

Detail of Regulus Services

Merchant Banking:

'Merchant Banking' had its roots in the Renaissance when traders from Italy (and later, Spain, Portugal, England and Holland) imported and exchanged goods of all descriptions from far-away lands. Merchant bankers were an essential part of financing these trading ventures and many became exceptionally powerful and wealthy. More recently, merchant banking was associated with commodity trading and finance. In modern times, the term refers to a professional who arranges private equity investment by individuals or financial institutions in the unregistered securities of either privately or publicly held companies. In practice, a merchant banker is someone who understands the intricacies of putting a deal together so that both buyer and seller profit from the transaction. This means thoroughly understanding the nature of the business that is at the heart of the deal, the needs and desires of both the buyer and the seller, correctly forecasting the growth potential of the resulting entity, having contacts within the legal, financing and accounting sectors, and knowing the methods of structure and finance that can minimize liability and tax exposure throughout the life of the transaction. In short, the merchant banker is a transaction facilitator schooled and experienced in the ways of modern business transaction and finance. This is the mission of Regulus Corporation, your choice for expert service and advice in the world of business.

Transaction Financing:

The financing of a business transaction, particularly if it is the acquisition of another business entity or asset, requires careful consideration of a number of factors including value, growth potential and the cost of money. Most commonly there are several sources of capital involved in the transaction. These may include the cash resources of the purchaser, bank financing, mezzanine capital or private equity. Other mechanisms such as royalty financing may apply in a given case. The key, however, is to assemble the financing structure that best serves the needs of the buyer and seller.

Private Equity Financing is privately-held money lent or invested in a business enterprise. In a broader business sense, private equity financing usually refers to investment capital raised from private equity firms or funds that are established to manage capital for high net worth individuals or institutions. Most often, private equity firms and funds are looking for multi-million dollar investments with strong growth potential.

Mezzanine financing is usually in the form of a loan (debt) that is secured by the right to convert to some form of ownership should there be a default. It may be structured as debt or as preferred stock. Accordingly, mezzanine financing is somewhat of a mix of debt financing and equity financing, and is usually a subordinated debt behind senior lenders such as venture capital loans or bank loans, but ahead of common stock.

Royalty Financing is another attractive alternative to traditional debt and equity financing. The royalty lender provides capital with the provision that the lender will receive a certain percentage of future revenues, capped at some agreed amount, for an agreed period of time.

The 'royalty' structure allows the borrower to avoid losing its equity position since the lender is being paid from future company revenues, not in ownership; and state and federal securities regulations do not generally apply since the financing is in the form of a loan.

In addition to providing your company with a 'best options analysis', Regulus has extensive contacts with experience in assembling successful financing scenarios and can introduce your company to potential sources of capital.

Direct Public Offerings:

A Direct Public Offering can be an effective way for a business to raise capital. In the past, companies generally raised capital by marketing shares directly to its own affinity groups such as its customers, employees, suppliers, distributors and neighbors. In today's markets, there are investor groups interested in smaller localized investment opportunities. DPOs are an alternative to underwritten public offerings through securities broker-dealer firms in which a company's shares are sold to the *broker's* customers and prospects. Regulus can help you determine if the DPO route is suitable to your company's needs and can walk you through the process. Here are the steps:

Decision Analysis. Regulus will help management consider the opportunities, risks, costs, and timing of a DPO, compared to your alternatives. We gather and analyze information about the business and your objectives as owners. The Decision Analysis Seminar discusses regulatory issues, pricing the offering, marketing plans, specific tasks to be accomplished and costs involved in a DPO;

Preparation for the Offering. There is generally some "corporate cleanup" work required, such as obtaining audited financial statements for a securities filing, preparation for a "due diligence" review and changes in corporate structure. Advisors suggest ways in which these matters can be handled and assist in preparing the company for public ownership. They help select members of the DPO team and prepare a detailed responsibility schedule and a budget;

Pricing Analysis. The purpose of our Pricing Analysis Report is to guide the corporate board in determining the percentage of their company to be sold to the public for the amount of capital to be raised. Our toolkit provides advanced valuation methodologies, giving special consideration to the nature of the investor base and the DPO process. The Report is also available to securities regulators as a response to any pricing challenges that may arise;

Prospectus Preparation & Regulatory Filing. DPO advisors work with management, corporate counsel and auditors in choosing the appropriate securities filing format. They manage the design, drafting and review of the prospectus and other regulatory documents. They handle the preparation, filing and processing of state and federal securities filings and compliance;

Designing the Marketing Program. The Regulus DPO team prepares a Marketing Plan that identifies the prospective market for the shares in levels of purchasing potential. They can then select the most appropriate marketing tools for each target group and make the most effective use of resources. Advisors prepare a detailed marketing program, assist in the training of all

persons involved in the marketing process and monitor programs to assure compliance with securities laws. They also help design and implement a computerized prospect/investor data base management system;

Aftermarket trading. If your business chooses and qualifies for an exchange listing, advisors work with stock exchanges to affect a post-offering listing. They prepare the listing applications and assist with the required regulatory filings. If the shares are not to be listed, the advisors arrange an "Order Matching Service." They help establish an ongoing shareowner relations and regulatory compliance program. They also offer aftermarket-consulting services, helping you develop and maintain programs to continue attracting individual investors; and,

Managing the Process. It is recommended that you have an in-house DPO manager, who can spend at least half time during the most intense portions of the preparation, regulatory filing and marketing processes. Advisors provide daily support and guidance to the DPO manager. Responsibility assignments and budgets are revised and supplemented as the process unfolds.

Facilitating and Financing Mergers and Acquisitions:

Mergers and acquisitions are best described as the process whereby two or more companies consolidate into a third business entity, retaining and combining the most valuable elements of each; or the acquisition of one company by another, consolidating and absorbing

Regulus often advises clients after an offer has been received or to evaluate an acquisition opportunity. We review company financial statements and strategic plans, and then make prudent suggestions for the growth or direction of the company. We frequently act as a company's merger and acquisition (M&A) manager, fielding inquiries from possible acquirers as well as possible acquisition candidates. Even though the company may not actively be soliciting either, Regulus easily gears up to handle the increased activity. Regulus can coordinate publicity and place news releases in trade publications and the media in order to create awareness and interest among potential buyers or sellers.

Although there are a variety of mechanisms that may be appropriate for financing a given transaction, Regulus favors using the Soft-Leverage Buyout approach whenever possible. This process works well for upper small market and lower middle market companies with a value between \$500,000 and \$20,000,000. There are several advantages:

- The lack of conventional credit often makes traditional funding expensive and difficult to obtain;
- Buyers can fund without overreaching;
- Sellers remains involved and have a claim to assets;
- A company's risk-to-reward ratio will be increased with continuity of operations;
- There is greater access to alternative capital resources, such as investors looking for passive investments income; and,
- The structure of a typical SLBO spreads the risk for both the buyer and seller.

Reasonable assumptions based on the sellers' needs, both financially as well as operationally, and the buyers' needs, weighed equally, can create a SBLO opportunity under the following conditions:

- The BUYER is motivated and operationally qualified, but has limited cash resources and limited borrowing capacity based on the target acquisition's valuation; and,
- The SELLER is motivated, but has expectations higher than the financial market will fund conventionally.

Through the SLBO process, the buyer and the seller create a transaction in which a buyer can earn his or her way into the transaction by putting down a percentage of cash, by providing working capital on a mezzanine basis (working capital), and by taking a senior management position, thereby reducing the seller's workload. Correspondingly, the seller can protect himself or herself during the process by staying involved in the company's day-to-day operations while receiving compensation, and acting as the senior bank until paid. This "working transaction" is, in short, a partnership. The buyer has skin in the game, the seller has developed an exit strategy, and both have potentially increased the transaction value during that period of time. Now that the buyers and sellers are partners, there are additional capital options that can attract private equity, subordinate debt, and even an acquisition strategy to further build and grow the company to the financial advantage of both sides.

The SLBO process is therefore a mechanism that can successfully fund a merger or acquisition that otherwise might not be attractive to conventional capital, while protecting the assets of each side and providing a further means of growth.

Buying and Selling Businesses:

Regulus targets a segment of the Middle Market, mostly small and medium-sized enterprises (SMEs), comprised of privately-held companies with annual sales ranging from \$1 million to \$20 million or more. This segment has traditionally been underserved by boutique M&A firms and investment banks; they operate in a revenue range that is too small to attract the interest of these firms, but may be too large for most conventional bank financing. Regulus has devised a planned and managed process designed to facilitate such transactions. The Regulus plan includes the following steps:

Analyze and Prepare Operations. As a first step in the process, we critically evaluate the business operations identifying opportunities for short and long-term improvements as well as competitive challenges that will be of interest to prospective buyers;

Obtain A Valuation. We strongly recommend that clients obtain an objective evaluation of the business being offered for sale. One obstacle often encountered is the unrealistic expectations of the seller, based on emotion rather than analysis.

Coordinate Drafting of Confidential Business Review Memorandum. Regulus will prepare or assist the management team with the preparation of an effective business review document to ensure completeness and accuracy;

Develop a Marketing Plan. The marketing plan will be customized to fit your company's particular circumstances;

Identify and Contact Prospective Buyers. We will present the business to a most likely pool of buyers' private equity groups, foreign companies or local, in-market investors by matching their strengths and capabilities to the nature, size and value of your business. Prospective buyers who express interest will be required to sign a Non-Disclosure Agreement prior to receiving any information about your business;

Facilitate Buyers' Due Diligence. This process typically entails meeting with designated members of management, reviewing selected financial information and gathering other relevant information;

Assist Clients and Clients' Professional Advisors with Evaluation of Offers. The goal for any transaction should be to maximize the seller's after-tax sales proceeds. Accordingly, we encourage clients to involve their attorneys and CPAs in the process as soon as is reasonably possible;

Assist Clients' Professional Advisors with Document Preparation. The seller's and buyer's attorneys will be responsible for the drafting and negotiating the sales agreement and related documents. Our service team will assist with your review and document compilation process; and,

Facilitate Timely Closing and Assist with Post Closing Issues. We will work with the seller and buyer transaction teams (management, attorneys, CPAs) to resolve any open issues and consummate the transaction in a timely fashion.

Due Diligence:

Due Diligence is the process by which buyers, sellers and investors determine the value of a given asset, property or business. This process is fundamental to any transaction since it reveals relevant details regarding potential liability, reputation, business contracts and other contractual obligations, competition and market share, pending legal action, management competence, labor relations, the nature of business operations and the existence and validity of proprietary business processes, as well as the usual financial information such as cash flow, debt, banking relationships and ongoing financial obligations. Taken altogether, this comprises a sea of information that must be collected, verified and evaluated before a transaction can be prudently consummated.

The key to completing this process efficiently is to establish an orderly process by which specific steps are accomplished in a timely manner:

Schedule. The first step is the establishment of a schedule according to which the due diligence information is to be collected, verified, reviewed and accepted. This period can be as brief as a month for a smaller uncomplicated transaction, or possibly as much as three months for those of a much more complex nature;

Data collection. It is the responsibility of the seller to provide a complete and accurate due diligence database. Regulus facilitates this by providing an exhaustive due diligence checklist to be reviewed and completed by the seller and his professional team. The checklist consists of

more than 200 items (some of which might not apply in any given case), includes the following categories:

Financials, including balance sheets, income statements, revenues and disbursements, accounts payable and accounts receivable, audit and accountant reports, as well as specific relevant documentation;

Taxes, specifically all tax history and documentation of any rebates, exemptions or settlements;

Details of loans and other financial obligations and liabilities, including loan documents, liens, nature of guarantees and collateral, payment schedules, payroll and personnel contracts;

Details of assets, including all fixed assets, depreciation schedule, lease and maintenance agreements, and real estate;

Business profile, including business sector analysis, the business plan, goals and milestones;

Records of business activity, including charts of accounts, aging of accounts, schedule of current and future activity, competition, sales and marketing;

Insurance, particularly documentation of insurance coverage and claims history;

Legal, specifically copies of all contracts, agreements, certificates, articles of incorporation, bylaws, and any history of past or pending litigation or actions of local, state or federal regulators;

Operations, including copies of personnel manuals, production processes, a business flowchart, details of physical plant, health and safety procedures and security procedures; and,

Personnel, including salaries and benefits, copy of personnel handbook, policies governing discipline, discrimination, background checks, advancement and workplace safety.

Evaluation. Once this mass of data has been collected, it must be reviewed and analyzed for completeness, consistency, compliance with law and regulation and, of course, to determine if the value of the business justifies the proposed transaction. Any missing information will be requested or explained to the satisfaction of the buyer. If a non-trivial issue is discovered, buyer and seller will have an opportunity to negotiate additional terms to resolve the matter, or in extreme cases, the buyer may elect to withdraw from the proposed transaction at this point.

Regulus will manage this complex process and provide its client with a sound and defensible basis from which to determine the next steps to take with respect to a pending transaction.

Turnaround Strategies:

Companies in financial distress face a unique set of challenges. They must ensure short-term survival while preparing for long-term success. If bankruptcy is unavoidable, a robust reorganization plan that addresses the needs of all stakeholders is imperative. To thrive again in these difficult times, companies must quickly and accurately answer critical questions such as these:

- How can we quickly stop the bleeding?
- How can we release and generate cash to fund our operations?
- How can we focus on the most viable parts of the business moving forward?

Our turnaround approach focuses on the most important operational, strategic, organizational, and financial levers in order to ensure a comprehensive recovery. We can validate an existing turnaround plan or develop a new plan tailored to a client's specific circumstances. By combining our deep industry experience with the proven tools of crisis management, we create lasting impact—fast! Our key turnaround competencies include:

- *Stress Diagnosis*. Regulus uses a proprietary diagnostic tool to identify the sources of financial stress, pinpoints areas for improvement, and estimates the magnitude of the necessary changes;
- *Turnaround Planning*. We provide the strategic inputs necessary for the turnaround plan, including a comprehensive industry analysis and portfolio implications;
- *Operational Cost-Out Programs*. Regulus will design and execute a plan for rapidly reducing cost and expense throughout business operations;
- *Turnaround Management*. Regulus coordinates the various parties involved in a restructuring process in order to meet key deliverables and milestones. We track progress and ensure rapid execution; and,
- *Bankruptcy Management*. When all else fails we can manage the entire bankruptcy process relying on our many years of experience in this area.

A guided turnaround works well for business owners who realize that trying something different is better than continuing on the present course and risking the life of their business. We work with management and employees to formulate a business strategy to revive the company. Our first objective is to work with the company, management and the creditors to initiate a plan to stabilize cash flow.

We analyze the company's operations so we can deliver an "Emergency Action Plan" and help the company and management implement it. Once the bleeding has stopped and administrative costs have been cut, turnaround efforts are directed toward making the remaining business operations effective and efficient. The company must be restructured to increase profitability and its return on assets and equity.

The first days of an engagement are spent fact-finding and diagnosing the scope and severity of the company's ills. In particular, we look at several key operational areas of review and analysis, including: the current business plan, the marketing plan, management and the organizational

structure of the business, the financial plan, operating controls, existing financing agreements, supply contracts and operating costs. With this information in hand, we can then develop a strategy for limiting your exposure on business debts. If your business is in need of time to financially recover from a setback or needs to restructure its secured debt and reduce monthly debt service payments temporarily or permanently, we will work with you to develop a workout plan. Our workout services include the following:

- Forbearance agreements with secured lenders
- Renegotiate equipment and real estate leases
- Negotiate discounts with creditors
- Accounts payable management
- Accounts receivable collections
- Sale of stock to new investors

And if necessary,

- Sale of business - asset and stock sales
- Chapter 11 bankruptcy
- Receivership

A turnaround manager's experience within a particular industry is less important than experience in crisis situations when a company is facing bankruptcy or the loss of millions of dollars in revenue. Like an emergency room doctor, a turnaround professional must make critical decisions quickly to staunch the financial bleeding and give a patient the best chance for recovery. Operating in the eye of the storm, he must deal equitably with angry creditors, frightened employees, wary customers, and a nervous board of directors. Clearly this is no assignment for the faint-hearted. Regulus's battle-tested operations experts, proprietary tools and techniques, and partnerships with leading crisis managers are ready and able to help your business weather the storm.

Bankruptcy Management:

Bankruptcy is a frightening concept for any businessman since it brings to mind an image of failure and incompetence... or worse. That image is flawed, however. Many honorable and highly competent businessmen and women have faced bankruptcy due to the shifting sands of economics, unexpectedly aggressive competition or even a natural disaster, circumstances not of their own making, but devastating nevertheless.

There are two main forms of bankruptcy protection under Federal law that may apply to businesses. A Chapter 7 filing is a process for the liquidation of assets to pay creditors; this is a 'last resort' proceeding when all else has failed. But a Chapter 11 filing is entirely different. This procedure assumes that the business entity *can* and *will* continue to operate under a court-approved restructuring plan designed to rehabilitate the business, thereby creating a framework within which creditors can be treated equitably.

Regulus personnel have had extensive experience in financial reorganization and can provide sound advice and assistance to stakeholders and companies in financial distress. There are many alternatives to a formal financial reorganization including debt to equity conversion procedures, long term Trust Indentures, and many other debt resolution methods. Regulus will

guide companies in selecting the most satisfactory solution given its circumstances. Regulus will also guide financially distressed companies in survival techniques such as crisis cash management, customer and vendor relations and many other actions, allowing the company to continue operations until the problems are resolved.

Chapter 11 is, however, the most common restructuring process. Filing for bankruptcy protection is a serious step and it must be thought through carefully; there must be a cogent plan of action designed to achieve a desirable outcome, and this plan should be drafted and critiqued thoroughly prior to filing. Regulus is uniquely qualified to help its clients navigate the process while avoiding the pitfalls.

There are fatal mistakes to be avoided and the process is time-critical:

The first common mistake is thinking that bankruptcy protection gives a business plenty of time to recover. This is not true! Time can be a great enemy if there is no plan of action to change the direction of the company. Chapter 11 is an extraordinary situation and requires extraordinary measures to deal with the many problems at hand if this is to be accomplished. The Golden Rule of Bankruptcy is 'Cash Flow is King'! Saving the core business is the goal, and any action the company takes must be designed to increase cash flow and retain cash.

The second common mistake is thinking that this is essentially a legal issue that you and your attorney can handle. Not true! Sound legal advice is critical, but the Chapter 11 process is primarily a unique and accelerated business model that requires business turnaround expertise if it is to succeed. The need to develop strategies to address the following four areas is of great importance, and it should be noted that not any one of the following is more important than the other; each will require more attention than you have ever given it in the past:

- Understand and implement the legal proceedings and requirements of Chapter 11;
- Thoroughly manage and control day-to-day business operations;
- Manage cash flow in order to guarantee the maximum retention of cash; and,
- Raise new capital to fund your restructured business plan.

There is no third common mistake. Failure to avoid either of the first two will almost surely result in receivership and liquidation under Chapter 7!

It is obvious that it is better to avoid a Chapter 11 if possible, and that means getting control of your business as soon as you begin to see warning signs. These signs will most likely be some combination of the following top-ten reasons that businesses fail:

- Excessive debt structure;
- Inadequate sources of financing;
- Breakdown in communication between debtor and creditor;
- Management is not prepared for a crisis;
- Management waits too long to seek help;
- Management does not know how to cut expenses;
- Lack of sales;
- Poor accounting records;
- Neglect of marketing; and/or,

- Sudden change in the market causing a company's product to become obsolete.

If you detect a pattern that reflects any of these things, Regulus is available to help your business with sound business advice and counsel, or with a turnaround strategy, or if necessary, with a complete Chapter 11 reorganization plan.

Back-Office Support:

Regulus offers consulting and support services to businesses seeking guidance, professional advice or technical support and assistance across an array of competencies. It is particularly targeted to provide cutting-edge financial content services to small-cap and micro-cap companies, affording them access to tools and information usually reserved for only larger firms with deep pockets and established credentials.

We know that many micro-cap and small-cap corporations have difficulty in obtaining quality services that would make them competitive and profitable. These could include such things as drafting and producing high-quality presentation documents; having a stylish and impressive presence on the Internet; having the ability to reach out to thousands of venture capital firms and qualified private investors; producing and distributing a company newsletter; maintaining a blog with timely and substantive articles; managing contacts and feedback; or conducting public opinion analyses and focus groups to better understand consumer trends and interests.

Regulus was conceived by a group of experienced business professionals who have needed these services themselves and understand that finding the right solutions at the right time is critical to successfully growing any business. *Our purpose and objective is to provide these quality support services for your company.* The support services we offer include:

Consulting Services. Regulus offers sound and time-tested advice regarding almost every aspect of business development, management, operations and finance. These include such aspects as business management practices; business structure and organization; development of business plans and strategies; sales and marketing; use of media, including social media; outreach; content; presentation strategies; press relations; and the effective use of both electronic and print media;

Technical Support. Regulus experts provide access to the services businesses need most, including technical writing; creation of presentation documents in printed and electronic format; drafting of business plans, prospecting and financial marketing materials; and the creation and maintenance of corporate Websites and associated back-office services;

Communications. Regulus can prepare and manage mass mailings and outreach via e-Mail and social media; management of call-center operations; contact management services; maintenance of data, databases and contact lists; press materials, including preparation of press releases and the organization of news conferences; writing and placement of articles in publications and online blogs; organization and management of Webinars or call-in teleconferences; and the creation and dissemination of video or audio materials; and,

Research and Analysis. A key service offered by Regulus is the independent research and analysis of small-cap and micro-cap companies trading on OTCMarkets as OTC Pink, OTCQB and OTCQX. Other research services include public opinion research (polling) and conduct of focus groups.

Government Relations:

Regulus is aware of the impact that government *at any level* can have on businesses *of any size*. That is the reason Regulus has created a Government Relations Services section that specializes in providing answers and solutions for its clients facing a maze of legislative or regulatory uncertainty.

Nearly every aspect of modern life in America is influenced, directly or indirectly, by the decisions made by government. These influences might stem from changes to municipal zoning law that could *facilitate* or *frustrate* economic development in your industry. There might be changes to tax policy or the addition of business mandates being considered by your State Legislature; or the changes might be part of a Federal healthcare, tax or energy proposal before the Congress in Washington, DC. *It is even possible* that changes to international trade policy being considered abroad could affect your bottom line.

To demonstrate our management depth of experience, David F. Emery, the Chief Executive Officer of Regulus, has served in the Maine State Legislature and in Maine State Government; as a four-term US Congressman from Maine; and as the Deputy Director of the US Arms Control and Disarmament Agency in Washington, DC under President Ronald Reagan. Mr. Emery has had extensive experience drafting legislation; presenting cogent arguments before legislative and regulatory bodies; organizing public information campaigns designed to explain issues to decision-makers and to change minds; and developing policy options for businesses and interest groups. As well, Mr. Emery has had extensive experience in the international area, having spoken, debated or negotiated in more than 25 foreign countries, and in particular, at the United Nations in New York City and in Geneva, Switzerland, regarding arms control, disarmament, national security and other foreign policy topics.

Specifically, Regulus Government Relations Services can perform the following services for *you*:

- Research government programs to determine if your firm qualifies for benefits, incentives or business opportunity;
- Evaluate, interpret and monitor legislative and regulatory matters as they evolve;
- Evaluate the political climate surrounding a legislative or regulatory matter and devise a plan of action to promote or defend your interests;
- Develop a communications plan designed to present your position to the public, or specifically to decision makers, in its best light;
- Develop policy options and, in consultation with appropriate legal counsel, draft legislation, amendments and/or regulatory language;
- Appear before legislative committees, councils, boards and/or regulatory bodies to present arguments supportive of your business interests; and,
- Contact and interface with officials in embassies of foreign countries where business or related matters of concern exist between your business and a foreign entity.

Regulus offers this array of services to clients looking for an edge when legislation or government regulation could impact the bottom line. Regulus Government Relations services are one more reason that Regulus is well-positioned to assist your enterprise in its efforts to grow and prosper during uncertain economic times and in a mercurial political and regulatory environment.

Business Development Companies (BDCs):

Regulus provides extensive full-service Business Development Company (BDC) consulting to its corporate clients. Our expertise, coupled with an understanding of suitable BDC industry sectors and our approach of working closely with management, assures clients that they will have the necessary means to meet their objectives and thereby optimize the chance of success.

Business Development Companies (BDCs) are specially-regulated investment companies that typically make private equity investments in small and middle-market companies. Private equity groups that are generally focused on mezzanine-round equity and debt investments typically sponsor BDCs. BDCs are subject to the Investment Company Act of 1940 (often referred to as the 1940 Act), and generally have greater flexibility to use leverage and to engage in certain affiliate transactions with portfolio companies than do other registered funds. BDCs are subject to the 2002 Sarbanes-Oxley Act as well as other rules and regulations that govern public companies. Some key BDC facts include:

BDCs are attractive for two reasons in particular: BDCs allow investors and fund managers the same degree of liquidity as other publically-traded investments, and BDCs provide ready access to public markets since shareholders are not required to meet income, net worth or sophistication criteria;

Regulation. The Small Business Incentive Act of 1980 was created to promote public investment in private companies, and to enable BDCs to compete with private venture capital funds. The SEC modified certain provisions under the 1940 Act to provide BDCs with more flexibility to issue derivative securities use leverage and engage in affiliated transactions with portfolio companies;

Eligible Investments. The BDC structure is intended to promote investment in 'eligible portfolio companies'. Such eligible portfolio companies are generally privately-held US companies that are not investment companies and do not have outstanding margin securities or a class of securities listed on a national exchange. In general, the 1940 Act requires that BDCs have at least 70% of their total assets in eligible portfolio companies (usually smaller private companies), cash, government securities or high-quality debt securities that mature in one year or less from the date of investment;

Leverage. Any debt or senior security issued by a BDC must have asset coverage of 200% (that is, the debt and senior securities cannot exceed half of the BDCs total assets), and no dividends can be declared on common stock unless the BDC's debt and senior securities have asset coverage of at least 200%;

Affiliate Transactions. BDCs have greater flexibility than other closed-end funds to engage in certain affiliate transactions. Unlike closed-end funds, BDCs may generally engage in a transaction between itself and a person who is directly or indirectly controlled by the BDC and certain affiliates of such person. Such transactions involving a BDC and its affiliate(s) require prior approval of a majority of the BDC's disinterested directors on the basis that the terms of the transaction are reasonable and fair to the BDC's shareholders, and that the transaction is consistent with the interests of the BDC shareholders and BDC policies;

BDC Management. The 1940 Act requires that a majority of the directors and general partners must be persons who are not interested persons of the BDC. The officers of a BDC may manage the BDC, or an external manager may be appointed pursuant to an investment advisory contract;

Derivatives. Unlike traditional investment companies that are subject to certain board and shareholder requirements as well as certain other limitations, BDCs are able to issue derivative securities including options, warrants or rights that convert to voting securities;

Organization. A BDC is required to be organized under the laws of the United States of America and is likewise required to locate its principal place of business within the United States. Like mutual funds, BDCs are generally formed in the State of Maryland due to state laws that discourage takeovers and proxy contests; and,

Filings. BDCs are required to file a notice with the SEC stating that it elects to be treated as a BDC. It must then register a class of securities under Section 12 of the Securities and Exchange Act of 1934 (the 1934 Act), and subsequently file reports (including 10Q, 10K and 8K filings) as do publicly-traded operating companies.

Planned Exit Strategies:

The Exit Strategy: How to Make It All Worthwhile

It goes without saying that no business model is complete without an exit strategy that returns value to business owners and investors. Moreover, different people have different needs and expectations, and those needs and expectations can change over time. Thinking of this another way, one might ask, "What do I need to get out of the years, effort and money I have invested in by business, and how do I get it when I need it?"

As with any long-term investment plan, it is advisable (and usually necessary) to craft an appropriate exit strategy *in the beginning* rather than to cobble one together *at the end* of the process when attractive options may no longer exist, or when flexibility is limited. The beauty of the Regulus business model, *the Engineering of a Public CompanyTM*, is that the exit strategy is an integral part of the business model. Investors, stockholders and owners know what to expect and understand how the wealth gained through their participation in the business will be passed to them.

To understand the exit strategy component of the Regulus business model, it is important to understand that the public company will operate as a holding company. This structure facilitates the building of a portfolio of profitable, well-run businesses, each with growth

potential. The aggregate performance of the portfolio is the mechanism that generates the wealth to fuel the exit strategies for both the holding company owners and for the original portfolio company owners as well.

Companies operating at different levels on different exchanges must follow the appropriate SEC (and/or other) rules according to the exchange requirements and standards. This usually involves audited financials and stringent reporting, both of which can be expensive. We note that under today's existing securities regulations, a Current Information Pink trading on OTC Markets is permitted to own fully-reporting companies; however, the reverse is not true: a fully-reporting company may not own a company operating on a lower-level exchange. Moreover, a Current Information Pink avoids the expense and complexity of the mandatory SEC reporting and auditing requirements altogether, making its use as a holding company an exceptionally cost-effective platform for this purpose. Another advantage is that the Pink holding company is able to acquire portfolio companies that have issues that need time and effort to correct without jeopardizing its status as a fully-reporting company. Such 'not-quite-ready-for-prime-time' acquisitions are an important component of the Regulus value-building strategy, since many businesses with solid potential often languish and sometimes fail due to a lack of management skill, a viable business plan, adequate financing or may exhibit other correctable shortcomings.

We note that it is our position that the holding company must operate in as rigorous manner as possible, notwithstanding any particular set of legal or regulatory requirements. That means operating the holding company on sound business fundamentals and best business practices, and posting exhaustive reports covering every aspect of its operations. Such a policy serves as an important confidence-building measure to reassure investors and stockholders.

As the holding company matures, it will have acquired a number of portfolio companies, organized into one or more vertically-integrated subsidiary silos resulting from roll-ups of compatible acquisitions operating in a particular sector. These silos could reflect such areas of business as: light manufacturing; specialty food products; consumer/household products; services; construction, etc. As this structure matures (for example, within 24-60 months), it will be time to spin off one or more of the silos, at which time the 'liquidity event' will occur. There are two choices here:

One path would spin the portfolio holdings into a new Business Development Company (BDC) created by an S-1 registration and a DPO/IPO, along with the filing of a Form N-2 (a BDC is a particular business structure created under the Security Act of 1940). BDCs are essentially holding companies that operate in a specified manner: they must maintain a high degree of portfolio diversity with no single entity accounting for more than 25% of the total; they are required to distribute 90% of their taxable earnings quarterly; and total outstanding debt must not exceed total equity. BDCs are advantageous in that they offer investors with a high degree of liquidity; the structure facilitates capital formation for small-cap and micro-cap companies;

there are less-stringent standards for investors than for instruments that are available to accredited investors only; and, managers may earn investment fees and performance fees.

The other path would involve placing the holdings into an existing fully-reporting company such as an OTCQB or OTCQX. The process is much the same. In this case, the Pink would register its shares with a new DPO/IPO and thereby participate in the liquidity event.

Either way, the liquidity event results in a method for owners, investors and shareholders to realize the return from their effort. Stockholders could elect to retain their stock or sell it for profit, or retain some and sell the rest. The key is the filing of the registration and public offering, which generates the capital from the increased value of the holdings that has been engineered during the 24-60 months of their tenure as a portfolio holding of the Current Information Pink.

Becoming a Public Company:

Some Things to Consider:

In early November 2013, the investment world was in a frenzy over the Twitter IPO; the stock price soared by 73% during Twitter's first day on the stock market. According to Forbes Magazine, Twitter had set its initial offer at \$26; opened at \$45.10; peaked that day at \$50.09 (92.5% above the initial offer); and closed out its first day of trading at \$44.90, 20¢ below the opening price. While some analysts thought it had been a very successful IPO, others were concerned about whether or not Twitter offered a good long-term value for investors. Only 18 percent of US adults use Twitter, as opposed to the 70% that use Facebook; moreover, the typical Twitter user has only one follower. Some analysts have noted that such a profile does not augur well for Twitter's long-term utility as a social-media vehicle, and only time will tell if the Twitter IPO was a good idea.

Consider another example: Company X, a small firm with big plans, decided that 'going public' through a reverse-acquisition strategy was a good way to raise the \$3MM it needed to move its business to the next level. After absorbing \$300,000 in legal, consulting and accounting fees, the stock opened at \$.001, bumbled along for 36 months without attracting any significant investment, and finally fell into bankruptcy. Clearly, the process was a failure for Company X.

These examples demonstrate the importance and difficulty of making an informed decision regarding the question about whether or not to 'go public', and it's important to understand that this process is not right for every situation. Here are some things to consider:

Why Does a Business Go Public in the First Place?

The most important reason that business owners and investors choose to take their company public is to raise capital for expansion. An initial public offering (IPO) can raise capital quickly, so expansion isn't hindered. It also allows a business to reach wider foreign markets and attract better candidates through better compensation capacity and stability. Your business will also benefit from the credibility and awareness that comes from being publicly traded.

Is Your Business a Good Investment Now?

The Small Business Administration (SBA) recommends that you compare your business's data and statistics with other successful publicly-traded companies of your size and industry. A successful public company will usually have an annual growth potential of at least 20% and can demonstrate future revenue possibilities. This is the problem that many analysts have identified with the Facebook and Twitter IPOs; they haven't displayed a compelling long-term plan for creating revenue and growth.

Is Your Business *Prepared to go Public*?

Many small companies are simply not ready to go public, and they fail for that very reason; a successful public company is almost certainly one *that has acted like a successful public company* even before the IPO. A successful IPO leading to the creation of a public company depends heavily upon the skill and expertise of management, having developed a well thought-out strategic plan, having sufficient capital to sustain the process, having already built and maintained solid business fundamentals, and having a team of experts and advisors to assist them both during and after the process. Of these several factors, building and maintaining sound business fundamentals is probably the most important. By 'maintenance of sound business fundamentals', we mean the consistent control of cash-flow, debt and risk. *It is important to understand that any business that has not done so will not be seen as a viable investment opportunity by the investment community.*

Has Your Business Identified and Articulated a 'Gateway to Growth'?

It is important for a prospective public company to have a vision of its *gateway to growth*; that is, to have built into its strategic plan a clear understanding of where it wants to go as a public enterprise, how it will get there and what reaching that goal will mean for stockholders and investors. Investors are attracted to IPOs by the likelihood of profit. They are looking for value, return on investment and growth potential. If a company does not clearly articulate such a vision in its strategic plan or demonstrate a credible path to reaching that goal, there will be no incentive to invest.

Can You Handle the IPO Process?

The IPO process is not for the faint of heart. It involves a major commitment on the part of the company, hiring the right investment banking firm and legal advisors, it takes a lot of time, and it is expensive. It is for this reason that many businesses fail to complete the IPO process; less than a thousand are successful each year. It is also well to remember that things *can* and *will* occasionally go wrong, notwithstanding the best preparation. It is in these circumstances where the extra work and preparedness can save the day. It is for these occasions that you assembled your top-notch team and paid close attention to business fundamentals. Those businesses that *did not* will be the ones to fail; those that *did* are more likely to survive.

What You Can Do When Your Company Is In Trouble

Most small companies that go public through a reverse merger transaction, a §504 process or even through an S-1 registration find it is not as advertised; in fact, most small companies that go through this process find, to their disappointment and dismay, that they should not have gone public at all!

We have noted that many small companies are not prepared for the public process. Many do not have the management skills or experience; others have not built sound business

fundamentals (control of cash flow, debt and risk); others have not thought through a sound strategic plan with a gateway to growth; and still others simply do not have the financing or cash reserves to sustain the expense of the process. In some cases, management may make good-faith misjudgments that prove fatal or nearly fatal; still others embark on a quest for quick money – an all too common mistake - that nearly always ends in disaster.

Although there are certainly circumstances wherein rehabilitation of a failed or failing company is impractical, most can be saved if a proper strategy is devised and implemented. But this depends upon the willingness and flexibility of management to learn from its errors and to take the company in a different direction.

Regulus has developed a process we call *the Engineering a Public Company™* by which the owner of a failed or failing public company can rehabilitate and salvage that company... *if the owner is willing to adopt our strategy*. Our approach is unlike anything you have seen, and it is not based on investor relations promotions or liquidity plays. Our strategy depends upon on the development of a sustainable business based on fundamentals with a supportable capital structure. A proper capital structure must have an appropriate number of authorized, outstanding and float shares. Aggressive promotion of more stock into the market with high liquidity is *not* the answer. *You simply can't maintain a public company without sound fundamentals and a realistic strategic plan!*