
FAQs ON BLUE SKY LAWS

▶ WHAT ARE BLUE SKY LAWS?

U.S. state securities laws established to protect investors. Broker-dealers and investment advisors are legally not permitted to recommend, solicit or discuss a security with a client unless that security is compliant with the Blue Sky laws of the state in which the investor resides. These laws are applied in addition to federal securities laws.

▶ HOW DO BLUE SKY LAWS IMPACT THE TRADING OF A COMPANY'S SECURITY?

Blue Sky laws do not preclude a broker from acting on specific unsolicited customer orders, although some firms may have a blanket prohibition on accepting orders in non-compliant securities. Blue Sky laws can impact how information, research and advice is distributed to a company's investors:

- **SECONDARY TRADING:** Broker-dealers cannot recommend or give advice on a company's stock when the company is not compliant with Blue Sky laws in the state in which the investor resides.
- **LIQUIDITY:** Companies that have Blue Sky compliance in more states have the opportunity to reach a wider group of investors and investment advisors.
- **RESEARCH:** Broker-dealers limit distribution of research reports unless a company's stock has widespread Blue Sky compliance

▶ HOW DOES A COMPANY GAIN BLUE SKY COMPLIANCE?

Companies must either qualify for an exemption or follow an individual state's registration provisions by submitting information to that state to become compliant.

EXEMPTIONS:

- **EXEMPTION FOR COMPANIES LISTED ON A U.S. STOCK EXCHANGE:** U.S. exchange-listed securities (NASDAQ and NYSE) are granted an exemption from Blue Sky laws in all 50 states
- **EXEMPTIONS AVAILABLE FOR SECURITIES NOT LISTED ON A U.S. STOCK EXCHANGE:** Exemptions for companies that meet certain criteria are available on a state-by-state basis

REGISTRATION:

- If a company does not qualify for Blue Sky exemption in a state, the company may register its securities under the state's appropriate compliance provisions.
- Once the company either meets an exemption or registers in a state, it will be verified as "Blue Sky compliant" in that state. This information is distributed to the broker-dealer community

▶ WHAT ARE THE MAIN FACTORS THAT AFFECT THE EXEMPTIONS AVAILABLE TO COMPANIES?

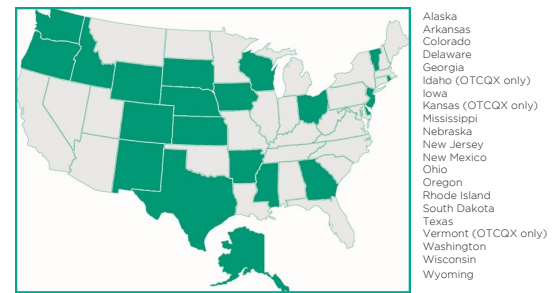
Companies may gain exemption from Blue Sky registration provisions in a certain state. Major factors affecting exemptions include:

- Reporting Status: Many exemptions are unavailable for companies that are not required to file periodic disclosure with the Securities and Exchange Commission (SEC) (both U.S. and International). It is especially important for these companies to monitor their Blue Sky compliance
- Financial Requirements
- Years of Operation

Blue Sky Manual Exemption Recognition

OTC Markets is working with state regulators to simplify the process of achieving Blue Sky recognition and have its OTCQX and OTCQB markets recognized in all 50 states.

Twenty-one states have granted this exemption:



▶ WHAT ARE BEST PRACTICES FOR MONITORING AND GAINING COMPLIANCE WITH BLUE SKY LAWS?

Determining Blue Sky compliance requires examining complex sets of laws and regulations in 50 states and 4 territories

1. Do a Blue Sky audit to understand where your company is compliant
2. Determine what exemptions are available
3. For remaining states, assess where your company would like to gain compliance
4. Begin the process of complying with individual state laws

BLUE SKY AUDIT

Because many states give exemptions based on reporting status, financial requirements and years of operation, a Blue Sky audit allows companies to determine the states where they are already Blue Sky compliant. A Blue Sky audit provides a state-by-state audit of compliance status in each U.S. state. One way to conduct an audit is through our Blue Sky Monitoring Service, which provides a daily report on a company's compliance status in each state updated on a daily basis and is the same information distributed to broker-dealers.

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