Statement of Policy Regarding Underwriting Expenses, Underwriter's Warrants, Selling Expenses, and Selling Security Holders

Adopted April 27, 1997

I. **INTRODUCTION.** The North American Securities Administrators Association, Inc. ("NASAA") has determined that the following guideline relating to underwriting expenses, underwriter’s warrants, selling expenses and selling security holders 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. An offer or sale of securities may be disallowed by the Administrator if the underwriting expenses to be incurred exceed seventeen percent (17%) of the gross proceeds from the public offering.

III. Underwriting expenses may include but are not limited to:

A. Commissions to underwriters or broker-dealers;

B. Non-accountable fees or expenses to be paid to the underwriter or broker-dealer;

C. Underwriter’s warrants, which shall be valued using the following formula:

$$\frac{\text{165 percent of the offering price - the exercise price}}{2} \times \frac{\text{number of shares underlying the warrants}}{\text{number of shares offered to the public}} = \text{warrant value}$$

1. The value may be reduced by 20% if the exercise period of the warrants is extended from one year after the public offering to two years after the public offering and by 40% if the exercise period of the warrants is extended from one year after the public offering to three years after the public offering. Warrants granted to underwriters are subject to the following restrictions:

2. The underwriter is a managing underwriter;

3. The public offering is either a firmly underwritten offering or a "minimum-maximum" offering. Options or warrants may be issued in a "minimum-maximum" public offering only if:

(i) The options or warrants are issued on a pro rata basis; and

(ii) The "minimum" amount of securities has been sold;

4. The exercise price of the warrants must be at least equal to the public offering price;

5. The number of shares covered by underwriter's options or warrants does not exceed ten percent (10%) of the shares of common stock actually sold in the public offering;

6. The life of the options or warrants does not exceed a period of five (5) years from the completion date of the public offering;

7. The options or warrants are not exercisable for the first year after the completion date of the public offering; and

8. Options or warrants may not be transferred, except:

(i) To partners of the underwriter, if the underwriter is a partnership;

(ii) To officers and employees of the underwriter, who are also shareholders of the underwriter, if the underwriter is a corporation; or

(iii) By will, pursuant to the laws of descent and distribution, or by the operation of law.

9. The warrant agreement may not allow for a reduction in the exercise price of the options or warrants resulting from the subsequent issuance of shares by the issuer except where such issuances are pursuant to a:

(i) Stock dividend or stock split; or

(ii) merger, consolidation, reclassification, reorganization, recapitalization, or sale of assets.

D. Right of first refusal, which shall be valued at 1% of the public offering or the amount payable to the underwriter if the issuer terminates the right of first refusal;

E. Solicitation fees payable to the underwriter, which shall be valued at the lesser of actual cost or 1% of the public offering if the fees are payable within one year of the offering;

F. Financial consulting or financial advisory agreements with an underwriter or any other similar type of agreement or fees, however designated, which shall be valued at actual cost;

G. Underwriter's due diligence expenses;

H. Payments made either six months prior to or required to be made six months following the public offering to investor relations firms designated by the underwriter; and

I. Other underwriting expenses incurred in connection with the public offering of securities as determined by the Administrator.

IV. Underwriting expenses shall not include financial consulting or financial advisory agreements with the underwriter payable at the time the services are rendered provided that such agreement was entered into at least twelve months before the registration is filed with the Securities and Exchange Commission.

V. An offer or sale of securities may be disallowed by the Administrator if the direct and indirect selling expenses of the offering exceed twenty percent (20%) of the gross proceeds from the public offering.

VI. Selling expenses may include but are not limited to:

A. Commissions to underwriters or broker-dealers;

B. Non-accountable fees or expenses to be paid to the underwriters or broker-dealers;

C. Auditors' and accountants' fees;

D. Legal Fees;

E. The cost of printing prospectuses, circulars and other documents required to comply with securities laws and regulations;

F. Charges of transfer agents, registrars, indenture trustees, escrow holders, depositories, engineers, appraisers, and other experts;

G. The cost of authorizing and preparing the securities, including issue taxes and stamps;

H. Financial consulting or financial advisory agreements with an underwriter or any similar type agreement or fees, however designated, which shall be valued at actual cost excluding financial and consulting agreements, which is entered into at least twelve months before the registration is filed with the Securities and Exchange Commission;

I. Payments made either six months prior to or required to be made six months following the public offering to investor relations firms designated by the underwriter; and

J. Other cash expenses incurred in connection with the public offering of securities as determined by the Administrator.

VII. A public offering or sale of securities, that includes selling security holders offering more than ten percent (10%) of the securities to be sold in the public offering, may be disallowed by the Administrator unless:

A. Selling security holders offering or selling more than ten percent (10%) but less than fifty percent (50%) of the securities to be sold in the public offering pay a pro rata share of all selling expenses of the public offering, excluding the legal and accounting expenses of the public offering; or

B. Selling security holders offering more than fifty percent (50%) of the securities to be sold in the offering pay a pro rata share of all selling expenses of the public offering; and

C. The prospectus or offering document discloses the amount of selling expenses which the selling security holders will pay.

VIII. With the exception of underwriter's or broker-dealer's compensation, the provisions of VII.A., B., and C. above, shall not apply if the selling security holders have a written agreement with the Issuer, that was entered into in an arm's-length transaction, whereby the Issuer has agreed to pay all of the selling security holders' selling expenses.