

Public Offering Acquisitions User Guide



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OVERVIEW

FINRA's Public Offering System, which facilitates filings required under FINRA's Corporate Financing Rules (Rules 5110, 5121 and 2310), includes tools that allow filers to enter details of an acquisition. The tools, which are included in the "Compensation/Non-Cash" screen, allow filers to:

- value securities acquired by underwriter and related persons as an item of value pursuant to FINRA Rule 5110; and
- disclose acquisitions that qualify for an exception from underwriting compensation pursuant to FINRA Rule 5110(d)(5).

FILING TIPS

The tools in this section of the system were designed to be highly customizable and intuitive. The screens and questions that appear are a direct result of the answers users provide.

Throughout the system, users have the ability to "clone" —i.e., copy. We encourage filers to use this feature to save time entering data. When copying, please make sure to review and update any relevant information that may be different from the initial entry.

The following sections provide step-by-step guidance on how to enter securities acquisitions. There are four types of acquisitions:

- common stock
- warrants
- units
- other

We encourage users to save the data entered in the system frequently. **Note:** Information saved is not stored unless "Add Row" or "Update Row" is selected prior to switching to a different screen or exiting the system.

Users are also reminded to verify the accuracy of all data entered in the "Securities" screen, as it will impact the valuation of securities acquisitions.

CONTACT INFORMATION

For more information, contact FINRA's Corporate Financing Department at (240) 386-4623. If your questions relate to a specific filing, please contact the first

reviewer assigned to the filing, otherwise please ask to speak with an analyst on the Public Offering Review staff.

COMMON STOCK

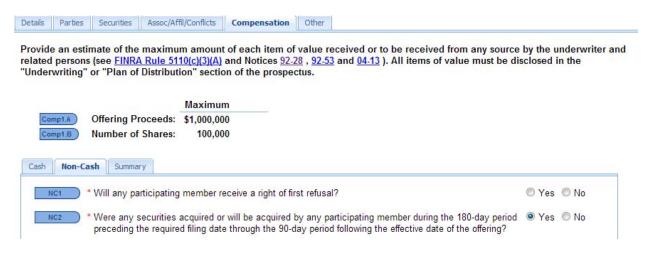
INTRODUCTION

Securities received or to be received by underwriter and related persons that do not have an exercise or conversion price, typically common stock, are valued according to FINRA Rule 5110(e)(2).

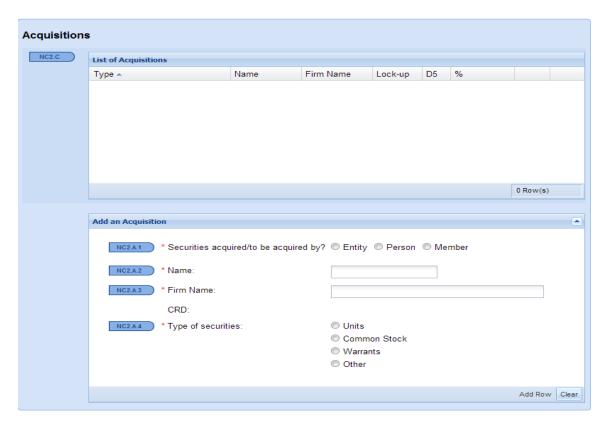
The value of these securities can be further reduced, according to FINRA Rule 5110(e)(4), by extending the restriction on transfer beyond the 180-day lock-up period required by FINRA Rule 5110(g)(1). For each additional 180-day period that the securities are restricted, the value will be reduced by 10 percent. Unlike warrants and other securities that have an exercise or conversion price, there is no limit on the valuation discount for common stock.

COMMON STOCK VALUATION

The first step in valuing common stock in the system is to select "Yes" to NC2 in the "Compensation/Non-Cash" screen. This will prompt the addition of an acquisition.



Identify the entity, person or member acquiring the securities. Select "Common Stock" as the type of securities, and then the timeframe of the acquisition.



RCLAYS CAPITAL INC. 714 Units
Units
Common Stock
Warrants
Other
Pre-offering Offering Post-offering
1

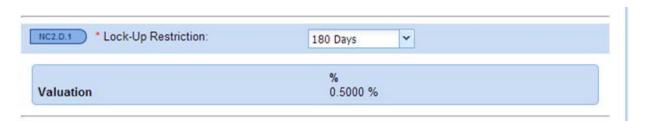
Next, enter the details of the public securities so that the terms and arrangements of the acquisition can be compared to the securities offered to the public. This should be the same information previously entered in the "Securities" screen, except that the number of securities entered should not include any overallotment option or securities received or to be received by the underwriter and related person(s).



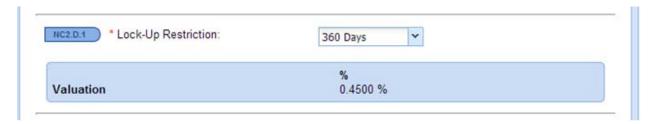
Enter the information related to the common stock received or to be received by the underwriter and related person(s). The acquisition can be entered by either providing the number of securities or entered as a percentage of the public securities. Then, enter the price paid per security, if any.

NC2.B.2 * Enter Acquisition by:	Number (#)Percent (%)	
NC2.B.2A *# of Securities: NC2.B.2B % of Public Securities:	250,000 %	
NC2.B.3 * Price Paid per Security:	\$8.00	

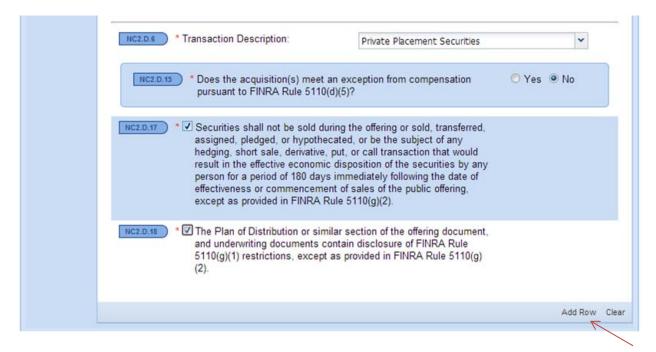
Next, select the duration of the lock-up restriction. The valuation of the acquisition will be shown, expressed as a percentage of offering proceeds. Below is the value of the acquisition entered above, with a 180-day lock-up period:



Below is the same acquisition, but with a 10 percent reduction based on a longer restriction period:



Next, select a description of the transaction in which the underwriter and related person(s) received or will receive the securities. Indicate whether the acquisition meets an exception from compensation pursuant to FINRA Rule 5110(d)(5). Complete the required representations and select "Add Row" in the lower right corner. Please see the Additional Enhancements section of this guide for further assistance regarding exceptions from underwriting compensation and general representations.



As a result, the acquisition will appear in the "List of Acquisitions" near the top of the screen.

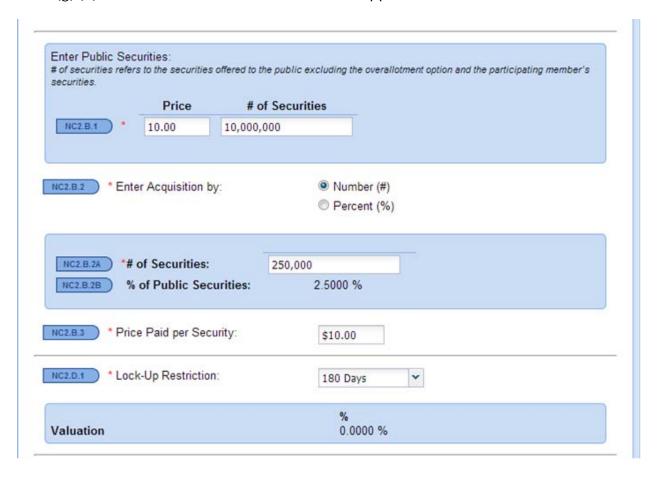


This will also be automatically reflected in the "Compensation/ Summary" screen.



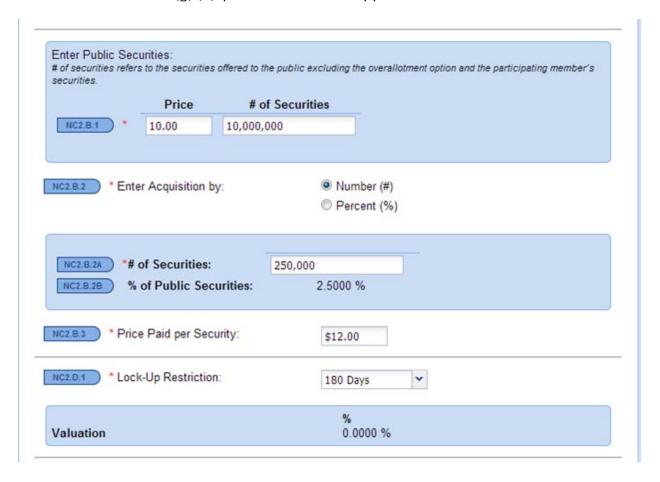
PURCHASE PRICE EQUAL TO THE PUBLIC OFFERING PRICE

When the price paid by the underwriter and related person(s) is equal to the public offering price, the value of the securities will be zero, although the FINRA Rule 5110(g)(1) restrictions on transfer will still be applicable.



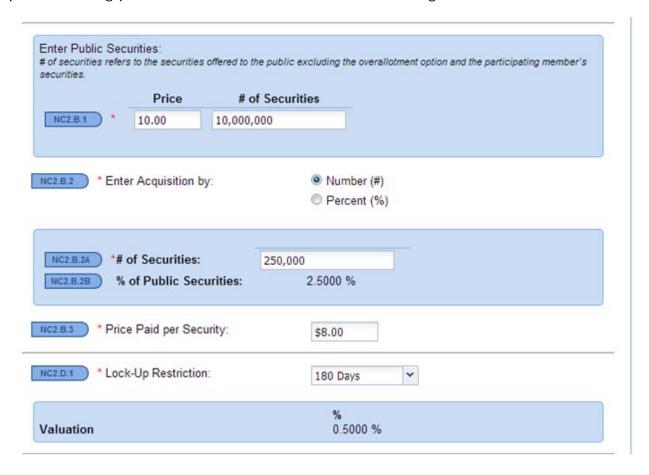
PURCHASE PRICE HIGHER THAN THE PUBLIC OFFERING PRICE

In the event that the price paid per security by the underwriter and related person(s) is higher than the public offering price, the value will also be zero, and the FINRA Rule 5110(g)(1) provisions will be applicable.



PURCHASE PRICE LOWER THAN THE PUBLIC OFFERING PRICE

When the price paid by the underwriter and related person(s) is lower than the public offering price, the value of the securities will be higher than zero.



WARRANTS

INTRODUCTION

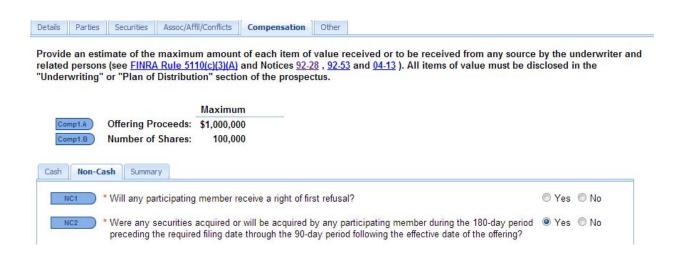
Securities received or to be received by underwriter and related persons that have an exercise or conversion price, such as warrants, are valued according to FINRA Rule 5110(e)(3).

The compensation value of the warrants is the higher of the traditional valuation pursuant to FINRA Rule 5110(e)(3)(A) through (G) or the 0.2 percent scale valuation pursuant to FINRA 5110(e)(3)(H). The system has been enhanced to select the higher value based on the terms and arrangements entered in the "Compensation/Non-Cash" screen.

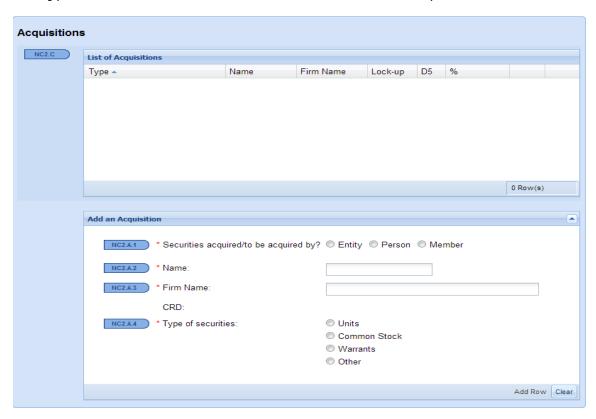
If the warrant exercise price is greater than 125 percent of the public offering price, the 0.2 percent scale valuation is used to determine the warrant compensation value.

WARRANT VALUATION

The first step in valuing warrants in the system is to select "Yes" to NC2 in the "Compensation/Non-Cash" screen. This will prompt the addition of an acquisition.



Identify the entity, person or member acquiring the securities. Select "Warrants" as the type of securities, and then the timeframe of the acquisition.



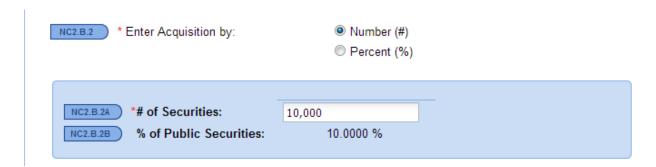
* Securities acquired/to be acquire	ed by? Entity Person Member
* Firm Name:	QUANTUM CAPITAL, LLC
CRD:	143530
* Type of securities:	O Units
	Common Stock
	Warrants
	Other
* Timeframe of Acquisition	Pre-offering Offering Post-offering

Next, enter the details of the public securities so that the terms and arrangements of the acquisition can be compared to the securities offered to the public. This should be the same information previously entered in the "Securities" screen, except that the number of securities entered should not include any overallotment option or securities received or to be received by the underwriter and related person(s).

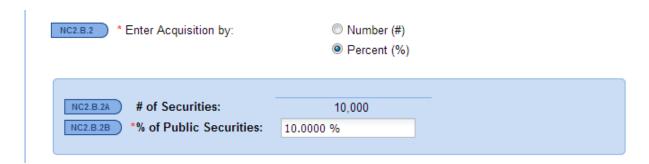


Then, enter the information related to the warrant received or to be received by the underwriter and related person(s). The acquisition can be entered by either providing the number of securities or entered as a percentage of the public securities.

Number of Warrants:



Percentage of Warrants:



Next, enter the price paid for the security, if any, and the warrant exercise price. The warrant exercise price can be entered as a percentage of the public offering price or as a dollar amount.

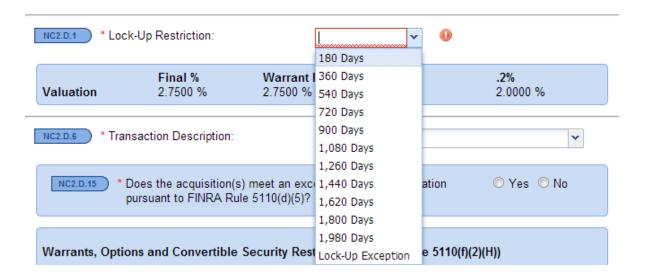
Warrant Exercise Price as a Percentage:



Warrant Exercise Price in Dollars:



After entering the price paid and exercise price of the warrant, enter the lock-up restriction duration.



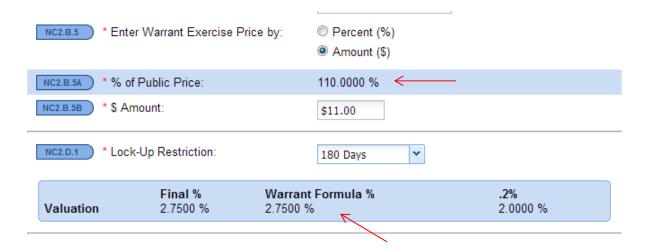
Then, enter the description of the acquisition transaction.



As mentioned, the system will value the warrant based on either the traditional valuation or the 0.2 percent scale valuation, depending on which is the highest.

TRADITIONAL VALUATION

In the example below, the underwriter and related persons' warrant exercise price is 110 percent of the public offering price; therefore, the compensation value of the warrant is 2.75 percent because it is higher than the valuation using the 0.2 percent scale valuation.



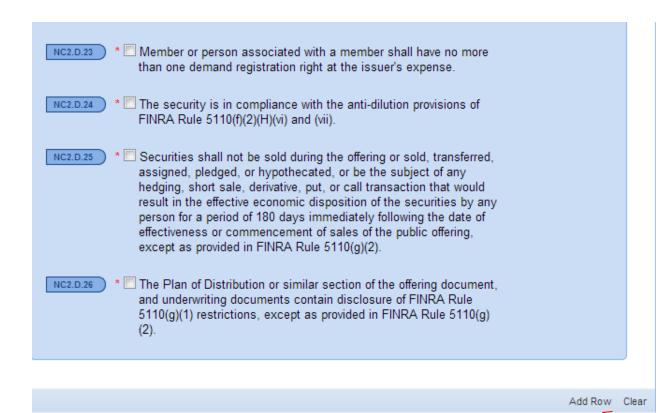
0.2% SCALE VALUATION

In this example, the underwriter and related persons' warrant exercise price is 135 percent of the public offering price; therefore, the compensation value of the warrant is 2.00 percent because it is higher than the valuation using the traditional valuation.

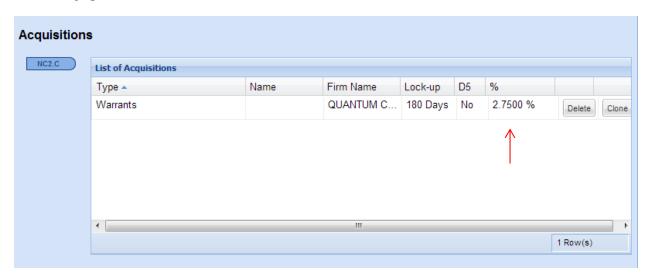


The remainder of this section pertains to whether the warrants meet an exception from underwriting compensation pursuant to FINRA Rule 5110(d)(5) and also requires representations pursuant to FINRA Rule 5110(f)(2)(H). Please see the Additional Enhancements section of this guide for further assistance regarding exceptions from underwriting compensation and general representations.

Once all of the required representations are checked, select "Add Row" to add the warrant as an item of value.



The final warrant compensation value will appear in the "List of Acquisitions" summary grid.



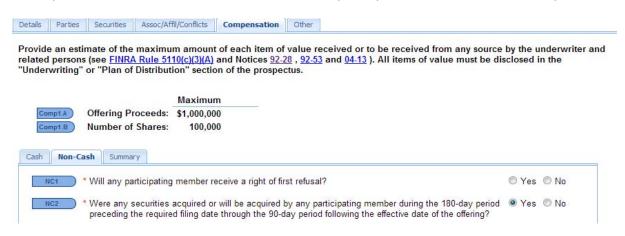
UNITS

INTRODUCTION

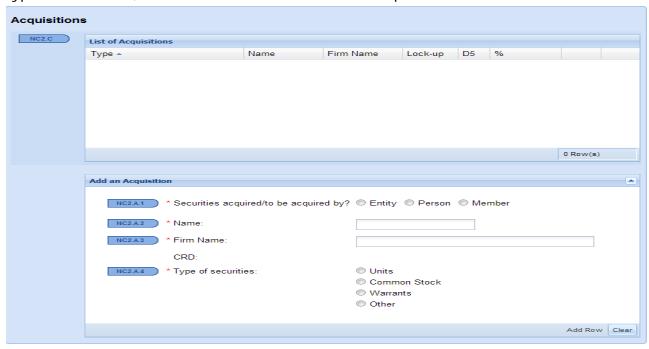
Generally, when units are acquired by an underwriter and related person(s) the securities are characterized as a "Unit Purchase Option" and have an exercise price. The unit purchase option will be valued using the formula in FINRA Rule 5110(e)(3). FINRA encourages member firms to refer to the unit formula initially published in *Notice to Members 92-28*.

UNIT OPTION VALUATION

The first step in valuing units in the system is to select "Yes" to NC2 in the "Compensation/Non-Cash" screen. This will prompt the addition of an acquisition.



Identify the entity, person or member acquiring the securities. Select "Units" as the type of securities, and then the timeframe of the acquisition.



* Securities acquired/to be acquired by?	○ Entity ○ Person ● Member
NC2.A.3 * Firm Name:	LEHMAN BROTHERS INC.
CRD:	7506
NC2.A.4 * Type of securities:	UnitsCommon StockWarrantsOther
* Timeframe of Acquisition	Pre-offering Offering Post-offering

The system will then display a choice for adding the "Fully Diluted Shares Underlying the Public Units." This term is also used in *Notice to Members 92-28* and it refers to the total number of shares underlying the public units that will be used to compare the underwriter's unit option.

* Fully Diluted Shares Underlying the Public Units: Total number of shares underlying the units distributed to the public, including those shares underlying warrants within the units. Please see Notice to Members 92-28.	Manual Calculation System Calculation

If "Manual Calculation" is selected, enter the total number of diluted shares.

NC2.C.1A *Total Number of Diluted Shares:	

If "System Calculation" is selected, the system will determine the total number of diluted shares based on the information entered on the "Securities" screen.

Next, enter the aggregate price the underwriter and related person(s) paid for the unit option, if any.

NC2.C.2 * Aggregate Price Paid (if any): \$0.00	
-------------------------------------------------	--

Then, the acquisition can be entered by either providing the total number of securities or entered as a percentage of the public securities.

NC2.C.3	* Enter Acquisition by:	Number (#)
		Percent (%)

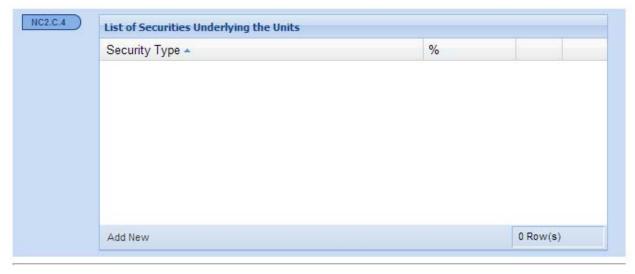
When selecting by "Number," enter the total number of units that the underwriter and related person(s) will receive.

	Number (#) Percent (%)
NC2.C.3B * # of Securities:	

When entering by "Percent," enter the percentage of units that the underwriter and related person(s) will receive when compared to the units offered to the public.

* Enter Acquisition by:	Number (#) Percent (%)
NC2.C.3A * % of Public Securities:	

Next, enter the underlying securities within the underwriter and related persons' units. Select "Add New" on the bottom left of the table.



Follow the steps below for each tag:

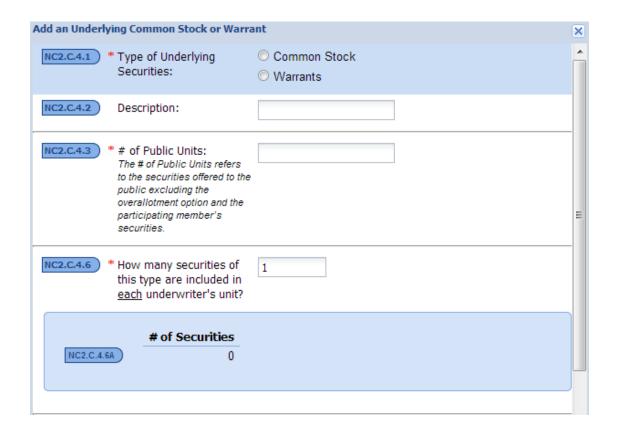
- NC2.C.4.1: Select the type of security underlying the underwriter and related persons' units. Each security type included in the unit must be listed separately.
- NC2.C.4.2: Add an optional text for a description.
- NC2.C.4.3: Enter the number of units to be offered to the public, not including any overallotment option or the underwriter and related persons' units.
- NC2.C.4.6: This field refers to the number of each security type included per underwriter and related persons' unit.

For example, if each unit contains two (2) shares of common stock and one (1) warrant, enter two (2) in this field when entering the underlying common stock, and one (1) when entering the underlying warrant. Similarly, if each unit contains one (1) share of common stock and one half (0.5) of a warrant, enter one (1) when

entering the underlying common stock, and one half (0.5) when entering the underlying warrant. The system has a default display of 1.

NC2.C.4.6A: This field displays the system calculated number of each security type included in the underwriter and related persons' units, depending on the values entered in NC2.C.3 and NC2.C.4.6.

For example, if the underwriter and related person(s) are receiving 100,000 units and each unit contains two (2) shares of common stock and one (1) warrant, the system will calculate 200,000 shares of common stock and 100,000 warrants.



Next, follow the steps below for each tag:

NC2.C.4.7: Enter the public offering price per unit.

NC2.C.4.10: The underwriter and related persons' unit option exercise price can be entered as a percentage of the public offering price per unit, or as a dollar amount.

Unit Information:				
NC2.C.4.7 * Public Unit Price:	\$8.00			
* Enter Underwriter Unit Exercise Price by:	Percent (%) Amount (\$)			
		Add Row	Close	ļ

Percentage of Public Offering Price:

NC2.C.4.11) * % of Public Price:	120.0000 %		
NC2.C.4.12) * \$ Amount:	\$9.60		
		Add Row Close	9

Unit Option Exercise Price in Dollars:

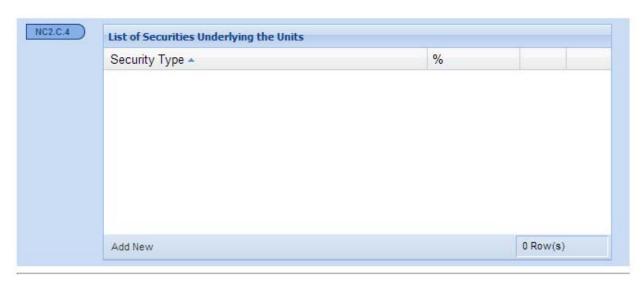
NC2.C.4.11) * % of Public Price:	120.0000 %
NC2.C.4.12) * \$ Amount:	\$9.60

As explained in the Warrants section above, the system will value each component of the unit based on either the traditional valuation or the 0.2 percent scale valuation, depending on which is the highest.

After entering the price or percentage, select "Add Row" on the bottom right as shown below.



To add another underlying security, select "Add New" on the bottom of the table in NC2.C.4. Remember to select "Add Row" to allow the system to calculate a value of the underlying components.

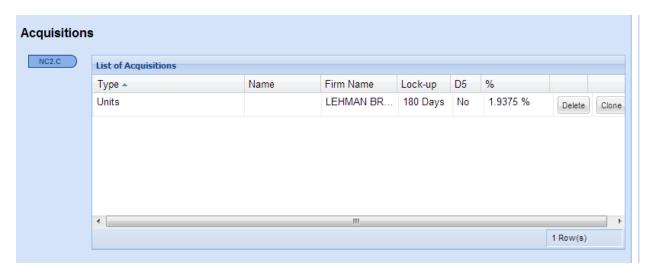


The final step in valuing the acquisition is to select the duration of the lock-up restriction.



Next, select a description of the transaction in which the underwriter and related person(s) received or will receive the securities. Indicate whether the acquisition meets an exception from compensation pursuant to FINRA Rule 5110(d)(5). Complete the required representations and select "Add Row" in the lower right corner. Please see the Additional Enhancements section of this guide for further assistance regarding exceptions from underwriting compensation and general representations.

The system will update the initial summary table with the final value of the unit option.

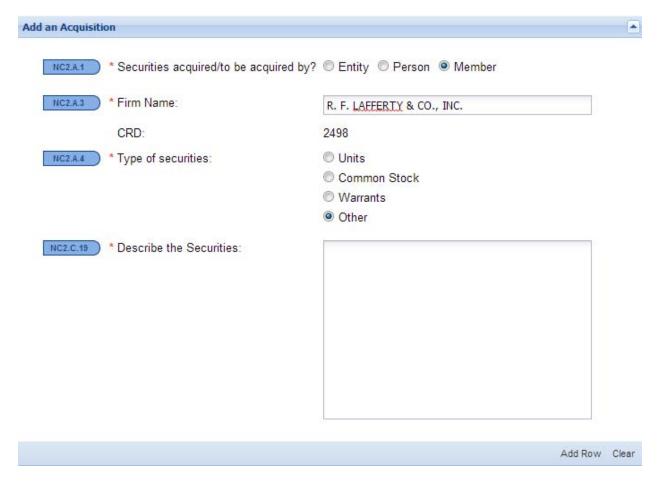


The system will then add an aggregate line labeled "Securities" with the total value of all acquisitions in the "Compensation/Summary" screen of the system.



OTHER

The system allows the selection of "Other" as a type of security if there is uncertainty about what type of security the underwriter and related person(s) has acquired, or the security does not appear to fall within one of the available security type options. If a user selects "Other", the user must provide a description of the security and FINRA will provide guidance on whether the security in question should be entered as a Unit, Common Stock or Warrant.



Once the security is identified as a Unit, Common Stock or Warrant, users must go back to the "Compensation/Non-Cash" screen, select the appropriate security type under NC2.A.4 and provide the necessary terms and arrangements of the acquisition in order for the system to provide a compensation value for the security.

ADDITIONAL ENHANCEMENTS

CHANGES TO THE "SECURITIES" SCREEN

Please note that when a user makes a change to the "Securities" screen the terms and arrangements of the acquisition must be updated in the "Compensation/Non-Cash" screen, if necessary.

The following error message will appear in the "Securities" screen.

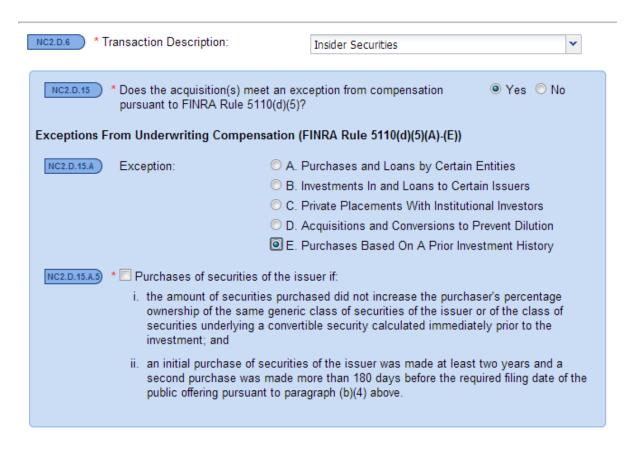


The checkbox in red below that appears in the "Compensation/Non-Cash" screen must be selected for each acquisition in order to submit the updated filing.



FINRA RULE 5110(D)(5) EXCEPTIONS

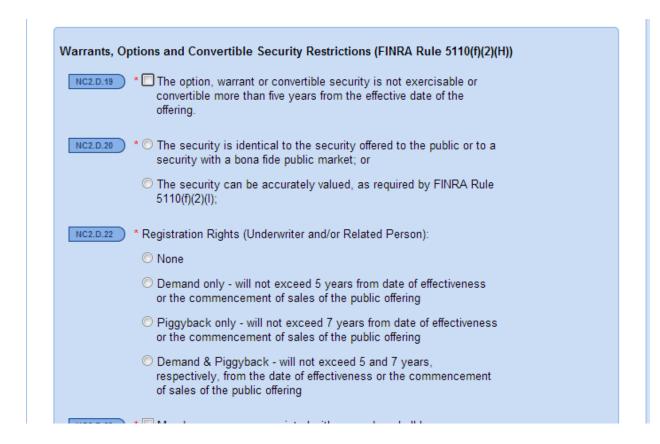
The system is built to allow the selection of a FINRA Rule 5110(d)(5) exception from underwriting compensation for each acquisition. If one of the underwriting compensation exceptions is selected, the compensation value of the acquisition will be zero.





FINRA RULE 5110(F)(2)(H) REPRESENTATIONS

There is also an enhancement to allow the selection of FINRA Rule 5110(f)(2)(H) representations for each acquisition.



REFERENCES

Notice to Members 92-28

Notice to Members 04-13

FINRA Rule 5110