

Regional Review Eligibility and Review Policies

Eligibility	<ul style="list-style-type: none"> • Regulation A offerings • SCOR Offerings
Review Policies	<p>Offerings will be reviewed for disclosure and for compliance with the following Statements of Policy. As discussed below, certain provisions of these policies may be waived or altered for Regional Review Offerings:</p> <ul style="list-style-type: none"> • Loans and Other Material Affiliated Transactions • Options and Warrants • Underwriting Expenses, Underwriting Warrants, Selling Expenses and Selling Security Holders • Promotional Shares • Impoundment of Proceeds • Use of Proceeds • Unsound Financial Condition • Preferred Stock • Unequal Voting Rights
Loans and Other Material Affiliated Transactions	<ul style="list-style-type: none"> • Waive compliance with §III, which requires independent directors if there have been or will be material affiliated transactions. It is very difficult for small companies, particularly at the SCOR offering stage, to obtain independent directors. • Focus on §§VI and VII requiring disclosure and that all future material affiliated transactions be ratified by a majority of the disinterested independent directors who have access, at the issuer's expense, to issuer's or independent legal counsel.
Options and Warrants	<ul style="list-style-type: none"> • Enforce as written. • Options and warrants are rarely an issue for SCOR offerings. • Key provision are §VII and §VIII. §VII limits the total number of options and warrants issued or reserved for issuance to 15% of the post-offering shares to be outstanding. Excluded from the 15% figure would be options and warrants: <ol style="list-style-type: none"> 1. issued to non-promoters pursuant to incentive stock option plans; and 2. with exercise prices at or above the public offering price.

	<ul style="list-style-type: none"> • §VIII provides that options and warrants, excluding those issued to non-promoters pursuant to incentive stock option plans, must be exercisable not later than 5 years from the effective date of the offering.
<p>Underwriting Expenses, Underwriting Warrants, Selling Expenses and Selling Security Holders</p>	<ul style="list-style-type: none"> • Apply as written, although, except for limit on selling expenses, this policy is largely irrelevant for self-underwritten offerings. • Note that §V concerning selling expenses can be used as a tool to impose a minimum offering amount when necessary. • Major features of the policy are: <ul style="list-style-type: none"> • Underwriting expenses calculated consistent with NASD regulations and capped at 17% of offering proceeds • Cash selling expenses limited to 20% of the offering proceeds • Underwriter’s warrants limited to 10% of the shares sold in the offering and must be exercised within 5 years of completion of the offering. • Selling security holders selling more than 10% of the shares sold in the offering must pay a pro rata share of all selling expenses, exclusive of legal and accounting fees. Above 50%, selling security holders must pay a pro rata share of all selling expenses. Note that in Regulation A Offerings, aggregate sales by officers and directors may not exceed \$1.5 million. Selling security holders may not utilize a regional SCOR offering because Rule 504 provides a federal exemption for issuers only.
<p>Promotional Shares</p>	<ul style="list-style-type: none"> • Enforce as written -- “Promotional Shares,” as defined by Policy regarding Corporate Securities Definitions, must be escrowed with a 3rd party escrow agent or subjected to a lock-in agreement. Offering are divided into two classes. Most SCOR and Regulation A offerings will fall under Class “B.” • Class A. If revenues are \$500,000 or more and the financial statements are not conditioned by a going concern opinion or footnote, shares may be released at the rate of 2½% per quarter beginning 1 year from the completion of the offering with the remainder being release 2 years from the completion of the offering. • Class B. All other issuers. Shares may be released at the rate of 2½% per quarter beginning 2 years from the completion of the offering with the remainder being released 4 years from the completion of the offering.

<p>Impoundment of Proceeds</p>	<ul style="list-style-type: none"> • Model escrow and lock-in agreements are available. • Apply as written. Impound agreements are frequently needed for SCOR and Regulation A offerings, which are often self-underwritten. • Impound agent must be a financial institution unaffiliated with the issuer, underwriters, or promoters. • Promoters and other insiders may purchase in the public offering to help meet the minimum offering amount if they purchase on the same terms as the public investors, the prospectus discloses that such purchases may occur, and the shares so purchased are escrowed or locked in pursuant to the terms of the Promotional Shares Policy Statement.
<p>Use of Proceeds</p>	<ul style="list-style-type: none"> • Apply as written. Note that this policy is generally not an issue for issuers using the SCOR format as the questions therein require a tabular presentation, disclosure of other sources of funds, etc. • Requires a tabular presentation of the use of proceeds. • Generally, no more than 15% of the proceeds can be reserved for working capital or general corporate purposes. • Must demonstrate that the proceeds will be sufficient to sustain the issuer’s proposed activities. • If not firmly underwritten, the issuer must set a minimum offering amount consistent with the business plan set forth in the prospectus.
<p>Unsound Financial Condition</p>	<ul style="list-style-type: none"> • Primary focus are the disclosure provisions of §VI. Virtually all SCOR and Regulation A issuers are in “unsound financial condition” as defined by the policy. Furthermore, these companies generally lack the resources or expertise to produce meaningful pro forma information. Instead focus on requiring a minimum offering amount (using the Policy Statements regarding Selling Expenses, Use of Proceeds, and Impoundment of Proceeds) sufficient to allow the company to make material progress on its business plan. §IV, allowing the Administrator to deny an offering of an issuer in unsound financial condition is retained, although this power should only be exercised in the most egregious situations where other investor protection methods, such as those discussed above, are insufficient.

Preferred Stock	<ul style="list-style-type: none"> • Apply as written. • Offerings of non-convertible preferred stock must demonstrate a positive earnings-to-fixed-charges-and-preferred-dividends ratio or positive cash flow from operating activities.
Unequal Voting Rights	<ul style="list-style-type: none"> • Apply as written. • Securities may not be offered with less than equal voting rights unless such securities have dividend and liquidation preferences or the offering is otherwise justified to the satisfaction of the administrator.