

PRACTICAL CONSIDERATIONS FOR SCOR REGISTRATION

Who Should Use SCOR?

Is any securities financing appropriate?

A securities financing requires a company to disclose a considerable amount of information about its operations that the company may not want its competitors or others to know. Securities financing also takes considerable time and may use resources that would be better placed elsewhere.

If securities financing is appropriate, what form should such financing take?

Equity financing (the shareholders will remain after the money from the offering is gone. Does the company want that kind of continuing relationship with the attendant administrative expenses?) Those thinking of issuing equity securities should also consider other consequences, including:

- dilution of ownership
- implied commitments to satisfy shareholder expectations with regard to earnings, dividends, marketability of securities issued and appreciation (or maintenance) of the securities value
- if the securities issued are freely transferable (as securities issued under SCOR may be) there is the threat of takeover, or at least the possibility of constantly changing stock ownership which increases administrative expenses and reduces shareholder loyalty. If a market develops for securities, market activity may adversely affect the company's ability to complete further financing.

Debt financing (appropriate only when a company has a sufficient history of operations to show that it can service the new debt.) Fixed payments to debtholders may be too great a burden on the cash flow of a developing company, limiting management's flexibility.

Even if securities financing is appropriate, is SCOR the right vehicle?

The company should review all available registration and exemption options to determine appropriate vehicle based on:

- amount of money to be raised
- number and type of investors sought
- operating history of the company and availability of audited financial statements
- how investors will be solicited (publicly or privately)
- whether licensed securities salespersons will be required to sell the offering

SCOR allows a company to raise up to 10 million dollars from an unlimited number of people using public advertising.

SCOR is intended for small companies with some operating history which have specific expansion plans which they seek to fund through an offering of securities to the public in reliance on an exemption from registration under the Securities Act of 1933, Rule 504 of Regulation D.

SCOR is available only for corporations organized under the laws of one of the states or possessions of the United States. SCOR is only available for issuer transactions.

Who Should Not Use SCOR?

Companies without significant operating history will have difficulty completing the required disclosure document.

Companies with very complex capital structures and companies which are offering complicated or novel securities may have difficulty using the question and answer SCOR disclosure form.

Family and closely held businesses which do not wish to share ownership.

Who may not use SCOR?

Companies which are disqualified from use of SCOR by its “bad boy” provisions.

Companies which seek to raise more than \$10,000,000 in an offering.

Blind pools, mining or extractive enterprises may not use SCOR.

Preparation for a SCOR

Business Plan

Audited Financial Statements (if the conditions of section III (D) of the Statement of Policy Regarding Small Company Offering Registrations are met, financial statements may be reviewed in lieu of being audited.)

Review of articles of incorporation, bylaws, and other corporate records by the company’s attorney, and changes to those if necessary.

Review of, and if necessary, clean up of, prior securities transactions.

Review of tax consequences of making a SCOR offering.

Marketing Issues

Is advertising advisable? This depends on the number and type of investors the company seeks to attract and the size of its existing network of contacts with potential investors.

How can the company make certain it sells only to suitable investors, those who can afford to lose their investments and have adequate liquidity?

How wide a participation does the company want in its offering? Offering small amounts to a larger number of investors has some advantages to a company by lessening the likelihood of investor suitability problems and the reliance of the company on the continued goodwill of a small number of large investors. However, administrative expenses may increase as the number of shareholders increases.

PREPARATION FOR SCOR

CHECKLIST FOR ISSUERS

1. PREPARE BUSINESS PLAN
2. CONSULT WITH ACCOUNTANT AND LAWYER ABOUT PROPOSED OFFERING:
 - * REVIEW FINANCING ALTERNATIVES TO MAKE SURE SCOR IS THE COMPANY'S BEST FINANCING OPTION.
 - * IF SCOR IS STILL THE CHOSEN MEANS OF FINANCING, OBTAIN AUDITED FINANCIAL STATEMENTS
If the conditions of section III (D) of the Statement of Policy Regarding Small Company Offering Registrations are met, financial statements may be reviewed in lieu of being audited.
 - * REVIEW CORPORATE DOCUMENTS AND CHANGE IF NECESSARY.
 - * REVIEW PRIOR SALES OF SECURITIES.
3. DEVELOP A PLAN FOR MARKETING THE OFFERING.
 - * KEEP IN MIND THAT THE COMPANY MUST SELL ONLY TO THOSE INVESTORS FOR WHOM SUCH AN INVESTMENT IS SUITABLE.