

**STATEMENT OF POLICY REGARDING  
UNDERWRITING AND SELLING EXPENSES,  
UNDERWRITER'S WARRANTS AND SELLING SECURITY HOLDERS**  
*Adopted on April 27, 1997; Amended on September 28, 1999, March 31, 2008, and  
May 6, 2018*

**I. INTRODUCTION**

This statement of policy applies to all applications to register by coordination and 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  
Disclosure Document  
Underwriter  
Underwriting and Selling Expenses

**III. LIMITS ON UNDERWRITING EXPENSES AND SELLING EXPENSES**

The amount of Underwriting and Selling Expenses may not exceed seventeen percent (17%) of the gross proceeds from the offering.

**IV. SELLING SECURITY HOLDERS**

Selling security holders may not offer more than ten percent (10%) of the securities for sale in the offering unless either of the following apply:

- A. The Disclosure Document discloses that selling security holders will pay the following amount of Underwriting and Selling Expenses, as applicable:
  1. Selling security holders offering at least ten percent (10%) but not more than fifty percent (50%) of the registered securities pay a pro rata share of all Underwriting and Selling Expenses of the offering, excluding the legal and accounting expenses of the offering, and
  2. Selling security holders offering more than fifty percent (50%) of the registered securities pay a pro rata share of all Underwriting and Selling Expenses of the offering.
- B. The selling security holders have a written agreement with the issuer entered into at arm's-length, under which the issuer pays all of the Underwriting and Selling Expenses of the selling security holder (excluding compensation to any Underwriter or broker-dealer).

## V. RESTRICTIONS ON WARRANTS GRANTED TO UNDERWRITERS

Warrants granted to Underwriters are subject to the following restrictions:

- A. The Underwriter must be a managing Underwriter.
- B. The offering must be either a firmly underwritten offering or a “minimum-maximum” offering. Options or warrants may be issued in a “minimum-maximum” offering only if:
  1. The options or warrants are issued on a pro rata basis, and
  2. The “minimum” amount of securities has been sold.
- C. The exercise price of the warrants must be at least equal to the offering price.
- D. The number of shares covered by the Underwriter’s options or warrants must not exceed ten percent (10%) of the shares of common stock actually sold in the offering.
- E. The options or warrants must not be exercisable more than five (5) years after the offering is completed.
- F. The options or warrants must not be exercisable during the first year after the offering is completed.
- G. The options or warrants may not be transferred, except:
  1. To partners of the Underwriter, if the Underwriter is a partnership.
  2. To officers and employees of the Underwriter, who are also shareholders of the Underwriter, if the Underwriter is a corporation, or
  3. By will, under the laws of descent and distribution, or by operation of law.
- H. The warrant agreement may not allow for a reduction in the exercise price of the options or warrants resulting from the issuer subsequently issuing shares except if the issuer issues shares under:
  1. a stock dividend or stock split, or
  2. a merger, consolidation, reclassification, reorganization,

recapitalization, or sale of assets.

## **VI. VALUATION OF UNDERWRITER'S WARRANTS**

The issuer must file a description of the methodology used to value any warrants received or to be received as underwriting compensation. The issuer must demonstrate to the Administrator that its valuation method is commercially available and appropriate for the warrants to be valued.

Otherwise, the value is determined by following formula.

1. Calculate 165% of the aggregate offering price;
2. Multiply the exercise price by the number of shares offered;
3. Subtract the result of step two from the result of step one;
4. Divide the result of step three by 2;
5. Divide the number of shares underlying the warrants by the number of shares offered;
6. Multiply the result from step 4 by the result from step 5. The result is the dollar value of the underwriter's warrants.

$$\frac{[1.65 \times \text{aggregate offering price}] - [\text{exercise price} \times (\# \text{ of shares offered})]}{2} \times \frac{\# \text{ shares underlying the warrants}}{\# \text{ of shares offered}}$$

(sample calculation follows on next page)

## A Sample Calculation of Warrant Value

The following information is used in the sample calculation:

- Offering of 1,000,000 shares at \$5.00 per share
- Underwriter's warrant of 100,000 shares (10%) exercisable at 120% of the \$5.00 offering price (i.e. the exercise price is \$6.00), starting one year after completion of the offering.

$$\frac{[1.65 \times (1,000,000 \text{ shares} \times \$5.00)] - (\$6.00 \times 1,000,000)}{2} \times \frac{100,000}{1,000,000}$$

$$\frac{[1.65 \times \$5,000,000] - \$6,000,000}{2} \times .10$$

$$\frac{\$8,250,000 - \$6,000,000}{2} \times .10$$

$$\frac{\$2,250,000}{2} \times .10$$

$$\$1,125,000 \times .10 = \$112,500$$

Accordingly, the resulting value of the underwriter's warrants is \$112,500. The percentage value of the underwriter's warrants is 2.25% (the \$112,500 value of the underwriter's warrants divided by the \$5,000,000 aggregate offering price).