER DEPOSITORY
22 INSTITUTION LOCATED IN THIS STATE, IN WHICH THE INVESTOR FUNDS WILL
23 BE DEPOSITED, THAT PROVIDES THAT ALL OFFERING PROCEEDS WILL BE
24 RELEASED TO THE ISSUER ONLY WHEN THE AGGREGATE CAPITAL RAISED FROM
25 ALL INVESTORS IS EQUAL TO OR GREATER THAN THE MINIMUM TARGET
26 OFFERING AMOUNT SPECIFIED IN THE BUSINESS PLAN AS NECESSARY TO
27 IMPLEMENT THE BUSINESS PLAN AND THAT ALL INVESTORS MAY CANCEL THEIR

1 COMMITMENTS TO INVEST IF THAT TARGET OFFERING AMOUNT IS NOT RAISED
2 BY THE TIME STATED IN THE DISCLOSURE DOCUMENT.

3 (F) THE ISSUER IS NOT, EITHER BEFORE OR AS A RESULT OF THE
4 OFFERING, AN INVESTMENT COMPANY, AS DEFINED IN SECTION 3 OF THE
5 INVESTMENT COMPANY ACT OF 1940, 15 USC 8A-3, OR AN ENTITY THAT
6 WOULD BE AN INVESTMENT COMPANY BUT FOR THE EXCLUSIONS PROVIDED IN
7 SUBSECTION (C) OF THAT SECTION, OR SUBJECT TO THE REPORTING
8 REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
9 OF 1934, 15 USC 78M AND 78O(D).

10 (G) THE ISSUER INFORMS EACH PROSPECTIVE PURCHASER THAT THE
11 SECURITIES ARE NOT REGISTERED UNDER FEDERAL OR STATE SECURITIES LAW
12 AND THAT THE SECURITIES ARE SUBJECT TO LIMITATIONS ON RESALE AND
13 DISPLAYS THE FOLLOWING LEGEND CONSPICUOUSLY ON THE COVER PAGE OF
14 THE DISCLOSURE DOCUMENT:

15 "IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON
16 THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING,
17 INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT
18 BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR
19 REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE
20 NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS
21 DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.
22 THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND
23 RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED BY
24 SUBSECTION (E) OF SEC RULE 147, 17 CFR 230.147(E), AS PROMULGATED
25 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE
26 STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION
27 THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO

1 BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE
2 PERIOD OF TIME.".

3 (H) THE ISSUER REQUIRES EACH PURCHASER TO CERTIFY IN WRITING
4 "I UNDERSTAND AND ACKNOWLEDGE THAT:

5 (i) I AM INVESTING IN A HIGH-RISK, SPECULATIVE BUSINESS
6 VENTURE. I MAY LOSE ALL OF MY INVESTMENT, AND I CAN AFFORD THE LOSS
7 OF MY INVESTMENT.

8 (ii) THIS OFFERING HAS NOT BEEN REVIEWED OR APPROVED BY ANY
9 STATE OR FEDERAL SECURITIES COMMISSION OR OTHER REGULATORY
10 AUTHORITY AND THAT NO REGULATORY AUTHORITY HAS CONFIRMED THE
11 ACCURACY OR DETERMINED THE ADEQUACY OF ANY DISCLOSURE MADE TO ME
12 RELATING TO THIS OFFERING.

13 (iii) THE SECURITIES I AM ACQUIRING IN THIS OFFERING ARE
14 ILLIQUID, THAT THERE IS NO READY MARKET FOR THE SALE OF THOSE
15 SECURITIES, THAT IT MAY BE DIFFICULT OR IMPOSSIBLE FOR ME TO SELL
16 OR OTHERWISE DISPOSE OF THIS INVESTMENT, AND THAT, ACCORDINGLY, I
17 MAY BE REQUIRED TO HOLD THIS INVESTMENT INDEFINITELY.

18 (iv) I MAY BE SUBJECT TO TAX ON MY SHARE OF THE TAXABLE INCOME
19 AND LOSSES OF THE ISSUER, WHETHER OR NOT I HAVE SOLD OR OTHERWISE
20 DISPOSED OF MY INVESTMENT OR RECEIVED ANY DIVIDENDS OR OTHER
21 DISTRIBUTIONS FROM THE ISSUER.".

22 (I) IF THE OFFER AND SALE OF SECURITIES IS MADE THROUGH AN
23 INTERNET WEBSITE, ALL OF THE FOLLOWING REQUIREMENTS ARE MET:

24 (i) BEFORE THE OFFER OF AN INVESTMENT OPPORTUNITY TO RESIDENTS
25 OF THIS STATE THROUGH A WEBSITE, THE ISSUER PROVIDES TO THE WEBSITE
26 AND TO THE ADMINISTRATOR EVIDENCE THAT THE ISSUER IS ORGANIZED
27 UNDER THE LAWS OF THIS STATE AND THAT IT IS AUTHORIZED TO DO

1 BUSINESS IN THIS STATE.

2 (ii) THE ISSUER OBTAINS FROM EACH PURCHASER OF A SECURITY UNDER
3 THIS SECTION EVIDENCE THAT THE PURCHASER IS A RESIDENT OF THIS
4 STATE AND, IF APPLICABLE, AN ACCREDITED INVESTOR.

5 (iii) THE WEBSITE OPERATOR REGISTERS WITH THE ADMINISTRATOR BY
6 FILING A STATEMENT THAT IT IS AN ENTITY THAT IS INCORPORATED OR
7 ORGANIZED UNDER THE LAWS OF THIS STATE, THAT IT IS AUTHORIZED TO DO
8 BUSINESS WITHIN THIS STATE, AND THAT IT IS BEING UTILIZED TO OFFER
9 AND SELL SECURITIES UNDER THIS EXEMPTION. AS PART OF THE
10 REGISTRATION, THE WEBSITE SHALL NOTIFY THE ADMINISTRATOR OF ITS AND
11 THE ISSUER'S IDENTITY, LOCATION, AND CONTACT INFORMATION.

12 (iv) THE ISSUER AND THE WEBSITE KEEP AND MAINTAIN RECORDS OF
13 THE OFFERS AND SALES OF SECURITIES MADE THROUGH THE WEBSITE AND
14 PROVIDE READY ACCESS TO THE RECORDS TO THE ADMINISTRATOR ON
15 REQUEST. THE ADMINISTRATOR MAY ACCESS, INSPECT, AND REVIEW ANY
16 WEBSITE DESCRIBED IN THIS SUBDIVISION AND ITS RECORDS.

17 (J) ALL PAYMENTS FOR THE PURCHASE OF SECURITIES ARE DIRECTED
18 TO AND HELD BY THE BANK OR DEPOSITORY INSTITUTION SUBJECT TO THE
19 PROVISIONS OF SUBDIVISION (E) (iii). THE BANK OR DEPOSITORY
20 INSTITUTION SHALL NOTIFY THE ADMINISTRATOR OF THE RECEIPT OF
21 PAYMENTS FOR SECURITIES AND THE IDENTITY AND RESIDENCE OF THE
22 INVESTORS. INVESTOR INFORMATION PROVIDED TO THE ADMINISTRATOR UNDER
23 THIS SUBDIVISION IS NOT A PUBLIC RECORD AND IS NOT AVAILABLE FOR
24 PUBLIC INSPECTION UNDER SECTION 607(1).

25 (K) OFFERS OR SALES OF A SECURITY ARE NOT MADE THROUGH AN
26 INTERNET WEBSITE UNLESS THE WEBSITE IS REGISTERED WITH THE
27 ADMINISTRATOR UNDER SUBDIVISION (I) (iii). THE WEBSITE IS NOT SUBJECT

1 TO THE BROKER-DEALER, INVESTMENT ADVISER, OR INVESTMENT ADVISER
2 REPRESENTATIVE REGISTRATION REQUIREMENTS UNDER CHAPTER 4 IF THE
3 WEBSITE MEETS ALL OF THE FOLLOWING:

4 (i) IT DOES NOT OFFER INVESTMENT ADVICE OR RECOMMENDATIONS.

5 (ii) IT DOES NOT SOLICIT PURCHASES, SALES, OR OFFERS TO BUY THE
6 SECURITIES OFFERED OR DISPLAYED ON THE WEBSITE.

7 (iii) IT DOES NOT COMPENSATE EMPLOYEES, AGENTS, OR OTHER PERSONS
8 FOR THE SOLICITATION OR BASED ON THE SALE OF SECURITIES DISPLAYED
9 OR REFERENCED ON THE WEBSITE.

10 (iv) IT IS NOT COMPENSATED BASED ON THE AMOUNT OF SECURITIES
11 SOLD AND IT DOES NOT HOLD, MANAGE, POSSESS, OR OTHERWISE HANDLE
12 INVESTOR FUNDS OR SECURITIES.

13 (v) IT DOES NOT ENGAGE IN ANY OTHER ACTIVITIES THAT THE
14 ADMINISTRATOR BY RULE DETERMINES ARE INAPPROPRIATE FOR AN EXEMPTION
15 FROM THE REGISTRATION REQUIREMENTS UNDER CHAPTER 4.

16 (l) THE ISSUER DOES NOT PAY, DIRECTLY OR INDIRECTLY, ANY
17 COMMISSION OR REMUNERATION TO AN EXECUTIVE OFFICER, DIRECTOR,
18 MANAGING MEMBER, OR OTHER INDIVIDUAL WHO HAS A SIMILAR STATUS OR
19 PERFORMS SIMILAR FUNCTIONS IN THE NAME OF AND ON BEHALF OF THE
20 ISSUER FOR OFFERING OR SELLING THE SECURITIES UNLESS HE OR SHE IS
21 REGISTERED AS A BROKER-DEALER, INVESTMENT ADVISER, OR INVESTMENT
22 ADVISER REPRESENTATIVE UNDER CHAPTER 4. AN EXECUTIVE OFFICER,
23 DIRECTOR, MANAGING MEMBER, OR OTHER INDIVIDUAL WHO HAS A SIMILAR
24 STATUS OR PERFORMS SIMILAR FUNCTIONS IN THE NAME OF AND ON BEHALF
25 OF THE ISSUER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS UNDER
26 CHAPTER 4 IF HE OR SHE DOES NOT RECEIVE, DIRECTLY OR INDIRECTLY,
27 ANY COMMISSION OR REMUNERATION FOR OFFERING OR SELLING SECURITIES

1 OF THE ISSUER THAT ARE EXEMPT FROM REGISTRATION UNDER THIS SECTION.

2 (M) THE ISSUER PROVIDES A COPY OF THE DISCLOSURE DOCUMENT
3 PROVIDED TO THE ADMINISTRATOR UNDER SUBDIVISION (E) (ii) TO EACH
4 PROSPECTIVE INVESTOR AT THE TIME THE OFFER OF SECURITIES IS MADE TO
5 THE PROSPECTIVE INVESTOR. IN ADDITION TO THE INFORMATION DESCRIBED
6 IN SUBDIVISION (E) (ii) , THE DISCLOSURE DOCUMENT PROVIDED TO THE
7 ADMINISTRATOR AND TO PROSPECTIVE INVESTORS SHALL INCLUDE ADDITIONAL
8 INFORMATION MATERIAL TO THE OFFERING, INCLUDING, WHERE APPROPRIATE,
9 A DISCUSSION OF SIGNIFICANT FACTORS THAT MAKE THE OFFERING
10 SPECULATIVE OR RISKY. THIS DISCUSSION MUST BE CONCISE AND ORGANIZED
11 LOGICALLY AND SHOULD NOT PRESENT RISKS THAT COULD APPLY TO ANY
12 ISSUER OR ANY OFFERING.

13 (2) EVERY FIFTH YEAR, THE ADMINISTRATOR SHALL CUMULATIVELY
14 ADJUST THE DOLLAR LIMITATIONS PROVIDED IN SUBSECTION (1) (C) TO
15 REFLECT THE CHANGE IN THE CONSUMER PRICE INDEX FOR ALL URBAN
16 CONSUMERS PUBLISHED BY THE FEDERAL BUREAU OF LABOR STATISTICS,
17 ROUNDING EACH DOLLAR LIMITATION TO THE NEAREST \$50,000.00.

18 (3) IF THE OFFER AND SALE OF A SECURITY OF AN ISSUER IS EXEMPT
19 UNDER THIS SECTION, THE ISSUER SHALL PROVIDE A QUARTERLY REPORT TO
20 THE ISSUER'S INVESTORS UNTIL NONE OF THE SECURITIES ISSUED UNDER
21 THIS SECTION ARE OUTSTANDING. ALL OF THE FOLLOWING APPLY TO THE
22 QUARTERLY REPORT DESCRIBED IN THIS SUBSECTION:

23 (A) THE ISSUER SHALL PROVIDE THE REPORT FREE OF CHARGE TO THE
24 INVESTORS.

25 (B) AN ISSUER MAY SATISFY THE REPORT REQUIREMENT UNDER THIS
26 SUBSECTION BY MAKING THE INFORMATION AVAILABLE ON AN INTERNET
27 WEBSITE IF THE INFORMATION IS MADE AVAILABLE WITHIN 45 DAYS AFTER

1 THE END OF EACH FISCAL QUARTER AND REMAINS AVAILABLE UNTIL THE NEXT
2 QUARTERLY REPORT IS ISSUED.

3 (C) THE ISSUER SHALL FILE EACH REPORT WITH THE ADMINISTRATOR
4 AND MUST PROVIDE A WRITTEN COPY OF THE REPORT TO ANY INVESTOR ON
5 REQUEST.

6 (D) THE REPORT MUST INCLUDE ALL OF THE FOLLOWING:

7 (i) THE COMPENSATION RECEIVED BY EACH DIRECTOR AND EXECUTIVE
8 OFFICER OF THE ISSUER, INCLUDING CASH COMPENSATION EARNED SINCE THE
9 PREVIOUS REPORT AND ON AN ANNUAL BASIS AND ANY BONUSES, STOCK
10 OPTIONS, OTHER RIGHTS TO RECEIVE SECURITIES OF THE ISSUER OR ANY
11 AFFILIATE OF THE ISSUER, OR OTHER COMPENSATION RECEIVED.

12 (ii) AN ANALYSIS BY MANAGEMENT OF THE ISSUER OF THE BUSINESS
13 OPERATIONS AND FINANCIAL CONDITION OF THE ISSUER.

14 (4) THE EXEMPTION PROVIDED IN THIS SECTION SHALL NOT BE USED
15 IN CONJUNCTION WITH ANY OTHER EXEMPTION UNDER THIS CHAPTER, EXCEPT
16 OFFERS AND SALES TO CONTROLLING PERSONS SHALL NOT COUNT TOWARD THE
17 LIMITATION IN SUBSECTION (1) (C) .

18 (5) THE EXEMPTION DESCRIBED IN THIS SECTION DOES NOT APPLY IF
19 AN ISSUER OR PERSON AFFILIATED WITH THE ISSUER OR OFFERING IS
20 SUBJECT TO ANY DISQUALIFICATION ESTABLISHED BY THE ADMINISTRATOR BY
21 RULE OR CONTAINED IN RULE 262 AS PROMULGATED UNDER THE SECURITIES
22 ACT OF 1933, 17 CFR 230.262. HOWEVER, THIS SUBSECTION DOES NOT
23 APPLY IF BOTH OF THE FOLLOWING ARE MET:

24 (A) ON A SHOWING OF GOOD CAUSE AND WITHOUT PREJUDICE TO ANY
25 OTHER ACTION BY THE ADMINISTRATOR, THE ADMINISTRATOR DETERMINES
26 THAT IT IS NOT NECESSARY UNDER THE CIRCUMSTANCES THAT AN EXEMPTION
27 BE DENIED.

1 (B) THE ISSUER ESTABLISHES THAT IT MADE FACTUAL INQUIRY INTO
2 WHETHER ANY DISQUALIFICATION EXISTED UNDER THIS SUBSECTION BUT DID
3 NOT KNOW, AND IN THE EXERCISE OF REASONABLE CARE COULD NOT HAVE
4 KNOWN, THAT A DISQUALIFICATION EXISTED UNDER THIS SUBSECTION. THE
5 NATURE AND SCOPE OF THE REQUISITE INQUIRY WILL VARY BASED ON THE
6 CIRCUMSTANCES OF THE ISSUER AND THE OTHER OFFERING PARTICIPANTS.

7 (6) THE ADMINISTRATOR MAY ADOPT RULES TO IMPLEMENT THE
8 PROVISIONS OF THIS SECTION AND TO PROTECT INVESTORS THAT PURCHASE
9 SECURITIES THAT ARE EXEMPT FROM REGISTRATION UNDER THIS SECTION.

10 (7) THE ADMINISTRATOR SHALL CHARGE A NONREFUNDABLE FILING FEE
11 OF \$150.00 FOR FILING AN EXEMPTION NOTICE REQUIRED UNDER SUBSECTION
12 (1). THE FEES PAID TO THE ADMINISTRATOR UNDER THIS SUBSECTION SHALL
13 BE USED TO PAY THE COSTS INCURRED IN ADMINISTERING AND ENFORCING
14 THIS ACT.

15 (8) AS USED IN THIS SECTION, "CONTROLLING PERSON" MEANS AN
16 OFFICER, DIRECTOR, PARTNER, OR TRUSTEE, OR ANOTHER INDIVIDUAL WHO
17 HAS SIMILAR STATUS OR PERFORMS SIMILAR FUNCTIONS, OF OR FOR THE
18 ISSUER OR TO A PERSON THAT OWNS 10% OR MORE OF THE OUTSTANDING
19 SHARES OF ANY CLASS OR CLASSES OF SECURITIES OF THE ISSUER.

20 Sec. 504. (1) Subject to subsection (2), a rule or order under
21 this act may require the filing of a prospectus, pamphlet,
22 circular, form letter, advertisement, sales literature, or other
23 advertising record relating to a security or investment advice
24 addressed or intended for distribution to prospective investors,
25 including clients or prospective clients of a person registered or
26 required to be registered as an investment adviser under this act.

27 (2) This section does not apply to sales and advertising

1 literature specified in subsection (1) relating to a federal
2 covered security, a federal covered investment adviser, or a
3 security or transaction exempted by section 201, 202, or 203 except
4 as required under section 201(g) **OR 202(1)(X)**.