



Investor Educational Materials

(The information can be found in the HELP section of the SMBX app as well)

1. General Information

The SMBX is a marketplace for issuing and buying small business bonds. The Small Business Bond™ is a new way for businesses to raise capital. It's also a new way for you to invest. Businesses issue bonds in \$10 increments carrying a fixed interest rate.

YOU INVEST

You choose which business(es) and how much, as little as \$10.

YOU EARN

Get paid principal + interest monthly.*

*Note: Investors will only receive “full principal + interest” on the investment of a bond if, 1) an offering successfully closes at a specified yield which the investor wins their bid on, 2) an investor holds the bond for the duration until its maturity, and 3) an issuer makes payments on the bond until its maturity without default.

2. About Bond Offerings

What is a security?

A security is a financial asset that can be bought and sold, and holds some cash value.

What is an offering?

An “offering” is a security that is being “offered” for sale by a small or medium sized business. An offering is also sometimes called an “issuance.”

Who is an issuer?

Only a qualified small or medium sized business is able to be an issuer on the SMBX. Only an issuer may offer a security for sale.

What is an issuance?

An “issuance” is a security that is being “offered” for sale by a small or medium sized business. An “issuance” is also sometimes called an “offering.”

Who can make an offering?

Only a qualified issuer can make an offering on the SMBX. A qualified issuer is a US-incorporated small or medium sized business who has not been rendered ineligible to participate in a Title III securities offering by either the SEC or the SMBX.

What securities are offered for sale on the SMBX?

There are two basic classes of securities: debt and equity. The SMBX currently supports just 1 type of security offering which is the Small Business Bond™, a debt product. See “What is a Bond” for more details.

What is a bond?

Small and medium sized businesses issue bonds on the SMBX. A bond is a debt-based financial asset, in which an investor loans money to an issuer for a period of time in exchange for a legal right to the issuer’s promise to repay the borrowed money, plus interest.

What is the general process of how an offering works?

After the SMBX performs general due diligence on issuers for securities issued on the SMBX, the SMBX will list an issuer’s offering highlighting the securities and auctions’ details on the bonds module of the app.

Investors will have access to all of the issuer’s financial and business disclosures as required by Regulation Crowdfunding so that they can make their own assessment as to whether the investment is right for them.

After registering an account profile and setting up/linking a verified bank account and/or credit card, an investor may begin to place bid orders on various auctions available to them on the SMBX bond module.

What is some of the due diligence that SMBX performs on issuers?

SMBX is mandated by Regulation Crowdfunding (Reg CF) to deny access to our platform if SMBX has a reasonable basis to believe that the issuer or the offering presents the potential for fraud or otherwise raises concerns about investor protection. As such, SMBX does two things before issuers are permitted to issue bonds on our platform: 1) performs background and securities enforcement regulatory history checks on issuers and its covered persons and 2) ensures to the best of our ability that issuers are in compliance with Reg CF in terms of disclosures and processes.

How long does an offering last?

The total time period of an offering can vary, depending on how the issuer wants to schedule it. However, every offering lasts a minimum of 21 days.

Can anyone invest? Or do you have to be accredited?

Anyone with a US bank account and/or credit card, \$10, and the desire to, can invest. You do NOT have to be accredited. There are investment limits worth noting which are based on an individual's annual income or net worth; specifically:

If an investor's annual income or net worth is less than \$107,000: the investor's total investment limit is the greater of \$2,200 or 5% of the lesser of their annual income or net worth.

If an investor's annual income or net worth is \$107,000 or more: then that investor's total investment limit is 10% of the lesser of their annual income or net worth.

Either way, the total amount that an investor may invest per year cannot exceed \$107,000.* See what is an investment limit below for more details.

What are the risks involved in investing in an offering?

The greatest risk involved is loss of money invested - you ought only invest what you can afford to lose.

Where can I find information about the issuer and the offering so that I can make my own investment assessment?

Issuers are required by Reg CF and the SEC to provide certain information to investors through the funding portal platforms and to the SEC via a Form C filing on the EDGAR system (the SEC filing system). The types of information required may include but is not limited to, the legal name and legal structure of the issuer, the anticipated plans for the use of funds raised on the SMBX, target offering amount, the risks associated with the offering, financial statements of at least the last two years, the process of how the offering will be conducted and what is the method of use to allocate its securities etc. A complete Form C filing link to EDGAR is provided in the offering's document tab. Investors will have access to the full Form C filing through the SMBX platform. In addition, issuers are required to file on an annual basis an annual report to the SEC and post it on their websites. The annual filing will be made available to investors within 120 days of the issuers' fiscal year end. Investors should also be aware that under certain circumstances, an issuer may cease to publish any annual reports, and therefore, an investor may not continually have access to the most current information about the issuer.

How much does it cost to invest?

\$0. Investing is free on SMBX.

If investing is free on the SMBX, how does the SMBX make money?

Great question. We charge businesses a 3.5% service fee of the total fundraise, only if successful. For example, if a business raises \$100,000, we charge \$3,500 at the close of the offering.

We also charge businesses a \$100 annual maintenance fee through the maturity of their bonds.

We do not charge fees to investors.

What is the relationship between the SMBX and the Issuer(s)?

The SMBX is solely an intermediary platform where an issuer can raise capital through the issuance of securities in reliance to Regulation Crowdfunding. SMBX does not have any stake in any issuers' offerings and will not have any ongoing relationship with an issuer following the completion of an offering.

What is the role of the SMBX in the exchange of securities?

The SMBX is a FINRA- registered "funding portal", which works with qualified small & medium businesses to issue Title III securities to investors. Reg CF defines a "funding portal" as an intermediary in a transaction involving the offer or sale of securities for the account of others...by making the securities available for purchase through the funding portal, and ensuring the proper transfer of funds and securities. As a Reg CF funding portal, the SMBX acts an intermediary that effects securities transactions on behalf of buyers and sellers of securities. However, the SMBX is not a broker dealer: we do not hold, manage, possess or otherwise handle customer funds or securities.

If the SMBX does not hold, manage, possess or otherwise handle customer securities, then...

Securities are exchanged directly peer-peer between buyers and sellers. The SMBX keeps a record of these transactions and ownership of these securities, but does not hold, manage, possess or otherwise handle these securities.

If the SMBX does not hold, manage, possess or otherwise handle customer funds, then...

During an offering, SMBX investors' money in relation to bid purchases are held in an escrow account managed by North Capital Private Securities until the close of an offering. If an investor is successfully allocated bonds, their funds are then transferred onward to the issuers. If an investor cancels a bid purchase, or the offering is unsuccessful or terminated for any reason, all investor funds are promptly returned to the investors' linked accounts. As for Monthly Bond Payments (principal + interest paid on the bond(s)), all investor "earnings" are held in an escrow account managed by Boston Private Bank & Trust, until the investor directs SMBX to facilitate the

movement of their money somewhere else. The SMBX keeps a record of all transactions of funds but does not hold, manage, possess or otherwise handle these funds.

How does SMBX determine the range of yields cited for each business?

We analyze financial and qualitative information to understand a business's capacity to repay its debts. The information we take into account, includes, but is not limited to: the measure of cash flow to service current debt (aka Debt Service Coverage Ratio); how aggressive, or risky, a company is with financing growth (aka Debt/Equity Ratio); ability of its short-term assets to cover short-term debt (aka Working Capital Ratio); financial trends; customer and vendor reviews; management tenure; competitive landscape; etc. We ask a lot of questions to understand the business model, its evolution, and its future intentions.

How and when do I pay for bonds in an offering?

Payment for bonds happens as soon as you bid to buy the bonds and your funds will then be held in an escrow account. If you cancel your bid, or if you are not allocated any bonds at the close of an offering, or if the offering is unsuccessful or terminated for any reason, funds will be credited back to your linked account within the normal ACH payment and/or credit card processing time guidelines.

What is a portfolio?

The portfolio on the SMBX is your dashboard to view all financial assets held at a given point in time. By clicking into your portfolio, you will see all of your current bond holdings and any earnings you may have on those bonds. You will also see all of your transaction history including all bid order purchases, cancellations, as well as any incoming monthly bond payments or refunds.

How and when do I receive the bonds that I've purchased?

Bonds successfully purchased and reconfirmed by investors will be delivered on behalf of the issuers to investors after the close of the offering + 5 business days (for the reconfirmation process) via email.* The electronically signed bond certificate(s) provided to you in pdf format will be your authoritative copy of ownership of the bonds. At the same time, investor funds are released to the issuer.

*Note: The reconfirmation process duration is typically 5 business days. However, in the event not all investors who have won their auction bids have reconfirmed their bid orders by the deadline date, SMBX will potentially require more time to determine whether then, the offering is still successful. If the offering is successful, an investor who has reconfirmed their bid orders will receive an email providing them their bond certificates. If an offering is unsuccessful, all investors will receive notification that a refund will be made to their linked accounts. See "what is a reconfirmation process?" for more details.

What is the reconfirmation process? Why do I have to reconfirm my investment?

Investors are required by Reg CF to reconfirm their bid orders due to the determination of the final clearing yield at the end of an auction which is deemed to be a material change to an offering (the interest yield that the offering's bonds will earn interest on). While the final clearing yield may be higher than an investor's original bid yield, it will never be lower than the investor's bid yield. The reconfirmation process is an easy process and will entail an investor to click on the reconfirmation link within the email notification that will be sent to them at the close of a successful offering. They will have 5 business days within the email notification date to reconfirm. If an investor does not reconfirm their investments within 5 business days, their investments will be cancelled and their funds will be returned to their linked accounts based on standard ACH transfer or credit card processing timeframes. At the end of the 5 business days, SMBX will determine the final group of investors that will be allocated the bond securities and will then provide them their bond certificates via email.*

*Note: The reconfirmation process duration is typically 5 business days. However, in the event not all investors who have won their auction bids have reconfirmed their bid orders by the deadline date, SMBX will potentially require more time to determine whether then, the offering is still successful. If the offering is successful, an investor who has reconfirmed their bid orders will receive an email providing them their bond certificates. If an offering is unsuccessful, all investors will receive notification that a refund will be made to their linked accounts.

What happens if I lose my bond certificates?

All bond certificates have unique identification codes that the issuer and the SMBX have records of. If you misplace or lose your bond certificate(s), please contact support@thesmbx.com and notify them that you need a replacement certificate. SMBX will then update and void your old certificate(s) on our records and issue you new certificate(s) on behalf of the issuer via email.

Can an offering be cancelled and what happens if it is?

Yes, an offering may be cancelled, and for reasons that may vary, by either the SMBX or the issuer (an issuer may cancel their offering at any time for any reason). When an offering is cancelled, investors will receive notification by email of the offering's cancellation, the reason for the cancellation, and the amount of funds that will be credited back to investors' linked accounts promptly.

What happens if there is a material change to the offering?

A material change is any change to an offering that may change the perspective an investor may have on their decision to invest in the offering. In the event there is a material change for an offering, the issuer will request SMBX to send investors an email highlighting what the material change is and will ask for a reconfirmation from the investor of their investment commitment within 5 business days of the email notification. If SMBX does not receive an investor's reconfirmation via email within 5 business days, SMBX is required by Reg CF to cancel an investor's investment(s) and refund them back their committed funds to their linked accounts promptly.

What happens if an issuer reaches the target amount of the fundraise prior to the offering deadline?

In the event there is an early completion of an offering and the offering has been available to the public for a minimum of 21 days, an issuer may request SMBX to close the auction earlier than the original deadline. All investors will then be notified via email that the issuer would like to close the auction earlier than the original deadline and that the new deadline will be XX (which will be at least 5 business days from the day of the email notification). Investors will then have up to 2 days prior to the new deadline to cancel on their investment limits. All new dates/deadlines will be highlighted clearly on the email notifications.

Can I sell my bonds?

Currently, bonds bought on the SMBX cannot be resold or transferred for a one year period from the date when the securities are issued, unless such securities are transferred to the issuer of the securities, an accredited investor, as part of an offering registered with the commission, or to a member of the family of the purchaser or equivalent. After the one year period, there is also no guarantee that there will be liquidity for the bonds bought on the SMBX. As such, you should carefully consider the risks prior to investing through an offering and should understand that securities sold on the SMBX may only be suitable for investors who have limited need for liquidity in their investment and can afford the potential loss of their investment.

How can I make a withdrawal?

Withdrawals on your principal returned and interests earned may be requested at any time via your “Profile” in the Investment Center web client or the “Portfolio under Earnings” in the IOS app. The minimum withdrawal amount is \$10 per transfer and currently, withdrawals can only be made to a US bank account via ACH. The standard ACH funds processing time can take up to 3-5 business days.

3. About the Auction Process

How does the auction work?

The auction is the method by which an offering is issued to investors. During an auction, potential investors bid within a pre-set range of yields (interest rates at which a bond is repaid at). The auction is a price discovery mechanism. A successful auction arrives at a single offering yield, which is the yield at which the last available unit of securities in the offering is sold.

SMBX’s auction method is known as a ‘modified dutch auction’ (MDA) which is a type of ‘uniform price offering’ (UPO). The ultimate goal of an MDA on the SMBX is to arrive at a uniform yield or what we call a “final clearing yield” for the bonds.

What is a Uniform Price Offering (UPO)?

A UPO is a way to issue a security where potential buyers submit the quantity and a yield per unit of bond desired in sealed bids. When all bids are collected, the seller gives the desired quantity to the bidder who offered the lowest yield, then the second lowest, and so forth, until all available units are sold. If bids come in at the same yield, then the timing of the placed bid will factor in as well, utilizing the “first come first serve” methodology. All buyers pay the price per unit of each bond which is set at \$10 per bond. The offering yield is the highest yield that exhausts the offering supply, set as one bid yield unit below the highest losing bid yield unit.

What is a Modified Dutch Auction (MDA)?

In a MDA there is a range of yields, between which the uniform yield is set when the last available unit of supply clears.

Why use a UPO? What makes it so good?

It's a more efficient market mechanism: With the final market clearing yield closing just below the highest losing bid—that reflects, to some extent, other bidders' view of the security's value.

How do I buy a security?

After registering an account with the SMBX and also linking your bank account or credit card, you are free to bid on any securities being offered on our platform. “Bidding” is the method of placing an order to buy a security offered for sale.

What is a bid?

A bid is basically the same as a buy order placed in an auction formatted offering. It is called a “bid” because you are bidding against other investors who also want to purchase the bond securities at their own selected bid yields. A bid is not a guaranteed purchase of a security. An investor's bid will be measured against other bids during the auction and only at the close of an auction will an investor know whether their bid has been accepted.

What's a non-competitive bid?

A non-competitive bid (aka non-competitive buy order) is a bid that is placed on an offering during the pre-bid period. Non-competitive bids involve entering a quantity of securities that one is prepared to buy at the lowest yield/price, as determined by the predetermined yield range of the auction. Non-competitive bids are not guaranteed. If you are allocated any bonds at the close of the offering, the yield that you bid at will be the minimum yield you will receive for your bonds. You may receive a higher yield. The final clearing yield is of course determined by the outcome of the auction. See below Other Rules for a Bond Auction for more information.

What's a competitive bid?

Competitive bids are submitted during the auction period. This involves entering a quantity of securities and entering a yield/price at which one is prepared to buy those securities. Competitive bids are not guaranteed, however if you are allocated any bonds at the close of the offering, the yield that you bid at will be the minimum yield you will receive for your bonds. You may receive a higher yield. The final clearing yield is of course determined by the outcome of the auction. See below Other Rules for a Bond Auction for more information.

Can and how do I cancel a bid?

Yes. Bids can be cancelled from the investment history cards in your Portfolio. Select the order you would like to cancel by clicking into the order card. Then scroll to the bottom of the order and press cancel. You should immediately see the cancellation on your investment history.

You can cancel a bid any time after you have placed it, but you cannot cancel a bid any time after up until 48 hours prior to the close of the offering.

What is a final clearing yield?

The final clearing yield (aka, uniform yield or market clearing yield) is the yield determined by the results of the auction itself and will ultimately determine the fixed monthly interest payments that investors will receive on the bonds purchased. Also to note, similar to a loan, investors will receive both principal and interest on a monthly basis on their bonds purchased until the maturity of the bond(s). See uniform price offering, non-competitive bid and competitive bid for more details.

What is a return?

A return is the interest earned on a bond investment. For example, if your investment is \$100 for bonds purchased (10 bonds at \$10 per bond) with a maturity of 120 months or 10 years, and the final clearing yield is 6%, your total return on the bonds purchased will be \$33.22.*

*Note: Monthly payments to you will include both principal + interest earned on the bonds. For the example above, you will receive \$133.22 total at the bond's maturity, which is inclusive of your initial investment of \$100 + the \$33.22 in interest.

Other Rules for a Bond Auction

- a) The yield on the bonds being offered is fixed for the entire duration of the bond contract.
- b) The duration will be reflected by its Bond Maturity Date.
- c) The number of offered bonds and the total dollar amount of the fundraiser are also fixed, e.g. 100,000 bonds, which if successfully subscribed at \$10 per bond would entail a \$1,000,000 fundraiser.
- d) The auction itself will determine the final clearing yield for the bond offering subscription.
- e) If the offering has been oversubscribed, at the auction close, the bonds will be allocated according to the MDA rules which include lowest yield bids and timing of when investors

have placed their bids (bids for the same yields for instance will be allocated on a first come first serve basis). All unsuccessful bids will be promptly refunded to investors' linked accounts.

4. About Your Account Profile

Where can I update my investor profile, linked account(s) and password?

In the Profile module, you can find your investor profile which will highlight your profile details, your investment limit, your accreditation status, your annual income and your net worth, your outside of SMBX Reg CF investments if any, as well as your linked bank account and/or credit card and password reset functionalities. You can update any of these profile settings at any time. The only two items you cannot update on your own is your full legal name and username. If you require a change to either of these two items, please contact support@thesmbx.com. If there are changes to your annual income or net worth, this may result in a change to your annual investment limits. See below investment limits for more information.

What is my investment limit?

Your investment limit is calculated based on the annual income and net worth that you have provided to the SMBX during your account registration. As per Regulation CF, an investor will be limited to investing: (1) the greater of: \$2,200 or 5 percent of the lesser of the investor's annual income or net worth if either annual income or net worth is less than \$107,000; or (2) 10 percent of the lesser of the investor's annual income or net worth, not to exceed an amount sold of \$107,000, if both annual income and net worth are \$107,000 or more. For example, if your annual income is \$50,000 and your net worth is \$105,000, then your investment limit will be \$2,500 (based on 5% of \$50,000 which is the lesser of your annual income and net worth). Please also note that your net worth is the value of all assets minus the total of all liabilities but does not include the value of your primary residence. Moreover, the investment limit estimated here is based on the total amount an investor can invest during a 12-month period preceding the date of the current transaction and should include the aggregate of all security investments purchased across all Regulation CF platforms and not just SMBX. Based on the previous investment limit example of \$2,500, if you have invested \$1,000 in other Reg CF offerings via other funding portals over the last 12 months, then your available investment limit to invest in SMBX offerings is \$1,500.*

*Note: The investment limit shown in your profile settings will always be your total available investment limit based on the annual income or net worth calculation minus any outside of SMBX Reg CF investments you have provided to SMBX in the authorization process. If any of your provided inputs (annual income, net worth or outside of SMBX Reg CF investments) have changed at any time, please go into your profile settings and update the inputs accordingly. This may result in a change to your investment limit calculation.

What is an accredited investor?

To be an accredited investor, you need to have made \$200,000 or more each of the last two years, or \$300,000 or more each of the last two years with your spouse, or have a net worth of at least \$1,000,000 (excluding the value of your primary residence).

Which type of linked account is best for me?

On the SMBX, you may either link a US bank account and/or credit card which will be securely verified through our third party service providers. Investors who link a US bank account, will not be charged any surcharges for their transactions made on the SMBX. For credit card transactions however, there is an additional 4% surcharge on the total amount being processed, which is a transaction fee that our service providers pass to us, and therefore, we pass onto our investors. This 4% surcharge is a non-refundable fee and there is a maximum limit of \$5,000 per investor per week. If investors cancel their investment commitment(s), they will only be refunded the total transaction amount on the bonds purchased, and not the 4% surcharge. For example, if an investor made an investment commitment to purchase 10 bonds at \$10 per bond for a total of \$100 using a credit card, the investor will be charged a total of \$104 for the transaction. If the investor then cancels their investment commitment during the life of the offering, they will only be refunded \$100. (Please note that the fee is non-refundable only for transactions that are cancelled by the investors themselves. In the event, an investor does not win his/her bid(s) and is/are not allocated any bonds, the total amount of funds including the 4% surcharge will be refunded back to the investor). Kindly note as well, that currently, when making withdrawals on principal and interests earned, investors are only able to withdraw funds to a US bank account and the minimum withdrawal amount is \$10 per transfer. The standard ACH funds processing time can take up to 3-5 business days.

5. Privacy and Social

What is private and what is publicly viewed in my Portfolio or Settings?

As a default setting, everything in your Portfolio and Settings remains private and only viewable by you, except your user name and @handle.

How do make my profile completely private?

Your Portfolio and Settings as default are already private. However, for the safety of the users of the SMBX, there is no way to make your user name and @handle private.

6. Rules and Regulations

What regulators and regulations govern the SMBX?

The SMBX is governed by the rules and regulations established by the SEC and FINRA. In 2012, the US Congress passed Title III of the JOBS Act. Title III authorizes small & medium sized

businesses, investors, and funding portals to participate in Title III securities offerings. In 2015, the Securities & Exchange Commission (SEC) published Regulation CF, which are the rules that regulate Title III funding portals. The SMBX is a FINRA-registered 'funding portal,' which works with qualified small & medium sized businesses to issue Title III securities to investors.

Where can I find the SEC rules that govern the SMBX?

The complete Regulation Crowdfunding (aka Reg CF) rules for Title III offerings can be found [here](#).

7. [Help and Support \(Content to be part of the "Contact SMBX" button\)](#)

If I need help with something, who do I contact, and how do I contact them?

Please contact SMBX support by emailing us at support@thesmbx.com, or by calling (415) 869-8819.