

**RULES  
OF  
TENNESSEE DEPARTMENT OF COMMERCE AND INSURANCE  
DIVISION OF SECURITIES**

**CHAPTER 0780-04-02  
SECURITIES REGISTRATION AND EXEMPTIONS**

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**0780-04-02-.01 REGISTRATION BY COORDINATION.**

- (1) Securities may be registered by coordination with SEC registration. A registration statement and a prospectus for such securities shall be filed with a completed and properly executed Form U-1, including all applicable exhibits thereto, a Form U-2, a Form U-2A (if applicable), and the appropriate filing fee computed in accordance with T.C.A. § 48-1-107(b). The registrant shall also provide, or in Item 8(k) of the Form U-1 undertake to provide promptly if unavailable on the date of filing:
  - (a) Any additional exhibits included in Part II of the applicable SEC registration statement;
  - (b) Any applicable cross-reference sheet, including but not limited to cross-reference sheets adopted by NASAA; and
  - (c) Such other information as the Division may require to determine that the offering meets applicable fairness guidelines and that the registration statement does not include any untrue statement of a material fact required to be stated therein or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they are made, not misleading.
- (2) Only those offerings registered by coordination in this state on Forms 1-A, S-1, S-2, S-3, S-4, S-11, SB-1, and SB-2, or any successors to these forms, are subject to review under the applicable portions of Rule 0780-04-02-.06.
- (3) Until such time as an applicant has complied with all filing requirements and Division comments, the applicant may waive automatic concurrent effectiveness by written notice to the Division. Once an applicant has fully complied with the filing requirements set forth in the Act and in these Rules, and has satisfied all outstanding comments issued by the Division, the commissioner shall make the application to register effective or conditionally clear the application to register until notification of SEC effectiveness, subject to any condition or limitations imposed by the Division. The Division shall give notice by mail of the effective date of registration to each registrant, but such notice shall be conditioned upon the Division's receipt of notice from the applicant of the date that its registration statement was made effective by the SEC.

(Rule 0780-04-02-.01, continued)

- (4) Every registration statement covering securities registered by coordination is effective for one (1) year from the effective date. Renewals of registrations by coordination may be made in accordance with Rule 0780-04-02-.05.

**Authority:** T.C.A. §§ 48-1-105, 48-1-107, 48-1-115, and 48-1-116. **Administrative History:** Original rule filed September 9, 1980; effective October 24, 1980. Repeal and new rule filed September 28, 1990; effective November 12, 1990. Amendment filed April 5, 2004; effective June 19, 2004. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

#### **0780-04-02-.02 REGISTRATION BY QUALIFICATION.**

- (1) An application filed pursuant to T.C.A. § 48-1-106 shall contain, at a minimum, all of the information and the documents specified in Schedule A of the 1933 Act to the extent applicable, unless filed pursuant to a registration statement or notice filing format prescribed by the SEC.
- (2) A prospectus or offering circular shall be submitted with a completed and properly executed Form U-1 and the appropriate filing fee computed in accordance with T.C.A. § 48-1-107(b), and shall contain or be accompanied by the following information;
  - (a) The Uniform Consent to Service of Process on Form U-2 required by T.C.A. § 48-1-124(e);
  - (b) The Uniform Form of Corporate Resolution on Form U-2A, if applicable;
  - (c) Any applicable cross-reference sheet, including but not limited to cross-reference sheets adopted by NASAA; and
  - (d) Such other information as the Division may require to determine that the offering meets applicable fairness guidelines and that the prospectus or offering circular does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading.
- (3) All notices, circulars, advertisements, sales literature, or communications required to be filed by T.C.A. § 48-1-106(b)(5) shall be filed according to the terms and conditions set forth in Rule 0780-04-02-.04.
- (4) All offerings registered by qualification are subject to review under the applicable portions of Rule 0780-04-02-.06.
- (5) Every registration statement covering securities registered by qualification is effective for one (1) year from the effective date. Renewals of registrations by qualification may be made in accordance with Rule 0780-04-02-.05.

**Authority:** T.C.A. §§ 48-1-106, 48-1-107, 48-1-113, 48-1-115, 48-1-116, 48-1-121(c), and 48-1-124(e) and Public Acts of 2001, Chapter 61. **Administrative History:** Original rule filed January 13, 1983; effective February 14, 1983. Repeal and new rule filed September 28, 1990; effective November 12, 1990. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

#### **0780-04-02-.03 SECURITIES REGISTRATION GENERALLY.**

- (1) Review Procedures for Registrations.
  - (a) At the time an application to register securities that is subject to review under either paragraph (3) of Rule 0780-04-02-.01 or paragraph (4) of Rule 0780-04-02-.02 is filed

(Rule 0780-04-02-.03, continued)

and the proper fee is received, the Division may in its sole discretion make a preliminary review of the application to determine which of the following review procedures will be employed in connection with the filing:

1. **Deferred Review.** If the Division staff has determined after an initial analysis that the application is so deficient or presents problems so serious that the Division could not justify spending more time in reviewing the application, review will be deferred and the applicant will be promptly notified. Detailed comments will not be prepared or issued and it will be the responsibility of the applicant to consider whether to withdraw or amend the application.
  2. **Summary Review.** This category of review involves notification to an applicant that the Division staff has made only a summary review of the application and only such comments as may arise from such review will be made. In such cases, applicants may be required to furnish as supplemental information certain representations on behalf of the issuer, including representations that the issuer is aware that the Division staff has made only a summary rather than a detailed full review of the application.
  3. **Full Review.** In the final category of review, applications will receive a more complete accounting, financial, and legal review. The Division staff will undertake to provide timely comments regarding the application for registration, which may include requirements for additional exhibits or supplemental data. Upon satisfactory compliance with any comments, the Division shall declare the application effective or conditionally clear the application pending notice of SEC effectiveness without a receipt of representation letters from the persons mentioned in the preceding part (1)(a)2.
- (b) Notwithstanding the type of review performed, the burden of compliance with the Act and these Rules remains with the issuer and as a matter of law cannot be shifted to the Division's staff.
- (2) **Post Effective Reports.**
- (a) The assistant commissioner may as a condition to registration require the person who filed the application for registration to file specified current financial information on a periodic basis. The assistant commissioner may also as a condition to registration require the filing of periodic reports on the use of proceeds. Such information may be submitted in letter form or by filing a copy of any form containing the required information that the issuer has filed with the SEC or any state securities agency.
  - (b) The person who filed the application for registration shall file a final sales report of the dollar amount and number of securities sold in this state, provided, however, that no final sales report shall be due with respect to any twelve (12) month period covering an initial registration or a renewal pursuant to which the maximum filing fee was paid pursuant to T.C.A. § 48-1-107(b). Unless an extension is granted by the assistant commissioner, such report shall be filed within thirty (30) days after the expiration of the effectiveness of the registration statement or the termination or completion of the offering of the securities covered by the registration statement, whichever is earlier. The report may be submitted in letter form or by filing a copy of any form containing the required information that the issuer has filed with the SEC or any state securities agency.
- (3) **Legend Requirement.**

(Rule 0780-04-02-.03, continued)

- (a) Offering documents for securities to be registered in this state and registered or to be registered with the SEC under the 1933 Act shall contain on the cover page substantially the following legend in capital letters and, if printed, in boldface roman type at least as high as ten (10) point modern type:

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

- (b) Offering documents for securities to be registered in this state that will not be registered with the SEC under the 1933 Act shall contain on the cover page substantially the following legend in capital letters and, if printed, in boldface roman type at least as high as ten (10) point modern type:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION SET FORTH IN THE SECURITIES ACT OF 1933. THESE SECURITIES HAVE BEEN REGISTERED WITH THE TENNESSEE DEPARTMENT OF COMMERCE AND INSURANCE. SUCH REGISTRATION DOES NOT CONSTITUTE A RECOMMENDATION OR ENDORSEMENT OF ANY SECURITY, NOR HAS THE TENNESSEE DEPARTMENT OF COMMERCE AND INSURANCE PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS OFFERING DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

(4) Prospectuses.

- (a) Preliminary Prospectuses. The publication and distribution of preliminary prospectuses in connection with proposed offerings to Tennessee residents shall be permitted if such preliminary prospectuses:

1. Are used for the purpose of obtaining indications of interest (as distinguished from firm commitments to purchase) in the proposed securities;
2. Are filed with the Division no later than the date of first use in this state; and
3. Contain the legend required by the SEC, if applicable, or substantially the following legend in capital letters and, if printed, in at least as high as ten (10) point modern boldface roman type on the cover:

AN APPLICATION TO REGISTER THESE SECURITIES HAS BEEN FILED WITH THE TENNESSEE COMMISSIONER OF COMMERCE AND INSURANCE. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION BECOMES EFFECTIVE.

- (b) Any person filing a registration statement pursuant to T.C.A. § 48-1-105 that is described in paragraph (2) of Rule 0780-04-02-.01 or pursuant to T.C.A. § 48-1-106 shall promptly file with the Division all amendments to each registration statement (other than amendments which merely delay the effective date of the registration statement) and all supplements to each addition or deletion to the offering material made in the amendment.

(Rule 0780-04-02-.03, continued)

- (c) After the effective date of an application to register securities, no prospectus shall be used in this state unless it contains all supplements to the prospectus as of the date of its use.
  
- (5) Abandonment. If an application to register securities has been on file with the Division for more than one (1) year without becoming registered, or if no written communication addressing offering terms in response to comments or a substantive amendment is received in connection with the application for a period of six (6) months, the Division may, in its discretion, determine whether the application for registration has been abandoned by the following procedure:
  - (a) Notice will be sent to the correspondent designated on the Form U-1, as amended, by certified mail, return receipt requested, at the correspondent's most recent address designated on the Form U-1. Such notice will inform the correspondent that the application for registration is out of date and must either be updated or withdrawn within thirty (30) days after the date of such notice.
  - (b) If the correspondent fails to respond to such a notice by filing a substantive update or withdrawing the application for registration, the Division may enter an order declaring the application for registration abandoned.
  - (c) If applicable, the applicant may request a return of the refundable portion of the registration fee pursuant to subparagraph (2)(c) of Rule 0780-04-01-.04.
  
- (6) Blank-Check Offerings.
  - (a) This paragraph (6) is not intended to apply to offerings to be registered where the type of business or property is identified in the registration statement but the specific property or investment has not been identified. Specifically, this paragraph (6) shall not be applied to non-specified blind-pool offerings with adequate disclosure of investment objectives.
  - (b) An issuer must disclose with specificity, in the registration statement, its business plan and its intended use of net proceeds from an offering to be registered. The description of the issuer's business plan and use of net proceeds must enable offerees to know with reasonable certainty what types of business or industry the issuer will be engaged in, the types of products or services the issuer will manufacture, sell, or provide, and the identity and experience of the principal managers of the business to be acquired or developed.
  - (c) An offering of securities by a development stage company that commits less than seventy-five percent (75%) of the net proceeds of an offering for use in a specific business to be acquired or developed shall be considered a blank-check offering. The commissioner shall deem the registration statement of a blank-check offering to be one that omits to state a necessary material fact under T.C.A. § 48-1-121(a)(2) and the blank-check offering itself as one that would work, or tend to work, a fraud on purchasers, and may take any action authorized by law, including but not limited to the issuance of an order pursuant to T.C.A. §§ 48-1-108 and 48-1-116 denying, suspending, or revoking registration or the use of any exemption, which order may name the issuer, its controlling persons, and any underwriter or seller of the securities.
  - (d) For purposes of this paragraph (6), the terms below shall have the following meanings;
    - 1. "Development stage company" shall mean any issuer devoting substantially all of its efforts to establishing a new business and either: (i) planned principal

(Rule 0780-04-02-.03, continued)

operations have not commenced; or (ii) planned principal operations have commenced, but there has been no significant revenue therefrom.

2. "Net proceeds" shall mean the amount of offering proceeds remaining after payment of selling commissions and expenses and all other expenses paid or payable in connection with the offer and sale of securities, such as printing, legal, accounting, and filing fees.

(7) Multiple Securities Under Single Registration Statement.

Any issuer filing an initial or renewal application for registration of more than one security pursuant to a single registration statement may file:

- (a) A single Form U-1 if that form is completed to clearly enumerate each security and the proposed dollar amount of each security for which the application for registration is being made; and
- (b) A single check combining the filing fees payable for the securities listed on the Form U-1.

**Authority:** T.C.A. §§ 48-1-105, 48-1-106, 48-1-107, 48-1-108, 48-1-115, 48-1-116, and 48-1-121.  
**Administrative History:** Original rule filed January 13, 1983; effective February 14, 1983. Repeal and new rule filed September 28, 1990; effective November 12, 1990. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

**0780-04-02-.04 ADVERTISING AND SALES LITERATURE.**

- (1) All advertising and sales literature of any kind to be used directly or indirectly in connection with the offer or sale of securities registered or subject to registration in this state, whether through written, radio, or television medium, except advertising and sales literature described in SEC Rule 134 (17 C.F.R. § 230.134), shall be filed with the Division prior to the proposed use date or circulation date.
- (2) For purposes of this Rule, the term "advertising and sales literature" shall be deemed to include any communication distributed or made available to prospective investors or the public by any person to offer to sell or to induce the sale of securities other than a prospectus, a preliminary prospectus, or any prospectus supplements that have been filed with the Division as part of an application for registration. The sales material shall present a balanced discussion of both risk and reward. The contents of advertising and sales literature shall be consistent with representations in the prospectus.
- (3) No advertising or sales literature of any kind shall contain:
  - (a) Any untrue statement of material fact or any omission to state any material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.
  - (b) Any statement or implication that the securities offered are without risk, that returns are assured, or that failure or loss of the investment is not possible.
- (4) All advertising or sales literature of any kind used in connection with offerings registered or to be registered shall contain:
  - (a) The name of the issuer and of the person circulating or publishing the same.

(Rule 0780-04-02-.04, continued)

- (b) A statement showing the relationship between the issuer or dealer and every person whose name is used or from whom quotations are made.
- (c) A statement clearly indicating the source and authority of all reports, statements, or claims used in whole or in part or in any manner referred to therein.
- (d)
  - 1. Substantially the following legend:  

“THIS IS NEITHER AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED HEREIN. AN OFFERING IS MADE ONLY BY THE PROSPECTUS”.
  - 2. If printed, the legend shall appear on the face of the advertising or sales literature in type as large as that used generally in the body thereof.
- (5) Oral statements made by salesmen or other persons in connection with the purchase or sale of a security registered or to be registered supplementing, interpreting, or explaining any advertising or sales literature or made in connection with sales meetings or seminars shall be consistent with representations in the prospectus.
- (6) The commissioner may notify the filer in writing if he/she determines that the advertising and sales literature submitted in accordance with paragraph (1) of this Rule fails to conform with the provisions of this Rule, or the Act, or has been otherwise determined to be unfair or deceptive. Such notice shall specify the reason(s) for the commissioner’s determination and shall afford the filer a right to a hearing in compliance with the UAPA.
- (7) After notice and a hearing, the commissioner may order any person to cease and desist from using any advertising and sales literature that is determined to violate this Chapter.
- (8) Failure of the commissioner to issue a notice pursuant to paragraph (6) of this Rule shall not relieve any person of responsibility for compliance with this chapter, nor will this failure waive any right of the commissioner to bring an action against a person for violation of this Chapter.
- (9) The provisions of paragraphs (1) through (8) of this Rule shall not apply to advertising or sales literature of any kind meeting the requirements of SEC Rules 134 (17 C.F.R. § 230.134), 156 (17 C.F.R. § 230.156), and 482 (17 C.F.R. § 230.482) or any successor rules relating to advertising and sales literature used in the sale of investment company shares registered pursuant to the Investment Company Act, unless such advertising or sales literature is not filed with and is not subject to review by the FINRA or the SEC.

**Authority:** T.C.A. §§ 48-1-105, 48-1-106, 48-1-107, 48-1-113, 48-1-115, 48-1-116, and 48-1-121; and 17 C.F.R. §§ 230.134, 230.156, and 230.482. **Administrative History:** Original rule filed January 13, 1983; effective February 14, 1983. Amendment filed August 29, 1984; effective September 28, 1984. Amendment filed March 20, 1985; effective June 14, 1985. Amendment filed January 29, 1988; effective April 27, 1988. Repeal and new rule filed September 28, 1990; effective November 12, 1990. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

#### **0780-04-02-.05 RENEWALS.**

- (1) Registration statements are effective for a period of one (1) year from the date of effectiveness and may be renewed, unless a more specific rule regulating a certain type of security states to the contrary, for additional periods of one (1) year by filing an application for renewal not later than twenty (20) days prior to the expiration of the present registration period. The application for renewal must contain the following:

(Rule 0780-04-02-.05, continued)

- (a) A completed and properly executed Form U-1, Form U-2, and, if applicable, Form U-2A;
  - (b) One (1) copy of the latest form of prospectus and each supplement to the latest form of prospectus, if any;
  - (c) A sales report containing:
    - 1. The number of Tennessee investors;
    - 2. The number of shares of each class of securities sold to Tennessee investors during the present registration period; and
    - 3. The aggregate offering amount of each class of securities sold to Tennessee investors during the present registration period.
  - (d) A copy of the issuer's financial statements for the most recent fiscal year end, prepared in accordance with generally accepted accounting principles;
  - (e) A statement specifying the section of the Act pursuant to which the registration statement is to be renewed;
  - (f) The appropriate filing fee computed in accordance with T.C.A. § 48-1-107(b); and
  - (g) Any other such information, forms, or documents as the Division may request.
- (2) If the issuer elects to increase the amount of securities registered in the state at the time of renewal by amending the Form U-1 to reflect the increased amount to be registered, the filing fee required under subparagraph (1)(f) must be computed based upon the increased amount of securities.
- (3) If the name of the offering or the name of the issuer has been changed during the present registration period without prior notice to the Division, or if the name of the offering or the name of the issuer will be changed as part of an upcoming renewal, the application for renewal must include the following items in addition to the items listed under paragraph (1):
- (a) A completed and properly executed Form U-1, Form U-2, and, if applicable, Form U-2A, each amended to reflect the change in name(s); and
  - (b) If changing the name of the offering, the fee as set forth in T.C.A. § 48-1-107(n).
- (4) All forms and documents required under this Rule and which have been filed and recorded on the Electronic Data Gathering Access and Retrieval (EDGAR) system, the Interactive Data Electronic Applications (IDEA) system, the Electronic Filing Depository (EFD), or any other electronic data gathering system either maintained by the SEC or approved by the Division, may be incorporated by reference in lieu of filing such documents in paper form. If an issuer applying for renewal of registration elects to file such forms by reference, the issuer must:
- (a) Provide an accurate filing number or other designation used by the SEC;
  - (b) Ensure that a printed or electronically stored copy of all required documents and forms is immediately accessible to the Division; and
  - (c) Provide the Division with a paper copy of such forms upon request.

(Rule 0780-04-02-.05, continued)

**Authority:** T.C.A. §§ 48-1-106, 48-1-107, 48-1-115, and 48-1-116 and Public Acts of 2001, Chapter 61.

**Administrative History:** Original rule filed September 28, 1990; effective November 12, 1990. Repeal and new rule filed March 16, 2015; effective June 14, 2015. Amendments filed February 1, 2018; effective May 2, 2018.

#### **0780-04-02-.06 STANDARDS OF FAIRNESS AND REASONABLENESS.**

(1) General Rule.

All securities covered by this Rule shall be offered upon such terms and conditions that the potential rewards to the investors and to the promoter or issuer of the securities bear a reasonable relation to the risks assumed by each.

(2) Applicability.

(a) Unless different criteria for a specific type of security are set forth elsewhere in these Rules, this Rule shall apply to:

1. All offerings filed for registration in this state pursuant to T.C.A. § 48-1-105, except as provided in paragraph (3) of Rule 0780-04-02-.01; and
2. All offerings filed for registration in this state pursuant to T.C.A. § 48-1-106.

(b) With respect to offerings registered by coordination or by qualification, if there is any conflict between the disclosure or accounting requirements of this Rule and those of the SEC, the Division may accept compliance with the SEC requirements in lieu of compliance with this Rule.

(3) Variances.

The standards set forth in this Rule are intended to furnish guidelines for the determination that an application for registration meets the requirement of paragraph (1) of this Rule. These standards are not meant to preclude the application of more liberal or more stringent standards if the circumstances of a particular application for registration so justify. The Division may modify or waive any of the standards set forth in paragraph (4) of this Rule where good cause is shown or where the goal sought to be achieved by these guidelines can be accomplished by other means. Good cause may be shown by a demonstration of adequate alternative safeguards built into a particular offering that bring that offering within the spirit of paragraph (1) of this Rule.

(4) Standards.

(a) An offering which meets the applicable provisions of this paragraph (4) will be deemed to meet the standard of paragraph (1) of this Rule.

(b) The following definitions shall apply to this Rule except as expressly provided otherwise herein:

1. "Earnings Per Share" means net profits determined on a per share basis after taxes but before extraordinary items, calculated in accordance with generally accepted accounting principles consistently applied on a fully diluted basis.
2. "Equity Investment of Promoters" means the total of all cash, together with the reasonable value of all assets contributed to the issuer as determined by qualified independent appraisals acceptable to the assistant commissioner, and

(Rule 0780-04-02-.06, continued)

- may be adjusted by the earned surplus or deficit of the issuer subsequent to the dates of contribution.
3. "Equity Security" means any common stock or similar security; or any instrument convertible, with or without consideration, into such a security, or carrying a warrant, option, or right to subscribe to or purchase such a security, or any such warrant, option, or right.
  4. "Firm Market" means a market in which quoted prices are those at which a security can actually be bought and sold currently, and are not quotes that are merely based on historical prices.
  5. "Person" means any individual, corporation, partnership, trust, or other legal entity, or any unincorporated association or organization, and includes the following: (i) any relative, spouse, or relative of the spouse of the specified person; (ii) any trust or estate in which the specified person or any of the persons specified in (i) collectively own five percent (5%) or more of the total beneficial interest or of which any of such persons serve as trustee, executor, or in any similar capacity; and (iii) any corporation or other organization (other than the issuer corporation) in which the specified person or any of the persons specified in (i) are the beneficial owners collectively of five percent (5%) or more of any class of equity securities or five percent (5%) or more of the equity interest.
  6. "Promoter" means: (i) any person who, acting alone or in conjunction with one (1) or more persons, directly or indirectly, takes the initiative in founding and organizing the business or enterprise of a corporation; (ii) any person who, in connection with the founding or organizing of the business or enterprise of a corporation, directly or indirectly, receives in consideration of services or property or both services and property five percent (5%) or more of any class of equity security of the corporation or five percent (5%) or more of the proceeds from the sale of any class of equity security of the corporation; provided, however, that a person who receives such securities or proceeds solely as underwriting commissions shall not be deemed a promoter within the meaning of this clause if such person does not otherwise take part in founding and organizing the enterprise; (iii) any person who is an officer, director, or who beneficially owns, directly or indirectly, more than five percent (5%) of any class of equity security of a corporation, excluding any unaffiliated institutional investor that purchased its shares more than two (2) years prior to the filing date of the proposed offering; and (iv) any person who is an affiliate of a person specified under clause (i), (ii), or (iii), of this part 6.
  7. "Promotional or Development Stage Corporation" means a corporation which has no public market for its shares and has no significant earnings. All other corporations shall be deemed "Seasoned Corporations".
  8. "Promotional Shares" means those equity securities which were issued within three (3) years prior to the filing date or are to be issued to promoters for a consideration valued at less than eighty-five percent (85%) of the proposed public offering price excluding the number of such securities calculated by dividing eighty-five percent (85%) of the public offering price per share into the total consideration paid by promoters for their shares. Equity securities which were, or are to be, issued for services rendered, patents, copyrights, or other intangibles are presumed to be promotional shares unless the value of such intangibles has been established to the satisfaction of the Division. In determining the consideration paid or the value of property under this definition, the Division may recognize as consideration any property, including patents,

(Rule 0780-04-02-.06, continued)

copyrights, or other intangibles (except goodwill) to the extent that the fair market value of such assets is established to the Division's satisfaction. Consideration for equity securities may include the fair market value of such assets if the fair market value can be determined by an independent appraisal (according to recognized standards of valuation) that is acceptable to the Division and may also include verifiable out-of-pocket development or marketing expenses (excluding promoters' salaries) paid by promoters to the extent such expenses are not reimbursed by the issuer. Excluded from this definition shall be any shares issued to promoters at the same price paid by unaffiliated persons in offerings made pursuant to SEC Regulation D.

EXAMPLE: Calculations of number of promotional shares.

	# of shares	Total Price Paid Per Share
Shares Held by Promoters	100	\$1.00
Public Offering Price Per Share		\$10.00
Total Paid by Promoters		\$100.00
<hr/>		<hr/>
Public Offering Price Per Share x .85		\$10 x .85
Fully Paid Shares		\$100.00
		<hr/>
		\$8.50 = 11.77*
Shares Held by Promoters	100	
- Fully Paid Shares	-12*	
<hr/>		
Number of Promotional Shares	88	

\*Rounded

9. "Public Market" means, with respect to the equity securities of an issuer, that one of the following criteria is met:
- (i) The security is traded on a national or regional stock exchange registered under the 1934 Act;
  - (ii) The security is designated on the Nasdaq National Market; or
  - (iii) Each of the following criteria is met:
    - (I) There were at least three hundred (300) holders of the security at the beginning and end of the six (6) month period preceding the date of the filing;
    - (II) At least two hundred thousand (200,000) shares of the security are publicly outstanding (exclusive of securities held by officers, directors, and five percent (5%) holders);

(Rule 0780-04-02-.06, continued)

- (III) At least two (2) broker-dealers regularly make a market in the security;
  - (IV) At least one (1) financial publication regularly quotes the market price;
  - (V) Trading of the security in the six (6) month period preceding the date of the filing averaged at least one hundred (100) transactions or at least five percent (5%) of the outstanding securities (not including securities held by officers, directors, and five percent (5%) security holders) per month; and
  - (VI) The bid price and the asking price represent quotations in a firm market.
10. "Significant Earnings" shall be deemed to exist if the corporation's earnings record over the last five (5) years (or such shorter period of the corporation's existence, but in no event less than three (3) years) demonstrates that it would have met either of the earnings tests set forth in items (4)(f)4.(i)(I)–(II) of this Rule based upon its shares outstanding immediately before the proposed public offering.
11. "Unaffiliated Institutional Investor" includes any unaffiliated: bank; investment company registered under the Investment Company Act or a business development company as defined in Section 2(a)(48) of the Investment Company Act; small business investment company licensed by the U.S. Small Business Administration under Section 301 of the Small Business Investment Act of 1958; employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974; insurance company; private business development company as defined in Section 202(a)(22) of the Investment Advisers Act or comparable business entity engaged as a substantial part of its business in the purchase and sale of securities and which owns less than twenty percent (20%) of the securities to be outstanding at the completion of the proposed public offering.
- (c) Options and Warrants.

The amounts and kinds of options and warrants to purchase securities issued or sold, other than ratably in connection with a proposed offering of equity securities or securities convertible into equity securities, shall be reasonable. The amounts and kinds of options and warrants are presumed to be reasonable if they satisfy the following conditions:

1. With respect to options or warrants to underwriters:
  - (i) The options or warrants are issued to the managing underwriters under a firm commitment underwriting agreement only after the entire issue has been sold, provided that the options and warrants are not assignable or transferable except among or to the partners, or officers and directors of the managing underwriters;
  - (ii) The exercise price of the options or warrants is at least equal to the public offering price with a step-up of the exercise price of either seven percent (7%) each year such options and warrants are outstanding, or in the alternative, an overall twenty percent (20%) step-up at any time after one (1) year from the date of issuance. The step-up shall commence twelve

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- (12) months after the grant of the options or warrants. The election as to either step-up alternative must be made by the underwriters at the time that the options or warrants are issued;
- (iii) The options or warrants are issued by a relatively small company other than a seasoned issuer with a public market, or where it appears from all of the facts and circumstances that the issuance of options or warrants is necessary to obtain competent investment banking services, provided that the direct commissions to the underwriters are lower than the usual and customary commissions would be in the absence of such options and warrants;
  - (iv) The securities covered by the options and warrants consist solely of securities of the same class and of the same issuer as those securities proposed to be sold to the public in the offering under consideration;
  - (v) The number of shares covered by all options or warrants does not exceed twelve percent (12%) of the securities proposed to be sold to the public in the offering under consideration;
  - (vi) The options or warrants do not exceed five (5) years in duration and are exercisable no sooner than one (1) year after issuance; and
  - (vii) The value of the options or warrants shall be included in the computation of underwriting commissions and discounts. The market value of such options or warrants, if any, shall be used, and where no market value exists, a presumed fair value of not less than twenty percent (20%) of the public offering price of the stock to which the options or warrants relate shall be used, unless evidence indicates that a different value exists.
2. With respect to options or warrants issued to persons other than underwriters in connection with financing arrangements made by the issuer, the options or warrants are issued as a result of bona fide negotiations between the issuer and persons not affiliated with the issuer, and upon terms and conditions which are reasonable in light of the proposed public offering.
  3. The total amount of options and warrants issued or reserved for issuance at the date of the public offering, excluding those issued in connection with acquisitions, does not exceed either twelve percent (12%) of the shares to be outstanding upon completion of the offering or twelve percent (12%) of the shares outstanding during the twelve (12) month period commencing with the effective date of the registration. The number of options and warrants issued or reserved for issuance may be disregarded if the issuer states in the prospectus that the amount of outstanding options and warrants shall not exceed the above amount during the period the registration statement is effective with the Division.
  4. All options and warrants except those issued to financing institutions other than underwriters shall be issued at not less than eighty-five percent (85%) of fair market value on the date of issuance, or where no market exists, at not less than eighty-five percent (85%) of book value on the date of issuance, and the exercise price shall not be subject to change by the issuer except in accordance with anti-dilution provisions in effect on the date of issuance.

(d) Offering Price.

(Rule 0780-04-02-.06, continued)

1. The offering price of equity securities of seasoned corporations may be deemed unfair to the purchasers unless at least one (1) of the following conditions is met:
    - (i) The price for the equity security does not exceed thirty-three (33) times the issuer's net earnings per share for the last twelve (12) months, or does not exceed thirty-three (33) times its average annual net earnings per share for the last three (3) years prior to the proposed offering date;
    - (ii) The price of the equity security is based on a public market; or
    - (iii) If there is no public market, the issuer may show that the proposed price-earnings ratio is justified in relation to price earnings ratios of comparable companies by means of published industry guides that include key business ratios. Comparable companies shall mean companies similar in terms of size, history of operations, industry and products, and other relevant factors. Key business ratios include but are not limited to liquidity ratios, activity ratios, leverage ratios, profitability ratios, and common stock ratios.
  2. The offering price of equity securities of promotional or development stage corporations shall be reasonably related to the price paid for the stock by promoters or controlling persons of the issuer except as permitted by subparagraph (4)(f) of this Rule regarding promotional shares. Facts and circumstances to be considered shall include, but are not limited to, the following: the price paid for the equity securities by promoters or controlling persons of the issuer in transactions effected within three (3) years prior to the public offering; the book value of the equity security; the market value of the corporation's assets; and the sophistication of the proposed purchasers.
- (e) Selling Commissions and Expenses.
1. The aggregate amount of underwriters' and sellers' discounts, commissions, and other compensation shall be reasonable. Such compensation is presumed reasonable if the total of all underwriters' or sellers' compensation and other expenses in connection with the offering does not exceed fifteen percent (15%) of the gross proceeds of the offering, except that in the case of securities which qualify for registration on Forms S-B1 or S-B2 under the 1933 Act or which qualify for exemption pursuant to Regulation A under the 1933 Act, the total underwriters' and sellers' compensation and all other expenses will be presumed reasonable if not in excess of twenty percent (20%) of the gross proceeds of the offering. See also subpart (4)(c)1.(vii) of this Rule.
  2. Compensation to be received by underwriters or sellers shall include, but is not limited to, the following:
    - (i) Underwriter's discounts, commissions, or concessions;
    - (ii) Non-accountable expense allowances;
    - (iii) Expenses incurred by an underwriter or related person payable by the issuer or from the proceeds of the offering to or on behalf of an underwriter or related person;
    - (iv) Finder's fees known to be payable at the commencement of the offering;
    - (v) Wholesaler's fees;

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- (vi) Financial consulting and advisory fees, whether in the form of cash, securities, or any other item of value which are connected with or related to the offering unless an ongoing financial consulting or advisory relationship between the proposed issuer or affiliate and the proposed underwriter or related person has been established at least twelve (12) months prior to the filing of the registration statement;
  - (vii) Stock, options, warrants, and other securities, the options and warrants to be valued in accordance with subpart (4)(c)1.(vii) of this Rule;
  - (viii) Special sales incentive items;
  - (ix) A right provided to an underwriter or related person to require the issuer upon demand to register securities on behalf of the underwriter or person in the future at the expense of the issuer, which shall be valued at one percent (1%) of the gross proceeds of the offering, unless the demand is for only one (1) such registration in which event the right to demand registration shall be valued at one-half of one percent (.5%) of the gross proceeds of the offering; provided, however, that a right to “piggyback” on a non-demand registration shall be valued at one-quarter of one percent (.25%) of the gross proceeds of the offering unless the underwriter agrees to pay its pro rata share of offering expenses incurred as a result of such securities being included in the offering;
  - (x) Commissions, expense reimbursements, or other compensation to be received by an underwriter or related person as a result of the exercise of the conversion within twelve (12) months following the effective date of the offering of warrants, options, convertible securities, or similar securities distributed as part of the offering; and
  - (xi) If promotional shares are issued to an underwriter, the difference between the consideration paid and the public offering price shall be considered compensation to the underwriters.
3. All underwriter compensation set forth in part (4)(e)2. of this Rule, when added to all other marketing expenses, such as printing costs, registration fees, filing fees, issuer’s attorneys and accounting fees, fees and expenses of underwriters’ counsel, accountable expense allowances paid to underwriters, and miscellaneous marketing expenses, shall not exceed the limit imposed in part (4)(e)1. of this Rule.
  4. If the securities are sold under a deferred or installment plan, the underwriters’ or sellers’ commissions payable in cash shall be payable pro rata over the life of the plan.
  5. In the case of the sale to the public of outstanding securities held by existing security holders to be sold alone or in conjunction with the sale of securities by the issuer, the selling security holders shall pay, as the case may be, all of their equitable portion of the selling commissions and expenses.
- (f) Promotional Shares.
1. Maximum Amount of Promotional Shares. If the maximum amount of promotional shares exceeds thirty-three percent (33%) of the outstanding shares of stock of

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the issuer after the completion of the offering, the promotional shares will be subject to part (4)(f)3. of this Rule.

2. Mergers, Recapitalizations, Reorganizations, and Stock Splits.
  - (i) If the maximum amount of dilution to public investors exceeds seventy-five percent (75%) of the public offering price after the completion of the offering, the promotional shares will be subject to part (4)(f)3. of this Rule; and
  - (ii) Even if the amount of dilution to public investors does not exceed seventy-five percent (75%) of the public offering price after the completion of the offering, all shares owned by officers, directors, and parties owning five percent (5%) or more of the outstanding shares of the corporation before the public offering that cause dilution in excess of forty percent (40%) of the public offering price after the completion of the offering shall be subject to escrow pursuant to part (4)(f)3. of this Rule.
3. Escrow of Promotional Shares. The assistant commissioner may require as a condition of registration that all or part of any promotional shares be deposited in escrow absent adequate justification that escrow of such shares is not in the public interest and not necessary for the protection of investors.
4. Release Provisions.
  - (i) Promotional shares which are to be escrowed shall remain in escrow until the sixth anniversary of the effective date of the registration. On the sixth, seventh, eighth, and ninth anniversary dates, twenty-five percent (25%) of each promoter's shares shall be released from escrow. Shares may also be released from escrow upon the achievement by the issuer of any of the following tests during the escrow period:
    - (I) After two (2) consecutive fiscal years from the date of effectiveness, during which the issuer has minimum average annual earnings per share equal to six percent (6%) of the public offering price.
    - (II) After five (5) fiscal years from the date of effectiveness, the average earnings per share are equal to five percent (5%) or more of the public offering price.
    - (III) After one (1) year, for a term of at least ninety (90) consecutive trading days following such one (1) year period, and for the thirty (30) trading days prior to the requested termination date of the escrow, the shares of the issuer are trading in a reliable public market at a price at least one-hundred seventy-five percent (175%) of the initial public offering price.
  - (ii) A request for termination of an escrow based on satisfaction of either of the tests set forth in items (4)(f)4.(i)(I)–(II) of this Rule shall be accompanied by an earnings per share calculation audited and reported on by an independent certified public accountant.
5. Terms of Escrow.
  - (i) The shares in escrow may be transferred by will or pursuant to the laws of descent and distribution or through appropriate legal proceedings without

(Rule 0780-04-02-.06, continued)

the consent of the assistant commissioner, but in all such cases the shares shall remain in escrow and subject to the terms of the escrow agreement. In addition, upon the death of a promoter, such promoter's escrowed shares may be hypothecated, subject to all of the terms of the escrow agreement, to the extent necessary to pay the expenses of the estate; otherwise, the escrowed shares may not be pledged to secure a debt. The securities in escrow may be transferred by gift to family members, provided that the shares remain subject to the terms of the escrow agreement.

- (ii) The shares required to be held in escrow as a condition to registration of a public offering shall not have any right, title, interest, or participation in the assets of the issuer in the event of dissolution, liquidation, merger, consolidation, reorganization, sales of assets, exchange, or any other transaction or proceeding which contemplates or results in the distribution of the assets of the issuer, until the holders of all shares not escrowed have received, or had irrevocably set aside for them, an amount equal to the purchase price per share in the public offering, adjusted for stock splits and stock dividends. Subsequently, the holders of the escrowed shares shall be entitled to receive an amount per share equal to the amount received by or set aside for the holders of the non-escrowed shares, on a per share basis, plus any dividends and interest set aside for the escrowed shares, to the extent any such cash dividends plus interest are not necessary to meet the issuer's obligation of payment to holders of shares not escrowed, and thereafter all shares shall participate on a pro rata basis. However, a merger, consolidation, or reorganization may proceed on terms and conditions different than those stated above if a majority of shares held by persons other than promoters approve the terms and conditions by vote at a meeting held for such purpose.
  - (iii) Shares held in escrow shall continue to have all voting rights to which those shares are entitled. Any dividends paid on such shares shall be paid to the escrow agent and held pursuant to the terms of the escrow agreement. The escrow agent shall treat such dividends as assets available for distribution as provided under subpart (4)(f)5.(ii) of this Rule. The escrow agent shall place any cash dividends in an interest bearing account. The cash dividends and any interest earned thereon will be disbursed in proportion to the number of shares released from escrow. All certificates representing stock dividends and shares resulting from stock splits of escrowed shares shall be delivered to the escrow agent to be held pursuant to the escrow agreement.
  - (iv) A summary of the terms of the escrow shall be included in the prospectus and, during the term of the escrow agreement and until the release of all shares from escrow, in subsequent prospectuses, annual reports to shareholders, proxy statements, or other disclosure materials used by shareholders or investors in making decisions with respect to the issuer.
  - (v) The escrow agent must be satisfactory to the assistant commissioner and may not be affiliated with any promoter of the issuer. The issuer shall not bear any of the fees or expenses associated with the escrow.
- (g) Promoters' Investment. The offering of an issuer that is a promotional or development stage corporation shall be presumed unfair unless the equity investment of the promoters equals at least ten percent (10%) of the tangible net worth of the issuer adjusted for the proposed offering.

(Rule 0780-04-02-.06, continued)

## (h) Alternative Guidelines for Promotional Shares and Promoters' Investment:

1. In lieu of the guidelines set forth above in part (4)(d)2. and subparagraphs (4)(f)–(g) of this Rule, an issuer may comply with the standards of this subparagraph (4)(h).
2. An offering of equity securities of a promotional or a development stage corporation may be deemed to be unfair if the ratio of equity capital to equity ownership of the public investors buying pursuant to the proposed offering on a per share basis is more than ten (10) times the ratio of the equity capital to equity ownership of promoters, on a per share basis. For purposes of this part:
  - (i) With respect to public investors, "equity capital" shall mean the tangible consideration paid by the public investors.
  - (ii) With respect to promoters, "equity capital" shall mean the greater of the tangible consideration contributed to the equity of the issuer on a fully diluted basis, or the net worth of the issuer demonstrated by the most recent audited balance sheet furnished by the issuer in the registration statement and all interim unaudited balance sheets.
  - (iii) With respect to promoters, "equity ownership" shall mean the total number of shares owned on a fully diluted basis.
  - (iv) With respect to public investors, "equity ownership" shall mean the total number of shares to be offered to the public.

EXAMPLE: Calculation of the Ratio of Equity Capital to Equity Ownership on a Per Share Basis.

(The example assumes that there are no outstanding options, warrants, or convertible securities.)

	<i>Total # of Shares</i>	<i>Issuer's Net Worth</i>	<i>Proposed Price Per Share</i>	<i>Total Tangible Consideration</i>
Promoters'	880,000	\$500,000		\$300,000
Public Investors'	200,000		\$10.00	\$2,000,000
Totals	1,080,000	\$500,000		\$2,300,000

Public Investor's Equity Capital -----	= \$2,000,000	
Equity Ownership	<u>200,000</u>	== \$10.00
Promoters' Equity Capital -----	= \$300,000	

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Equity Ownership	$\frac{\quad}{880,000}$	$= .34090; .34 \times 10 = \$3.40$
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Promoters'  
Net Worth

-----	$= \$500,000$	
Equity Ownership	$\frac{\quad}{880,000}$	$= .56818; .57 \times 10 = \$5.70$

CONCLUSION : THE ALTERNATIVE TEST IS NOT MET.  
\$10.00 > \$3.40 OR 5.70

## (i) Voting Rights.

1. Unless either preferential treatment as to dividends and liquidation is provided with respect to the publicly offered securities or a public market exists for the securities, the offering of equity securities of an issuer having more than one class of equity securities outstanding will be deemed unfair to public investors if the class of equity securities offered to the public has no voting rights or less than equal voting rights in proportion to the number of shares of each class outstanding in all matters, including the election of members to the board of directors of the issuers.
2. If at the time of a proposed offering the issuer has authorized preferred stock issued or issuable with rights, preferences, or privileges to be determined by the issuer's board of directors without further action by stockholders, the offering document shall include a disclosure to the effect that a subsequent determination by the board of directors with respect to the rights, preferences, or privileges of the preferred stock may adversely affect the rights of common stockholders.

## (j) Preferred Stock and Debt Securities.

1. The net earnings of the issuer for its last fiscal year prior to the offering or for the average of its last three (3) fiscal years prior to the offering must be sufficient to cover adequately the dividends and redemption requirements, if any, on the preferred stock proposed to be offered. Net earnings shall be determined exclusive of non-recurring items and shall be adjusted for any debt securities or preferred stock to be redeemed with the proceeds of the offering, less applicable income tax effects.
2. The net earnings of the issuer for its last fiscal year prior to the offering, or for the average of its last three (3) fiscal years prior to the offering, must be sufficient to cover adequately its debt service requirements on all debt securities issued subsequent to its last fiscal year (including all securities proposed to be offered). Net earnings shall be determined before taxes, depreciation, and extraordinary items and shall be adjusted for any debt securities to be redeemed with the proceeds of the offering and for applicable tax effects.
3. Upon completion of the offering, the total amount of debt of the issuer must be reasonable in proportion to the amount of equity of the issuer. Reasonableness is to be determined in relation to the prevailing debt-equity ratios for comparable companies in the issuer's industry.

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4. If the issuer has made or proposes to make any material acquisitions subsequent to the last year specified in parts (4)(j)1.-3. of this Rule, the earnings for each year shall be restated on a pro-forma basis to reflect such acquisition.
  5. The sale of preferred stock or debt securities by promotional or development stage corporations is presumed not to meet the standard in paragraph (1) of this Rule unless a variance is granted pursuant to paragraph (3) of this Rule.
  6. The issuer may not bind itself to purchase debt securities or preferred stock at the request of the holder prior to maturity except pursuant to sinking fund provisions or pursuant to some other reasonable method fully disclosed in the prospectus.
- (k) Loans to Company Officials.
1. The sale of securities by an issuer may be deemed unfair if the issuer or its affiliates have made, or may make, loans or forbearances to company officers, directors, or controlling persons, other than as described below:
    - (i) Advances for travel, business expense, relocation, and similar ordinary operating expenditures.
    - (ii) Any other loans or forbearances for specific purposes directly related to the ordinary course of the issuer's business, or for bona fide personal emergencies, provided the loans or forbearances are approved by a majority of disinterested members of the issuer's board of directors.
    - (iii) Any other loans or forbearances approved by a majority of disinterested shareholders (excluding all company officials and controlling persons) pursuant to a proxy solicitation conforming to the proxy rules set by the SEC.
    - (iv) An issuer or affiliate whose primary business is that of making loans may make loans to the officers, directors, or controlling persons of the issuer or affiliate provided that the loans:
      - (I) Will be evidenced by a promissory note naming the lender as payee, and contain an annual percentage rate which is reasonably comparable to that normally charged to non-affiliates by other commercial lenders for similar loans made in the lender's locale;
      - (II) Will be repaid pursuant to appropriate amortization schedules and contain default provisions comparable to those normally used by other commercial lenders for similar loans made to non-affiliates in the lender's locale;
      - (III) Will be made only if credit reports and financial statements, or other reasonable investigation appropriate in the light of the nature and terms of the loan and which meet the loan policies normally used by other commercial lenders for similar loans made to non-affiliates in the lender's locale show the loan to be collectible and the borrower a satisfactory credit risk; and
      - (IV) The purpose of the loan and the disbursement of proceeds are reviewed and monitored in a manner comparable to that normally

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used by other commercial lenders for similar loans made in the lender's locale.

2. All loans except those described in part (4)(k)1. of this Rule shall be repaid in full prior to the offering. The Division may waive this requirement if:
    - (i) The issuer is a going concern and repayment of such loan will be made pursuant to appropriate amortization schedules; or
    - (ii) Any portion of the offering is, by, or on behalf of any company official to whom a loan or forbearance has been made, and such person undertakes to effect repayment from the proceeds of the offering and repayment to the extent of such proceeds will be made immediately upon completion of the offering.
  3. If the issuer or its affiliates has or will make loans or forbearances to officers, directors, or controlling persons, the prospectus or offering circular shall disclose the terms and details of the loans or forbearances.
- (l) Impoundment of Proceeds. The Division may require that as a condition to registration that all proceeds of sales of securities be impounded in escrow until such time that a sufficient amount has been realized to accomplish the purpose of the offering.
- (m) Future Self-Dealing Transactions. The prospectus shall contain a statement to the effect that all future transactions with affiliates of the issuer are to be on terms no less favorable than could be obtained from an unaffiliated third party and must be approved by a majority of the directors including the majority of disinterested directors.
- (n) Standards for Specific Issuers.
1. Applicability.
    - (i) The Statements of Policy referred to in this subparagraph (4)(n) apply to the indicated specific type of security and will, by analogy, be applied to securities in other forms. Deviations from these guidelines may be permitted by the Division where good cause is shown in accordance with paragraph (3) of this Rule.
    - (ii) The Division may grant effectiveness to any offering that is subject to review under guidelines below on a basis other than that permitted in such guidelines where the offering requires each investor in this state (including transferees) to have a minimum net worth of a least two hundred fifty thousand dollars (\$250,000) exclusive of home, home furnishings, and automobiles and to have had during the last tax year, and be expected to have during the current tax year a gross income of at least sixty-five thousand dollars (\$65,000) or, in the alternative, a minimum net worth of at least five hundred thousand dollars (\$500,000) exclusive of home, home furnishings, and automobiles. In the case of such offerings, the Division may require a statement signed by each investor in this state acknowledging how the offering varies from the standards set forth in the guidelines below.
    - (iii) The term "Administrator" as used in these guidelines shall mean the assistant commissioner.

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- (iv) Copies of these guidelines may be obtained from the Division upon request and payment in advance of a reasonable charge for copying.
2. Cattle-Feeding Programs.  
  
The Statement of Policy on Registration of Publicly Offered Cattle-Feeding Programs adopted by NASAA, as reported at CCH NASAA Reports ¶¶601, as it may be amended from time to time, is incorporated herein by reference.
3. Church Bonds.  
  
The Statement of Policy on Church Bonds adopted by NASAA, as reported at CCH NASAA Reports ¶¶1001, as it may be amended from time to time, is incorporated herein by reference.
4. Commodity Pool Programs.  
  
The Statement of Policy on Registration of Commodity Pool Programs adopted by NASAA, as reported at CCH NASAA Reports ¶¶1201, as it may be amended from time to time, is incorporated herein by reference.
5. Equipment Programs.  
  
The Statement of Policy on Registration of Equipment Programs adopted by NASAA, as reported at CCH NASAA Reports ¶¶1601, as it may be amended from time to time, is incorporated herein by reference.
6. Finance Company Debt Securities.  
  
The Statement of Policy on Finance Company Debt Securities adopted by the Central Securities Administrators Council, as reported at CCH Blue Sky Reporter ¶¶5431, as it may be amended from time to time, is incorporated herein by reference.
7. Health Care Facility Offerings.  
  
The Statement of Policy on Health Care Facility Offerings adopted by NASAA, as reported at CCH NASAA Reports ¶¶2001, as it may be amended from time to time, is incorporated herein by reference.
8. Oil and Gas Programs.  
  
The Statement of Policy on Registration of Oil and Gas Programs adopted by NASAA, as reported at CCH NASAA Reports ¶¶2621, as it may be amended from time to time, is incorporated herein by reference.
9. Real Estate Investment Trusts.  
  
The Statement of Policy on Real Estate Investment Trusts adopted by NASAA, as reported at CCH NASAA Reports ¶¶3401, as it may be amended from time to time, is incorporated herein by reference.
10. Real Estate Programs.

(Rule 0780-04-02-.06, continued)

The Statement of Policy on Real Estate Programs adopted by NASAA, as reported at CCH NASAA Reports ¶3601, as it may be amended from time to time, is incorporated herein by reference.

11. Miscellaneous Direct Participation Programs.

In order to provide consistency in its review, the Division will use, to the extent appropriate, the NASAA Statement of Policy on Real Estate Programs, and particularly Sections II, III, and V through IX, as a reference in determining whether types of direct participation programs other than those specifically referenced in parts (4)(n)1.-10. of this Rule meet the standard set forth in paragraph (1) of this Rule.

12. Religious Denominations.

The Guidelines for General Obligation Financing by Religious Denominations adopted by NASAA, as reported at CCH NASAA Reports ¶¶1951-1957, as it may be amended from time to time, is incorporated herein by reference.

(5) Coordinated Review - Equity.

(a) An offering of equity securities which is submitted pursuant to a coordinated review process agreed to by the Division and other states, will be deemed to meet the standard of paragraph (1) of this Rule if it meets all of the terms and conditions of such coordinated review process, as well as meets the following guidelines:

1. The Statement of Policy Regarding Corporate Securities Definitions adopted by NASAA, as reported at CCH NASAA Reports ¶3811 et seq., as it may be amended from time to time, is incorporated herein by reference.
2. The Statement of Policy Regarding the Impoundment of Proceeds adopted by NASAA, as reported at CCH NASAA Reports ¶2151, as it may be amended from time to time, is incorporated herein by reference.
3. The Statement of Policy Regarding Loans and Other Affiliated Transactions adopted by NASAA, as reported at CCH NASAA Reports ¶371, as it may be amended from time to time, is incorporated herein by reference.
4. The Statement of Policy Regarding Options and Warrants adopted by NASAA, as reported at CCH NASAA Reports ¶2801, as it may be amended from time to time, is incorporated herein by reference.
5. The Statement of Policy Regarding Preferred Stock adopted by NASAA, as reported at CCH NASAA Reports ¶3001, as it may be amended from time to time, is incorporated herein by reference.
6. The Statement of Policy Regarding Promoters Equity Investment adopted by NASAA, as reported at CCH NASAA Reports ¶3101, as it may be amended from time to time, is incorporated herein by reference.
7. The Statement of Policy Regarding Promotional Shares adopted by NASAA, as reported at CCH NASAA Reports ¶3201, as it may be amended from time to time, is incorporated herein by reference.

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8. The Statement of Policy Regarding Specificity in Use of Proceeds adopted by NASAA, as reported at CCH NASAA Reports ¶¶3831–3837, as it may be amended from time to time, is incorporated herein by reference.
  9. The Statement of Policy Regarding Underwriting Expenses and Underwriter's Warrants, Selling Expenses, and Selling Security Holders adopted by NASAA, as reported at CCH NASAA Reports ¶¶3813–3820, as it may be amended from time to time, is incorporated herein by reference.
  10. The Statement of Policy Regarding Unsound Financial Condition adopted by NASAA, as reported CCH NASAA Reports ¶¶3821–3827, as it may be amended from time to time, is incorporated herein by reference.
  11. The Statement of Policy Regarding Unequal Voting Rights adopted by NASAA, as reported at CCH NASAA Reports ¶2401, as it may be amended from time to time, is incorporated herein by reference.
  12. The Statements of Policy referenced in subparagraph (4)(n) of this Rule will apply to the indicated specific type of security and will, by analogy, be applied to securities in other forms.
- (b) Copies of these guidelines and terms and conditions of the coordinated review process may be obtained from the Division upon request and payment in advance of a reasonable charge for copying.

**Authority:** T.C.A. §§ 48-1-105, 48-1-106, 48-1-107, 48-1-115, and 48-1-116; § 2(a)(48) of the Investment Company Act of 1940; § 301 of the Small Business Investment Act of 1958; Employee Retirement Income Security Act of 1974, Title I; and § 202(a)(22) of the Investment Advisers Act of 1940.  
**Administrative History:** Original rule filed September 28, 1990; effective November 12, 1990. Amendment filed May 15, 2002; effective July 29, 2002. Amendment filed April 5, 2004; effective June 19, 2004. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

#### **0780-04-02-.07 NON-PROFIT EXEMPTION.**

- (1) All persons offering securities claimed to be exempt under T.C.A. § 48-1-103(a)(7) shall, at least ten (10) days prior to any sale of such securities, file a notice on Form U-1 (including all applicable exhibits thereto) accompanied by the following additional information:
  - (a) The filing fee as set forth in T.C.A. § 48-1-103(a)(7);
  - (b) A statement of the basis for the issuer's qualification for exemption under T.C.A. § 48-1-103(a)(7);
  - (c) A copy of the Charter and Bylaws of the issuer or the equivalent entity formation and governance documents;
  - (d) Proof of consent to service of process as set forth in T.C.A. § 48-1-124;
  - (e) A description of the method by which full disclosure of material facts will be made to each offeree and a copy of the prospectus, pamphlet, offering circular, or similar literature should be provided;
  - (f) Copies of all advertising or other material to be distributed in connection with the offering;
  - (g) A copy of the subscription agreement or other similar agreement;

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- (h) A copy of any proposed agreement or proposed form of agreement with a securities broker-dealer or underwriter;
  - (i) A copy of the preliminary or definitive Trust Indenture and/or Trust Agreement, if any;
  - (j) An opinion of counsel attesting to the authority of the issuer to offer and sell the securities and stating that after the sale the securities will be valid, binding obligations of the issuer in accordance with the issuer's governing documents;
  - (k) An undertaking to notify the commissioner immediately upon the receipt of any stop order, denial, order to show cause, suspension, or revocation order, injunction or restraining order, or similar order entered by or issued by any regulatory authority or by any court, concerning the issuer, securities covered by the notice or other securities of the issuer currently being offered to the public;
  - (l) A statement of whether or not the issuer has ever been the subject of any order described in subparagraph (1)(k) of this Rule, and if so a description of the order; and
  - (m) Any additional information or documentation that the commissioner may require.
- (2) In order to be exempt under T.C.A. § 48-1-103(a)(7), a security must meet the following qualifications:
- (a) Church Bonds
    - 1. If the issuer is selling Church Bonds, a disclosure document should be prepared in accordance with the Statement of Policy Regarding Church Bonds adopted by NASAA and any successor policy thereto.
    - 2. For the purposes of this Rule, the term "Church Bonds" shall be consistent with the definition set forth in the Statement of Policy Regarding Church Bonds adopted by NASAA and any successor policy thereto.
  - (b) Church Extension Funds
    - 1. If the issuer is selling notes issued by a Church Extension Fund, a disclosure document should be prepared in accordance with the Statement of Policy Regarding Church Extension Fund Securities adopted by NASAA and any successor policy thereto.
    - 2. For the purposes of this rule, the term "Church Extension Fund" shall be consistent with the definition set forth in the Statement of Policy Regarding Church Extension Fund Securities adopted by NASAA and any successor policy thereto.
  - (c) For all other securities exempt under T.C.A. § 48-1-103(a)(7) that do not meet the qualifications of subsection (2)(a)–(b), the disclosure document must contain the following information:
    - 1. Financial statements of the issuer prepared in accordance with generally accepted accounting principles including, but not limited to, the following:
      - (i) A balance sheet as of the end of the most recent fiscal year of the issuer; and

(Rule 0780-04-02-.07, continued)

- (ii) A statement of income for each of the issuer's three (3) most recent fiscal years.
  - 2. A statement from the issuer setting forth the issuer's plan for paying the principal and interest due on the securities to be sold, including, but not limited to, anticipated sources of revenue to be used in paying such principal and interest, and supporting financial information;
  - 3. A statement as to whether or not the issuer or any affiliate or predecessor has had any material default during the past ten (10) years in the payment of:
    - (i) Principal, interest, dividends, or sinking fund installments on any security or indebtedness for borrowed money; or
    - (ii) Rentals under material leases with terms of three (3) years or more; and
  - 4. Full disclosure of all material facts relevant to the offering.
- (d) Legend. For all securities exempt under T.C.A. § 48-1-103(a)(7), the offering document shall display on its cover substantially the following information, to the extent appropriate, in capital letters and, if printed, in boldface roman type at least as high as ten (10) point modern type:

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISK OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

- (3) Effective Period. Each offering shall be effective for a period of one (1) year from the date of effectiveness.
- (4) Amendments. During the effective period, the issuer shall file supplements and amendments to the originally filed offering documents pursuant to paragraph (1)(e) with the commissioner prior to use in the offering.
- (5) Renewal. The offering may be renewed for an additional period of one (1) year by filing the notification requirements of T.C.A. § 48-1-103(a)(7) and this Rule, including the appropriate filing fee, no later than ten (10) days prior to the expiration of effectiveness.

**Authority:** T.C.A. §§ 48-1-103(a)(7), 48-1-113, 48-1-115, 48-1-116, and 48-1-124. **Administrative History:** Original rule filed September 28, 1990; effective November 12, 1990. Amendment filed April 5, 2004; effective June 19, 2004. Repeal and new rule filed March 16, 2015; effective June 14, 2015. Amendments filed August 14, 2017; effective November 12, 2017.

**0780-04-02-.08 RESERVED.**

**Authority:** T.C.A. §§ 48-1-103(b)(11), 48-1-104, 48-1-113, 48-1-115, 48-1-116, and 48-1-124(e); Public Acts of 1997, Chapter 164, § 1; § 18 of the Securities Act of 1933, as amended by the National Securities Markets Improvement Act of 1996; and 17 C.F.R. §§ 230.252, 230.500, 230.503, 230.505, and 230.508. **Administrative History:** Original rule filed September 28, 1990; effective November 12, 1990. Amendment filed November 6, 1997; effective January 20, 1998. Repeal and new rule filed March 16, 2015; effective June 14, 2015. Repeal filed February 3, 2021; effective May 4, 2021.

**0780-04-02-.09 SUCCESSOR CORPORATE ISSUERS.**

- (1) If an issuer is a corporate successor to a corporate issuer that met the standards of T.C.A. § 48-1-103(a)(8), at the time of succession, the successor corporate issuer shall be deemed to have met the standards of T.C.A. § 48-1-103(a)(8), if the predecessor and successor corporations taken together do so, provided that:
  - (a) The succession was primarily for the purpose of changing the state of incorporation of the predecessor or forming a holding company;
  - (b) The assets and liabilities of the successor at the time of succession were substantially the same as those of the predecessor; and
  - (c) The net income of the predecessor may, in accordance with generally accepted accounting principles, be consolidated with the income of the successor corporation.

**Authority:** T.C.A. §§ 48-1-103(a)(8), 48-1-115, and 48-1-116. **Administrative History:** Original rule filed September 28, 1990; effective November 12, 1990. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

**0780-04-02-.10 NASDAQ/NMS EXEMPTION.**

- (1) Exemption. By the authority delegated to the commissioner in T.C.A. §§ 48-1-103(b)(11) and 48-1-116, the following transactions are determined to be exempt from T.C.A. §§ 48-1-104 and 48-1-113:

Any sale of securities that are designated or approved for designation upon notice of issuance on the NASDAQ/NMS, any other security of the same issuer that is of senior or substantially equal rank, any security called for by subscription rights or warrants so designated or approved, or any warrant or right to purchase or subscribe to any of the foregoing.

- (2) The commissioner:
  - (a) Shall have the authority by rule or order to deny, suspend, or revoke the exemption created by this Rule as to a specific issuer or category of securities; and
  - (b) May rescind this Rule based on a finding that:
    1. The requirements of the NASDAQ/NMS have materially changed from those set forth in paragraph (3) of this Rule and no longer afford equivalent investor protection; or
    2. The requirements of the NASDAQ/NMS as set forth in paragraph (3) of this Rule are not applied or enforced sufficiently to afford protection to investors.

(Rule 0780-04-02-.10, continued)

- (3) (a) 1. The FINRA shall require at least the following minimum standards to be met for the designation of an issuer's securities on the quotation system:

	Alt. No. 1	Alt. No. 2
Net Tangible Assets	\$4,000,000	\$12,000,000
Public Float	500,000	1,000,000
Pre-Tax Income	750,000	-----
Net Income	400,000	-----
Shareholders	800/400	800/400

(The minimum number of shareholders under each alternative is eight hundred (800) for companies with five hundred thousand (500,000) to one million (1,000,000) shares publicly held, and four hundred (400) for companies with over one million (1,000,000) shares publicly held and with daily trading volume in excess of two thousand (2,000) shares per day for six (6) months.)

Market Value of Float	3,000,000	15,000,000
Minimum Bid	\$5/share	-----
Operating History	-----	3 years

2. The rules of the FINRA shall require at least two (2) authorized market makers for each issuer.
3. For purposes of this subparagraph (3)(a), the term "net tangible assets" is meant to include the value of patents, copyrights, and trademarks but to exclude the value of goodwill.
- (b) The FINRA shall require at least the following minimum corporate governance standards for its domestic issuers:

1. Distribution of Annual and Interim Reports.
- (i) Each issuer shall distribute to shareholders copies of an annual report containing financial statements of the company and its subsidiaries. The report shall be distributed to shareholders in a reasonable period of time prior to the company's annual meeting of shareholders and shall be filed with the FINRA at the time it is distributed to shareholders.
- (ii) Each issuer which is subject to SEC Rule 13a-13 (17 C.F.R. § 240.13a-13) shall make available to shareholders copies of quarterly reports including statements of operating results either prior to or as soon as practicable following the company's filing of its Form 10-Q with the SEC. If the form of such quarterly report differs from the Form 10-Q, both the quarterly report and the Form 10-Q shall be filed with the FINRA. The statement of operations contained in quarterly reports shall disclose at a minimum, any substantial items of an unusual or nonrecurrent nature, net income, and the amount of estimated federal taxes.
- (iii) Each issuer which is not subject to SEC Rule 13a-13 (17 C.F.R. § 240.13a-13) and which is required to file with the SEC or another federal or state regulatory authority interim reports relating primarily to operations and financial position shall make available to shareholders reports which reflect the information contained in such interim reports. Such reports shall be made available to shareholders either before or as soon as practicable following filing with the appropriate regulatory authority. If the form of the

(Rule 0780-04-02-.10, continued)

interim report made available to shareholders differs from that filed with the regulatory authority, both the report to shareholders and the report to the regulatory authority shall be filed with the FINRA.

2. Independent Directors. Each issuer shall maintain a minimum of two (2) independent directors on its board of directors. For purposes of this subparagraph (3)(b), "independent director" shall mean a person other than an officer or employee of the issuer or its subsidiaries or any other individual having a relationship which, in the opinion of the board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.
  3. Audit Committee. Each issuer shall establish and maintain an audit committee, a majority of the members of which shall be independent directors.
  4. Shareholder Meetings. Each issuer shall hold an annual meeting of shareholders and shall provide notice of such meeting to the FINRA.
  5. Quorum. Each issuer shall provide for a quorum as specified in its bylaws for any meeting of the holders of common stock; provided, however, that in no case shall such quorum be less than thirty-three and one-third percent (33 1/3%) of the outstanding shares of the issuer's common voting stock.
  6. Solicitation of Proxies. Each issuer shall solicit proxies and provide proxy statements for all meetings of shareholders and shall provide copies of such proxy solicitation to the FINRA.
  7. Conflicts of Interest. Each issuer shall conduct an appropriate review of all related party transactions on an ongoing basis and shall use the issuer's audit committee or a comparable body for the review of potential conflict of interest situations where appropriate.
  8. Shareholders' Approval Policy. Each issuer shall require shareholder approval of the issuance of securities in connection with the following:
    - (i) Options plans or other special remuneration plans for directors, officers, or key employees.
    - (ii) Actions resulting in a change in control of the issuer.
    - (iii) The acquisition, direct or indirect, of a business, a company, tangible or intangible assets, or property or securities representing any such interests:
      - (I) From a director, officer, or substantial security holder of the issuer (including its subsidiaries and affiliates), or from any company or party in which one of such persons has a direct or indirect interest; and
      - (II) Where the present or potential issuance of common stock or securities convertible into common stock could result in an increase in outstanding common shares of twenty-five percent (25%) or more.
- (c) Voting Rights.
1. The FINRA rules shall provide that no rule, stated policy, practice, or interpretation shall permit the authorization for designation on the NASDAQ/NMS

(Rule 0780-04-02-.10, continued)

- (“authorization”) or the continuance of the authorization, of any common stock or other equity security of a domestic issuer if, on or after September 1, 1988, the issuer issues any class of security or takes other corporate action that would have the effect of nullifying, restricting, or disparately reducing the per share voting rights of holders of an outstanding class or classes of common stock of such issuer registered pursuant to Section 12 of the 1934 Act.
2. For purposes of part (3)(c)1. of this Rule, the following shall be presumed to have the effect of nullifying, restricting, or disparately reducing the per share voting rights of an outstanding class or classes of common stock:
    - (i) Corporate action to impose any restriction on the voting power of shares of the common stock of the issuer held by a beneficial owner or record holder based on the number of shares held by such beneficial owner or record holder;
    - (ii) Corporate action to impose any restriction on the voting power of shares of the common stock of the issuers held by a beneficial owner or record holder based on the length of time such shares have been held by such beneficial owner or record holder;
    - (iii) Any issuance of securities through an exchange offer by the issuer for shares of an outstanding class of common stock of the issuer, in which the securities issued have voting rights greater than or less than the per share voting rights of any outstanding class of the common stock of the issuer; or
    - (iv) Any issuance of securities pursuant to a stock dividend, or any other type of distribution of stock in which the securities issued have voting rights greater than the per share voting rights of any outstanding class of the common stock of the issuer.
  3. For purposes of part (3)(c)1. of this Rule, the following, standing alone, shall be presumed not to have the effect of nullifying, restricting, or disparately reducing the per share voting rights of holders of an outstanding class or classes of common stock:
    - (i) The issuance of securities pursuant to an initial registered public offering;
    - (ii) The issuance of any class of securities, through a registered public offering, with voting rights not greater than the per share voting rights of any outstanding class of common stock of the issuer;
    - (iii) The issuance of any class of securities to effect a bona fide merger or acquisition, with voting rights not greater than the per share voting rights of any outstanding class of the common stock of the issuer; or
    - (iv) Corporate action taken pursuant to state law requiring a state’s domestic corporation to condition the voting rights of a beneficial or record holder of a specified threshold percentage of the corporation’s voting stock on the approval of the corporation’s independent shareholders.
  4. Definitions. For the purposes of this subparagraph (3)(c), the terms below shall have the following meanings and the rules of the FINRA shall include such definitions for purposes of the prohibition in part (3)(c)1. of this Rule:

(Rule 0780-04-02-.10, continued)

- (i) “Common Stock” shall include any security of an issuer designated as common stock and any security of an issuer, however designated, which by statute or by its terms, is common stock (e.g., a security which entitles the holders thereof to vote generally on matters submitted to the issuer’s security holders for a vote).
  - (ii) “Equity security” shall include any equity security defined as such pursuant to SEC Rule 3a11-1 (17 C.F.R. § 240.3a11-1).
  - (iii) “Domestic issuer” shall mean an issuer that is not a “foreign private issuer” as defined in SEC Rule 3b-4 (17 C.F.R. § 240.3b-4).
  - (iv) “Security” shall include any security defined as such pursuant to Section 3(a)(10) of the 1934 Act, but shall exclude any class of security having a preference or priority over the issuer’s common stock as to dividends, interest payments, redemption, or payments in liquidation, if the voting rights of such securities only become effective as a result of specified events, not relating to an acquisition of the common stock of the issuer, which reasonably can be expected to jeopardize the issuer’s financial ability to meet its payment obligation to the holders of that class of securities.
- (d) Maintenance Criteria. After authorization for designation of a security on the NASDAQ/NMS, the issuer of such security must meet the following criteria in order for such designation to continue in effect:
- 1. The issuer of the security has net tangible assets of at least:
    - (i) Two million dollars (\$2,000,000) if the issuer sustained losses from continuing operations and/or net losses in two (2) of its three (3) most recent fiscal years; or
    - (ii) Four million dollars (\$4,000,000) if the issuer has sustained losses from continuing operations and/or net losses in three (3) of its four (4) most recent fiscal years;
  - 2. There are at least two hundred thousand (200,000) publicly held shares;
  - 3. There are at least four hundred (400) shareholders or at least three hundred (300) shareholders of round lots; and
  - 4. The aggregate market value of publicly held shares is at least one million dollars (\$1,000,000).

**Authority:** T.C.A. §§ 48-1-103(b)(11), 48-1-104, 48-1-113, 48-1-115, and 48-1-116; § 3(a)(10) and § 12 of the Securities Exchange Act of 1934; and 17 C.F.R. §§ 240.3a11-1, 240.3b-4, and 240.13a-13.

**Administrative History:** Original rule filed September 28, 1990; effective November 12, 1990. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

#### **0780-04-02-.11 RESCISSION OFFERS.**

- (1) By the authority delegated to the commissioner in T.C.A. §§ 48-1-103(b)(11) and 48-1-116, rescission offers are exempt from T.C.A. § 48-1-104 if all requirements set forth in this rule are met. All rescission offers that do not meet the requirements of this rule must comply with the registration requirements of T.C.A. § 48-1-104.

(Rule 0780-04-02-.11, continued)

- (2) No rescission offer exempted by this rule may be conducted in this state without obtaining the Division's prior written approval of the offer.
- (3) Any person seeking approval to conduct a rescission offer pursuant to this rule shall first notify the Division in writing. Such notice shall include:
  - (a) A description of the securities sold;
  - (b) The dates the securities were sold;
  - (c) The names of the Tennessee investors who purchased the securities;
  - (d) When the violation was discovered, if applicable;
  - (e) How the violation was discovered, if applicable; and
  - (f) A draft copy of the proposed rescission offer document(s).
- (4) The draft copy of the proposed rescission offer document(s) must include the following information:
  - (a) A statement specifying why the rescission offer is being conducted;
  - (b) Disclosure of all material facts regarding the rescission offer as well as any material facts that have arisen with respect to the issuer and the investment since the initial sale(s) of securities;
  - (c) Notice of the investor's right to rescind the purchase and recover the consideration paid plus interest at the legal rate from the date the subscription amount was paid by the investor, calculated in accordance with T.C.A. § 48-1-122(k);
  - (d) A statement specifying the amount of time in which the investor must elect to accept or reject the offer of rescission, which shall be no less than thirty (30) days from the date the investor received notice of the offer;
  - (e) A statement describing the effect of the failure of an investor to accept or reject the rescission offer within the designated time period;
  - (f) A description of the procedure for accepting or rejecting the rescission offer;
  - (g) A statement that the offeree may wish to consult with independent counsel before deciding to accept or reject the rescission offer so as to be fully informed about the risks and the consequences attached to either choice; and
  - (h) Any other such information as the Division may deem appropriate and necessary for the protection of investors.
- (5) The Division reserves the right to review the rescission offer by applying the same standards for a registered offering under the following rules:
  - (a) 0780-04-02-.03;
  - (b) 0780-04-02-.04; and
  - (c) 0780-04-02-.06.

(Rule 0780-04-02-.11, continued)

- (6) A summary of the results of the rescission offer shall be provided to the Division in writing within thirty (30) days of the offer's conclusion. The summary shall include:
  - (a) The names of the investors accepting the offer;
  - (b) The names of the investors declining the offer; and
  - (c) Certified mailing receipts for investors who declined to respond to the offer.
- (7) Successful completion of a rescission offer does not relieve the offeror of any civil or administrative liability available under the Act.

**Authority:** T.C.A. §§ 48-1-103(b)(11), 48-1-104, and 48-1-116. **Administrative History:** New rule filed February 3, 2021; effective May 4, 2021.

#### **0780-04-02-.12 NOTICE FILINGS FOR COVERED SECURITIES.**

- (1) Initial notice filings.
  - (a) Covered securities under T.C.A. § 48-1-125(a)(1)(A)
    1. An initial notice filing for any covered security under T.C.A. § 48-1-125(a)(1)(A), intended for sale in this state, must contain:
      - (i) A copy of the issuer's prospectus and statement of additional information;
      - (ii) Either (a) a completed and properly executed notice filing form, designated under 0780-04-01-.04(4), as applicable; or (b) a copy of the issuer's federal registration statement as filed with the SEC;
      - (iii) A completed and properly executed consent to service of process on Form U-2, or in such other format acceptable to the Division, as provided under T.C.A. § 48-1-124(e), which may be included in the notice filing form;
      - (iv) A completed and properly executed Form U-2A, if applicable; and
      - (v) The filing fee as provided under T.C.A. § 48-1-125(a)(1)(A)(ii).
    2. An issuer of a covered security under this subparagraph (1)(a) must make an initial notice filing with the Division prior to the sale of such security in this state.
    3. Notice filings for any covered security under this subparagraph (1)(a) are effective for one (1) year commencing on the later of the date the filing with the Division is completed or the SEC effective date.
    4. A notice filing under this subparagraph (1)(a) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.
  - (b) Covered securities under T.C.A. § 48-1-125(a)(1)(B)
    1. An initial notice filing for a covered security which the issuer plans to offer pursuant to Tier 2 of Regulation A (17 C.F.R. §§ 230.251 *et seq.*) must contain:

(Rule 0780-04-02-.12, continued)

- (i) Either (a) a completed and properly executed Uniform Notice Filing of Regulation A – Tier 2 Offering form; or (b) copies of all documents filed with the SEC;
    - (ii) A completed and properly executed consent to service of process on Form U-2, or in such other format acceptable to the Division, as provided under T.C.A. § 48-1-124(e), which may be included in the Uniform Notice Filing of Regulation A – Tier 2 Offering form;
    - (iii) A completed and properly executed Form U-2A, if applicable; and
    - (iv) The filing fee as provided under T.C.A. § 48-1-125(a)(1)(B)(iii).
  2. An issuer planning to offer and sell securities under this subparagraph (1)(b) must make an initial notice filing with the Division no later than twenty-one (21) calendar days prior to the initial sale in this state.
  3. Notice filings for any covered security under this subparagraph (1)(b) are effective for one (1) year commencing on the date the filing with the Division is completed.
  4. A notice filing under this subparagraph (1)(b) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.
- (c) Covered securities under T.C.A. § 48-1-125(a)(1)(C)
1. An initial notice filing for a covered security exempted from federal registration under § 18(b)(4)(C) of the 1933 Act must contain:
    - (i) Either (a) a completed and properly executed Form U-CF; or (b) copies of all documents filed with the SEC;
    - (ii) A completed and properly executed consent to service of process on Form U-2, or in such other format acceptable to the Division, as provided under T.C.A. § 48-1-124(e), which may be included in the Form U-CF;
    - (iii) A completed and properly executed Form U-2A, if applicable; and
    - (iv) The filing fee as provided under T.C.A. § 48-1-125(a)(1)(C)(i)(c).
  2. If the issuer of a covered security under this subparagraph (1)(c) has its principal place of business in this state, the issuer must make an initial filing with the Division concurrently when the issuer files its initial Form C with the SEC.
  3. If the issuer of a covered security under this subparagraph (1)(c) has its principal place of business outside this state, but residents of this state have purchased fifty percent (50%) or greater of the aggregate amount of the offering, the issuer must make an initial notice filing with the Division upon learning that such purchases have met the fifty percent (50%) threshold, and, in any event, no later than thirty (30) days from the date of completion of the offering.
  4. Notice filings for any covered security under this subparagraph (1)(c) are effective for one (1) year commencing on the date the filing with the Division is completed.

(Rule 0780-04-02-.12, continued)

5. A notice filing under this subparagraph (1)(c) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.
- (d) Covered securities under T.C.A. § 48-1-125(a)(1)(D)
1. An initial notice filing for a covered security exempt from federal registration pursuant to Rule 506 of Regulation D (17 C.F.R. § 230.506) must contain:
    - (i) A copy of the completed and properly executed Form D as filed with the SEC;
    - (ii) A completed and properly executed Form U-2A, if applicable;
    - (iii) A statement specifying the date of first sale in this state; and
    - (iv) The filing fee as provided under T.C.A. § 48-1-125(a)(1)(D)(ii).
  2. An issuer of a covered security under this subparagraph (1)(d) must make an initial notice filing with the Division no later than fifteen (15) days after the first sale of such security in this state.
  3. Notice filings for covered securities under this subparagraph (1)(d) are effective for one (1) year, commencing on the date the filing with the Division is completed, unless the issuer conducts a continuous offering as provided under T.C.A. § 48-1-125(b)(4) and subparagraph (3)(d) of this Rule.
  4. A notice filing under this subparagraph (1)(d) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.
- (e) Late Filing Fees.
1. Any initial notice filing made pursuant to T.C.A. § 48-1-125(a)(1)(A)–(D) and subparagraphs (1)(a)–(d) of this Rule which is received more than thirty (30) days after the date of first sale shall be subject to a late filing fee in an amount of one thousand (\$1,000) dollars.
  2. Any initial notice filing made pursuant to T.C.A. § 48-1-125(a)(1)(A)–(D) and subparagraphs (1)(a)–(d) of this Rule which is received more than one (1) year after the date of first sale shall be subject to a late filing fee in an amount of one thousand five hundred (\$1,500) dollars per year. For any partial year, the late renewal fee will be prorated for each full month late.
- (2) Amendments to notice filings.
- (a) After the initial offer of a covered security in this state, all documents that are part of any amendments to a federal registration statement or Form D filed with the SEC must be filed concurrently with the Division.
  - (b) An issuer filing an amendment to a notice filing for a covered security which changes the name of the offering of securities must pay a processing fee as provided under T.C.A. § 48-1-125(d) upon filing the amendment with the Division.
- (3) Renewal of notice filings.

(Rule 0780-04-02-.12, continued)

(a) Covered securities under T.C.A. § 48-1-125(a)(1)(A)

1. Pursuant to T.C.A. § 48-1-125(b)(1), a renewal of a notice filing for a covered security under this subparagraph (3)(a) must contain:
  - (i) A copy of the issuer's prospectus and statement of additional information;
  - (ii) Either (a) a completed and properly executed notice filing form, designated under 0780-04-01-.04(4), as applicable; or (b) a copy of the issuer's federal registration statement as filed with the SEC;
  - (iii) A completed and properly executed consent to service of process on Form U-2, or in such other format acceptable to the Division, as provided under T.C.A. § 48-1-124(e), which may be included in the notice filing form;
  - (iv) A copy of the completed and properly executed Form U-2A submitted as part of the initial notice filing pursuant to subparagraph (1)(a) of this Rule, if applicable; and
  - (v) The filing fee as provided under T.C.A. § 48-1-125(a)(1)(A).
2. All forms, documents, and fees required for renewal of a notice filing for a covered security under this subparagraph (3)(a) must be filed with the Division no later than the close of business on the tenth (10th) business day prior to the date of expiration of the current notice filing.
3. A notice filing renewal under this subparagraph (3)(a) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.

(b) Covered securities under T.C.A. § 48-1-125(a)(1)(B)

1. Pursuant to T.C.A. § 48-1-125(b)(2), a renewal of a notice filing for a covered security under this subparagraph (3)(b) must contain:
  - (i) Either (a) a completed and properly executed Uniform Notice Filing of Regulation A – Tier 2 Offering form; or (b) copies of all documents filed with the SEC;
  - (ii) A completed and properly executed consent to service of process on Form U-2, or in such other format acceptable to the Division, as provided under T.C.A. § 48-1-124(e), which may be included in the Uniform Notice Filing of Regulation A – Tier 2 Offering form;
  - (iii) A copy of the completed and properly executed Form U-2A submitted as part of the initial notice filing pursuant to subparagraph (1)(b) of this Rule, if applicable; and
  - (iv) The filing fee as provided under T.C.A. § 48-1-125(b)(2).
2. All forms, documents, and fees required for renewal of a notice filing for a covered security under this subparagraph (3)(b) must be filed with the Division no later than the close of business on the day prior to the date of expiration of the current notice filing.

(Rule 0780-04-02-.12, continued)

3. A notice filing renewal under this subparagraph (3)(b) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.

(c) Covered securities under T.C.A. § 48-1-125(a)(1)(C)

1. Pursuant to T.C.A. § 48-1-125(b)(3), a renewal of a notice filing for a covered security under this subparagraph (3)(c) must contain:
  - (i) Either (a) a completed and properly executed Form U-CF; or (b) copies of all documents filed with the SEC;
  - (ii) A completed and properly executed consent to service of process on Form U-2, or in such other format acceptable to the Division, as provided under T.C.A. § 48-1-124(e), which may be included in the Form U-CF;
  - (iii) A copy of the completed and properly executed Form U-2A submitted as part of the initial notice filing pursuant to subparagraph (1)(c) of this Rule, if applicable; and
  - (iv) The filing fee as provided under T.C.A. § 48-1-125(b)(3).
2. All forms, documents, and fees required for renewal of a notice filing for a covered security under this subparagraph (3)(c) must be filed with the Division no later than the close of business on the day prior to the date of expiration of the current notice filing.
3. A notice filing renewal under this subparagraph (3)(c) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.

(d) Covered securities under T.C.A. § 48-1-125(a)(1)(D)

1. Pursuant to T.C.A. § 48-1-125(b)(4), notice filings for covered securities exempt from federal registration pursuant to Rule 506 of Regulation D (17 C.F.R. § 230.506) are effective for one (1) year unless the issuer is conducting a continuous offering, and:
  - (i) The issuer annually submits to the Division a completed and properly executed amended Form D;
  - (ii) The issuer annually submits to the Division a copy of the completed and properly executed Form U-2A submitted as part of the initial notice filing pursuant to subparagraph (1)(d) of this Rule, if applicable;
  - (iii) The issuer submits to the Division all additional amendments concurrent with its filings with the SEC; and
  - (iv) The issuer annually submits to the Division the filing fee as provided under T.C.A. § 48-1-125(b)(4).
2. If the issuer of a covered security under this subparagraph (3)(d) elects to conduct a continuous offering, all forms, documents, and fees must be filed with the Division no later than the close of business on the day prior to the date of expiration of the current notice filing.

(Rule 0780-04-02-.12, continued)

3. A notice filing renewal under this subparagraph (3)(d) may be filed with the Division by complying with the requirements for electronic filing under paragraph (7) of this Rule.
- (e) Any notice filing, subject to renewal which is not timely renewed, shall expire as provided under T.C.A. § 48-1-125(b)(1)–(4).
- (f) A renewal of a notice filing for a covered security shall not stay the expiration of the notice filing if:
  1. Such renewal is deficient as determined by the Division; and
  2. Such deficiency is not corrected prior to the expiration of the notice filing.
- (g) Late Renewal Filing Fees.
  1. Any renewal notice filing made pursuant to T.C.A. § 48-1-125(b)(1)–(4) and subparagraphs (3)(a)–(d) of this Rule which is received thirty (30) days or less after the expiration of the prior notice filing or renewal filing shall be subject to a late filing fee in an amount of five hundred (\$500) dollars.
  2. Any renewal notice filing made pursuant to T.C.A. § 48-1-125(b)(1)–(4) and subparagraphs (3)(a)–(d) of this Rule which is received more than thirty (30) days but less than one (1) year after the expiration of the prior notice filing or renewal filing shall be subject to a late filing fee in an amount of one thousand (\$1,000) dollars.
  3. Any renewal notice filing made pursuant to T.C.A. § 48-1-125(b)(1)–(4) and subparagraphs (3)(a)–(d) of this Rule which is received more than one (1) year after the expiration of the prior notice filing or renewal filing shall be subject to a late filing fee in an amount of one thousand five hundred (\$1,500) dollars per year. For any partial year, the late renewal fee will be prorated for each full late month.
- (4) Deficient notice filings.
  - (a) An issuer who has filed an initial or renewal notice filing for a covered security shall be subject to a stop order of the commissioner suspending the offer or sale of such covered security in this state, as provided under T.C.A. § 48-1-125(c), if:
    1. The filing is deficient as determined by the Division by failing to satisfy the document filing requirements of T.C.A. § 48-1-125(a)–(b) and paragraphs (1) through (3) of this Rule; or
    2. The filing is deficient as determined by the Division by failing to satisfy the fee requirements of T.C.A. § 48-1-125(a)–(b) and paragraphs (1) through (3) of this Rule; and
    3. The deficiency is not corrected within ten (10) business days of the issuer's receipt of notification from the Division, or prior to the expiration of the notice filing in the case of renewals.
  - (b) In any case where the commissioner may issue a stop order, the issuer may be subject to further orders of the commissioner pursuant to T.C.A. § 48-1-116.
- (5) Failure to make notice filings.

(Rule 0780-04-02-.12, continued)

- (a) Any issuer who fails to make a notice filing for a covered security to be sold in this state as set forth under T.C.A. § 48-1-125 and this Rule shall be subject to a stop order of the commissioner, as provided under T.C.A. § 48-1-125(c), suspending the offer or sale of such securities in this state.
- (b) For purposes of T.C.A. § 48-1-125(c)(2) and this paragraph (5), a failure to make a notice filing cannot be promptly remedied:
  - 1. If the security is a covered security other than a covered security exempt from federal registration under § 18(b)(4)(C) of the 1933 Act or Rule 506 of Regulation D (17 C.F.R. § 230.506) and the delay in making the notice filing as required under T.C.A. § 48-1-125(a)(1)(A)–(B) exceeds ten (10) business days from the date of the first sale of such security in this state; or
  - 2. If the security is a covered security exempt from federal registration under § 18(b)(4)(C) of the 1933 Act and:
    - (i) The delay in making the notice filing as required under T.C.A. § 48-1-125(a)(1)(C)(ii) exceeds ten (10) business days from the date of filing with the SEC; or
    - (ii) The delay in making the notice filing as required under T.C.A. § 48-1-125(a)(1)(C)(iii) exceeds ten (10) business days from the date upon which the issuer became aware that residents of this state purchased fifty percent (50%) or greater of the aggregate amount of the offering, or, in any event, the notice filing exceeds forty (40) calendar days from the date of the completion of the offering; or
  - 3. If the security is a covered security exempt from federal registration pursuant to Rule 506 of Regulation D (17 C.F.R. § 230.506) and the delay in making the notice filing as required under T.C.A. § 48-1-125(a)(1)(D) exceeds twenty-five (25) calendar days from the date of the first sale of such security in this state.
- (6) Refusal to pay notice filing fees.

For purposes of this Rule, an issuer is deemed to refuse to pay the notice filing fee when:

- (a) The issuer is subject to a stop order under the provisions of T.C.A. § 48-1-125(c) and part 2. of subparagraph (4)(a) of this Rule; or
  - (b) The issuer has failed to make a notice filing as defined in subparagraph (5)(b) of this Rule, and includes a failure to pay the appropriate notice filing fee.
- (7) Electronic filing.
- (a) All forms and documents required under T.C.A. § 48-1-125 and this Rule which have been filed and recorded on the Electronic Data Gathering Access and Retrieval (EDGAR) system, the Interactive Data Electronic Applications (IDEA) system, the Electronic Filing Depository (EFD), or any other electronic data gathering system either maintained by the SEC or approved by the Division, may be utilized in lieu of filing such documents in paper form.
  - (b) If an issuer making a notice filing in this state elects to file electronically, the issuer making the notice filing must:

(Rule 0780-04-02-.12, continued)

1. Provide an accurate filing number or other designation used by the SEC; and
2. Ensure that a printed or electronically stored copy of all required documents and forms is immediately accessible to the Division.

**Authority:** T.C.A. §§ 48-1-102(8)(F)(iv), 48-1-102(8), 48-1-108, 48-1-115, 48-1-116, 48-1-121, 48-1-124(e), and 48-1-125; Public Acts of 1997, Chapter 164, § 8; § 18 of the Securities Act of 1933, as amended by the National Securities Markets Improvement Act of 1996; and 17 C.F.R. § 230.487. **Administrative History:** Original rule filed November 6, 1997; effective January 20, 1998. Amendment filed May 15, 2002; effective July 29, 2002. Amendment filed April 5, 2004; effective June 19, 2004. Repeal and new rule filed March 16, 2015; effective June 14, 2015. Amendments filed February 1, 2018; effective May 2, 2018. Amendments filed March 3, 2026; effective June 1, 2026.

#### **0780-04-02-.13 REPEALED.**

**Authority:** T.C.A. §§ 48-1-103(b)(9), 48-1-115, 48-1-116, and 48-1-124; Public Acts of 2001, Chapter 278; and Public Acts of 2023, Chapter 112, § 7. **Administrative History:** Original rule filed May 15, 2002; effective July 29, 2002. Repeal and new rule filed March 16, 2015; effective June 14, 2015. Amendments filed November 30, 2017; effective February 28, 2018. Repeal filed March 3, 2026; effective June 1, 2026.

#### **0780-04-02-.14 NOTICE FILINGS FOR SECURITIES SOLD TO ACCREDITED INVESTORS.**

- (1) All issuers who seek to offer securities in or into this state in reliance on the exemption afforded to sales of securities to accredited investors, as set forth in T.C.A. § 48-1-103(b)(13), must file with the commissioner no later than fifteen (15) days after the first sale:
  - (a) One (1) copy of the form entitled “Notice of Sale of Securities Pursuant to Accredited Investor Exemption,” as provided by the Division;
  - (b) A Form U-2 Uniform Consent to Service of Process;
  - (c) One (1) copy of the general announcement, if one is made regarding the proposed offering;
  - (d) A non-refundable filing fee in the amount of five hundred dollars (\$500); and
  - (e) A statement noting the date of the first sale, if any, of such security in this state.

**Authority:** T.C.A. §§ 48-1-103, 48-1-103(b)(14), 48-1-115, 48-1-116, and 48-1-124 and Public Acts of 2001, Chapter 278. **Administrative History:** Original rule filed May 15, 2002; effective July 29, 2002. Repeal and new rule filed March 16, 2015; effective June 14, 2015. Amendments filed March 3, 2026; effective June 1, 2026.

#### **0780-04-02-.15 BANK HOLDING COMPANY EXEMPTION.**

- (1) All persons offering securities claimed to be exempt under T.C.A. § 48-1-103(a)(12) shall, at least ten (10) days prior to any sale of such securities, file a notice on Form U-1 (including all applicable exhibits thereto) accompanied by the following additional information:
  - (a) The filing fee as set forth in T.C.A. § 48-1-103(a)(12);
  - (b) Proof of registration with the federal reserve board;
  - (c) A copy of the registration statement filed with the SEC, if applicable;
  - (d) Proof of consent to service of process as set forth in T.C.A. § 48-1-124;

(Rule 0780-04-02-.15, continued)

- (e) Copies of all advertising or other material to be distributed in connection with the offering; and
  - (f) Any additional information or documentation that the commissioner may require.
- (2) Effective Period. Each offering shall be effective for a period of one (1) year from the date of effectiveness.
  - (3) Amendments. During the effective period, the issuer shall concurrently file with the commissioner any amendments filed with the SEC, if applicable.
  - (4) Renewal. The offering may be renewed for an additional period of one (1) year by filing the notification requirements of T.C.A. § 48-1-103(a)(12) and this Rule, including the appropriate filing fee, no later than ten (10) days prior to the expiration of effectiveness.

**Authority:** T.C.A. §§ 48-1-103(a)(12), 48-1-103(b)(10), 48-1-113, 48-1-115, 48-1-116, and 48-1-124.

**Administrative History:** Original rule filed April 5, 2004; effective June 19, 2004. Repeal and new rule filed March 16, 2015; effective June 14, 2015. Amendments filed August 14, 2017; effective November 12, 2017.

#### **0780-04-02-.16 UNSOLICITED TRANSACTION EXEMPTION.**

- (1) Preliminary Notes:
  - (a) Nothing in this Rule is intended to relieve registered or exempt broker-dealers or agents from the due diligence, suitability, know-your-customer standards, or any other requirements of the law otherwise applicable to such registered or exempt persons.
- (2) Exemption. By the authority delegated to the commissioner in T.C.A. §§ 48-1-103(b)(20) and 48-1-116, all registered or exempt broker-dealers who intend to rely upon the exemption afforded to unsolicited non-issuer transactions on the basis of T.C.A. § 48-1-103(b)(20) must comply with the following to be exempt from T.C.A. §§ 48-1-104 and 48-1-113:
  - (a) Shall retain the following information for each such unsolicited non-issuer transaction:
    1. The CRD numbers for the broker-dealer firm and the agent;
    2. The name of the broker-dealer;
    3. The name of the agent;
    4. The date of the transaction;
    5. The dollar amount of the transaction, the number of shares, and the price per share;
    6. The Cusip number for each security making up the order placed by the purchaser;
    7. The name of each security making up the order placed by the purchaser;
    8. The purchaser(s)'s account number at the broker-dealer;
    9. The broker-dealer's office address;

(Rule 0780-04-02-.16, continued)

10. The broker-dealer's branch office identification number (if applicable);
  11. An indication that the transaction was not solicited in any way by the broker-dealer or any agent of the broker-dealer; and
  12. An indication that the broker-dealer:
    - (i) Acted solely as an agent for the purchaser;
    - (ii) Had no direct or indirect interest in the sale or distribution of the security ordered by the purchaser; and
    - (iii) Received no commission, profit, or other compensation from any source other than the purchaser.
- (b) The information in subparagraph (2)(a) of this Rule must be retained by the broker-dealer for a period of five (5) years from the date of the transaction, in a manner consistent with Rule 0780-04-03-.02(1)(b).
- (c) Upon request by the Division, based on a complaint or as the result of a Division examination of the broker-dealer's books and records, the broker-dealer must provide the purchaser(s) with a document containing the information retained pursuant to subparagraph (2)(a) of this Rule and must obtain the purchaser(s) signed acknowledgement that the transaction was unsolicited. Such acknowledgement may be in the form of a manual or electronic signature.

**Authority:** T.C.A. §§ 48-1-103(b)(20), 48-1-111, 48-1-115, and 48-1-116 and Public Acts of 2013, Chapter 261. **Administrative History:** Original rule filed June 17, 2014; effective September 15, 2014. Repeal and new rule filed March 16, 2015; effective June 14, 2015.

#### **0780-04-02-.17 INVEST TENNESSEE EXEMPTION.**

- (1) Preliminary Notes:
  - (a) Nothing in this exemption is intended to or should be construed as in any way relieving issuers or persons acting on behalf of issuers from providing disclosure to prospective investors of all of the facts necessary to ensure that potential investors have knowledge of any and all material information necessary for a reasonable investor to determine the risks associated with the offering and all other material information upon which to base a decision as to whether or not to invest and in compliance with the antifraud provisions of the Act.
  - (b) In view of the objective of this Rule and the purposes and policies underlying the Act, this exemption is not available to any issuer with respect to any offering which, although in technical compliance with this Rule, is part of a plan or scheme to evade registration or the conditions or limitations explicitly stated in the statutory exemption itself or this Rule.
  - (c) This exemption is not available to an issuer that is in the development stage with either no specific business plan or purpose or has indicated that its business plan or purpose is to engage in a merger or acquisition with an unidentified company or companies or another entity or person.
  - (d) Nothing in this exemption shall be construed in any way to provide an exemption for offerors or sellers of securities under this exemption from the registration requirements for broker-dealers and broker-dealer agents as set forth in T.C.A. § 48-1-109.

(Rule 0780-04-02-.17, continued)

(2) Definitions.

(a) “Accredited investor”, as defined in 17 C.F.R. § 230.501, and as may be amended, means any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person:

1. Any natural person whose individual net worth, or joint net worth with that person’s spouse, exceeds one million dollars (\$1,000,000).

(i) Except as provided in subpart (2)(a)1.(ii) of this Rule, for purposes of calculating net worth under this part (2)(a)1.:

(I) The person’s primary residence shall not be included as an asset;

(II) Indebtedness that is secured by the person’s primary residence, up to the estimated fair market value of the primary residence at the time of the sale of securities, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time of sale of securities exceeds the amount outstanding sixty (60) days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and

(III) Indebtedness that is secured by the person’s primary residence in excess of the estimated fair market value of the primary residence at the time of the sale of securities shall be included as a liability;

(ii) Subpart (2)(a)1.(i) will not apply to any calculation of a person’s net worth made in connection with a purchase of securities in accordance with a right to purchase such securities, provided that:

(I) Such right was held by the person on July 20, 2010;

(II) The person qualified as an accredited investor on the basis of net worth at the time the person acquired such right; and

(III) The person held securities of the same issuer, other than such right, on July 20, 2010.

2. Any natural person who had an individual income in excess of two hundred thousand dollars (\$200,000) in each of the two (2) most recent years or joint income with that person’s spouse in excess of three hundred thousand dollars (\$300,000) in each of those years and has a reasonable expectation of reaching the same income level in the current year; and

3. Any other entity or organization listed in 17 C.F.R. § 230.501, including but not limited to certain banks, savings and loan associations, private development companies, non-profit organizations, and trusts.

(b) “Investment Company” as used in T.C.A. § 48-1-103(a)(13)(A)(vi) means any issuer which:

1. Is or holds itself out as being engaged primarily, or proposed to engage primarily in the business of investing, reinvesting, or trading in securities;

(Rule 0780-04-02-.17, continued)

2. Is engaged or proposed to engage in the business of issuing face-amount certificates of the installment type, or has been engaged in such business and has any such certificate outstanding; or
  3. Is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding forty percent (40%) of the value of such issuer's total assets, excluding government securities and cash items, on an unconsolidated basis.
- (c) An issuer not "subject to the reporting requirements of Section 13 of the 1934 Act or Section 15(d) of the 1934 Act" as used in T.C.A. § 48-1-103(a)(13)(A)(vi) means an issuer that is not required to submit periodic reports to the SEC, such as Forms 10-K, 10-Q, and 8-K, as set forth in Sections 13 and 15(d) of the 1934 Act.
- (3) Exemption. By the authority delegated to the commissioner in T.C.A. §§ 48-1-103(a)(13) and 48-1-116, any issuer who will offer to sell or sell a security in Tennessee and who intends to rely upon the provisions of T.C.A. § 48-1-103(a)(13) to exempt such issuer from registering the security with the Division must comply, and bears the burden of proof to establish and document that it complies, with all of the terms and conditions of this Rule 0780-04-02-.17:
- (a) Intrastate Offering. The sale of the security shall meet the requirements of T.C.A. § 48-1-103(a)(13)(A)(i) and the federal exemption for intrastate offerings in Section 3(a)(11) of the 1933 Act and SEC Rule 147 (17 C.F.R. § 230.147), as may be amended, as follows:
1. Issuer. The issuer shall be a resident of and doing business in Tennessee.
    - (i) An issuer shall be deemed to be a Tennessee resident if it meets any of the following requirements:
      - (I) If the issuer is a corporation, limited partnership, trust, or other form of business entity organized under state law, it must be incorporated or organized in Tennessee;
      - (II) If the issuer is a general partnership or other form of business entity not organized under state law, its principal office must be located in Tennessee; or
      - (III) If the issuer is an individual, the individual's principal residence must be in Tennessee.
    - (ii) An issuer shall be deemed to be doing business in Tennessee if it meets all of the following requirements:
      - (I) The issuer derived at least eighty percent (80%) of its gross revenues and those of its subsidiaries on a consolidated basis from the operation of a business or of real property located in or from the rendering of services within Tennessee.
        - I. For its most recent fiscal year, if the first offer of any part of the issue is made during the first six (6) months of the issuer's current fiscal year; or

(Rule 0780-04-02-.17, continued)

- II. For the first six (6) months of its current fiscal year or during the twelve (12) month fiscal period ending with such six (6) month period, if the first offer of any part of the issue is made during the last six (6) months of the issuer's current fiscal year from the operation of a business or of real property located in or from the rendering of services within Tennessee; provided, that this provision does not apply to any issuers which have not had gross revenues in excess of five thousand dollars (\$5,000) from the sale of products or services or other conduct of its business for its most recent twelve (12) month fiscal period;
    - (II) The issuer had at the end of its most recent semi-annual fiscal period prior to the first offer of any part of the issue, at least eighty percent (80%) of its assets and those of its subsidiaries on a consolidated basis located within Tennessee;
    - (III) The issuer intends to use and uses at least eighty percent (80%) of the net proceeds to the issuer from the offering made pursuant to this Invest Tennessee Exemption in connection with the operation of a business or of real property, the purchase of real property located in, or the rendering of services within Tennessee; and
    - (IV) The issuer's principal office is located in Tennessee.
  - (iii) The issuer shall not be, either before or as a result of any offering, an investment company as defined in § 3 of the Investment Company Act.
  - (iv) The issuer shall not be, either before or as a result of any offering, subject to the reporting requirements of § 13 or § 15(d) of the 1934 Act.
2. Investors. Offers and sales of securities exempt under this Rule shall only be made to Tennessee residents. A single offer or sale to an entity or individual who is not a Tennessee resident shall invalidate the use of this exemption for the entire offering. For purposes of determining the residence of offerees and purchasers:
- (i) A corporation, partnership, trust, or other form of business organization shall be deemed to be a Tennessee resident if, at the time of the offer and sale, it has its principal office in Tennessee.
  - (ii) An individual shall be deemed to be a Tennessee resident if the individual has, at the time of the offer and sale, his or her principal residence in Tennessee.
  - (iii) A corporation, partnership, trust, or other form of business organization which is organized for the specific purpose of acquiring part of an issue offered pursuant to this Rule shall not be deemed to be a Tennessee resident unless all of the beneficial owners of the organization are Tennessee residents.

Investors shall have the right to cancel investment commitments for any reason until forty-eight (48) hours before the anticipated offering deadline.

3. Offering.

(Rule 0780-04-02-.17, continued)

- (i) Every offer and sale pursuant to the Invest Tennessee Exemption offering must meet all of the terms and conditions of this Rule.
  - (ii) Integration. Offers and sales that are made twelve (12) months before the start and/or (6) six months following the completion of this exemption offering will be considered a part of the Invest Tennessee Exemption offering for all compliance purposes, including but not limited to the five million dollar (\$5,000,000) aggregate limit per twelve (12) month period. If the issuer conducts another offering during either or both of these twelve (12) and six (6) month periods, the issuer shall bear the burden of proof to establish that the offerings are separate and should not be integrated into the exemption offering.
  - (iii) The following factors shall be considered in determining whether offers and sales should be integrated for purposes of the Invest Tennessee Exemption:
    - (I) Whether the sales are part of a single plan of financing;
    - (II) Whether the sales involve issuance of the same class of securities;
    - (III) Whether the sales have been made at or about the same time;
    - (IV) Whether the same type of consideration is being received; and
    - (V) Whether the sales are made for the same general purpose.
4. Limitation on resales. During the period in which securities that are part of an offering pursuant to the Invest Tennessee Exemption are being offered and sold by the issuer, and for a period of nine (9) months from the date of the last sale by the issuer, all resales of any part of the issue, by any person, shall be made only to Tennessee residents.
5. Precautions against interstate offers and sales.
- (i) The issuer shall, in connection with any securities sold by it pursuant to this exemption:
    - (I) Place a legend on the certificate or other document evidencing the security stating that the securities have not been registered under the Act and the 1933 Act and set forth the limitations on resales contained in part (3)(a)4. of this Rule;
    - (II) Issue stop transfer instructions to the issuer's transfer agent, if any, with respect to the securities or, if the issuer transfers its own securities, make a notation in the appropriate records of the issuer; and
    - (III) Obtain a written representation from each offeree and purchaser as to such offeree's and purchaser's residence.
  - (ii) The issuer shall, in connection with the issuance of new certificates for any of the securities that are part of the same issue that are presented for transfer during the time period specified in part (3)(a)4. of this Rule, take the steps required by subpart (3)(a)5.(i).

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- (iii) The issuer shall, in connection with any offers or sales by it pursuant to this exemption, disclose in writing the limitations on resale contained in part (3)(a)4. and items (3)(a)5.(i)(I)–(II).
  - 6. Bank or Depository Institution.
    - (i) The issuer shall maintain a copy of its escrow agreement with a bank or depository institution authorized to do business in Tennessee in which the issuer will deposit all of the investor funds or cause all of the investor funds to be deposited. The bank or depository institution in which the investor funds are deposited is only responsible to act at the direction of the party establishing the escrow agreement and does not have any duty or liability, contractual or otherwise, to any investor or other person.
    - (ii) The issuer shall not access the escrow funds until the aggregate funds raised from all investors equals or exceeds the minimum amount specified in the escrow agreement.
    - (iii) In addition to the forty-eight (48) hour right of cancellation set forth in part (3)(a)2. above, an investor may cancel the investor's commitment to invest if the target offering amount is not raised before the time stated in the escrow agreement.
  - 7. Sales Report. Upon request of the commissioner, an issuer shall provide a sales report of any offering pursuant to this exemption in a designated format.
- (b) Filing Requirement. Before offering to sell any security, the issuer shall file with the Division a notice on the Notice of Intention to Offer or Sell Securities Pursuant to the Invest Tennessee Exemption Form providing the information set forth in T.C.A. § 48-1-103(a)(13)(A)(v). In conjunction with the notice filing requirements set forth in this subparagraph (3)(b), the issuer shall also be required to:
- 1. File with the Division Form U-2 Uniform Consent to Service of Process;
  - 2. If the issuer is a corporation, file with the Division Form U-2A Uniform Form of Corporate Resolution;
  - 3. Provide the Division with a copy of the fully executed escrow agreement between the issuer and a bank or depository institution authorized to do business in Tennessee in which the issuer states that it will deposit all of the investor funds or cause all of the investor funds to be deposited, the target offering amount to be raised by the offering plus the minimum aggregate amount before escrowed funds may be accessed by the issuer, and the time limit (to be expressed as a date certain) by which the target offering amount must be reached;
  - 4. Provide the Division with a signed acknowledgement requiring the issuer to notify the commissioner immediately upon the issuance of any stop order, denial, order to show cause, suspension, or revocation order, injunction or restraining order, or similar order entered or issued by any regulatory authority or by any court, concerning the securities covered by the notice or other securities offered or sold by the issuer or any order, judgment, decree, or conviction listed in T.C.A. § 48-1-103(a)(13)(C)(iii);
  - 5. Provide the Division with a signed statement of whether or not the issuer, an officer, director, partner, or trustee of the issuer, or an individual occupying similar status or performing similar functions for the issuer, or an individual

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- owning ten percent (10%) or more of the outstanding shares of any class or classes of securities issued by the issuer is or has ever been the subject of any order described in subpart (3)(b)4. or any order, judgment, decree, or conviction listed in T.C.A. § 48-1-103(a)(13)(C)(iii);
6. Pay the Division a non-refundable filing fee in the amount of one hundred dollars (\$100); and
  7. Promptly provide any additional information requested by the Division.
- (c) Amendment. The issuer shall amend its notice filing required by subparagraph (3)(b) as is necessary to correct any material change relating to the issuer, the persons acting on behalf of the issuer, or the bank or depository institution in which proceeds from the sale of the security will be deposited. No fee shall be charged to amend the notice filing.
- (4) Solicitation via the Internet. An issuer shall not use the Internet to offer or sell securities pursuant to this exemption unless access to the issuer's website where the offering of securities pursuant to this exemption may be viewed is only available to Tennessee residents, as defined in this Rule, and the issuer can establish that the offering cannot be viewed by residents of other states. The issuer bears the burden of proof and shall keep documentation to prove that no person or entity that is a resident of a state other than Tennessee has accessed the website regarding this intrastate offering.

**Authority:** T.C.A. §§ 48-1-103, 48-1-103(a)(13), 48-1-115, 48-1-116, and 48-1-124(e); Public Acts of 2014, Chapter 943; and 17 C.F.R. §§ 230.500(f) and 230.504(a)(3). **Administrative History:** Original rule filed September 17, 2015; effective December 16, 2015. Amendments filed March 3, 2026; effective June 1, 2026.

#### **0780-04-02-.18 TIER 2 OF REGULATION A SECONDARY SALES EXEMPTION.**

- (1) By the authority delegated to the commissioner in T.C.A. §§ 48-1-103(b)(11) and 48-1-116, the following transactions are determined to be exempt from the requirements of T.C.A. § 48-1-104:
  - (2) Any non-issuer transaction by a registered agent of a registered broker-dealer in a security of a class that has been outstanding in the hands of the public for at least 90 days by an issuer that previously sold securities in an offering qualified under Tier 2 of Regulation A, codified at 17 CFR § 230.251 *et seq.*, provided that at the time of the transaction:
    - (a) The issuer is subject to and current in its ongoing reporting requirements under 17 CFR § 230.257(b);
    - (b) The issuer of the security is actually engaged in business and not in the organizational stage or in bankruptcy or receivership and is not a blank check, blind pool or shell company whose primary plan of business is to engage in a merger or combination of the business with, or an acquisition of, an unidentified person or persons;
    - (c) The security is sold at a price reasonably related to the current market price of the security;
    - (d) The security does not constitute the whole or part of an unsold allotment to, or a subscription or participation by, the broker-dealer as an underwriter of the security; and
    - (e) The issuer of the security has a class of equity securities listed on a national securities exchange registered under the Securities Exchange Act of 1934, or designated for

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trading on the National Association of Securities Dealers Automated Quotation System (NASDAQ), unless:

1. The issuer of the security has been engaged in continuous business (including predecessors) for at least three years, or
2. The issuer of the security has total assets of at least \$2,000,000 based on an audited balance sheet as of a date within 18 months or, in the case of a reorganization or merger where parties to the reorganization or merger had such audited balance sheet, a pro forma balance sheet.

**Authority:** T.C.A. §§ 48-1-103(b), 48-1-104, and 48-1-116. **Administrative History:** Original rule filed September 30, 2019; effective December 29, 2019.

#### **0780-04-02-.19 MANUAL EXEMPTION.**

- (1) By the authority delegated to the commissioner in T.C.A. §§ 48-1-103(b)(11) and 48-1-116, the following non-issuer transaction is exempt from the registration requirement provided in T.C.A. § 48-1-104.
- (2) Any non-issuer transaction by a registered agent of a registered broker-dealer, and any resale transaction by a sponsor of a unit investment trust registered under the Investment Company Act of 1940, in a security of a class that has been outstanding in the hands of the public for at least ninety (90) days, provided, at the time of the transaction:
  - (a) The issuer of the security is actually engaged in business and not in the organizational stage or in bankruptcy or receivership and is not a blank check, blind pool or shell company whose primary plan of business is to engage in a merger or combination of the business with, or an acquisition of, an unidentified person or persons;
  - (b) The security is sold at a price reasonably related to the current market price of the security;
  - (c) The security does not constitute the whole or part of an unsold allotment to, or a subscription or participation by, the broker-dealer as an underwriter of the security;
  - (d) There exists a nationally recognized securities manual or its electronic equivalent designated by rule or order of the commissioner or a document filed with the U.S. Securities & Exchange Commission (SEC) which is publicly available through the SEC's Electronic Data Gathering and Retrieval System (EDGAR), containing:
    1. A description of the business and operations of the issuer,
    2. The names of the issuer's officers and the names of the issuer's directors, if any, or, in the case of a non-U.S. issuer, the corporate equivalents of such persons in the issuer's country of domicile,
    3. An audited balance sheet of the issuer as of a date within eighteen (18) months, or in the case of a reorganization or merger where parties to the reorganization or merger had such audited balance sheet, a pro forma balance sheet, and
    4. An audited income statement for each of the issuer's immediately preceding two (2) fiscal years, or for the period of existence of the issuer, if in existence for less than two (2) years or, in the case of a reorganization or merger where the parties to the reorganization or merger had such audited income statement, a pro forma income statement; and

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- (e) The issuer of the security has a class of equity securities listed on a national securities exchange registered under the Securities Exchange Act of 1934, or designated for trading on the National Association of Securities Dealers Automated Quotation System (NASDAQ), unless:
  - 1. The issuer of the security is a unit investment trust registered under the Investment Company Act of 1940, or
  - 2. The issuer of the security has been engaged in continuous business (including predecessors) for at least three (3) years, or
  - 3. The issuer of the security has total assets of at least two million dollars (\$2,000,000) based on an audited balance sheet as of a date within eighteen (18) months or, in the case of a reorganization or merger where parties to the reorganization or merger had such audited balance sheet, a pro forma balance sheet.
  
- (3) Definition. For the purposes of this Manual Exemption rule, “nationally recognized securities manuals or its electronic equivalent” shall include: Mergent’s Investor Service, and OTC Markets Group Inc. with respect to securities included in the OTCQX and OTCQB markets.

**Authority:** T.C.A. §§ 48-1-103(b)(11), 48-1-104, and 48-1-116. **Administrative History:** Original rule filed September 30, 2019; effective December 29, 2019.