

CR -- SCOR -- MID-ATLANTIC REGION REVIEW PROGRAM

Overview of the Program

The CR -- SCOR -- Mid-Atlantic Region Review program (CR -- SCOR -- MAR) is available to companies seeking to raise capital in Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia and West Virginia (Participating States) through a public offering of securities that is exempt from registration with the U.S. Securities & Exchange Commission (SEC) under SEC Regulation A, or Rule 504 of SEC Regulation D. The Program provides a coordinated procedure designed to streamline the process for registration of a company's securities in the Participating States.

CR -- SCOR -- MAR offers an issuer efficiencies in completing the registration process. Each Participating State has agreed to apply certain standards to the review of applications. The Program utilizes established NASAA Statements of Policy, with certain agreed-upon modifications, as the standard for substantive "merit" comments. Disclosure comments are contingent upon the nature of each individual offering, although several NASAA Statements of Policy and the NASAA Risk Disclosure Guidelines include disclosure standards that will be applied to applications. Participating States may make specific comments relating to forms and fees.

Additionally, CR -- SCOR -- MAR simplifies the registration process for an issuer by reducing the number of individuals with whom the issuer must negotiate resolution of comments. Under the Program, a lead jurisdiction will be designated to coordinate comments with each Participating State, and forward a single comment letter to the issuer. The lead examiner generally has responsibility for negotiating resolution of comments. In some instances, the lead examiner will defer to an examiner from another jurisdiction to negotiate resolution of comments. This may occur when the comment letter includes merit comments and the lead examiner is from a disclosure jurisdiction, or it may occur when the lead examiner determines that it would be more efficient for the issuer to resolve certain comments with another jurisdiction.

The issuer is responsible for submitting responses to the initial comment letter to the lead examiner only. With respect to any comment being negotiated with an examiner other than the lead examiner, the issuer must submit the response only to the examiner involved in the negotiation. The issuer remains responsible for forwarding amendments to the disclosure document directly to each Participating State in which the application was filed.

Finally, all Participating States have agreed to review applications pursuant to an established time-line. This time-line provides that the initial comment letter will be generated no later than 24 days after filing the application for registration. The Participating States have agreed to reply to an issuer's response to a comment letter no later than five (5) business days after receipt of such response. The time to clear an offering through the Program remains contingent upon the timeliness and completeness of the issuer's responses, but the response times from the Participating States are established and predictable.

CR -- SCOR -- MAR does not affect existing rules on soliciting interest, or "testing the waters", before the issuer files a registration application. Several Participating States prohibit "testing the

waters”. Please refer to Appendix C, first.

Candidates for CR -- SCOR -- MAR

CR -- SCOR -- MAR may be requested by a corporation or centrally managed limited liability company organized under the laws of any state, the District of Columbia or Canadian province. The company must be seeking to raise capital in two or more of the Participating States through a public offering of securities that is exempt from registration with the SEC under SEC Regulation A or Rule 504 of SEC Regulation D. An issuer relying upon Regulation A may use either a Form U-7 disclosure document or a traditional Form 1-A narrative offering document. An exception is that a company engaged in the business of extension of credit that plans to offer and sell debt securities to the public may not use the Form U-7.

CR -- SCOR -- MAR is not available to an issuer that is subject to the reporting requirements of the Securities Exchange Act of 1934, is an investment company under the Investment Company Act of 1940, is engaged in petroleum exploration and production, mining or other extractive industry, or is a development stage company with no specific business plan or purpose other than merger. Additionally, an issuer seeking to register its securities under the Program must not be disqualified under requirements of the NASAA Statement of Policy Regarding Small Company Registrations adopted April 28, 1996.

The securities must be priced at no less than US \$1.00.

Required Forms

The issuer should submit directly to each jurisdiction in which it seeks to offer securities, those forms required by it. The forms are:

- ◆ Form U-1 (Uniform Application to Register Securities) (All Participating States)
- ◆ Form U-7 (Small Company Offering Registration) and all Exhibits (All Participating States)
- ◆ Form U-2 (Uniform Consent to Service of Process) (All Participating States with the exception of Pennsylvania)
- ◆ Form U-2A (Uniform Form of Corporate Resolution) (All Participating States with the exception of Pennsylvania)
- ◆ Form CR -- SCOR -- MAR (Small Business Securities Offering Application for Mid-Atlantic Region Review) (All Participating States)
- ◆ Form R (Pennsylvania only)
- ◆ Form NJBOS-5 (New Jersey Addendum to Registration Statement) (New Jersey only)

In addition to submitting the Form U-1 and Form CR -- SCOR -- MAR to the Participating States, the issuer also should send these forms to the Program Administrator State.

Required Fees

The issuer remits the fee(s) required by each Participating State in which it seeks to offer its securities. The fees should be submitted directly to each Participating State along with other required documentation. See Appendix A for fees required in each Participating State.

Agent Registration

In addition to compliance with securities registration requirements, issuers requesting coordinated review must comply with agent registration requirements in each Participating State. See Appendix B for agent registration requirements.

“Testing the Waters”

Although the U.S. Securities & Exchange Commission permits solicitations of interests, also known as “testing the waters”, by a company contemplating an offering exempt under SEC Rule 504, or Regulation A, several of the Participating States do not. In those jurisdictions, “testing the waters” is considered to illegally condition the market for the securities. The CR -- SCOR--MAR Program does not address “testing the waters”, and an issuer must comply with the individual laws of each Participating State in this regard. Appendix C is attached and provides some details on how the Participating States treat “testing the waters”.

Financial Statement Requirements

An issuer requesting coordinated review must file reviewed or audited financial statements in connection with an offering of \$1,000,000 or less. Where the offering exceeds \$1,000,000, an audited financial statement will be required. Audited financials are required for non-SCOR offerings in Virginia. The date of the financial statements shall be the more recent of the last fiscal year-end date, or a date that is not more than 120 days before the date the offering is filed. Unaudited interim financial statements may be required.

Program Administrator State

Maryland acts as the Program Administrator State. In this role, Maryland designates the lead jurisdiction and communicates information regarding the lead jurisdiction and lead examiner to the issuer or counsel and the Participating States, and acts as a troubleshooter for the process in general.

In addition to submitting the Form U-1, Form U-7 and Form CR -- SCOR -- MAR to the Participating States, the issuer also should send these items to Maryland. If the issuer does not intend to register its securities in Maryland, the issuer should submit the materials to Maryland without any fees.

For information, please contact the Maryland Securities Division, Securities Registration Unit,

200 Saint Paul Place, Baltimore, Maryland 21202; Telephone 410-576-7050; Fax 410-576-6532. You also can find information on CR -- SCOR -- MAR at <www.coordinatedreview.org>.

Selection of the Lead Jurisdictions

As the Program Administrator State, Maryland is responsible for selecting the lead jurisdiction from among the Participating States. The lead jurisdiction represents all jurisdictions. The issuer does not have the option of requesting a specific lead jurisdiction. Maryland will select the lead jurisdiction based on a number of considerations. The principal place of business of the issuer will be considered in making the selection, but will not be the only factor on which the selection is made. The lead jurisdiction may be a jurisdiction other than the jurisdiction in which the issuer maintains its principal place of business.

Timing of the CR -- SCOR -- MAR Process

Within three (3) business days after receipt of the Form CR -- SCOR -- MAR, the Program Administrator State will designate a lead jurisdiction. Participating States will submit comments on the issuer's application to register securities to the lead examiner within twelve (12) business days after the lead jurisdiction has been designated. Within the subsequent seven (7) business days, the lead examiner will prepare and issue to the applicant the comment letter.

The lead examiner will forward a copy of the applicant's response and the lead examiner's proposed response to each Participating State for further comment at least two (2) business days prior to issuance. The lead examiner will reply to the issuer's response to a regional review comment letter no later than five (5) business days after receipt of such response. Upon completion of the review of the application and the filing of the final disclosure document in each Participating State, the lead examiner will give same-day notice of the applicants' compliance with agreed upon standards and NASAA Statements of Policy to all Participating States. In Delaware, Maryland, New Jersey, Pennsylvania, and West Virginia, the application will be cleared on that day, unless one or more of these jurisdictions has not resolved a state-specific comment with the issuer. In Virginia, clearance of the application requires official action by the Virginia State Corporation Commission.

Adding Jurisdictions to An Application

If, prior to clearance, the issuer amends the Form CR -- SCOR -- MAR to add Participating States, the lead examiner may grant the request to add Participating States, and if granted, shall extend an additional ten (10) business day comment period from the date of the receipt of the amended Form CR -- SCOR -- MAR. After the lead examiner has given notice of clearance, no assurance can be given that additional jurisdictions located within the Mid-Atlantic region will permit registration under the Program.

The Comment Letter

The comment letter will include disclosure comments, substantive or “merit” comments, financial statement comments and any jurisdiction-specific comments.

- ◆ **Disclosure Comments:** Examiners from Participating States will review the offering document for disclosure of information that an investor would want to know in making an investment decision. Comments will be generated when such information is missing or not presented clearly. Additionally, disclosure comments may be generated from the disclosure provisions of the NASAA Statements of Policy, or the NASAA Risk Disclosure Guidelines.
- ◆ **Substantive or “Merit” Comments:** Examiners from Pennsylvania, Virginia and West Virginia also may generate and forward to the lead examiner substantive or “merit” comments which are based on the substantive or “merit” provisions of the NASAA Statements of Policy.
- ◆ **State Specific Comments:** As CR -- SCOR -- MAR does not encompass all areas of regulatory oversight, examiners from Participating States may make state specific comments. State specific comments may include such items as agent registration, appropriate fees/documents, compliance with Internet offering requirements.
- ◆ **Financial Statement Comments:** Comments may be generated from the NASAA Statements of Policy, the Program standards for financial statements, or they may be state specific.

Applicable NASAA Statements of Policy

The Program utilizes the following NASAA Statements of Policy in the review of applications to register securities:

Corporate Securities Definitions
Impoundment of Proceeds
Options and Warrants
Preferred Stock
Promotional Shares

Risk Disclosure Guidelines
Specificity in Use of Proceeds
Unsound Financial Condition
Voting Rights

Loans and Other Material Affiliated Transactions (The issuer’s failure to have two independent directors will not be deemed a basis for denial of registration.)

Promoter’s Equity Investment (Failure to meet this standard will not be deemed an automatic basis for denial of registration; however, it will be deemed a basis for locking in all the promoters’ promotional shares.)

Underwriting Expenses, Underwriter’s Warrants, Selling Expenses and Selling Security Holders

The lead examiner shall not waive compliance by the applicant with the agreed upon standards and NASAA Statements of Policy or Guidelines unless all Participating States agree to the

waiver request. If a Participating State does not agree with the waiver request, either the applicant may withdraw from regional review with respect to that jurisdiction or the comments relating to the agreed upon standard or NASAA Statement of Policy shall become state specific comments.

The NASAA Statements of Policy are available upon request from the Pennsylvania Securities Commission and are posted on the PSC's Internet home page at <http://www.psc.state.pa.us>.

Overview of Responsibilities of Lead Examiner

- ◆ To collect comments from Participating States;
- ◆ To draft a single initial comment letter including comments from Participating States;
- ◆ To forward copies of the issuer's response letters to Participating States;
- ◆ To negotiate resolution of the comments with the issuer;
- ◆ To communicate with Participating States during the negotiation process;
- ◆ To make final decisions regarding resolutions of the comments;
- ◆ To recommend registration of the offering to the Participating States;
- ◆ To notify issuer that the comments have been cleared.

Overview of Responsibilities of Issuer

- ◆ To forward to the Program Administrator State the Form CR -- SCOR -- MAR, Form U-7 and Form U-1 regardless of intent to sell securities in the Program Administrator State;
- ◆ To file the Form CR -- SCOR -- MAR and all other appropriate documents and fees in each Participating State in which it seeks to offer its securities;
- ◆ To forward a written response on company stationary to the lead examiner;
- ◆ To forward copies of amended disclosure documents to each Participating State (including the lead jurisdiction);
- ◆ To communicate with the lead examiner to resolve comments;
- ◆ To obtain a written indication of effectiveness from each Participating State prior to commencing offers or sales in that jurisdiction;
- ◆ To comply with any post-registration requirements of Participating States.