

# State of South Dakota

EIGHTY-THIRD SESSION  
LEGISLATIVE ASSEMBLY, 2008

400P0229

## SENATE COMMERCE ENGROSSED NO. **SB 52** - 1/17/2008

Introduced by: The Committee on Commerce at the request of the Department of Revenue  
and Regulation

1 FOR AN ACT ENTITLED, An Act to revise certain provisions regarding the regulation of  
2 franchises and business opportunities.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF SOUTH DAKOTA:

4 Section 1. Terms used in this Act, unless the context otherwise requires, mean:

- 5 (1) "Action," any complaint, cross claim, counterclaim, and third-party complaint in a  
6 judicial action or proceeding, and their equivalent in an administrative action or  
7 arbitration;
- 8 (2) "Affiliate," any entity controlled by, controlling, or under common control with  
9 another entity;
- 10 (3) "Confidentiality clause," any contract, order, or settlement provision that directly or  
11 indirectly restricts a current or former franchisee from discussing the franchisee's  
12 personal experience as a franchisee in the franchisor's system with any prospective  
13 franchisee. The term does not include any clause that protects franchisor's trademarks  
14 or other proprietary information;



- 1 (4) "Director," the director of the Division of Securities;
- 2 (5) "Disclosure document," the Federal Trade Commission franchise disclosure  
3 document as set forth pursuant to 16 C.F.R. Part 436, as of January 1, 2008;
- 4 (6) "Disclose, state, describe, and list," to present all material facts accurately, clearly,  
5 concisely, and legibly in plain English;
- 6 (7) "Filing, filed," the receipt pursuant to this Act of a record by the director;
- 7 (8) "Financial performance representation," any representation, including any oral,  
8 written, or visual representation, to a prospective franchisee, including a  
9 representation in the general media, that states, expressly or by implication, a specific  
10 level or range of actual or potential sales, income, gross profits, or net profits. The  
11 term includes any chart, table, or mathematical calculation that shows possible results  
12 based on a combination of variables;
- 13 (9) "Fiscal year," the franchisor's fiscal year;
- 14 (10) "Fractional franchise," any franchise relationship that satisfies the following criteria  
15 when the relationship is created:
  - 16 (a) The franchisee, or any of the franchisee's current directors or officers, or any  
17 current directors or officers of a parent or affiliate, has more than two years of  
18 experience in the same type of business; and
  - 19 (b) The parties have a reasonable basis to anticipate that the sales arising from the  
20 relationship will not exceed twenty percent of the franchisee's total dollar  
21 volume in sales during the first year of operation;
- 22 (11) "Franchise," any continuing commercial relationship or arrangement, whatever it may  
23 be called, in which the terms of the offer or contract specify, or the franchise seller  
24 promises or represents, orally or in writing, that:

- 1 (a) The franchisee will obtain the right to operate a business that is identified or  
2 associated with the franchisor's trademark, or to offer, sell, or distribute goods,  
3 services, or commodities that are identified or associated with the franchisor's  
4 trademark;
- 5 (b) The franchisor will exert or has authority to exert a significant degree of  
6 control over the franchisee's method of operation, or provide significant  
7 assistance in the franchisee's method of operation; and
- 8 (c) As a condition of obtaining or commencing operation of the franchise, the  
9 franchisee makes a required payment or commits to make a required payment  
10 to the franchisor or its affiliate;
- 11 (12) "Franchisee," any person who is granted a franchise;
- 12 (13) "Franchise seller," any person that offers for sale, sells, or arranges for the sale of a  
13 franchise. The term includes the franchisor and the franchisor's employees,  
14 representatives, agents, subfranchisors, and third-party brokers who are involved in  
15 franchise sales activities. The term does not include existing franchisees who sell  
16 only their own outlet and who are otherwise not engaged in franchise sales on behalf  
17 of the franchisor;
- 18 (14) "Franchisor," any person who grants a franchise and participates in the franchise  
19 relationship. Unless otherwise stated, the term includes subfranchisors. For purposes  
20 of this subdivision, a subfranchisor is any person who functions as a franchisor by  
21 engaging in both pre-sale activities and post-sale performance;
- 22 (15) "Leased department," any arrangement whereby a retailer licenses or otherwise  
23 permits a seller to conduct business from the retailer's location where the seller  
24 purchases no goods, services, or commodities directly or indirectly from the retailer,

1 a person the retailer requires the seller to do business with, or a retailer-affiliate if the  
2 retailer advises the seller to do business with the affiliate;

3 (16) "Offer," any attempt to dispose of, and any solicitation of an offer to buy, a franchise  
4 or interest in a franchise for value by purchase, license, or otherwise. The term does  
5 not include an offer to extend or renew an existing franchise if there is no  
6 interruption in the franchisee's operation of the business, unless the terms and  
7 conditions of the extension or renewal differ materially from the original agreement.  
8 The term also does not include an offer of a franchise by an existing franchisee if the  
9 franchisor has had no significant involvement with the prospective franchisee. A  
10 franchisor's prior dealing with a prospective franchisee alone is not deemed to be  
11 significant involvement;

12 (17) "Order," any consent, authorization, approval, prohibition or requirement, or other  
13 order applicable to a specific case, issued by the director;

14 (18) "Notice filing application," the form adopted by the director and used to make notice  
15 filings of franchises;

16 (19) "Parent," an entity that controls another entity directly, or indirectly through one or  
17 more subsidiaries;

18 (20) "Person," any individual, group, association, limited or general partnership,  
19 corporation, limited liability company, or any other entity;

20 (21) "Plain English," the organization of information and language usage understandable  
21 by a person unfamiliar with the franchise business. The term incorporates short  
22 sentences; definite, concrete, everyday language; active voice; and tabular  
23 presentation of information, whenever possible. The term avoids legal jargon, highly  
24 technical business terms, and multiple negatives;

- 1 (22) "Predecessor," any person from whom the franchisor acquired, directly or indirectly,  
2 the major portion of the franchisor's assets;
- 3 (23) "Principal business address," the street address of a person's home office in the  
4 United States. The term does not include a post office box or private mail drop;
- 5 (24) "Prospective franchisee," any person (including any agent, representative, or  
6 employee) who approaches or is approached by a franchise seller to discuss the  
7 possible establishment of a franchise relationship;
- 8 (25) "Record," information that is inscribed on a tangible medium or that is stored in an  
9 electronic or other medium and is retrievable in perceivable form;
- 10 (26) "Required payment," any consideration that the franchisee must pay to the franchisor  
11 or an affiliate, either by contract or by practical necessity, as a condition of obtaining  
12 or commencing operation of the franchise. The term does not include any payment  
13 for the purchase of reasonable amounts of inventory at bona fide wholesale prices for  
14 resale or lease;
- 15 (27) "Rule," any rule promulgated by the director in accordance with chapter 1-26;
- 16 (28) "Sale of a franchise," any agreement whereby a person obtains a franchise from a  
17 franchise seller for value by purchase, license, or otherwise. The term does not  
18 include extending or renewing an existing franchise agreement if there has been no  
19 interruption in the franchisee's operation of the business, unless the new agreement  
20 contains terms and conditions that differ materially from the original agreement. The  
21 term also does not include the transfer of a franchise by an existing franchisee if the  
22 franchisor has had no significant involvement with the prospective transferee. A  
23 franchisor's approval or disapproval of a transfer alone is not deemed to be significant  
24 involvement;

1 (29) "Signature," a person's affirmative method of authenticating his or her identity. The  
2 term includes a person's handwritten signature, as well as a person's use of security  
3 codes, passwords, electronic signatures, and similar devices to authenticate his or her  
4 identity;

5 (30) "Trademark," any trademark, service mark, name, logo, and other commercial  
6 symbol;

7 (31) "Willfully," if applied to the intent with which an act is done or omitted, implies  
8 simply a purpose or willingness to commit the act, or make the omission referred to.  
9 The term does not require any intent to violate law, or to injure another, or to acquire  
10 any advantage;

11 (32) "Written or in writing," any document or information in printed form or in any form  
12 capable of being preserved in tangible form and read. The term includes: type-set,  
13 word processed, or handwritten document; information on computer disk or  
14 CD-ROM; information sent via email; or information posted on the internet. The  
15 term does not include mere oral statements.

16 Section 2. This Act applies to any franchise that is offered or sold in this state. A franchise  
17 is offered in this state if:

- 18 (1) An offer to sell is made in this state;
- 19 (2) The offer originates from within this state; or
- 20 (3) The offer is directed by the offeror into this state from outside this state and is  
21 received where directed.

22 A franchise is sold in this state if the offer to sell is accepted in this state.

23 A franchise is offered or sold in this state if the franchise is offered or sold to a resident of  
24 this state and the franchise is to be operated in this state, or, if the franchisee is domiciled in this

1 state when the franchised business is or will be operated in this state.

2 Section 3. An offer to sell is not made in this state solely because the offer appears in a  
3 newspaper or other publication of general and regular circulation which had more than two-  
4 thirds of its circulation outside this state during the past twelve months or solely because the  
5 offer appears in a broadcast or transmission originating outside this state.

6 An offer to sell or to purchase is not made in this state if the offer to sell is made over the  
7 internet or similar proprietary or common carrier electronic system if the following conditions  
8 are met:

- 9 (1) The internet offer indicates that the franchise is not being offered to residents of  
10 South Dakota;
- 11 (2) The internet offer is not directed to any person in South Dakota by or on behalf of the  
12 franchisor or anyone acting with the franchisor's knowledge; and
- 13 (3) No franchise is sold in South Dakota by or on behalf of the franchisor until the  
14 offering has been filed by notice and the franchise disclosure document has been  
15 delivered to the purchaser prior to the sale and in compliance with this Act.

16 An offer or sale of a franchise is not made in this state if the offer or sale is made to a person  
17 not a resident of this state, if the franchise will not be located in this state, and if the offer or sale  
18 does not constitute a violation of the laws of the state or foreign jurisdiction in which the offeree  
19 or purchaser is present and is not part of an unlawful attempt to evade this Act.

20 Section 4. It is unlawful for any person to offer or sell a franchise in this state unless the  
21 franchise has properly notice filed under this Act or is exempt from notice filing pursuant to  
22 sections 12 to 15, inclusive, of this Act.

23 Section 5. An initial application for the notice filing of a franchise shall be made by filing  
24 with the director of the Division of Securities a franchise notice filing application and one clean

1 copy of the disclosure document and consent to service of process, accompanied by a fee of two  
2 hundred fifty dollars.

3 If after considering identified conditions and events and management's plans, the auditor  
4 concludes that there is substantial doubt about the franchisor's ability to continue as a going  
5 concern for a reasonable period of time, the director shall be notified by separate letter as to the  
6 going concern issue with the notice filing application.

7 After a notice filing becomes effective, the applicant has a continuing obligation to notify  
8 the director of a going concern within fifteen days after the auditor concludes there is a going  
9 concern.

10 Except as otherwise provided in this section, if no order or injunction pursuant to section  
11 41 or 48 of this Act is in effect, and the filing is complete as required by this section, a notice  
12 filing is effective upon receipt by the director.

13 If the director requires the submission of additional information pursuant to section 6 or 36  
14 of this Act, and if no order or injunction pursuant to section 41 or 48 of this Act is in effect, the  
15 notice filing becomes effective on the fifteenth business day after the additional information is  
16 filed with and approved by the director, or at such earlier time as the director determines, unless  
17 the applicant requests postponement of the effectiveness of the notice filing. Business day  
18 means any day on which state offices are open for regular business.

19 The notice filing of a franchise under this Act expires one year following the date of receipt  
20 of the initial application, unless the director prescribes a different period by rule or order. A  
21 notice filing may be renewed for one year or a shorter period if designated by the director by  
22 filing an application to renew in the same manner as set forth in this section, except that the  
23 renewal fee is one hundred fifty dollars. Any filing received after the expiration date shall be  
24 treated as an initial filing subject to a filing fee of two hundred fifty dollars.

1 An applicant may withdraw a notice filing if the applicant files a written request for  
2 withdrawal with the director. Withdrawal is effective fifteen days from the day on which the  
3 withdrawal request is filed unless a shorter period is designated by the director.

4 The director may by rule or order construe any public offering, disclosure document, or  
5 similar statement which complies with the requirements of any federal law or administrative  
6 rule or with the law of any other state requiring substantially the same disclosure of information  
7 as is required by this Act to be in full or partial compliance with this section.

8 The director may by rule or order provide that any information required in the disclosure  
9 document need not be included by any class of franchisors if the director finds that the  
10 information is inappropriate to the class and that disclosure adequate for the protection of  
11 prospective franchisees is otherwise included within the disclosure document.

12 The director may accept any disclosure document or other document filed with the director  
13 in an electronic format that is readily accessible by the Division of Securities' then existing  
14 electronic systems and in a format that can be downloaded, printed, or otherwise maintained as  
15 a record for future reference. If the director accepts electronic filings, the director shall publish  
16 a notice on the division's website stating the acceptance of electronic filing and the electronic  
17 format to be used.

18 If the franchisor is unable to demonstrate to the director the franchisor's financial ability to  
19 fulfill its initial obligations to franchisees, the director may require an escrow of funds paid by  
20 the franchisee to the franchisor or its affiliate until the franchisor performs its initial obligations  
21 and the franchisee has commenced operations. The director may allow alternatives to escrow  
22 depending upon the various facts presented on a case by case basis.

23 Section 6. The director may require the franchisor to alter or amend the proposed disclosure  
24 document in order to assure full and fair disclosure to prospective purchasers.

1 Section 7. There is no filing required with the division for updating disclosure documents;  
2 but disclosure information shall be updated as follows:

3 (1) Any information in the disclosure document shall be current as of the close of the  
4 franchisor's most recent fiscal year. After the close of the fiscal year, the franchisor  
5 shall, within one hundred twenty days, prepare a revised disclosure document, after  
6 which a franchise seller may distribute only the revised document and no other  
7 disclosure document;

8 (2) The franchisor shall, within a reasonable time after the close of each quarter of the  
9 fiscal year, prepare revisions to be attached to the disclosure document to reflect any  
10 material change to the disclosures included, or required to be included, in the  
11 disclosure document. Each prospective franchisee shall receive the disclosure  
12 document and the quarterly revisions for the most recent period available at the time  
13 of disclosure;

14 (3) If applicable, the annual update shall include the franchisor's first quarterly update,  
15 either by incorporating the quarterly update information into the disclosure document  
16 itself, or through an addendum;

17 (4) When furnishing a disclosure document, the franchise seller shall notify the  
18 prospective franchisee of any material changes that the seller knows or should have  
19 known occurred in the information contained in any financial performance  
20 presentation; and

21 (5) Information that must be audited pursuant to the disclosure requirements need not be  
22 audited for quarterly revisions if the franchisor states in immediate conjunction with  
23 the information that the information was not audited.

24 Section 8. For the purposes of section 7 of this Act, a start-up franchise system that does not

1 yet have audited financial statements, may phase-in the use of audited financial statements by  
2 providing, at a minimum, the following statements in the times indicated below:

- 3 (1) The franchisor's first partial or full fiscal year selling franchises: an unaudited  
4 opening balance sheet;
- 5 (2) The franchisor's second fiscal year selling franchises: audited balance sheet opinion  
6 as of the end of the first partial or full fiscal year selling franchises; and
- 7 (3) The franchisor's third and subsequent fiscal years selling franchises: all required  
8 financial statements for the previous fiscal year, plus any previously disclosed  
9 audited statements that still must be disclosed such as the franchisor's balance sheet  
10 for the previous two fiscal year-ends before the disclosure document issuance date  
11 and statements of operations, stockholders equity, and cash flows for each of the  
12 franchisor's previous three fiscal years.

13 Section 9. For the purposes of section 7 of this Act, a start-up franchisor may phase-in the  
14 disclosure of audited financial statements, if the franchisor:

- 15 (1) Prepares audited financial statements as soon as practicable;
- 16 (2) Prepares unaudited statements in a format that conforms as closely as possible to  
17 audited statements; and
- 18 (3) Includes one or more years of unaudited financial statements or clearly and  
19 conspicuously discloses in the disclosure document that the franchisor has not been  
20 in business for three years or more, and cannot include all of the financial statements  
21 required in the disclosure document such as the franchisor's balance sheet for the  
22 previous two fiscal year-ends before the disclosure document issuance date and  
23 statements of operations, stockholders equity, and cash flows for each of the  
24 franchisor's previous three fiscal years.

1 Section 10. This Act does not prevent the negotiation of the terms and conditions of a  
2 franchise before it is sold. After the initial offer, a franchisor need not amend its disclosure  
3 document to negotiate with an offeree, or make supplementary disclosure to that offeree, by  
4 reason of a change negotiated in the terms and conditions of a franchise.

5 Section 11. The person offering or selling any franchise subject to the requirements of  
6 sections 17 and 18 of this Act shall obtain a receipt, signed by the prospective franchisee,  
7 acknowledging that the prospective franchisee has received a copy of the disclosure document  
8 prior to the prospective franchisee affixing a signature to any franchise or other agreement and  
9 prior to the payment of any consideration by the prospective franchisee. The receipt shall be  
10 kept in the possession of the franchise seller, subject to inspection by the director, for a period  
11 of three years from the date the receipt is taken.

12 Section 12. The following are exempt from this Act:

- 13 (1) Any franchise relationship covered by the Petroleum Marketing Practices Act, 15  
14 U.S.C. 2801, as of January 1, 2008;
- 15 (2) Any franchise relationship where there is no written document that describes any  
16 material term or aspect of the relationship or arrangement;
- 17 (3) Any fractional franchise;
- 18 (4) Any leased department;
- 19 (5) The total of the required payments, or commitments to make a required payment, to  
20 the franchisor or an affiliate that are made any time from before to within six months  
21 after commencing operation of the franchisee's business is less than five hundred  
22 dollars;
- 23 (6) Any franchise relationship covering farm machinery, motor vehicles, or recreational  
24 vehicles, including snowmobiles, motorcycles, motor homes, mobile homes, and

1 manufactured homes.

2 Section 13. The following franchises are subject to this Act but are exempt from sections  
3 4 and 17 of this Act, if any of the following conditions are satisfied:

4 (1) The franchisee's initial investment, excluding any financing received from the  
5 franchisor or an affiliate, and excluding the cost of unimproved land, totals at least  
6 one million dollars and the prospective franchisee signs an acknowledgment  
7 verifying the grounds for the exemption. The acknowledgment shall state: The  
8 franchise sale is for more than one million dollars, excluding the cost of unimproved  
9 land and any financing received from the franchisor or an affiliate;

10 (2) The franchisee (or its parent or any affiliates) is an entity that has been in business  
11 for at least five years and has a net worth of at least five million dollars; or

12 (3) The offer or sale of a franchise by an executor, administrator, sheriff, marshal,  
13 receiver, trustee, trustee in bankruptcy, guardian, or conservator on behalf of a person  
14 other than the franchisor or the estate of the franchisor; or

15 (4) One or more purchasers of at least a fifty percent ownership interest in the franchise;  
16 within sixty days of the sale, has been, for at least two years, an officer, director,  
17 general partner, individual with management responsibility for the offer and sale of  
18 the franchisor's franchises or the administrator of the franchised network; or within  
19 sixty days of the sale, has been, for at least two years, an owner of at least a twenty-  
20 five percent interest in the franchise.

21 Section 14. The following franchises are subject to this Act but are exempt from section 4  
22 of this Act if any of the following conditions are satisfied:

23 (1) The offer or sale to an existing franchisee of an additional franchise that is  
24 substantially the same as the franchise that the franchisee has operated for at least two

1 years at the time of the offer or sale; or

2 (2) The offer or sale of a franchise to a bank, saving and loan association, financial  
3 organization or life insurance corporation within the meanings given these terms by  
4 chapters 43-41B, 52-1, and 58-1.

5 Section 15. The director may by rule or order exclude the offer and sale of a franchise from  
6 the requirements of sections 4 and 17 of this Act if the filing or disclosure is not necessary or  
7 appropriate in the public interest or for the protection of prospective franchisees.

8 Section 16. For purposes of the exemptions set forth in subdivision (5) of section 12 of this  
9 Act and subdivisions (1) and (2) of section 13 of this Act, the director may adjust by rule or  
10 order the size of the thresholds.

11 Section 17. In connection with the offer or sale of a franchise in this state, unless the  
12 transaction is exempted by the provisions of sections 12 to 16, inclusive, of this Act, it is a  
13 prohibited practice and a violation of this Act for any person, directly or indirectly, to:

14 (1) Fail to furnish a prospective franchisee with a copy of the franchisor's current  
15 disclosure document at least fourteen calendar-days before the prospective franchisee  
16 signs a binding agreement with, or makes any payment to, the franchisor or an  
17 affiliate in connection with the proposed franchise sale;

18 (2) Alter unilaterally and materially the terms and conditions of the basic franchise  
19 agreement or any related agreements attached to the disclosure document without  
20 furnishing the prospective franchisee with a copy of each revised agreement at least  
21 seven calendar-days before the prospective franchisee signs the revised agreement.

22 Any change to an agreement that arises out of negotiations initiated by the  
23 prospective franchisee does not trigger this seven calendar-day period; or

24 (3) Fail to include all of the information required in the disclosure document if preparing

1 the disclosure document to be furnished to a prospective franchisee. A franchise  
2 seller is liable for a violation of this subdivision if the seller either directly  
3 participated in the preparation of the disclosure document or had the authority to  
4 control those who did.

5 Section 18. For purposes of subdivision (1) and (2) of section 17 of this Act, the franchisor  
6 has furnished the disclosure documents by the required date if:

- 7 (1) A copy of the disclosure document was hand-delivered, faxed, e-mailed, or otherwise  
8 delivered to the prospective franchisee by the required date;
- 9 (2) Directions for accessing the disclosure document on the internet were provided to the  
10 prospective franchisee by the required date; or
- 11 (3) A paper or tangible electronic copy was sent to the address specified by the  
12 prospective franchisee by first-class United States mail at least three days before the  
13 required date.

14 Section 19. Every franchisor offering or selling a franchise in this state shall maintain  
15 complete and accurate books and records of the offers and sales of franchises. The books and  
16 records shall include all of the disclosure documents and advertising and correspondence that  
17 have been used with franchisees and prospective franchisees including past and present  
18 operations manuals, training records, training manuals, copies of executed agreements, and any  
19 due diligence records concerning franchisees. The books and records shall be maintained at an  
20 office readily accessible to the franchisor for three years. The books and records may be kept  
21 on photographic or electronic media but shall be printed if the director requests.

22 Section 20. In any proceeding under this Act the burden of proving an exemption is upon  
23 the person claiming it.

24 Section 21. A written provision in a franchise contract evidencing a transaction involving

1 commerce to settle by arbitration a controversy thereafter arising out of the contract or  
2 transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing  
3 to submit to arbitration an existing controversy arising out of the contract, transaction, or  
4 refusal, is valid, irrevocable, and enforceable except upon such grounds as exist at law or in  
5 equity for the revocation of any contract. However, any condition, stipulation, or provision  
6 requiring a franchisee to waive compliance with or relieving a person of a duty or liability  
7 imposed by or a right provided by this Act or a rule or order under this Act is void.

8 Section 22. Each applicant for notice filing under this Act, and each franchisor on whose  
9 behalf an application for notice filing is filed, except any applicant and franchisor which are  
10 domestic South Dakota entities, shall file with the director an irrevocable consent to service of  
11 process.

12 The irrevocable consent to service shall be in such form as the director may prescribe. The  
13 irrevocable consent to service of process shall appoint the director to be the applicant's or  
14 franchisor's agent to receive service of any lawful process in any civil action against the  
15 applicant or franchisor or their successor, executor, or administrator, which arises under this Act  
16 or any rule or order thereunder.

17 After the irrevocable consent to service of process has been filed, it has the same force and  
18 validity as if served personally on the applicant or franchisor or their successor, executor, or  
19 administrator.

20 If any person, including any nonresident of this state and any foreign corporation, or other  
21 entity engages in conduct prohibited or made actionable by this Act, whether or not they have  
22 filed a consent to service of process pursuant to this section, and personal jurisdiction over them  
23 cannot otherwise be obtained in this state, that conduct shall be considered equivalent to their  
24 appointment of the director to be their agent to receive service of any lawful process in any suit

1 against them or their successors, executor, or administrator which grows out of that conduct and  
2 which is brought under this Act, with the same force and validity as if served on them  
3 personally.

4 If, under this section, the director is an agent to receive process, service may be made by  
5 leaving a copy of the process in the office of the director as follows:

6 (1) The process is not effective unless the plaintiff, who may be the director in an action  
7 instituted by the director, forthwith sends notice of the service and a copy of the  
8 process by certified mail to the defendant, or forthwith sends notice of the service and  
9 a copy of the process to the respondent at their last known address on file with the  
10 director; and

11 (2) The plaintiff's affidavit of compliance with this section is filed with the court at the  
12 time as the filing of the complaint.

13 Section 23. No person may publish or cause to be published in this state any advertisement  
14 concerning any franchise after the director has found that the advertisement contains any  
15 statement that is false or misleading or omits to make any statement necessary in order to make  
16 the statements made, in light of the circumstances under which they were made, not misleading,  
17 and has so notified the person by written order. The director may issue an order without prior  
18 notice or hearing.

19 After the issuance of an order, the person desiring to use the advertisement may, in writing,  
20 request a hearing on the order. Upon the receipt of the written request, the director shall set a  
21 hearing to commence within fifteen days after the receipt of the request unless the person  
22 making the request consents to a later date. After the hearing, which shall be conducted in  
23 accordance with chapter 1-26, the director shall, by written order, either affirm, modify, or  
24 vacate the order.

1 Unless the director requests the filing of an advertisement, there is no requirement to file  
2 advertising with the division.

3 Section 24. No person may, directly or indirectly, employ a device, scheme, or artifice to  
4 defraud in connection with the offer or sale of a franchise. A violation of this section is a  
5 fraudulent practice and a Class 4 felony.

6 Section 25. No person may, directly or indirectly, in connection with the offer or sale of a  
7 franchise willfully:

8 (1) Make an untrue statement of material fact or omit to state a material fact necessary  
9 in order to make the statements made, in the light of the circumstances under which  
10 they are made, not misleading;

11 (2) Engage in an act, practice, or course of business which operates or would operate as  
12 a fraud or deceit on a person;

13 (3) Represent to a prospective franchisee that the notice filing of a franchise application  
14 constitutes a finding by the director that a disclosure document filed under this Act  
15 is true, complete, and not misleading or that the director has passed upon the merits  
16 of the disclosure document and the franchise;

17 (4) Violate an order of the director after the person receives notice that the order was  
18 issued;

19 (5) Misrepresent that a franchise is notice filed or exempted from notice filing under this  
20 Act; and

21 (6) Omit to state a material fact or make or cause to be made an untrue statement of a  
22 material fact in any application, notice, or report filed with the director under this  
23 Act.

24 A violation of this section is a Class 6 felony.

1 Section 26. No person may, directly or indirectly, in connection with the offer or sale of a  
2 franchise:

3 (1) Make any claim or representation, orally, visually, or in writing, that contradicts the  
4 information required to be in the disclosure document;

5 (2) Misrepresent that any person:

6 (a) Purchased a franchise from the franchisor or operated a franchise of the type  
7 offered by the franchisor; or

8 (b) Can provide an independent and reliable report about the franchise or the  
9 experiences of any current or former franchisees;

10 (3) Disseminate any financial performance representations to prospective franchisees  
11 unless the franchisor has a reasonable basis and written substantiation for the  
12 representation at the time the representation is made, and the representation is  
13 included in the franchisor's disclosure document and the franchise seller:

14 (a) Discloses the dates when the reported level of financial performance was  
15 achieved and of those outlets whose data were used in arriving at the  
16 representation, and the number and percent that actually attained or surpassed  
17 the stated results if the representation relates to the past performance of the  
18 franchisor's outlets; and

19 (b) Includes a clear and conspicuous admonition that a new franchisee's individual  
20 financial results may differ from the result stated in the financial performance  
21 representation;

22 (4) Fail to make available to prospective franchisees, and to the director upon reasonable  
23 request, written substantiation for any financial performance representations made  
24 in the disclosure document;

- 1 (5) Fail to furnish a copy of the franchisor's disclosure document to a prospective  
2 franchisee earlier in the sales process than required by section 17 of this Act, upon  
3 reasonable request;
- 4 (6) Fail to furnish a copy of the franchisor's most recent disclosure document and any  
5 quarterly updates to a prospective franchisee, upon reasonable request, before the  
6 prospective franchisee signs a franchise agreement;
- 7 (7) Present for signing a franchise agreement in which the terms and conditions differ  
8 materially from those presented as an attachment to the disclosure document, unless  
9 the franchise seller informed the prospective franchisee of the differences at least  
10 seven days before execution of the franchise agreement;
- 11 (8) Disclaim or require a prospective franchisee to waive reliance on any representation  
12 made in the disclosure document or in its exhibits or amendments. However, this  
13 provision is not intended to prevent a prospective franchisee from voluntarily  
14 waiving specific contractual terms and conditions set forth in his or her disclosure  
15 document during the course of franchise sale negotiations; and
- 16 (9) Fail to return any funds or deposits in accordance with any conditions disclosed in  
17 the franchisor's disclosure document, franchise agreement, or any related document.

18 Section 27. The director may not approve or express any opinion on the legality of any  
19 matter a franchisor may be required to disclose under this Act.

20 Section 28. The director shall administer this Act.

21 Section 29. The director may promulgate rules pursuant to chapter 1-26 to carry out the  
22 provisions of this Act including forms governing disclosure documents, applications, financial  
23 statements, and defining any terms, whether or not used in this Act, if the definitions are not  
24 inconsistent with this Act. For the purpose of rules the director may classify franchises, persons

1 and matters within the director's jurisdiction, and prescribe different requirements for different  
2 classes.

3 Section 30. The director may, upon request and upon payment of a fee of fifty dollars,  
4 respond to requests for interpretive opinions relating to this Act.

5 Section 31. A document is filed when it is received by the director.

6 Section 32. The director shall maintain a record which shows the notice filed franchise and  
7 for whom filed, and shall specify the conditions, limitations, and restrictions upon the filing, if  
8 any, or shall make proper reference to a formal order of the director on file showing the  
9 conditions, limitations, and restrictions.

10 Section 33. Each application, notice and report filed with the director under this Act is open  
11 to public inspection in accordance with rules prescribed by the director. The director may  
12 publish information filed with the director or obtained by the director, if, in the judgment of the  
13 director, such action is in the public interest.

14 No record obtained by the director pursuant to section 35 of this Act is open to public  
15 inspection.

16 Section 34. The director shall upon request furnish copies to any person, at a reasonable  
17 charge, certified under the director's seal of office if certification is requested, of any notice  
18 filing, application and order on file in the director's office. Any copy so certified is admissible  
19 in evidence under chapter 19-4.

20 Section 35. The director may make such public or private investigations within or outside  
21 of this state as the director deems necessary to determine if any person has violated or is about  
22 to violate any rule, order, or provision under this Act or to aid in the enforcement of this Act and  
23 in the prescribing of rules and forms under this Act. The director may publish information  
24 concerning the violation of any rule, order, or provision under this Act.

1 Section 36. The director may make a written request to any person for information  
2 concerning any investigation being conducted by the director. Failure to respond fully and  
3 completely to such a request within fifteen days after receipt thereof constitutes cause for the  
4 issuance of a cease and desist order.

5 Section 37. For the purpose of any investigation or proceeding under this Act, the director  
6 or any person designated by the director may administer oaths and affirmations, subpoena  
7 witnesses and compel their attendance, take evidence and require the production of any books,  
8 papers, correspondence, memoranda, agreements, or other documents or records which the  
9 director deems relevant or material to the inquiry.

10 Any order of the director shall be served by mailing a copy thereof by certified mail to the  
11 most recent address of the recipient of the order as it appears in the files of the director. Any  
12 subpoena shall be served in the same manner as provided in civil actions in circuit court.

13 No provision of this Act either creates any privilege or derogates from any privilege which  
14 exists at common law or otherwise, if documentary or other evidence is sought under a  
15 subpoena directed to the director or any of the director's officers or employees.

16 If any person refuses to obey a subpoena, the circuit court, upon application by the director,  
17 may issue an order directing the person to appear before the director, or the officer designated  
18 by the director, to produce documentary evidence if so ordered, or to give evidence on the  
19 matter under investigation or in question. Failure to obey the order of the court is punishable by  
20 the court as a contempt of court.

21 Section 38. No person is excused from attending and testifying or from producing any  
22 document or record before the director, in obedience to a subpoena of the director or any person  
23 designated by the director in any proceeding instituted by the director, on the grounds that the  
24 testimony or evidence required of the director may tend to incriminate the person or subject the

1 person to a penalty or forfeiture. No person may be prosecuted or subjected to any penalty or  
2 forfeiture on account of any transaction, matter, or thing concerning which the person is  
3 compelled, after claiming the privilege against self-incrimination, to testify or produce evidence.  
4 However, the person testifying is not exempt from prosecution and punishment for perjury or  
5 contempt committed in testifying.

6 Section 39. It is a Class 2 misdemeanor for the director or any of the director's officers or  
7 employees to use for personal benefit any information which is filed with or obtained by the  
8 director and which is not generally available to the public. Nothing in this Act authorizes the  
9 director or any of the director's officers or employees to disclose any confidential information  
10 except among themselves or to other administrators or regulatory authorities or if necessary or  
11 appropriate in a proceeding or investigation under this Act.

12 Section 40. To encourage uniformity in franchise matters among the federal government,  
13 self-regulatory organizations, states and foreign governments, the director may cooperate with  
14 federal, state or foreign agencies or administrators and law enforcement agencies, including:

- 15 (1) Conducting joint examinations and investigations;
- 16 (2) Holding joint administrative hearings;
- 17 (3) Filing and prosecuting joint civil or administrative proceedings;
- 18 (4) Sharing and exchanging information and documents;
- 19 (5) Sharing and exchanging personnel;
- 20 (6) Formulating statutes, rules, regulations, statements of policy, guidelines, proposed  
21 statutory changes and interpretive opinions and releases; and
- 22 (7) Issuing and enforcing subpoenas at the request of the Federal Trade Commission or  
23 an agency administering franchise statutes in another jurisdiction if the information  
24 sought would also be subject to lawful subpoena for conduct occurring in this state.

1 Section 41. The director, with or without prior notice or hearing, may issue a cease and  
2 desist order and may issue an order denying, suspending, or revoking any notice filing,  
3 amendment, or exemption if the director finds:

4 (1) That the applicant, or franchisor or any officer, director, agent, or employee thereof  
5 or any other person has violated or failed to comply with any provision of this Act  
6 or any rule or order of the director;

7 (2) That the offer, sale, or purchase of the franchise would constitute misrepresentation  
8 to, or deceit or fraud upon, purchasers thereof, or has worked or tended to work a  
9 fraud upon purchasers or would so operate;

10 (3) That the applicant, or franchisor or any officer, director, agent, or employee thereof  
11 or any other person is engaging or is about to engage in false, fraudulent, or deceptive  
12 practices in connection with the offer and sale of a franchise;

13 (4) That any person identified in the disclosure document has been convicted of or had  
14 a civil judgment entered against him or her for fraud, theft, fraudulent conversion,  
15 restraint of trade, unfair or deceptive practices or misappropriation of property, or is  
16 subject to an order issued, after notice and opportunity for hearing, by a state or  
17 federal regulatory agency and the involvement of the person in the business of the  
18 applicant or franchisor creates a substantial risk to prospective franchisees;

19 (5) That the financial condition of the franchisor adversely affects or would adversely  
20 affect the ability of the franchisor to fulfill its obligations under the franchise  
21 agreement; or

22 (6) That the franchisor's enterprise or method of business includes or would include  
23 activities which are illegal where performed.

24 Section 42. As an alternative to the procedure prescribed in section 41 of this Act, the

1 director may issue an order to show cause setting a hearing and requiring an applicant, notice  
2 filer, franchisor, or other person to appear and show cause why a cease and desist order should  
3 not be issued, or why an order denying, suspending, or revoking a notice filing, amendment, or  
4 exemption should not be issued. The order shall give reasonable notice of the time and place for  
5 hearing, and shall state the reasons for the entry of the order. The hearing shall be conducted in  
6 accordance with chapter 1-26. After the hearing, the director shall enter an order making such  
7 disposition of the matter as the facts require.

8 Section 43. The director may impose a civil penalty against a person named in an order  
9 issued pursuant to subdivisions (1) to (3), inclusive, and subdivision (6) of section 41 of this Act.  
10 The amount of the civil penalty may not exceed five thousand dollars for each act or omission  
11 that constitutes the basis for issuing the order. The civil penalty may only be imposed:

- 12 (1) Following an opportunity for a hearing pursuant to section 44 of this Act if the notice  
13 delivered to all named persons includes notice of the director's authority to impose  
14 a civil penalty under this section; or
- 15 (2) As part of an order issued pursuant to subdivisions (1) to (3), inclusive and  
16 subdivision (6) of section 41 of this Act, if the order is stipulated to by each person  
17 subject to the civil penalty.

18 Any civil penalty collected pursuant to this section shall be deposited into the state general  
19 fund.

20 Section 44. Upon the entry of an order pursuant to section 41 of this Act without a hearing,  
21 the director of the Division of Securities shall promptly serve a copy of the order upon the  
22 subject applicant, franchisor, or other person. The order shall state the reasons for its issuance  
23 and shall either order a hearing, which shall be set for no later than twenty days from the date  
24 of the order, or specify that upon the written request of the applicant, franchisor, or other person,

1 the matter will be set for hearing within fifteen days after receipt of the request. With the  
2 consent of the applicant, franchisor, or other person a hearing may be held subsequent to the  
3 expiration of either period specified in this section. On all orders of the director which do not  
4 fix the date for hearing, the interested person may within thirty days demand a hearing on the  
5 order.

6 Section 45. If no hearing is requested and none is ordered by the director, an order entered  
7 pursuant to section 41 of this Act without a hearing shall remain in effect until it is modified or  
8 vacated by the director.

9 Section 46. If a hearing is requested or ordered, the director, after notice and hearing held  
10 in accordance with chapter 1-26 shall affirm, modify, or vacate the order.

11 Section 47. If the director has reasonable cause to believe that any person has engaged or is  
12 about to engage in any act or practice constituting a violation of any provision of this Act or any  
13 rule or order thereunder, the director may, in addition to all other remedies, through the attorney  
14 general, with such assistance as the attorney general may request of the state's attorneys in the  
15 several counties, institute a civil action pursuant to section 49 of this Act.

16 Section 48. In addition to all other penalties and remedies provided by this Act, whether  
17 administrative or judicial in nature, the courts of this state have jurisdiction to grant such  
18 temporary or permanent injunctive relief as is necessary to prevent and restrain violations of this  
19 Act, and may upon a proper showing appoint a receiver for the property, assets, business, and  
20 affairs of a franchisor.

21 Section 49. A person who violates any provision of this Act or any rule or order thereunder  
22 is liable to the franchisee for actual damages, costs, and attorneys and experts fees. In the case  
23 of a violation of section 4, sections 7 to 9, inclusive, or section 17 of this Act, the franchisee  
24 may also sue for rescission. No person is liable under this section if the defendant proves that

1 the plaintiff affirmed the transaction with knowledge of the facts concerning the violation.

2 Each person who directly or indirectly controls a person liable under this section, each  
3 principal executive officer or director of a person so liable, each person occupying a similar  
4 status or performing similar functions, and each agent, employee of a person so liable, who  
5 materially aids in the act or transaction constituting the violation, is also liable jointly and  
6 severally with and to the same extent as such person, unless the person liable proves that he or  
7 she did not know, and in the exercise of reasonable care could not have known, of the existence  
8 of the facts by reason of which the liability is alleged to exist.

9 In any suit authorized by this section, other relief may be awarded as the court deems  
10 appropriate and the court may in its discretion, if the circumstances are sufficiently egregious,  
11 increase the award of damages to an amount not to exceed three times the actual damage  
12 sustained.

13 Except as explicitly provided in this section, no civil liability in favor of any private party  
14 may arise against any person by implication from or as a result of the violation of any provision  
15 of this Act or any rule or order thereunder. Nothing in this section limits any liability which  
16 would exist by virtue of any other statute or under common law if this Act were not in effect.

17 Section 50. No person may obtain relief for an action pursuant to section 49 of this Act:

18 (1) In an action for rescission pursuant to section 4, sections 7 to 9, inclusive, or section  
19 17 of this Act unless the action is instituted within one year after the violation  
20 occurred;

21 (2) In an action for actual damages, costs, and attorneys and experts fees unless instituted  
22 within the earlier of two years after discovery of the facts constituting the violation  
23 or three years after the violation; or

24 (3) Upon receipt by the franchisee of a rescission offer in a form approved by the director

1           unless the action is instituted within ninety days after the receipt by the franchisee of  
2           a rescission.

3           Section 51. That §§ 37-5A-1 to 37-5A-87, inclusive, be repealed.

4           Section 52. Any action or proceeding that is pending on July 1, 2008 or may be instituted  
5           on the basis of conduct occurring before July 1, 2008, is still subject to the provisions of chapter  
6           37-5A as of June 30, 2008. However, no civil action may be maintained to enforce any liability  
7           under chapter 37-5A unless instituted within any period of limitation that applied when the  
8           cause of action accrued or within three years after July 1, 2008, whichever is earlier.

9           Section 53. Any effective registration and administrative order relating to the registrations,  
10          rules, statements of policy, interpretative opinions, declaratory rulings, no action determinations,  
11          and conditions imposed on the registrations prior to July 1, 2008 remain in effect while they  
12          would have remained in effect if this Act had not been enacted. They are considered to have  
13          been filed, issued, or imposed under this Act, but are exclusively governed by chapter 37-5A  
14          as of June 30, 2008.

15          Section 54. Chapter 37-5A as of June 30, 2008, exclusively applies to an offer or sale made  
16          within one year after the effective date of this Act pursuant to an offering made in good faith  
17          before the effective date of this Act on the basis of an exemption available under chapter 37-5A.

18          Section 55. That § 37-25A-1 be amended to read as follows:

19          37-25A-1. Terms used in this chapter, unless the context otherwise requires, mean:

20          (1) "Advertising," any circular, prospectus, advertisement, or other material or any  
21                  communication by radio, television, pictures, or similar means used in connection  
22                  with an offer or sale of any business opportunity;

23          (2) "Business opportunity," a contract or agreement, between a seller and purchaser,  
24                  express or implied, orally or in writing, wherein it is agreed that the seller shall

1 provide to the purchaser any products, equipment, supplies, or services enabling the  
2 purchaser to start a business and the seller represents that:

3 (a) The seller shall provide or assist the purchaser in finding locations for the use  
4 or operation of vending machines, racks, display cases, or other similar  
5 devices, on premises neither owned nor leased by the purchaser or seller;

6 (b) The seller shall provide or assist the purchaser in finding outlets or accounts  
7 for the purchaser's products or services;

8 (c) The seller shall purchase any products made, produced, fabricated, grown,  
9 bred, or modified by the purchaser;

10 (d) The seller guarantees that the purchaser shall derive income from the business  
11 which exceeds the price paid to the seller;

12 (e) The seller shall refund all or part of the price paid to the seller, or repurchase  
13 any of the products, equipment, or supplies provided by the seller, if the  
14 purchaser is dissatisfied with the business; or

15 (f) The seller shall provide a marketing plan;

16 (3) "Director," the director of the division of securities;

17 (4) "Franchise," a contract or agreement as defined in ~~§ 37-5A-1~~ section 1 of this Act;

18 (5) "Franchisee," a person to whom a franchise is granted;

19 (6) "Franchisor," ~~a person who grants a franchise or an area franchise~~ franchisor as  
20 defined in section 1 of this Act;

21 (7) "Marketing plan," advice or training provided to the purchaser by the seller pertaining  
22 to the sale of any products, equipment, supplies, or services and the advice or training  
23 includes, but is not limited to, preparing or providing:

24 (a) Promotional literature, brochures, pamphlets, or advertising materials;

1 (b) Training regarding the promotion, operation, or management of the business  
2 opportunity; or

3 (c) Operational, managerial, technical, or financial guidelines or assistance;

4 (8) "Offer" or "offer to sell," includes every attempt to dispose of a business opportunity  
5 for value or solicitation of an offer to purchase a business opportunity;

6 (9) "On-going business," an existing business that, for at least six months prior to the  
7 offer, has been operated from a specific location, has been open for business to the  
8 general public and has substantially all of the equipment and supplies necessary for  
9 operating the business;

10 (10) "Person," an individual, corporation, trust, partnership, incorporated or  
11 unincorporated association or any other entity;

12 (11) "Purchaser," a person who enters into a contract or agreement for the acquisition of  
13 a business opportunity or a person to whom an offer to sell a business opportunity is  
14 directed;

15 (12) "Sale" or "sell," includes every contract or agreement of sale, contract to sell,  
16 disposition of a business opportunity or interest in a business opportunity for value;

17 (13) "Seller," a person who sells or offers to sell a business opportunity or any agent or  
18 person who directly or indirectly acts on behalf of such person or a person  
19 recommended by the seller.

20 Section 56. That § 37-25A-2 be amended to read as follows:

21 37-25A-2. For the purposes of this chapter, the term<sup>—</sup> "business opportunity,"<sup>—</sup> does not  
22 include:

23 (1) Any offer or sale of an on-going business operated by the seller and sold in its  
24 entirety;

- 1       (2) Any offer or sale of a business opportunity to an on-going business if the seller  
2           provides products, equipment, supplies, or services which are substantially similar  
3           to the products, equipment, supplies or services sold by the purchaser in connection  
4           with the purchaser's on-going business;
- 5       (3) Any offer or sale of a business opportunity which ~~is registered~~ has notice filed or is  
6           exempt from ~~registration~~ notice filing pursuant to ~~chapter 37-5A~~ sections 1 to 50,  
7           inclusive, of this Act or any offer or sale of a business opportunity that is excluded  
8           from the definition of business opportunity as set forth in 16 C.F.R. Part 437 as of  
9           January 1, 2008;
- 10      (4) Any offer or sale of a business opportunity registered pursuant to chapter 47-31B;
- 11      (5) Any offer or sale of a business opportunity involving a marketing plan made in  
12           conjunction with the licensing of a federally registered trademark or federally  
13           registered service mark if the seller had a minimum net worth of one million dollars  
14           as determined by the seller's most recent audited financial statement, prepared within  
15           thirteen months of the first offer in this state. Net worth may be determined on a  
16           consolidated basis if the seller is at least eighty percent owned by one person and that  
17           person expressly guarantees the obligations of the seller with regard to the offer or  
18           sale of any business opportunity claimed to be excluded under this subdivision;
- 19      (6) Any offer or sale of a business opportunity by an executor, administrator, sheriff,  
20           marshal, receiver, trustee in bankruptcy, guardian, or conservator or a judicial offer  
21           or sale of a business opportunity.

22      Section 57. That § 37-25A-3 be amended to read as follows:

23      37-25A-3. The following business opportunities are exempt from §§ 37-25A-7 to 37-25A-  
24      24, inclusive:

- 1       (1) Any offer or sale of a business opportunity for which the immediate cash payment  
2             made by the purchaser for any business opportunity is at least twenty-five thousand  
3             dollars if the immediate cash payment does not exceed twenty percent of the  
4             purchaser's net worth as determined exclusive of principal residence, furnishings  
5             therein, and automobiles. However, the director of the Division of Securities may,  
6             by rules adopted pursuant to chapter 1-26, withdraw or further condition the  
7             availability of this exemption;
- 8       (2) Any offer or sale of a business opportunity for which the purchaser is required to  
9             make a payment to the seller or a person recommended by the seller ~~not to exceed~~  
10            two that is less than five hundred fifty dollars during the period from any time before  
11            commencing operation to within six months after commencing operation of the  
12            business opportunity;
- 13       (3) Any offer or sale of a business opportunity if the seller has a net worth of not less  
14            than one million dollars as determined by the seller's most recent audited financial  
15            statement, prepared within thirteen months of the first offering in this state. Net  
16            worth may be determined on a consolidated basis if the seller is at least eighty  
17            percent owned by one person and that person expressly guarantees the obligations of  
18            the seller with regard to the offer or sale of any business opportunity claimed to be  
19            exempt under this subdivision. The director may, by rules adopted pursuant to  
20            chapter 1-26, withdraw or further condition the availability of this exemption;
- 21       (4) Any offer or sale of a business opportunity if the purchaser is a bank, savings and  
22            loan association, trust company, insurance company, credit union, or investment  
23            company as defined by the Investment Company Act of 1940, pension or profit  
24            sharing trust, or other financial institution or institutional buyer or a dealer registered

1 pursuant to chapter 47-31B, if the purchaser is acting for itself or in a fiduciary  
2 capacity;

3 (5) Any offer or sale of a business opportunity which is defined as a franchise in  
4 subdivision 37-25A-1(4) if the seller delivers to each purchaser at ~~the earlier of the~~  
5 ~~first personal meeting, or ten business~~ least fourteen calendar days prior to the earlier  
6 of the execution by a purchaser of any contract or agreement imposing a binding legal  
7 obligation on the purchaser or the payment by a purchaser of any consideration in  
8 connection with the offer or sale of the business opportunity, a ~~uniform franchise~~  
9 ~~offering circular prepared in accordance with the guidelines adopted by the North~~  
10 ~~American Securities Administrators Association, Inc., as amended through~~  
11 ~~September 21, 1983,~~ disclosure document as defined in section 1 of this Act and  
12 registered notice filed with the ~~division of securities~~ Division of Securities pursuant  
13 to ~~chapter 37-5A~~ sections 1 to 50, inclusive, of this Act, or any offer or sale of a  
14 business opportunity that is exempt from the disclosure requirements as set forth in  
15 16 C.F.R. Part 437 as of January 1, 2008;

16 (6) Any offer or sale of a business opportunity for which the cash payment made by a  
17 purchaser for any business opportunity does not exceed five hundred dollars and the  
18 payment is made for the not-for-profit sale of sales demonstration equipment,  
19 material, or samples, or the payment is made for product inventory sold to the  
20 purchaser at a bona fide wholesale price;

21 (7) Any offer or sale of a business opportunity which the director exempts by order or  
22 a class of business opportunities which the director exempts by rule upon the finding  
23 that such exemption is not contrary to public interest and that registration is not  
24 necessary or appropriate for the protection of purchasers.

1 Section 58. That § 37-25A-8 be amended to read as follows:

2 37-25A-8. In order to register a business opportunity, the seller shall file with the director  
3 of the Division of Securities one of the following disclosure documents with the appropriate  
4 cover sheet as required by § 37-25A-15, a consent to service of process as specified in § 37-  
5 25A-9 and the appropriate fee as required by § 37-25A-10:

6 (1) A ~~uniform franchise offering circular prepared in accordance with the guidelines~~  
7 ~~adopted by the North American Securities Administrators Association, Inc. and~~  
8 ~~registered with the division of securities pursuant to chapter 37-5A~~ disclosure  
9 document prepared pursuant to § 37-25A-15; or

10 (2) A disclosure document prepared pursuant to ~~§ 37-25A-15~~ 16 C.F.R. Part 437 as of  
11 January 1, 2008.

12 Section 59. That chapter 37-25A be amended by adding thereto a NEW SECTION to read  
13 as follows:

14 The director may impose a civil penalty against a person named in an order issued under  
15 § 37-25A-30 for violation of §§ 37-25A-7, and 37-25A-43 to 37-25A-46, inclusive. The amount  
16 of the civil penalty may not exceed five thousand dollars for each act or omission that  
17 constitutes the basis for issuing the order. Any civil penalty collected pursuant to this section  
18 shall be deposited into the state general fund. The civil penalty may only be imposed:

19 (1) Following an opportunity for a hearing under § 37-25A-30 if notice delivered to all  
20 named persons includes notice of the director's authority to impose a civil penalty  
21 under this section; or

22 (2) As part of an order issued pursuant to § 37-25A-30(1) if the order is stipulated to by  
23 each person subject to the civil penalty.

24 Section 60. That § 4-4-4.3 be amended to read as follows:

1        4-4-4.3. There is established within the state treasury the securities operating fund and the  
2 insurance operating fund, into which shall be deposited all fees received by each division. All  
3 moneys in the funds created by this section shall be budgeted and expended in accordance with  
4 the provisions of Title 4 on warrants drawn by the state auditor on vouchers approved by the  
5 secretary of the Department of Revenue and Regulation. Expenditures from these funds may be  
6 made only to pay the necessary expenses of purposes specified in sections 1 to 50, inclusive, of  
7 this Act, and chapters ~~37-5A~~, 37-25A, 47-31B, 47-33, and Title 58.