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ATTORNEYS & COUNSELORS AT LAW

MAD Money

Avoiding Costly Shareholder Disputes & Cannabis Regulations

Presented by
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Today's Presenters



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Cannabis Statutes Disclosure Requirements

- Michigan's medical and adult-use cannabis statutes disclosure requirements
 - Background checks
 - Who must disclose
 - Denial of qualifications and licensure

Who Must be Disclosed? Medical

- Individual – Names and address of applicants and their spouses
- Trust – Names and addresses of beneficiaries
- Privately-held corporation – Names and addresses of all shareholders, officers and directors



Continued

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Who Must be Disclosed? Medical

- Publicly-held corporation – Names and addresses of all shareholders holding direct or indirect interest greater than 10%, plus officers and directors
- Partnership or limited liability partnership – Names and addresses of all partners, general and limited
- Limited liability company – Names and addresses of all members and managers



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Who Must be Disclosed? Adult-Use

- Managerial employees
- Persons having more than 10% interest in the applicant
- Individual or sole proprietorship – Names and address of applicants and their spouses
- Partnership or limited liability partnership - Names and addresses of all partners and their spouses



Continued

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Who Must be Disclosed? Adult-Use

- Limited partnership and limited liability limited partnership – all general and limited partners holding direct or indirect interest of 10% or more and their spouses
- Limited liability company – Names and address of all members and managers holding direct or indirect interest of 10% or more and their spouses

Continued



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Who Must be Disclosed? Adult-Use

- Privately held corporation - all corporate officers or persons with equivalent titles and their spouses, all directors and their spouses, and all stockholders, holding direct or indirect ownership interest of 10% or more, and their spouses

Continued



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Who Must be Disclosed? Adult-Use

- Publicly held corporation - all corporate officers or persons with equivalent titles, all directors, and all stockholders holding direct or indirect ownership interest of 10% or more and their spouses
- Multilevel ownership enterprise - any entity or person that receives or has right to receive more than 10% of gross or net profit from enterprise during any full or partial calendar or fiscal year

Continued



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Who Must be Disclosed? Adult-Use

- Nonprofit corporation - all individuals and entities with membership or shareholder rights in accordance with articles of incorporation or bylaws and their spouses



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What Might Disqualify Applicants?

- Criminal history
- Denial of application in another jurisdiction
- Tax delinquencies
- Relations to public officials, elective offices
- Interests in other, specific state operating licenses



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What Might Disqualify Applicants?

- Provided other application with false information
- Bankruptcy
- Is involved in litigation related to business practices
- Not a resident of the state (time limited)
- Holds license in another regulated cannabis activity
- History of noncompliance in another regulated activity.



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When Organizing Your Operating Entity ...

- Do individuals meet qualification requirements?
- Are any of the applicants subject to potential disqualification?
- Have you conducted complete background checks?
- Are members, investors, managers, etc., compatible?
- Common problems

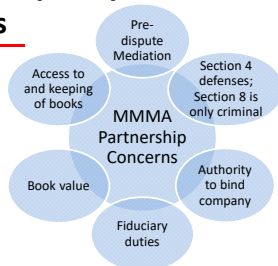


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Avoiding Shareholder Disputes



MMMA Partnership Disputes: Key Considerations



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MMMA: Key Defense for Contract Enforcement is Section 4



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MMMA Shareholder Disputes: Procedural Pitfalls



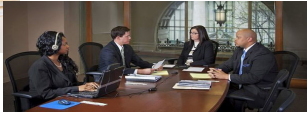
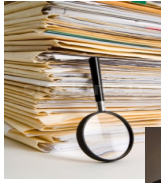
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Case Specifics: Bookkeeping



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Essential Discovery



Sample Interrogatories

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Case No. _____
Plaintiff: _____
Defendant: _____
Agency Case No. _____
Agency: _____

ADVERSE ADJUDICATIONS/INTERROGATORIES

Consistent with the Federal Rules of Civil Procedure, the following interrogatories are submitted to the Defendant for answers and production of documents and other evidence. The Defendant is required to answer these interrogatories and produce documents and other evidence in accordance with the Federal Rules of Civil Procedure, the Federal Rules of Evidence, and the Texas Rules of Civil Procedure. The Defendant is required to answer these interrogatories and produce documents and other evidence in accordance with the Federal Rules of Civil Procedure, the Federal Rules of Evidence, and the Texas Rules of Civil Procedure. The Defendant is required to answer these interrogatories and produce documents and other evidence in accordance with the Federal Rules of Civil Procedure, the Federal Rules of Evidence, and the Texas Rules of Civil Procedure.

DISCLOSURE

The Defendant is required to disclose all information that is relevant to the case, including information that is not in the Defendant's possession, custody, or control, but that is known or reasonably known by the Defendant. The Defendant is required to disclose all information that is relevant to the case, including information that is not in the Defendant's possession, custody, or control, but that is known or reasonably known by the Defendant. The Defendant is required to disclose all information that is relevant to the case, including information that is not in the Defendant's possession, custody, or control, but that is known or reasonably known by the Defendant.

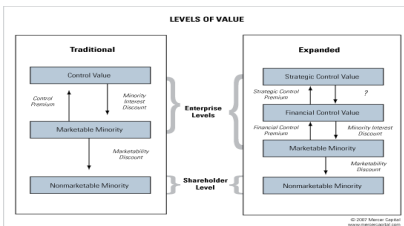
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Case Specifics: Arbitration and Arbitrability



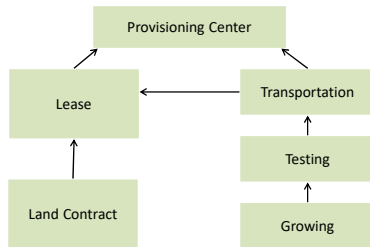
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Case Specifics: Normalized Adjustments & Book Value



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Key Consideration: Fiduciary Duties



Case Specifics: Failure to Comply



What Happens After Dispute Resolution?

Duty to Inform

Marihuana Regulatory Agency

- Under both statutes and set of regulations, licensees have duty to update MRA on significant changes – including makeup of operating entity.
- Does change in ownership or interests alter essential nature of operation?
- Do you have new members and, if so, do they qualify and have they been prequalified?
- Have you updated information on your renewal form?



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Penalties

- Deficiency notice – Opportunity to cure
- Suspension or loss of license
- Fines and penalties



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Questions?



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