OTC Markets Group Guidance on Dilution Risk with Respect to OTCQX and OTCQB Applicants

OTC Markets is providing guidance with respect to Section 2.13(d) of the OTCQX Rules for U.S. Companies and Section 1.4(5) of the OTCQB Standards regarding the review of applications to the OTCQX and OTCQB markets.

This notice is intended to provide a better understanding of OTC Markets' application review process and the underlying rationale behind it, to facilitate initial and ongoing compliance with the OTCQX Rules and the OTCQB Standards and support successful participation in these markets.

Public companies have a duty to disclose significant financial and other information, providing investors the timely, accurate, and complete information they need to make confident and informed decisions about when or where to invest. This includes the risks inherent in share issuance at significant discounts to the current market price and/or substantial share ownership dilution. Officers and directors of public companies have an obligation to treat all their investors fairly.

Under OTCQX rules and OTCQB standards, OTC Markets may refuse an application based on dilution risk if it determines that admission of the company's securities would likely be detrimental to the interests of investors. OTC Markets may reconsider this determination if a company takes action to address the concerns described below, including by enhancing their corporate governance, providing additional disclosure, changing their capital structure, and adding protections for minority investors, among other potential measures. While the facts and circumstances relevant to each applicant differ, OTC Markets generally considers the following factors in its review process to determine the potential for dilution risk concerns:

- Whether an issuer has recent or currently outstanding convertible notes with conversion features that provide significant discounts to the current market price of their securities, and whether such notes are held by company officers, directors and control persons.
- Whether an issuer has other classes of outstanding securities that are convertible into common stock at largely discounted rates and are not held by officers or directors.
- A capital table and/or "toxic financing" structure that will substantially reorganize the share ownership of the company.
- Whether an issuer has had a history of substantial increases in the amount of its outstanding shares.
- Whether an issuer has had a history of multiple or large reverse stock splits.
- Whether an issuer has engaged lenders that have been the subjects of regulatory actions regarding "toxic financing" and related concerns.

After consideration of the factors described above, OTC Markets may approve applications for certain companies that have participated in convertible financing arrangements. In those circumstances, the OTC Markets rules and standards require OTCQX and OTCQB companies to provide timely disclosure of all convertible financing arrangements as well as annual summary information regarding its convertible financing history. This disclosure includes the conversion terms, names of investors and the number of shares issued to date and may be key for investors and market participants in identifying dilution risk.