

**STATEMENT OF POLICY REGARDING
PROMOTER'S EQUITY INVESTMENT**

Adopted April 27, 1997

- I. INTRODUCTION. The North American Securities Administrators Association, Inc. ("NASAA") has determined that the following guidelines relating to PROMOTERS' EQUITY INVESTMENT in PROMOTIONAL OR DEVELOPMENT STAGE COMPANIES is consistent with public investor protection and is in the public interest. Nothing shall prevent the Securities Administrator ("Administrator") from applying different standards than those contained in this Statement of Policy.
- II. DEFINITIONS. The terms used in this Statement of Policy are defined pursuant to the NASAA Statement of Policy Regarding Corporate Securities Definitions.
- III. A public securities offering by a PROMOTIONAL OR DEVELOPMENT STAGE COMPANY may be disallowed by the Administrator if the PROMOTERS' EQUITY INVESTMENT is less than:
- A. Ten percent (10%) of the first \$1,000,000 of the aggregate public offering; and
 - B. Seven percent (7%) of the next \$500,000 of the aggregate public offering; and
 - C. Five percent (5%) of the next \$500,000 of the aggregate public offering; and
 - D. Two and one-half percent (2 ½ %) of the balance over \$2,000,000,

which may include items submitted by the PROMOTER to meet this requirement whose value has been accepted by the Administrator.

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PURPOSE

The purpose of this policy is to assure that the Promoter has put into the corporation sufficient capital so that the Promoter is at risk along with the public investors.

POLICY STATEMENT

This policy provides that a public offering by a promotional or development stage company may be disallowed if the Promoter's Equity Investment is less than:

- 1. Ten percent (10%) of the first \$1,000,000 of the aggregate public offering; and
- 2. Seven percent (7%) of the next \$500,000 of the aggregate public offering; and
- 3. Five percent (5%) of the next \$500,000 of the aggregate public offering; and

4. Two and one-half percent (2 ½ %) of the balance over \$2,000,000.

which may include items submitted by the Promoter to meet this requirement whose value has been accepted by the Lead Examiner.

WHERE TO LOOK

Normally the “Dilution” section of the prospectus contains the “dilution in net tangible book value to new investors”, as well as the difference between the existing shareholders and the new investors with respect to the number of shares purchased from the company, the total cash consideration paid by each group, and the average cash consideration per share paid by each group.

In many situations, counsel or the issuer should be asked for the number of shares that were purchased or issued to the Promoter's and the prices paid for those shares.

REVIEW ISSUES AND POTENTIAL SOLUTIONS

The Promoters' must be at risk along with the public investors. A Promoter's contributions of intangible assets may be considered as Promoters' Equity Investment, provided the value thereof has been accepted by the Lead Examiner. It may be difficult to determine the value of trademarks, patents, goodwill or “sweat equity”. The Lead Examiner should look to the financial statements or request additional information from the issuer's legal counsel or CPA. Also, a Promoters' Equity Investment may be adjusted by the Issuer's earned surplus immediately prior to the public offering.

It will be necessary for the participating states to determine how this Guideline will be applied. (This may include considering the contributions of intangible assets.) Also, the examiner should credit the Promoters for any earned surplus that has been accumulated, but not paid out as dividends. The Promoters' Equity Investment will not be adjusted by any accumulated deficit. Such adjustment would work to negate any investment that has been made by Promoters.