

Small Company Offering Registrations (SCOR) Statement of Policy

Adopted April 28, 1996; Amended May 19, 2019

I. Introduction

The following guidelines of the North American Securities Administrators Association, Inc. (“NASAA”) provide for the uniform treatment of Small Company Offering Registrations (“SCOR” offerings) which are exempt from federal registration under the Securities Act of 1933 pursuant to Rule 504 of Regulation D, Rule 147, or Rule 147A, to promote capital formation and are consistent with investor protection.

II. Application

The requirements contained in this Statement of Policy apply to registrations for offerings of up to \$5,000,000 in a twelve month period that utilize the SCOR Form (Form U-7) and are exempt from federal registration under (1) Rule 504 of Regulation D; (2) Rule 147 under the Securities Act of 1933; or (3) Rule 147A under the Securities Act of 1933.

III. Issuer Eligibility

Issuers seeking registration under this Statement of Policy must:

- A. Be an entity organized under the laws of the United States or Canada, or any State, Province, Territory or possession thereof, or the District of Columbia, with its principal place of business in the United States or Canada;
- B. Not be subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 or not be a reporting issuer under Canadian securities legislation;
- C. Not be an investment company registered or required to be registered under the Investment Company Act of 1940, or exempt from registration as such; not be excepted from the definition of an investment company under Section 3(c) of the Investment Company Act of 1940; or not be an investment fund under Canadian securities legislation;
- D. Not be issuing fractional undivided interests in oil or gas rights, or a similar interest in other mineral rights;
- E. Not be a development stage company that either has no specific business plan or purpose, or has indicated that its business plan is to merge with or acquire an unidentified company or companies; and
- F. Not be disqualified under Section VI of this Statement of Policy.

IV. Payment of Sales Commissions

Commissions, fees, or other remuneration for soliciting any prospective purchaser in connection with the offering in the state are only paid to persons who, if required to be registered or licensed, are appropriately registered or licensed in the state.

V. Financial Statements

- A. The issuer must file with the Securities Administrator (“Administrator”) and provide to investors annual financial statements, certified by the issuer’s chief executive officer and chief financial officer, or other individual serving in a similar capacity, to be true and complete in all material respects.
- B. The annual financial statements must be dated as of the end of the issuer's most recent fiscal year unless the issuer is newly organized and has not reached its fiscal year end, in which case the financial statements must be dated within one hundred twenty days prior to filing. If the date of the issuer’s most recent fiscal year end is more than one hundred twenty days prior to the date of filing, the issuer must also submit an unaudited balance sheet and unaudited statement of income or operations for the issuer's most recent fiscal quarter.
- C. The financial statements must be prepared in accordance with generally accepted accounting principles in the United States, and must include a balance sheet, statement of comprehensive income, statement of cash flows, statement of changes in stockholders’ equity and notes to the financial statements. If the issuer is organized under the laws of Canada or a province or territory of Canada, the issuer may alternatively provide equivalent financial statements that are prepared in accordance with generally accepted accounting principles in Canada. If the financial statements are not audited, they must be labeled as “unaudited.”
- D. The annual financial statements must meet the following standards:
 - 1. For offerings that have an aggregate offering amount of \$500,000 or less, the issuer may provide unaudited and unreviewed financial statements. If the issuer has obtained financial statements that have been compiled, reviewed, or audited by an independent certified public accountant, the issuer must provide those financial statements.
 - 2. For offerings that have an aggregate offering amount of more than \$500,000 but less than \$1,000,000, the financial statements must be compiled by an independent certified public accountant. If the issuer has obtained financial

statements that have either been reviewed or audited by an independent certified public accountant, the issuer must provide those financial statements.

3. For offerings that have an aggregate offering amount of \$1,000,000 to less than \$2,000,000, the financial statements must be reviewed by an independent certified public accountant. If the issuer has obtained financial statements that have been audited by an independent certified public accountant, the issuer must provide those financial statements.
4. For offerings that have an aggregate offering amount of \$2,000,000 or more, financial statements of the issuer must be audited by an independent certified public accountant.

VI. Bad Actor Disqualification

- A. Unless the Administrator determines that it is not necessary under the circumstances to disqualify an offering under this Section, registration under these guidelines is not available to an issuer if, in the United States, or in circumstances determined by the Administrator to be comparable in a foreign jurisdiction, to the extent applicable under the laws, rules, requirements, policies, or directives of that jurisdiction, the issuer, any of the issuer's predecessors, any affiliated issuer, any of the issuer's directors, executive officers, other officers participating in the offering, general partners, beneficial owners of twenty percent or more of any class of its equity securities, promoters presently connected with the issuer in any capacity, or any selling agents of the securities to be offered, or any executive officer or other officer participating in the offering, director, or partner of such selling agent:
 1. Within the last five years, has filed an application for registration which is the subject of a currently effective registration stop order entered pursuant to any federal or state securities law;
 2. Within the last ten years, has been convicted of any felony or misdemeanor in connection with the offer, purchase, or sale of any security or any felony involving fraud or deceit, including but not limited to forgery, embezzlement, obtaining money under false pretenses, larceny, or conspiracy to defraud;
 3. Is subject to court-imposed sanctions within the last five years due to a conviction on state, federal or international criminal charges for tax evasion or tax fraud, or is subject to any of the following in connection with such conviction: tax liens; court-ordered judgments; wage garnishments; bank levies; or treasury or refund offsets;
 4. Is currently subject to any order, judgment, or decree of any court of competent jurisdiction, entered within the last five years, temporarily,

preliminarily or permanently restraining or enjoining such party from engaging in or continuing any conduct or practice:

- a. In connection with the purchase or sale of any security;
 - b. Involving the making of any false filing with any state or the Securities and Exchange Commission; or
 - c. Arising out of the conduct of the business of an underwriter, broker, dealer, municipal securities dealer, investment adviser, or paid solicitor of purchasers of securities;
5. Is subject to an order of a state securities commission (or an agency or officer performing like functions); a state authority that supervises or examines banks, savings associations, or credit unions; a state insurance commission (or an agency or officer performing like functions); an appropriate federal banking agency; the U.S. Commodity Futures Trading Commission; or the National Credit Union Administration that:
- a. At the time of application, bars the person from:
 - i. Association with an entity regulated by such commission, authority, agency, or officer;
 - ii. Engaging in the business of securities, insurance, or banking; or
 - iii. Engaging in savings association or credit union activities; or
 - b. Constitutes a final order based on a violation of any law or regulation that prohibits fraudulent, manipulative, or deceptive conduct entered within ten years before application;
6. Is subject to any state administrative enforcement order, or order of the Securities and Exchange Commission that, at the time of application:
- a. Suspends or revokes such person's registration as a broker, dealer, municipal securities dealer, or investment adviser;
 - b. Places limitations on the activities, functions, or operations of such person;
 - c. Bars such person from being associated with any entity or from participating in the offering of any penny stock;
7. Is subject to any order of the Securities and Exchange Commission, entered within five years of application that, at the time of such application, orders the person to cease and desist from committing or causing a violation or future violation of:
- a. Any scienter-based anti-fraud provision of the federal securities laws, including without limitation section 17(a)(1) of the Securities Act of 1933 (15 U.S.C. 77q(a)(1)), section 10(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78j(b)) and 17 CFR 240.10b-5, section 15(c)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78o(c)(1))

and section 206(l) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-6(1)), or any other rule or regulation thereunder; or

b. Any securities registration or prospectus requirements, including without limitation section 5 of the Securities Act of 1933 (15 U.S.C. 77e);

8. Is suspended or expelled from membership in, or suspended or barred from association with a member of, a registered national securities exchange or a registered national or affiliated securities association for any act or omission to act constituting conduct inconsistent with just and equitable principles of trade;
9. Has filed (as a registrant or issuer), or was named as an underwriter in, any registration statement or Regulation A offering statement filed with the Securities and Exchange Commission or state securities commission (or an agency performing like functions) that, within five years before application, was the subject of a refusal order, stop order, or order suspending the Regulation A exemption, or is, at the time of application, the subject of an investigation or proceeding to determine whether a stop order or suspension should be issued;
10. Is subject to a United States Postal Service false representation order entered within five years before application, or is, at the time of such application, subject to a temporary restraining order or preliminary injunction with respect to conduct alleged by the United States Postal Service to constitute a scheme or device for obtaining money or property through the mail by means of false representations; or
11. Is found to have violated any other law governing or regulating any aspect of the business of securities or banking or, within the past five years, has been the subject of an action of a securities regulator denying, revoking, or suspending the right to engage in the business of securities as a broker, dealer, agent, or investment adviser or is the subject of an action of any securities exchange or self-regulatory organization operating under the authority of a securities regulator suspending or expelling such person from membership in such exchange or self-regulatory organization.

B. The prohibitions of this Section do not apply if:

1. The jurisdiction which created the basis for disqualification determines upon a showing of good cause that it is not necessary under the circumstances that registration be denied;
2. If, before the application for registration is submitted, the court or regulatory authority that entered the relevant order, judgment, or decree advises in writing (whether contained in the relevant judgment, order, decree, or

separately to the securities administrator or its staff) that disqualification should not arise as a consequence of such judgment, order, or decree; or

3. The disqualifying events relating to any affiliated issuer occurred before the affiliation arose, provided the affiliated entity is not:
 - a. In control of the issuer; or
 - b. Under common control with the issuer by a third party that was in control of the affiliated entity at the time of such events.

C. It is a defense to a violation of this Section if the issuer sustains the burden of proof to establish that the issuer did not know and in the exercise of reasonable care could not have known that a disqualification under this Section existed.

VII. [Review Standards

A. Offerings will be reviewed for disclosure and for compliance with applicable NASAA statements of policy, modified as follows:

1. The Statement of Policy Regarding Promoters' Equity Investment does not apply; and
2. The Statement of Policy Regarding Promotional Shares applies except that one-half (1/2) of any promotional shares required to be locked-in or escrowed may be released on the first and second anniversary of the date of completion of the offering, such that all shares may be released from lock-in or escrow by the second anniversary of the date of completion of the offering.

B. The Administrator upon a showing of good cause may waive any applicable standard set forth in this Statement of Policy or applicable law.^{1]}

VIII. Investment Limits

A. In each sale of securities in a SCOR offering, the issuer must reasonably believe that the aggregate amount of securities sold to any investor by one or more issuers offering or selling securities under a SCOR offering during the twelve-month period preceding the date of sale, together with the securities sold by the issuer to the investor, does not exceed:

¹ This Section concerning Review Standards is bracketed to signify that its adoption is optional. States that apply merit standards are encouraged to adopt this provision while disclosure review jurisdictions may choose to exclude this provision in their adoption of this Statement of Policy.

1. The greater of \$2,000 or 5 percent of the lesser of the investor's annual income or net worth if either the investor's annual income or net worth is less than \$100,000; or
 2. 10 percent of the lesser of the investor's annual income or net worth, not to exceed an amount sold of \$100,000, if both the investor's annual income and net worth are equal to or more than \$100,000.
- B. For the purpose of determining the annual income of an investor under this section, the annual income of an investor is the investor's lowest annual net income out of the two most recently completed calendar or fiscal years, provided that the investor has a reasonable expectation of having at least that amount of net income in the current calendar or fiscal year.
- C. For the purpose of calculating the net worth of an investor under this section:
1. The investor's primary residence must not be included as an asset;
 2. Indebtedness that is secured by the investor's primary residence, up to the estimated fair market value of that primary residence at the time of the sale of securities, must not be included as a liability (except that if the amount of such indebtedness outstanding at the time of the sale of securities exceeds the amount outstanding sixty days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess must be included as a liability); and
 3. Indebtedness that is secured by the investor's primary residence in excess of the estimated fair market value of the primary residence must be included as a liability.

IX. Sales Report

- A. No later than 30 days after the termination or completion of an offering, the issuer must file a sales report with the Administrator.
- B. If an issuer's SCOR offering has not terminated or completed within twelve months of registration, the issuer must file a sales report containing the information required in Section VIII.A for the initial twelve months.

X. Ongoing Reporting Requirements

- A. For as long as securities issued in the SCOR offering remain outstanding, an issuer must provide annual financial statements to the issuer's security holders, and to the

Administrator upon request, no later than one hundred twenty days after the end of the fiscal year covered by the report. The financial statements must be certified by the issuer's chief executive officer and chief financial officer, or other individual serving in a similar capacity, to be true and complete in all material respects. An issuer may provide the report to its security holders by posting a copy of the report on the issuer's web site or via electronic mailing.

If an issuer has available financial statements that have either been reviewed or audited by an independent certified public accountant, those financial statements must be provided to security holders.

- B. The issuer is required to comply with the ongoing reporting requirements of this Section until the earlier of the following occurs:
1. The securities issued in connection with the SCOR offering are no longer outstanding; or
 2. The issuer liquidates or dissolves its business in accordance with applicable law.