

**A SUMMARY OF REASONS
WHY YOU SHOULD COMPLY WITH THE SECURITIES LAWS**

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Registration or Exemption. Section 5 of the Securities Act of 1933 (the "Securities Act") makes it unlawful to sell a security¹ without a registration statement being filed with the Securities and Exchange Commission (the "SEC"). 15 U.S.C. § 77e. The effect of this section is to require registration of all securities unless there is an exemption from registration. Section 4 of the Securities Act lists certain transactions that are exempt from registration; for example, transactions not involving a public offering (i.e., private offerings or private placements). 15 U.S.C. § 77d(2).

Civil Liability for Violations of Law. A failure to register the sale of the security or to secure an exemption from the registration requirements is a violation of the Securities Act. 15 U.S.C. § 77l(a)(1). A person² who offers to sell or sells a security in violation of the Securities Act may be liable to a purchaser of a security for (1) a refund of the purchase price, plus interest, less any income received from the security, upon the purchaser's return of the security to the person, or (2) damages if the purchaser no longer owns the security. 15 U.S.C. § 77l(a). This is possible even if there was full and complete disclosure about the financial condition and results of the company and the security and its risks.

Also, any person who controls a person found liable will be jointly and severally liable for the damages imposed on the controlled person. 15 U.S.C. § 77o. A person controls another person by or through stock ownership, agency, or an agreement or understanding. 15 U.S.C. § 77o. Therefore, a stockholder, director or officer of a company is a controlling person of an entity.

Criminal Penalties for Violations of Law. In addition to civil liability, a person may be subject to maximum criminal penalties of a \$10,000 fine, imprisonment for a maximum of five years, or both. 15 U.S.C. § 77x.

State Securities Laws. In addition to the federal securities law mentioned here, there are also state securities laws that require registration or exemption and that impose civil liability and criminal penalties.

¹ The term "security" means any ... stock, ... bond, ... option, ... or, in general, any interest or instrument commonly known as a "security," or ... any ... warrant or right to subscribe to or purchase, any of the foregoing. 15 U.S.C. § 77b(a)(1).

² The term "person" means an individual, a corporation, a partnership, an association, ... [or] any unincorporated organization [such as a limited liability company] ... 15 U.S.C. § 77b(a)(2).