

STATEMENT OF POLICY REGARDING OPTIONS AND WARRANTS

Amended November 17, 1997; September 28, 1999

1. **INTRODUCTION.** The North American Securities Administrators Association, Inc. ("NASAA") has determined that the following guideline relating to options and warrants 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. Options or warrants may be issued to underwriters as compensation in connection with a public offering provided those options or warrants comply with the requirements of the NASAA Statement of Policy Regarding Underwriting Expenses, Underwriter's Warrants, Selling Expenses, and Selling Security Holders.

- IV. Options or warrants may be granted to UNAFFILIATED INSTITUTIONAL INVESTORS in connection with loans if:
 1. The options or warrants are issued contemporaneously with the issuance of the loan;
 2. The options or warrants are granted as the result of bona fide negotiations between the Issuer and UNAFFILIATED INSTITUTIONAL INVESTOR;
 3. The exercise price of the options or warrants is not less than the fair market value of the Issuer's shares of common stock underlying the options or warrants on the date that the loan was approved; and
 4. The number of shares issuable upon exercise of the options or warrants multiplied by the exercise price thereof does not exceed the face amount of the loan.

- V. Options or warrants may be granted in connection with acquisitions, reorganizations, consolidations or mergers if:
 1. They are granted to persons who are unaffiliated with the Issuer; and
 2. The earnings of the Issuer at the time of grant and after giving effect to the acquisition, reorganization, consolidation or merger would not be materially diluted by the exercise of the options or warrants.

- VI. Options and warrants may not be granted at an exercise price of less than eighty-five percent (85%) of fair market value of the Issuer's underlying shares of common stock on the date of grant. The issuer, and its officers and directors, should consider the advisability of a obtaining a concurrent appraisal, by a qualified independent appraiser, of the value of the shares of common stock at the time of the grant as evidence of the fair market value.
- VII. The total number of options and warrants issued or reserved for issuance at the date of the public offering, may not, for one year following the effective date of the offering, exceed fifteen percent (15%) of the Issuer's shares of common stock outstanding at the date of the public offering plus the number of shares of common stock being offered that are firmly underwritten, or in the case of offerings not firmly underwritten, the number of shares of common stock required to be sold in order to meet the minimum offering amount. In calculating the number of options and warrants, the following are excluded:
1. Options and warrants that were issued or reserved for issuance pursuant to III., IV., and V., above;
 2. Options and warrants that were issued, or reserved for issuance, to employees or consultants who are not PROMOTERS, in connection with an incentive stock option plan qualified under section 422 of the internal revenue code; and
 3. Options and warrants that are exercisable at or above the public offering price.
- VIII. No options or warrants issued and outstanding at the date of the public offering, excluding those qualified options and warrants issued pursuant to an incentive stock option plan qualified under section 422 of the internal revenue code, may be exercisable more than five (5) years from the date of the public offering.
- IX. If the number of options and warrant that are issued and outstanding and/or reserved for issuance is material, the final offering circular shall disclose the potential dilutive effects of such options and warrants.
24. If the number of options and warrants exceeds the fifteen (15%) limit established in Section VII, above, ("Excess Options") the Administrator may require the cancellation of such Excess Options or, in the alternative, that such Excess Options be subjected to an ESCROW or LOCK-IN AGREEMENT consistent with the terms specified in Section VI of the *Statement of Policy Regarding Promotional Shares*.