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An Entrepreneur's Guide to Using Regulation A+

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INTRODUCTION

Regulation A has transformed capital markets by permitting eligible private companies to raise up to $50 million dollars under a lighter regulatory and ongoing reporting regime. Private companies organized and based in the United States or Canada are able to raise capital under Regulation A, as amended, which is being referred to as Regulation A+. Selling securityholders of private companies qualified to use Regulation A may also sell securities in Regulation A offerings subject to certain limitations discussed below.

Eligible private companies may immediately begin soliciting nonbinding indications of interest, including through general solicitation and general advertising, in a Tier 2 Regulation A offering ("Tier 2 offering") before filing an offering statement with the U.S. Securities and Exchange Commission, or SEC, from both accredited and non-accredited investors without pre-filing soliciting materials with the SEC. After filing an offering statement with the SEC and the offering statement is qualified by the SEC, a company may begin making sales of securities under Regulation A to both accredited investors and, with certain limitations on the amount of securities that may be sold, to non-accredited investors. The securities acquired in a Tier 2 offering are "free-trading" securities and are not restricted. As a result, a company that successfully completes a Regulation A offering and sells securities to enough stockholders to create a market may work with a market maker to file a Form 211 Application with the Financial Industry Regulatory Authority, or FINRA, under Rule 15c2-11 of the Securities Exchange Act of 1934, or the Exchange Act, so that its securities may be quoted on the Pink OTC marketplace and, thereafter, it may engage an OTC sponsor and file a listing application with OTC Markets to have its securities listed on the OTCQX. In order to create a market, a company must have 30 beneficial shareholders owning at least 100 shares for OTC Pink, 50 beneficial shareholders owning at least 100 shares for OTCQX or 100 beneficial shareholders owning at least 100 shares for OTCQX Premier. Companies that complete Tier 2 offerings are subject to ongoing reporting requirements, including the filing of annual, semi-annual and current event reports, but these requirements are somewhat less burdensome than those applicable to public companies required to file reports under Section 12 or 15 of the Exchange Act.

This White Paper is intended to be a roadmap for entrepreneurs who desire to raise capital under Tier 2 of Regulation A. Although there are two Tiers implemented under Regulation A, Tier 1 and Tier 2, this White Paper discusses only Tier 2 offerings because companies that rely on Tier 1 will not benefit from state securities law preemption and most Tier 1 offerings will be conducted in one or a limited number of states. In other words, companies that rely on Tier 1 must make separate state securities law filings, which in our opinion make a Tier 1 offering inefficient and unnecessarily costly if conducted in several states. In this White Paper, we will: (1) provide a summary of the Tier 2 offering process; (2) discuss the ongoing reporting obligations of companies that sell securities in a Tier 2 offering; (3) provide a sample timeline for a Tier 2 offering; and (4) provide an estimate of the costs associated with a Tier 2 offering.

THE TIER 2 OFFERING PROCESS

The first step in the Tier 2 offering process is to "test the waters" by providing potential accredited and non-accredited investors with information about the offering and the issuing company as well as soliciting non-binding indications of interest. The solicitation materials may be distributed by means of general solicitation and general advertising. In other words, a company can use social media, its website, press releases, email blasts and advertisements in newspapers or other media to solicit non-binding indications of interest. Also, an issuing company may use solicitation materials both before and after the offering statement is filed with the SEC, but in cases where solicitation materials are used after the filing of the preliminary offering statement, the materials must be accompanied by a current preliminary offering statement or contain a URL showing where the preliminary offering statement may be obtained. Companies are required to update and redistribute soliciting material if either the material itself or the preliminary offering circular becomes inadequate or inaccurate in any material respect. The solicitation materials are ultimately filed as an exhibit to the offering statement and must contain legends providing that sales made pursuant to Regulation A are contingent upon the qualification of the offering statement by the SEC. Furthermore, solicitation materials used before qualification will be required to bear a legend or disclaimer indicating that: (1) no money or other consideration is being solicited, and if sent, will not be accepted; (2) no sales will be made or commitments to purchase accepted until the offering statement is qualified; and (3) a prospective purchaser's indication of interest is non-binding. There is no filing requirement for issuers that, after testing the waters, decide not to proceed with an offering.

If a company receives sufficient indications of interest and decides to go through with the Tier 2 offering, the next step is to file an offering statement on Form 1-A with the SEC. A private company that has not previously conducted a Regulation A offering or an offering under a registration statement filed with the SEC can submit non-public draft offering statements under Regulation A to the SEC on a confidential basis through the EDGAR filing system ("EDGAR"). The confidential offering statement and all non-public amendments to the offering statement, and correspondence submitted by or on behalf of the issuer to the Staff of the SEC ("Staff") regarding such submissions must be publicly filed and available on EDGAR as exhibits to the offering statement not less than 21 calendar days before qualification of the offering statement by the SEC. Unlike emerging growth companies, the timing requirement for filing by issuers seeking qualification under Regulation A does not depend on whether or not the issuer conducts a road show or tests the waters in a contemplated offering before qualification.

Form 1-A, as amended, appears on page 385 of the SEC's final rules relating to Regulation A, which may be obtained through the SEC's website using the following link http://www.sec.gov/rules/final/2015/33-9741.pdf. Form 1-A consists of the following 3 parts:

- Part I: an XML based fillable form which captures key information about the issuer and its offering that assists issuers in determining their ability to rely on the exemption.

- Part II: a text file attachment containing the body of the disclosure document and financial statements compatible with EDGAR;

- Part III: text file attachments, containing the signatures, exhibits index, and the exhibits to the offering statement compatible with EDGAR.

Appendix A to this White Paper includes a detailed summary of the information required by Form 1-A, which is largely taken from the SEC's final rule release.

The SEC does not require the payment of any filing fees in connection with the Regulation A filing and qualification process.

The review process for a Form 1-A is similar to, and takes about as long as, or slightly less time than, the process employed by the Staff for reviewing a registration statement. After filing a Form 1-A, issuers should expect to wait about 30 days before receiving comments from the Staff. Upon receiving comments the issuer will file a response letter with the SEC that responds to the comments of the Staff along with an amendment to the Form 1-A that updates the offering statement in a manner consistent with the response letter. The Staff will continue to provide comments to the issuer's amended offering statements until the Staff believes that the offering statement may be qualified. At that point the Staff will inform the issuer that it has cleared comments and the issuer will request that the offering statement be declared qualified by a "notice of qualification" issued by the Division of Corporation Finance, pursuant to delegated authority from the SEC. The notice of qualification is analogous to a notice of effectiveness in registered offerings. Assuming the issuer responds to comments in a timely manner, we expect the review process to take approximately 90 days or less to conclude.

Once the offering statement has been declared qualified, the issuing company and any selling securityholders with shares covered by the offering statement may begin to make sales of securities under the offering statement. Regulation A allows certain traditional shelf offerings as more fully described below, but, as is the case with a registration statement on Form S-1, typical shelf takedowns effected in connection with registered direct offerings, "at the market" offerings, or offerings sold at fluctuating market prices are not permitted. The ability of an issuer to sell securities in a continuous offering is conditioned upon the issuer being current in its annual and semiannual report filing, if required under Rule 257(b), at the time of sale.

The following types of continuous or delayed offerings are permitted under Regulation A:

- Securities offered or sold by or on behalf of a person other than the issuer or its subsidiary or a person of which the issuer is a subsidiary;

- Securities offered and sold pursuant to a dividend or interest reinvestment plan or an employee benefit plan of the issuer;

- Securities issued upon the exercise of outstanding options, warrants, or rights;

- Securities issued upon conversion of other outstanding securities;

- Securities pledged as collateral; or

- Securities that are part of an offering which commences within two calendar days after the qualification date, will be offered on a continuous basis, may continue to be offered for a period in excess of 30 days from the date of initial qualification, and will be offered in an amount that, at the time the offering statement is qualified, is reasonably expected to be offered and sold within two years from the initial qualification date.

Offering circular supplements may be used for final pricing information where the offering statement is qualified on the basis of a bona fide price range estimate. Additionally, offering circulars may omit information with respect to the underwriting syndicate analogous to the provisions for registered offerings under Rule 430A.

The offering process described above applies equally to offering statements that cover secondary sales of securities sold by selling securityholders either alone or in conjunction with the primary offering of securities by an issuer under Regulation A. However, there is a $15 million limitation on secondary sales by affiliates of the issuer for Tier 2 offerings. The rules also limit the amount of securities that any selling securityholders may sell (whether or not an affiliate of the issuer) at the time of an issuer's first Regulation A offering and within the 12 month period following the qualification of the offering statement to no more than 30% of the aggregate offering price of a particular offering.

ONGOING REPORTING REQUIREMENTS

Companies that use Tier 2 of Regulation A to raise capital become subject to ongoing SEC reporting requirements. These companies must file annual reports on Form 1-K within 120 days of their fiscal year end, file semiannual reports on Form 1-SA within 90 days after the end of the first six months of their fiscal year, file current event reports on Form 1-U within four business days of a triggering event, and provide notice to the Commission of the suspension of their ongoing reporting obligations on Part II of Form 1-Z. All reports are required to be filed electronically on EDGAR.

Form 1-K consists of two parts. Part I (Notification) of Form 1-K is an online XML-based fillable form that includes certain basic information about the issuer, prepopulated on the basis of information previously disclosed in Part I of Form 1-A, which can be updated by the issuer at the time of filing. An issuer must also provide information about any Regulation A offering conducted in Part I, including the date the offering was qualified and commenced, the amount of securities qualified, the amount of securities sold in the offering, the price of the securities, the portions of the offering that were sold on behalf of the issuer and any selling securityholders, any fees associated with the offering, and the net proceeds to the issuer.

Part II (Information to be included in the report) of Form 1-K requires issuers to disclose information about themselves and their business that is similar to the information contained in an offering statement on Form 1-A. Issuers may incorporate by reference certain information previously filed on EDGAR, but must include a hyperlink to such material on EDGAR.

Form 1-K will cover:

- Business operations of the issuer for the prior three fiscal years (or, if in existence for less than three years, since inception);
- Transactions with related persons, promoters, and certain control persons;
- Beneficial ownership of voting securities by executive officers, directors, and 10% owners;
- Identities of directors, executive officers, and significant employees, with a description of their business experience and involvement in certain legal proceedings;
- Executive compensation data for the most recent fiscal year for the three highest paid executive officers or directors;
- MD&A of the issuer's liquidity, capital resources, and results of operations covering the two most recently completed fiscal years; and
- Two years of audited financial statements.

Any amendments to the Form must comply with the requirements of the applicable items and be filed under cover of Form 1-K/A.

Issuing companies that complete Tier 2 offerings must also file semiannual reports on Form 1-SA that, much like reports on Form 10-Q, consist primarily of financial statements and MD&A. These reports, however, do not require disclosure about quantitative and qualitative market risk, controls and procedures, updates to risk factors, or defaults on senior securities that are required by Form 10-Q. Form 1-SA also requires disclosure of updates otherwise reportable on Form 1-U. Incorporation by reference is permitted to the same extent as in Form 1-K.

The first such obligation to file a Form 1-SA will commence immediately following the most recent fiscal year for which full financial statements were included in the offering statement, or, if the offering statement included financial statements for the first six months of the fiscal year following the most recent full fiscal year, for the first six months of the following fiscal year.

In addition to the annual report on Form 1-K and semiannual report on Form 1-SA, issuers that complete Tier 2 offerings must submit current reports on Form 1-U. A Form 1-U must be filed when an issuer experiences one (or more) of the following events:

- Fundamental changes;
- Bankruptcy or receivership;
- Material modification to the rights of securityholders;
- Changes in the issuer's certifying accountant;

- Non-reliance on previous financial statements or a related audit report or completed interim review;

- Changes in control of the issuer;

- Departure of the principal executive officer, principal financial officer, or principal accounting officer; or

- Unregistered sales of 10% or more of outstanding equity securities.

Issuers are also permitted to voluntarily disclose other material events not enumerated in the Form. Item 1 of Form 1-U, which requires filings upon fundamental changes, is meant to require issuers to disclose material definitive agreements, including agreements to acquire other entities, which result or would reasonably be expected to result in fundamental changes to the nature of the issuer's business or plan of operations. According to the SEC, a fundamental (as opposed to a material) change to the nature of an issuer's business includes major and substantial changes to the issuer's business or plan of operations or changes reasonably expected to result in such changes. As is the case with Form 1-K and Form 1-SA, issuers may incorporate information previously filed into current reports on Form 1-U.

SAMPLE TIMELINE FOR TIER 2 OFFERING

The following timeline is a sample timeline for a Tier 2 offering through quotation on the OTC Pink and thereafter an "uplisting" to the OTCQX. Actual timing may vary depending upon the circumstances of any particular company.

STEP NUMBER	DESCRIPTION	ESTIMATED TIME TO COMPLETE STEP
1.	Prepare "testing the waters" solicitation materials. These materials will include the video, marketing collateral, executive summary, investor deck and other marketing materials.	Week 1 through 4
2.	Testing the waters period. During this period the issuer will begin soliciting non-binding indications of interest from both accredited and non-accredited investors. Issuer may utilize general solicitation and general advertising and may solicit interest either prior to or after the filing of an offering statement on Form 1-A.	Week 1 through 4
3.	Prepare offering statement on Form 1-A and file offering statement with the SEC once draft is finalized. Note that the initial filing of the Form 1-A may be done on a confidential basis. Audited financial statements for past two years are required along with full prospectus type disclosure. Can be filed early in the process or the issuer can wait to see whether it gets traction from testing the waters before filing.	Week 1 through 4
4.	Receive and respond to comments of the Staff of the SEC. The Staff clears the offering statement and indicates that the issuer may request a notice of qualification.	Week 4 through 12
5.	An issuer that meets the requirements of a national securities exchange can file a listing application with that securities exchange. This would be done at around the same time that the offering statement is filed with the SEC.	Week 4 through 12
6.	Complete sales under qualified offering statement. Ideally, during the prequalification period the issuer and its placement agent will have lined up interest	Week 12 through 18 (Longer if continuous offering. Sales may be done on a

	from potential investors so that the offering can conclude immediately upon qualification. However, in many cases, especially where no placement agent is used, this post qualification process can be dragged out for several months or a year.	continuous basis over a period of time, e.g., six months or one year, if desired by the issuer. This timeline, however, assumes that the issuer desires to close the offering as soon as it can sell the requisite number of securities.)
7.	For issuers that will trade OTC instead of on a national securities exchange, the Market maker files Form 211 Application and same is cleared. Company receives stock symbol and security becomes eligible for quotation on the OTC market. If the securities will trade on OTC then the 211 Application would be filed at around the same time that the offering statement is qualified by the SEC.	Week 12 through 24
8.	Issuers that desire to trade on the OTCQX marketplace or OTCQX premier must apply for manual listing exemption on Standard & Poors or Mergent.	Week 12 through 24
9.	If the issuing company desires to begin trading on the OTCQX marketplace, it must identify a sponsor and prepare an OTCQX listing application. Once prepared, the sponsor will submit the application along with its letter of introduction. The issuer will commence trading on the OTCQX marketplace upon the conclusion of this process.	Week 12 through 24

ESTIMATE OF COSTS ASSOCIATED WITH A TIER 2 OFFERING

Following is an estimate of the costs associated with conducting a Tier 2 offering through quotation on the OTC Pink and thereafter an "uplisting" to the OTCQX. The actual costs will vary depending upon the circumstances of any particular company and the service providers used by the company.

TYPE OF SERVICE	ESTIMATED COST
INVESTMENT BANKING FEES ➢ The investment bank solicits investors on a best-efforts basis, conducts a thorough due diligence review of the issuer and assists the issuer with the preparation of the solicitation materials, including the offering statement.	Cash commission and warrants in range of 5% to 8%. Expense reimbursement of between $10,000 and $50,000. Advisory Fee of between $0 and $10,000 per month
MARKETING EXPENSES	Marketing expenses vary widely and can range from $25,000 to $350,000.
LEGAL FEES ➢ Legal fees associated with the drafting of the offering statement on Form 1-A, responding to SEC Staff comments, preparing response letters and amendments to Form 1-A, etc. until SEC issues a notice of qualification.	$65,000 to $175,000 Cost depends upon (i) law firm used, (ii) nature of issuer's operations (e.g., international operations and multiple subsidiaries would increase costs), (iii) whether a placement agent is engaged, (iv) whether the issuer will list on a national securities exchange or the OTC markets, and (v) whether a negative assurance letter/10b-5 opinion is required. Larger law firms may charge more than $175,000.
➢ Assistance with Form 211 Application and responding to FINRA comments.	$5,000 to $7,500
➢ Assistance with OTCQX listing application if the issuer desires to "uplist" from OTC Pink to OTCQX.	$2,000 to $5,000
AUDITOR FEES ➢ Two years audited financial statements	$25,000 to $150,000

	Cost depends upon audit firm used and nature of issuer's operations (e.g., international operations and multiple subsidiaries would increase costs). Larger audit firms may charge more than $150,000. The auditor must maintain independence and if the company's CFO requires CFO support services a separate firm or consultant would be obtained to provide these services at an added cost.
EDGAR PRINTER FEE	$2,500
DTC ELIGIBILITY FEE Note that this expense may be deferred. This expense is incurred after trading has commenced on the OTC Pink or OTCQX.	$13,000
TRANSFER AGENT FEE	$5,000
ESCROW AGENT FEE	$5,000
MANUAL EXEMPTION FEE PLUS COST OF BLUE SKY FILINGS IN STATES NOT COVERED BY S&P OR MERGENT These costs are incurred only if the issuer desires to "uplist" to the OTCQX.	**Additional Blue Sky cost for states not covered by Mergent or S&P $7,500.** **MERGENT FEES** Initial regular listing processing fee (Published within 10 business days) $3,700 Initial expedited listing processing fee (Published within 3 business days) $5,500 Annual renewal listing fee ($995 for U.S. Company and $1,290 for Non-U.S. Company).

OTCQX LISTING SPONSOR FEE A Sponsor is either a qualified investment bank or qualified securities attorney. OTCQX maintains a list of qualified Sponsors on its website. The role of the Sponsor is to provide professional guidance to the issuer on creating investor demand, assist companies in discerning the information that is material to the market and should be disclosed to investors, and provide a professional review of the company's disclosure. Either an investment bank or a securities law firm could act as a company's Sponsor. Investment banking firms charge considerably more, but also provide many additional services such as non-deal road shows and financial advisory services.	**INVESTMENT BANK SPONSOR** *Price range depends on extent of services to be provided by the investment bank in addition to the Sponsor service.* $25,000 to $100,000 annually; or **SECURITIES LAW FIRM SPONSOR** $4,000 to $10,000 annually
OTCQX LISTING FEE	$5,000 application fee $15,000 annual fee
NASDAQ CAPITAL MARKET LISTING FEES	$5,000 application fee. Listing fee between $45,000 and $70,000 depending on number of shares listed. Annual Fee between $42,000 and $75,000 depending on shares outstanding
NYSE MKT LISTING FEES	$5,000 application fee. Listing fee ranging from $50,000 to $75,000 depending on number of shares being listed. Annual Fee between $30,000 and $45,000 depending on number of shares listed.

APPENDIX A

Summary of Information Required by Form 1-A

Part I of Form 1-A requires disclosure in response to the following items:

- Item 1. (Issuer Information) requires information about the issuer's identity, industry, number of employees, financial statements and capital structure, as well as contact information.

- Item 2. (Issuer Eligibility) requires the issuer to certify that it meets various issuer eligibility criteria.

- Item 3. (Application of Rule 262 ("bad actor" disqualification and disclosure)) requires the issuer to certify that no disqualifying events has occurred and to indicate whether related disclosure will be included in the offering circular (i.e., events that would have been disqualifying, but occurred before the effective date of the amendments to Regulation A).

- Item 4. (Summary Information Regarding the Offering and other Current or Proposed Offerings) includes indicator boxes or buttons and text boxes eliciting information about the offering (including whether the issuer is conducting a Tier 1 or Tier 2 offering, amount and type of securities offered, proposed sales by selling securityholders and affiliates, type of offering, estimated aggregate sales of any concurrent offerings pursuant to Regulation A, anticipated fees in connection with the offering, and the names of audit and legal service providers, underwriters, and certain others providing services in connection with the offering).

- Item 5. (Jurisdictions in Which Securities are to be Offered) includes information about the jurisdiction(s) in which the securities will be offered.

- Item 6. (Unregistered Securities Issued or Sold Within One Year) requires disclosure about unregistered issuances or sales of securities within the last year, but does not include a requirement to provide the names and identities of the persons to whom unregistered securities were issued.

Part II of Form 1-A elicits the following disclosure:

- Basic information about the issuer and the offering, including identification of any underwriters and disclosure of any underwriting discounts and commissions (Item 1: Cover Page of Offering Circular);

- Table of Contents (Item 2);

- The most significant factors that make the offering speculative or substantially risky (Item 3: Summary and Risk Factors);

- Material disparities between the public offering price and the effective cash costs for shares acquired by insiders during the past year (Item 4: Dilution);

- Plan of distribution for the offering and disclosure regarding selling securityholders (Item 5: Plan of Distribution and Selling Securityholders);

- Use of proceeds (Item 6: Use of Proceeds to Issuer);

- Business operations of the issuer for the prior three fiscal years (or, if in existence for less than three years, since inception) (Item 7: Description of Business);

- Material physical properties (Item 8: Description of Property);

- Discussion and analysis of the issuer's liquidity and capital resources and results of operations through the eyes of management covering the two most recently completed fiscal years and interim periods, if required; and, for issuers that have not received revenue from operations during each of the three fiscal years immediately before the filing of the offering statement (or since inception, whichever is shorter), the plan of operations for the 12 months following qualification of the offering statement, including a statement about whether the issuer anticipates that it will be necessary to raise additional funds within the next six months (Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations);

- Identification of directors, executive officers and significant employees with a discussion of any family relationships within that group, business experience during the past five years, and involvement in certain legal proceedings during the past five years (Item 10: Directors, Executive Officers and Significant Employees);

- Group-level executive compensation disclosure for the most recent fiscal year for the three highest paid executive officers or directors with Tier 2 requiring individual disclosure of the three highest paid executive officers or directors (Item 11: Compensation of Directors and Executive Officers);

- Beneficial ownership of voting securities by executive officers, directors, and 10% owners (Item 12: Security Ownership of Management and Certain Securityholders);

- Transactions with related persons, promoters and certain control persons (Item 13: Interest of Management and Others in Certain Transactions);

- The material terms of the securities being offered (Item 14: Securities Being Offered); and

- Any events that would have triggered disqualification of the offering under Rule 262 if the issuer could not rely on the provisions in Rule 262(b)(1).

Issuers must provide disclosure in Part II of Form 1-A that follows the Offering Circular or Part I of Form S-1 disclosure format.

Tier 1 and Tier 2 issuers must file balance sheets and other required financial statements as of the two most recently completed fiscal year ends (or for such shorter time that they have been in existence). Tier 2 issuers must file audited financial statements in Part F/S. Financial statements for U.S.-domiciled issuers will be required to be prepared in accordance with U.S. GAAP, as is currently the case. Canadian issuers, however, may prepare financial statements in accordance with either U.S. GAAP or International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The final rules require Tier 2 issuers to follow the financial statement requirements of Article 8 of Regulation S-X, as if the issuer were a smaller reporting company, unless otherwise noted in Part F/S.

The final rules require issuers conducting Tier 2 offerings to provide financial statements that are audited in accordance with either U.S. GAAS or the standards issued by the PCAOB.

As adopted, issuers will be required to file the following exhibits with the offering statement: underwriting agreement; charter and by-laws; instrument defining the rights of securityholders; subscription agreement; voting trust agreement; material contracts; plan of acquisition, reorganization, arrangement, liquidation, or succession; escrow agreements; consents; opinion regarding legality; "testing the waters" materials; appointment of agent for service of process; and any additional exhibits the issuer may wish to file.