NOTICE OF REQUEST FOR PUBLIC COMMENTS REGARDING PROPOSED REVISIONS TO NASAA CORPORATION FINANCE STATEMENTS OF POLICY

April 1, 2016

The Corporation Finance Section of the North American Securities Administrators Association ("NASAA") is requesting public comments on proposed revisions to the following NASAA corporation finance statements of policy:

- Statement of Policy Regarding Preferred Stock
- Statement of Policy Regarding Promoter's Equity Investment
- Statement of Policy Regarding Specificity In Use of Proceeds
- Statement of Policy Regarding Unequal Voting Rights

Comments are due on or before May 1, 2016. Please send comments to Michael Pieciak (Michael.Pieciak@vermont.gov), Chair of the Corporation Finance Section; Dennis Britson (dennis.britson@iid.iowa.gov), Chair of the Corporation Finance Policy Project Group ; and to Mark Stewart (nasaacomments@nasaa.org) at the NASAA Corporate Office. We encourage, but do not require, comments to be submitted by email. Hard copy comments may be submitted at the address below.

NASAA Legal Department
Mark Stewart, Counsel
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Washington, D.C. 20002

Note: After the comment period has closed, NASAA will post to its website the comments it receives as submitted by the authors. Parties should therefore only submit information that they wish to make publicly available. Further, the following notice will appear on NASAA's website where comments are posted: NASAA, its agents, and employees accept no responsibility for the content of the comments posted on this Web page. The views, expressions, and opinions expressed in the comments are solely those of the author(s).

DISCUSSION & ANALYSIS

The proposed revisions to the Statements of Policy listed above are in response to NASAA's newly adopted Coordinated Review Program for Regulation A Offerings and comments NASAA received from the American Bar Association (ABA) Regulation A+ Working Group of the State Regulation of Securities Committee of the ABA's Business Law Section (the "ABA Working Group"). The Coordinated Review Program provides a coordinated state review process for securities offerings exempt federally under Section 3(b)(2).

The ABA Working Group proposed modifications to six statements of policy: 1) Loans and Other Material Affiliated Transactions, 2) Specificity in the Use of Proceeds, 3) Options and Warrants, 4) Promoter's Equity Investment, 5) Promotional Shares, and 6) Unequal Voting Rights. This request for comments addresses three of these statements of policy, as discussed further, and the NASAA Corporation Finance Section Committee and relevant Project Groups are engaged in a review of the remaining statements of policy.

Statement of Policy Regarding Preferred Stock

This statement of policy was compressed into fewer sections to increase clarity. Subsection III.B. was revised to clarify that cash analysis may be based on either the last fiscal year or the last three fiscal years. In addition, the policy was revised to state that the failure to make certain disclosures regarding an offering of preferred stock is grounds for denial of an application.

Statement of Policy Regarding Promoter's Equity Investment

The ABA Working Group raised a concern that promoters have significant trouble meeting the current requirements of this policy. As provided in the review protocol, this Statement of Policy Regarding Promoter's Equity Investment does not apply to filings made pursuant to NASAA's Coordinated Review Program for Regulation A Offerings. However, the concerns expressed by the working group are applicable to other offerings as well. Therefore, the formula for determining the required amount of the promoter's equity investment ("PEI") has been reduced by a change in the percentages and by a cap. The four tiers of the formula have been reduced to two. The formula is now 7% of the first $1,000,000 to be raised and 2 ½% of any amount to be raised over $1,000,000, with a cap when the offering proceeds reach $5,000,000. Under the revised formula, the maximum PEI is now $170,000 versus $235,000 for a $5,000,000 offering. In addition, provisions have been added allowing administrators greater flexibility in approving offerings by permitting consideration of 1) accumulated earned surplus, 2) goodwill, trademarks, intellectual property, copyrights and patents, 3) proof that promoters worked at a reduced salary or without a salary, and 4) other non-cash contributions, in calculating whether the promoter has an acceptable PEI.

Statement of Policy Regarding Specificity in Use of Proceeds

The proposed amendments to this statement of policy are in response to comments received from the ABA Working Group. The ABA Working Group argued persuasively that the statement of policy should be more flexible, especially for mature companies who wish to add reserves for general purposes and future planning because of favorable industry and market conditions. The fifteen percent (15%) limit is increased to twenty percent (20%) for best efforts offerings and a new higher tier is added that allows up to thirty-five percent (35%) if the offering is firmly underwritten. The policy assumes that firmly underwritten offerings, which add additional investor protections, are feasible for more mature companies. The new higher tier for firmly underwritten offerings assumes that the underwriting process will also work to assure disclosure of any conflicts of interest.

The ABA Working Group also suggested that paragraphs 1 and 3 of Section VI should be amended so that disclosures in the disclosure statement that identify the names and addresses of vendors and the names of any persons who receive commissions be required only when such persons are affiliated with management of the company. Changes have been made to this section of the statement of policy to eliminate disclosure of such transactions if they are indeed immaterial.

Statement of Policy Regarding Unequal Voting Rights

The proposed amendments made to this statement of policy are in response to comments received from the ABA Working Group. The ABA Working Group argued persuasively that there are situations where public investors benefit from the ongoing involvement and control of a company's founders and promoters. There are situations where these individuals have demonstrated unique knowledge and ability to manage a company's growth. Additionally, a dual-class structure may be beneficial for investors and would be consistent with current practices in public and private finance. The proposed amendments provide more flexibility for administrators to approve securities offerings with disproportionate voting rights per share where the issuer has a compelling rationale for issuing shares with lesser voting rights to public investors. The statement of policy proposal sets forth specific disclosure requirements to assure that investors understand the applicable risks and have the material information they need to make an informed investment decision.

PROPOSED REVISIONS

The proposed revisions to these four statements of policy are set forth in **Appendix A**, which contains a set of clean, un-marked drafts showing the proposed statements of policy, as revised, and **Appendix B**, which contains a set of marked drafts detailing the revisions made to the statements of policy.

APPENDIX A

STATEMENT OF POLICY REGARDING PREFERRED STOCK

Adopted April 27, 1997; Amended March 31, 2008 and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to all applications to register by coordination or by qualification.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:

Adjusted Net Earnings
Administrator
Cash Analysis
Disclosure Document
Equity Securities
Independent Director
Promoter

III. GROUNDS FOR DENIAL OF SECURITIES REGISTRATION RELATING TO PAYMENT ABILITY

A. The Administrator may deny the offer or sale of preferred stock if either:

1. The issuer's Adjusted Net Earnings for its last fiscal year or the issuer's Adjusted Net Earnings for its last three fiscal years were insufficient to pay:

    a. Fixed charges;

    b. Preferred stock dividends, whether or not accrued; and

    c. Any redemption requirement of the preferred stock being offered to investors; or

2. The issuer's Statement of Cash Flows fails to demonstrate either a positive "Net Cash Provided by Operating Activities" for the last fiscal year, or an average positive "Net Cash Provided by Operating Activities" for the last three fiscal years. Under a Cash Analysis, the issuer must have sufficient cash flow to indicate that it can pay any dividend on the preferred stock being offered whether or not declared or cumulated.

B. This Section does not apply to public offerings of:

1. Convertible preferred stock that ranks ahead of any convertible debt relating to payment of dividends, interest, and liquidation proceeds; or

2. Preferred stock that is or may be legally or beneficially, directly or indirectly, owned by Promoters.

IV. GROUNDS FOR DENIAL OF SECURITIES REGISTRATION RELATING TO SHAREHOLDER APPROVAL

A. The Administrator may deny the offer or sale of Equity Securities if the issuer's articles of incorporation authorize the board of directors to issue preferred stock without a vote by the common shareholders.

B. This Section does not apply if:

1. The Disclosure Document states that the issuer will not offer preferred stock to Promoters except on the same terms as it is offered to all other existing or new shareholders; or

2. A majority of the issuer's Independent Directors that do not have an interest in the transaction:

   a. Approve any offering of preferred stock; and

   b. Have access, at the issuer's expense, to the issuer's legal counsel or independent legal counsel.

V. GROUNDS FOR DENIAL OF SECURITIES REGISTRATION RELATING TO DISCLOSURE REQUIREMENTS

The Administrator may deny the offer or sale of preferred stock if the Disclosure Document does not disclose:

A. Whether dividends on the preferred stock are cumulative;

B. The risks of failure to declare or pay dividends on the preferred stock; and

C. The equity characteristics of any convertible preferred stock being offered to investors.

STATEMENT OF POLICY REGARDING PROMOTERS' EQUITY INVESTMENT

Amended April 27, 1997, March 31, 2008 and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to all applications to register by coordination or by qualification.

This statement of policy does not apply to Tier 2 offerings of Section 17 CFR 230.251 through 230.263 of Regulation A under the Securities Act of 1933.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:

Administrator
Promoter
Promoters' Equity Investment
Promotional Or Development Stage Company

III. PROMOTERS' EQUITY INVESTMENT

A. The Administrator may require a Promotional Or Development Stage Company to demonstrate a Promoters' Equity Investment equal to:

1. Seven percent (7%) of the aggregate offering amount, for offerings of up to $1 million;
2. $70,000 plus two and one-half percent (2.5%) of the next $4 million of the aggregate offering amount, for offerings of up to $5 million; or
3. $170,000 for offerings greater than $5 million.

B. The Administrator may accept any of the following as Promoters' Equity Investment:

1. Accumulated earned surplus not paid out in dividends;
2. Goodwill, trademarks, intellectual property, copyrights and patents developed by a Promoter and contributed to the issuer;
3. Documentation that specifies services rendered by a Promoter without compensation; or
4. Documentation of any other non-cash contributions.

C. The Administrator may deny the registration of a public offering with inadequate Promoters' Equity Investment.

STATEMENT OF POLICY REGARDING SPECIFICITY IN USE OF PROCEEDS

Amended April 27, 1997; September 28, 1999; March 31, 2008; and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to all applications to register by coordination or by qualification.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:

Administrator
Affiliate
Disclosure Document
Promoter

III. DENIAL OF SECURITIES REGISTRATION

The Administrator may deny the offering if the minimum amount of proceeds to be raised is not consistent with any proposed business plan set forth in the Disclosure Document or if any other provisions of this statement of policy are not satisfied.

IV. USE OF PROCEEDS DISCLOSURE

The Disclosure Document must disclose in tabular form, for both the minimum and maximum amounts proposed, if applicable, the percentages and dollar amounts of the following:

A. The proceeds the issuer expects to receive from the offering;

B. The purposes for which the issuer will use the proceeds;

C. The estimated amount to be used for each purpose; and

D. The order or priority in which the issuer will use the proceeds for the purposes stated.

V. DISCLOSURE OF OTHER SOURCES OF FUNDS

The Disclosure Document must disclose:

A. The amounts of any funds to be raised from other sources to achieve the purposes stated;

B. The sources of any additional funds; and

C. Whether the sources are firm or contingent and, if contingent, an explanation of the contingency.

VI. DISCLOSURE OF PROPERTY ACQUISITION

A. If the issuer will use any part of the proceeds to acquire any property (including intangible property) other than an immaterial purchase in the ordinary course of business from a Promoter, a member of the issuer's board of directors ("director"), an executive officer of the issuer ("executive officer") or any of their Affiliates, the Disclosure Document must disclose:

1. The names and addresses of the sellers from which the issuer will acquire the property;

2. The names and addresses of any Promoter, director, executive officer or Affiliate involved in the transactions;

3. The purchase price;

4. The names of any persons who have received commissions in connection with the acquisition; and

5. The amounts of any commissions and any other expense in connection with the acquisition (including the cost of borrowing money to finance the acquisition).

B. If the issuer will use any part of the proceeds to acquire any property (including intangible property) other than an immaterial purchase in the ordinary course of business from nonaffiliated persons, the Administrator may require a filing of the information in Subsection A. 1– 5.

C. If any part of the proceeds will be used to acquire property or a business that is not yet identified, the Disclosure Document must disclose:

1. The type of property or business the issuer is seeking;

2. How it will impact the issuer's core business; and

3. The issuer's acquisition criteria.

VII. DISCLOSURE OF DEBT REPAYMENT

If the issuer plans to use any material part of the proceeds to discharge indebtedness, the Disclosure Document must disclose:

A. The terms of the indebtedness, including interest rate;

B. How the issuer used the proceeds of the indebtedness if the indebtedness was incurred during the current or previous fiscal year;

C. Whether the indebtedness includes unpaid salaries; and

D. Whether the indebtedness is to Promoters.

VIII. FLEXIBILITY IN USE OF PROCEEDS

A. Best Efforts Offerings: The issuer must not reserve more than 20% of the proceeds for working capital or for any other unspecified use such as general corporate purposes.

B. Firmly Underwritten Offerings: The issuer must not reserve more than 35% of the proceeds for working capital or for any other unspecified use such as general corporate purposes.

C. If the issuer's business plans require flexibility in the use of unspecified proceeds, the issuer must:

1. Disclose all potential uses of the proceeds with qualifying language that the uses may be subject to change; and

2. Indicate the circumstances that may lead to reallocation and the potential areas of reallocation.

IX. SUFFICIENCY OF FUNDS

The issuer must demonstrate that the offering proceeds, together with all other sources of financing currently available to the issuer, are sufficient to sustain the issuer's proposed activities. The Disclosure Document, in its risk factor section, must disclose if the proceeds of the offering are insufficient to sustain the issuer's activities for at least 12 months following the offering.

STATEMENT OF POLICY REGARDING UNEQUAL VOTING RIGHTS

Adopted October 24, 1991; Amended March 31, 2008; and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to applications to register by coordination or by qualification Equity Securities with voting rights less than equal to the voting rights of other authorized or outstanding Equity Securities of the same issuer.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:

Administrator
Equity Securities
Disclosure Document

III. JUSTIFICATION FOR UNEQUAL VOTING RIGHTS

Equity Securities with voting rights per share that are less than the voting rights per share of the other authorized or outstanding Equity Securities of the same issuer may be inconsistent with the protection of investors and not in the public interest. An issuer offering Equity Securities to the public with lesser voting rights per share may justify issuing the shares with lesser voting rights per share, as follows:

A. The offered Equity Securities with lesser voting rights per share have preferential treatment as to dividends and/or distributions upon liquidation; or

B. The issuer presents a compelling rationale for the unequal voting rights per share.

IV. DISCLOSURE STANDARDS

An issuer offering Equity Securities with lesser voting rights per share than the other authorized or outstanding Equity Securities of the same issuer must comply with the following disclosure standards:

A. A specific warning and a cross reference to an appropriate risk factor must appear on the cover of the Disclosure Document.

B. The Disclosure Document must disclose the following:

1. Any measures that cap the number of directors that the holders of the shares with preferential voting rights may elect;

2. Whether the holders of the shares with lesser voting rights per share will have the ability to elect one or more directors to the issuer's board of directors;

3. Whether the voting rights of the shares with preferential voting rights per share are permanent or are subject to a plan under which the preferential voting rights per share will terminate; and

4. The reason for the unequal voting rights and how such a structure benefits investors.

APPENDIX B

STATEMENT OF POLICY REGARDING PREFERRED STOCK

Adopted April 27, 1997~~; Amended~~; Amended March 31, 2008 and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to all applications to register by coordination or by qualification.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:

~~This statement of policy uses the following terms defined in the North American Administrators Association, Inc., *Statement of Policy Regarding Corporate Securities Definitions*:~~

Adjusted Net Earnings
Administrator
Cash Analysis
Disclosure Document
Equity Securities
Independent Director
Promoter

III. GROUNDS FOR DENIAL OF SECURITIES REGISTRATION RELATING TO PAYMENT ABILITY

~~The Administrator may deny the offer or sale of preferred stock based on the issuer's Adjusted Net Earnings or a Cash Analysis. In either case, the issuer must have enough cash to pay the dividend, if any, on the preferred stock being offered whether or not declared.~~

A. The Administrator may deny the offer and sale of preferred stock if either:

~~A.~~1. T~~t~~he issuer's Adjusted Net Earnings for its last fiscal year or the issuer's Adjusted Net Earnings for its last three fiscal years were insufficient to pay: ~~the issuer's:~~

a. Fixed charges;

~~1.~~

b. Preferred stock dividends, whether or not accrued; and

~~2.~~

c. ~~The redemption requirements, if any, of the preferred stock being offered to investors.~~Any redemption requirement of the preferred stock being offered to investors; or

~~3.~~2. The issuer's Statement of Cash Flows fails to demonstrate either a positive "Net Cash Provided by Operating Activities" for the last fiscal year, or an average positive "Net Cash Provided by Operating Activities" for the last three fiscal years. Under a Cash Analysis, the issuer must have sufficient cash flow to indicate that it can pay any dividend on the preferred stock being offered whether or not declared or cumulated.

B. ~~The Administrator may deny the offer or sale of preferred stock unless the issuer's Statement of Cash Flows shows that "Net Cash Provided by Operating Activities" was positive for the issuer's last fiscal year. The Administrator may require the issuer to submit a financial statement that is presented in conformity with generally accepted accounting principles and demonstrates that the issuer had an average positive "Net Cash Provided by Operating Activities" for the last three fiscal years. [*See editor's Note at end regarding the Administrator's use of sections III.A or III.B.*]~~This Section does not apply to public offerings of:

1. Convertible preferred stock that ranks ahead of any convertible debt relating to payments of dividends, interest, and liquidation proceeds; or

2. Preferred stock that is or may be legally or beneficially, directly or indirectly, owned by Promoters.

~~B.~~

~~IV. EXEMPTION FROM DENIAL OF SECURITIES REGISTRATION RELATING TO PAYMENT ABILITY~~

~~Section III does not apply to public offerings of:~~

~~A. Convertible preferred stock that ranks ahead of any convertible debt relating to payment of dividends, interest, and liquidation proceeds; or~~
~~B. Preferred stock that is or may be legally or beneficially, directly or indirectly, owned by Promoters.~~

~~V.~~IV. GROUNDS FOR DENIAL OF SECURITIES REGISTRATION RELATING TO SHAREHOLDER APPROVAL

A. The Administrator may deny the offer or sale of Equity Securities if the issuer's articles of incorporation authorize the board of directors to issue preferred stock without a vote by the common shareholders.

~~VI. EXEMPTION FROM DENIAL OF SECURITIES REGISTRATION RELATING TO SHAREHOLDER APPROVAL~~

B. ~~Section V~~This Section does not apply if:

~~A.~~ 1. The Disclosure Document states that the issuer will not offer preferred stock to Promoters except on the same terms as it is offered to all other existing or new shareholders; or
~~B.~~ 2. A majority of the issuer's Independent Directors that do not have an interest in the transaction:

a. Approve any offering of preferred stock; and

~~1.~~

~~2.~~ b. Have access, at the issuer's expense, to issuer's legal counsel or independent legal counsel.

~~VII.~~V. GROUNDS FOR DENIAL OF SECURITIES REGISTRATION RELATING TO DISCLOSURE REQUIREMENTS

The ~~issuer's Disclosure Document relating to an offering of preferred stock must disclose~~Administrator may deny the offer or sale of preferred stock if the Disclosure Document does not disclose:

A. Whether dividends on the preferred stock are cumulative;

B. The risks of failure to declare or pay dividends on the preferred stock; and

~~A.~~C. The equity characteristics of any convertible preferred stock being offered to investors.

~~***Note**: The Administrator may adopt section III in its entirety. Alternatively, the Administrator may adopt either section III.A or section III.B.*~~

STATEMENT OF POLICY REGARDING PROMOTERS' EQUITY INVESTMENT

Amended April 27, 1997~~and~~, March 31, 2008 and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to all applications to register by coordination or by qualification.

This statement of policy does not apply to Tier 2 offerings of Section 17 CFR 230.251 through 230.263 of Regulation A under the Securities Act of 1933.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:

Administrator
Promoter
Promoters' Equity Investment
Promotional Or Development Stage Company

~~II. DENIAL OF SECURITIES REGISTRATION~~

III. PROMOTERS' EQUITY INVESTMENT

A. The Administrator may ~~deny registration for a public offering by~~require a Promotional Or Development Stage Company ~~if the~~ to demonstrate a Promoters' Equity Investment ~~is less than:~~equal to:

~~B. Ten percent (10%) of the first $1,000,000 of the aggregate public offering, and~~

~~D.~~1. Seven percent (7%) of the ~~next $500,000 of the~~ aggregate ~~public~~ offering~~, and~~ amount, for offerings of up to $1 million;

~~E. Five percent (5%) of the next $500,000 of the aggregate public offering, and~~

2. ~~Two~~$70,000 plus two and one-half percent (2~~-½%) of the balance over $2,000,000.~~ .5%) of the next $4 million of the aggregate offering amount, for offerings of up to $5 million; or
3. $170,000 for offerings greater than $5 million.

B. The ~~Promoter may include items to meet this requirement if the~~ Administrator ~~has accepted their value.~~may accept any of the following as Promoters' Equity Investment:

1. Accumulated earned surplus not paid out in dividends;
2. Goodwill, trademarks, intellectual property, copyrights and patents developed by a Promoter and contributed to the issuer;
3. Documentation that specifies services rendered by a Promoter without compensation; or
4. Documentation of any other non-cash contributions.

C. The Administrator may deny the registration of a public offering with inadequate Promoters' Equity Investment.

~~F.~~

STATEMENT OF POLICY REGARDING SPECIFICITY IN USE OF PROCEEDS

Amended April 27, 1997; September 28, 1999~~, and~~; March 31, 2008; and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to all applications to register by coordination or by qualification.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:

~~This statement of policy uses the following definitions adopted by the North American Securities Administrators Association, Inc. ("NASAA") in the NASAA Statement of Policy Regarding Corporate Securities Definitions:~~

Administrator
Affiliate
Disclosure Document
Promoter

III. DENIAL OF SECURITIES REGISTRATION

The Administrator may deny the offering if the minimum amount of proceeds to be raised is not consistent with any proposed business plan set forth in the Disclosure Document or if any other provisions of this statement of policy are not satisfied.

~~III.~~IV. USE OF PROCEEDS DISCLOSURE

The ~~issuer~~Disclosure Document must disclose in ~~the Disclosure Document~~tabular form, for both the minimum and maximum amounts proposed, if applicable, the percentages and dollar amounts of the following~~, in a tabular form~~:

A. The proceeds the issuer expects to receive from the offering;

B. The purposes for which the issuer will use the proceeds;

C. The estimated amount to be used for each purpose; and

D. The order or priority in which the issuer will use the proceeds for the purposes stated.

~~IV.~~V. DISCLOSURE OF OTHER SOURCES OF FUNDS

The ~~issuer must disclose in the~~ Disclosure Document must disclose:

A. The amounts of any funds to be raised from other sources to achieve the purposes stated;

B. The sources of any additional funds; and

C. Whether the sources are firm or contingent and, if contingent, an explanation of the contingency.

~~V.~~VI. DISCLOSURE OF PROPERTY ACQUISITION

A. If the issuer will use any part of the proceeds to acquire any property (including ~~goodwill) otherwise~~intangible property) other than an immaterial purchase in the ordinary course of business~~,~~ from a Promoter, a member of the ~~issuer must disclose~~ issuer's board of directors ("director"), an executive officer of the issuer ("executive officer") or any of their Affiliates, the Disclosure Document must disclose:

~~1. the~~The names and addresses of the ~~vendors;~~
1. sellers from which the issuer will acquire the property;

2. The names and addresses of any Promoter, director, executive officer or Affiliate involved in the transactions;

~~2.~~3. The purchase price;

~~3.~~4. ~~the~~The names of any persons who have received commissions in connection with the acquisition; and

~~4.~~5. ~~the~~The amounts of any commissions and any other expense in connection with the acquisition (including the cost of borrowing money to finance the acquisition).

B. If the issuer will use any part of the proceeds to acquire any property (including intangible property) other than an immaterial purchase in the ordinary course of business from nonaffiliated persons, the Administrator may require a filing of the information in Subsection A. 1– 5.

~~B.~~C. If any part of the proceeds will be used to acquire property or a business that is not yet identified, the ~~issuer must disclose in the~~ Disclosure Document must disclose:

1. ~~the~~The type of property or business the issuer is seeking;

2. ~~how~~How it will impact the issuer's core business; and

3. ~~the~~The issuer's acquisition criteria.

~~VI.~~VII. DISCLOSURE OF DEBT REPAYMENT

If the issuer plans to use any material part of the proceeds to discharge indebtedness, the ~~Issuer must disclose in the~~ Disclosure Document must disclose:

A. The terms of the indebtedness, including interest rate;

~~B. Whether~~How the issuer used the proceeds of the indebtedness ~~includes unpaid salaries to Promoters; and~~

B. ~~If~~if the indebtedness was incurred during the current or previous fiscal year~~, how the issuer used the proceeds of~~;

C. Whether the indebtedness includes unpaid salaries; and

~~C.~~D. Whether the indebtedness is to Promoters.

~~VII.~~VIII. FLEXIBILITY IN USE OF PROCEEDS

A. Best Efforts Offerings: The issuer must not reserve more than ~~15~~20% of the proceeds for working capital or for any other unspecified use such as general corporate purposes~~(~~.

B. Firmly Underwritten Offerings: The issuer must not reserve more than 35% of the proceeds for working capital or for any other unspecified use~~).~~. such as general corporate purposes.

C. If the issuer's business plans require flexibility in the use of unspecified proceeds, the issuer must:

   ~~A.~~1. Disclose all potential uses of the proceeds with qualifying language that the uses may be subject to change; and

   ~~B.~~2. Indicate the circumstances that may lead to reallocation and the potential areas of reallocation.

~~VIII.~~IX. SUFFICIENCY OF FUNDS

The issuer must demonstrate that the offering proceeds, together with all other sources of financing currently available to the issuer, are sufficient to sustain the issuer's proposed activities. ~~If~~The Disclosure Document, in its risk factor section, must disclose if the proceeds of the offering are insufficient to sustain the issuer's activities for at least 12 months following the offering~~, include in the Disclosure Document the appropriate risk disclosure.~~.

STATEMENT OF POLICY REGARDING UNEQUAL VOTING RIGHTS
Adopted October 24, 1991; Amended March 31, 2008; and Month XX, 2015

I. INTRODUCTION

This statement of policy applies to applications to register by coordination or by qualification Equity Securities with voting rights less than equal to the voting rights of other authorized or outstanding Equity Securities of the same issuer.

II. DEFINITIONS

This statement of policy uses the following terms defined in the NASAA *Statement of Policy Regarding Corporate Securities Definitions*:
~~This statement of policy uses the following terms defined in the North American Securities Administrators Association, Inc., Statement of Policy Regarding Corporate Securities Definitions:~~

Administrator ~~Equity Securities~~
Equity Securities
Disclosure Document

~~III. STANDARD~~

~~Offerings described in this statement~~

III. JUSTIFICATION FOR UNEQUAL VOTING RIGHTS

Equity Securities with voting rights per share that are less than the voting rights per share of ~~policy are~~the other authorized or outstanding Equity Securities of the same issuer may be inconsistent with the protection of investors and not in the public interest~~, unless~~. An issuer offering Equity Securities to the public with lesser voting rights per share may justify issuing the shares with lesser voting rights per share, as follows:

A. The offered Equity Securities with lesser voting rights per share have preferential treatment as to dividends and/or distributions upon liquidation~~,~~; or ~~the~~

~~A.~~B. The issuer ~~justifies~~presents a compelling rationale for the unequal voting rights ~~to the satisfaction of the Administrator; and~~per share.

IV. ~~The cover of the Disclosure Document includes a~~DISCLOSURE STANDARDS

An issuer offering Equity Securities with lesser voting rights per share than the other authorized or outstanding Equity Securities of the same issuer must comply with the following disclosure standards:

A. A specific warning and a cross reference to an appropriate risk factor~~.~~ must appear on the cover of the Disclosure Document.

B. The Disclosure Document must disclose the following:

1. Any measures that cap the number of directors that the holders of the shares with preferential voting rights may elect;

2. Whether the holders of the shares with lesser voting rights per share will have the ability to elect one or more directors to the issuer's board of directors;

3. Whether the voting rights of the shares with preferential voting rights per share are permanent or are subject to a plan under which the preferential voting rights per share will terminate; and

4. The reason for the unequal voting rights and how such a structure benefits investors.

~~B.~~