

## STATEMENT OF POLICY REGARDING UNSOUND FINANCIAL CONDITION

Adopted on April 27, 1997; Amended September 28, 1999, March 31, 2008,  
and May 6, 2018

### 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  
Disclosure Document  
Unsound Financial Condition

### III. SECURITIES REGISTRATION

A. Disclosure Document Requirements. If the issuer is in Unsound Financial Condition, the Disclosure Document must:

1. State prominently that persons should not invest unless they can afford to lose their entire investment; and
2. Disclose the following risk factors, if applicable:
  - a. The auditor's report accompanying the issuer's financial statements contains an explanatory paragraph or qualification regarding the issuer's ability to continue as a going concern;
  - b. The issuer lacks revenue from operations, with an explanation of how the issuer has been financing operations;
  - c. The presence and amount of any accumulated deficit;
  - d. The presence and amount of any negative shareholder's equity; or
  - e. The need for future financing.

- B. Suitability Standards. The Administrator may limit the sale of securities by an issuer that is in Unsound Financial Condition to accredited investors or impose specific suitability standards based on the risks of the offering. Unless otherwise required or allowed by the Administrator, public investors must have the following:
1. A minimum annual gross income of \$80,000 and a minimum net worth of \$80,000, exclusive of automobile, home and home furnishings, or
  2. A minimum net worth of \$280,000, exclusive of automobile, home and home furnishings.

These suitability standards do not relieve a dealer from the responsibility to make an independent determination of suitability required under industry standards.

- C. Analysis of Issuer's Financial Condition. An issuer that is in Unsound Financial Condition may submit pro forma financial statements to demonstrate that the offering proceeds and the issuer's long-term business plan will improve the issuer's financial condition. Pro forma financial statements must include a description and documentation of any material assumptions and demonstrate when the issuer expects to be profitable.
- D. Denial of Registration. If the issuer cannot demonstrate to the satisfaction of the Administrator that the offering proceeds and the issuer's long-term business plan will improve the issuer's financial condition, or if other provisions of this policy are not satisfied, the Administrator may deny the application.