

**STATEMENT OF POLICY REGARDING SPECIFICITY IN USE OF  
PROCEEDS**

*Amended April 27, 1997; September 28, 1999; March 31, 2008; and  
September 11, 2016*

**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.