NASAA STATEMENT OF POLICY REGARDING PROMOTIONAL SHARES


I. INTRODUCTION. This statement of policy applies to all applications to register securities 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
Affiliate
Aggregate Revenues
Associate
Disclosure Document
Escrow Agent
Equity Securities
Person
Promoter
Promotional Shares

III. ESCROW OF PROMOTIONAL SHARES. As a condition to registering a public offering of Equity Securities, the Administrator may require that the issuer enter into a deposit agreement (“Deposit Agreement”) that requires some or all of the Promoters deposit Promotional Shares into an escrow account (“escrow”) with an Escrow Agent, as provided by an escrow agreement. Promoters who deposit Promotional Shares into escrow will be collectively referred to as “depositors.” Alternatively, the Administrator may require a Lock-In Agreement on substantially the same terms and conditions as a Deposit Agreement. (See Appendix A for Model Lock-In Agreements).

A. Use the following formula to determine the number of Promotional Shares for deposit in escrow, except in situations where a Promoter must comply with paragraph B below:

\[ A - B \]
Where:

\[
A \quad \text{equals total number of shares that the Promoters hold}
\]

\[
B \quad \text{equals the number of fully paid shares, calculated as follows:}
\]

\[
\frac{C}{D \times 0.85}
\]

\[
C \quad \text{equals the total that the Promoters paid for the shares, and}
\]

\[
D \quad \text{equals the public offering price per share}
\]

Sample Calculation of Value:

<table>
<thead>
<tr>
<th>Shares Held by Promoters</th>
<th>Shares Total</th>
<th>Price Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Offering Price per Share</td>
<td>100</td>
<td>$1.00</td>
</tr>
<tr>
<td>$10.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Paid by Promoter*</th>
<th>$100</th>
<th>= 11.77</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Offering Price Per Share x .85</td>
<td>$10 x .85</td>
<td>Fully Paid Shares</td>
</tr>
</tbody>
</table>

| Shares held by Promoters | 100 |
| Fully paid shares (rounded) | 12 |
| Number of Promotional Shares to be escrowed | 88 |

* The promoters cannot use consideration other than cash unless the Administrator accepts the value of the consideration.

B. If the issuer’s latest audited financial statements contain an auditor’s report or footnote that contains an opinion or statement regarding the ability of the issuer to continue as a going concern, the Promoters must deposit all Promotional Shares in escrow.

C. The Administrator may require each Promoter to deposit Promotional Shares into escrow on a pro rata basis.

IV. RELEASE OF PROMOTIONAL SHARES.

A. Upon written request as described in Section VI, the Escrow Agent must release the Promotional Shares held in escrow in the manner set out below. If the issuer’s Aggregate Revenues are:
1. $500,000 or more (class A offering), and neither the auditor’s opinion nor any footnote to the issuer’s latest audited financial statements contain an opinion or statement regarding the ability of the issuer to continue as a going concern, then the required release of escrow or lock-in shares are as follows:

   a. Year 1 – none
   b. Year 2 – 2 ½% pro rata per quarter
   c. Year 3 – all

2. Less than $500,000 (class B offering), then the required release of escrow or lock-in shares are as follows:

   a. Year 1 – none
   b. Year 2 – none
   c. Year 3 – 2 ½% pro rata per quarter
   d. Year 4 – 2 ½% pro rata per quarter
   e. Year 5 – all

B. If the public offering is terminated, and no securities were sold, the Escrow Agent must release all securities in escrow.

C. If the public offering is terminated, and all of the gross proceeds of the offering have been returned to the public investors, the Escrow Agent must release all securities in escrow.

V. DISTRIBUTION OF THE ISSUER’S ASSETS OR SECURITIES. The Deposit Agreement must provide that if any transaction or proceeding results in a distribution of the issuer’s assets or securities (“distribution”) while the agreement remains in effect, one of the following happens:

A. If the transaction is with a Person that is not a Promoter:

   1. Holders of the issuer’s Equity Securities initially share in the distribution on a pro rata basis, depending on the price the holders paid per share. This continues until the public shareholders are paid out in full. For the purpose of this Statement of Policy, the public shareholders are paid out in full when they have received, or
have had irrevocably set aside for them, an amount equal to

\[ A \times B \times 100\% \]

where \( A \) equals price per share in the public offering, and where \( B \) equals the number of shares they purchased under the public offering and still hold at the time of the distribution.

2. Once the public shareholders are paid out under paragraph 1, holders of the issuer’s Equity Securities participate on a pro rata basis, depending on the number of shares of Equity Securities they hold at the time of the distribution.

3. A distribution may proceed on lesser terms and conditions than those stated in paragraphs 1 and 2, if the holders of a majority of the Equity Securities, not including related party securities, approve the lesser terms and conditions at a special meeting called for that specific purpose. For the purpose of this subparagraph, “related party securities” mean those Promoters or their Associates or Affiliates.

4. The number of shares calculated for distribution under paragraph 1 and 2 may be adjusted if there is a stock split, stock dividend, recapitalization, or similar transaction.

B. If the transaction is with a Promoter, the depositors’ Promotional Shares must remain in escrow subject to the terms of the agreement.

VI. DOCUMENTATION REGARDING THE TERMINATION OF THE ESCROW AGREEMENT AND/OR THE RELEASE OF PROMOTIONAL SHARES. The Deposit Agreement must provide that:

A. A request for the release of any of the Promotional Shares from escrow must be in writing and forwarded to the Escrow Agent.

B. The issuer must provide the documentation, showing that the requirements of paragraph IV, above, have been met to the Escrow Agent.

C. The Escrow Agent must terminate the agreement and/or release some or all of the Promotional Shares from escrow if all the applicable provisions of the agreement have been satisfied. The Escrow Agent must maintain all
records relating to the agreement for a period of three (3) years following the termination of the agreement.

D. The Escrow Agent must forward copies of all retained records to the Administrator promptly upon written request.

VII. NON-EXCLUSIVE RESTRICTIONS ON THE TRANSFER, SALE, OR DISPOSAL OF PROMOTIONAL SHARES.

A. A depositor must not transfer any Promotional Shares held in escrow or any interest in the Promotional Shares in escrow.

B. Despite subsection A, a depositor may transfer Promotional Shares held in escrow by gift to the depositor’s family members, if the depositor’s family member agrees that the Promotional Shares remain subject to the terms of the escrow agreement.

C. For a self-underwritten offering, Promoters must not sell any of their Promotional Shares during the time that the issuer is offering its securities to the public, even if the Promotional Shares are not subject to escrow or would otherwise be released from escrow.

VIII. TERMS OF THE ESCROW. A summary of the agreement must be included in the Disclosure Document annual reports to shareholders, proxy statements, and other disclosure materials used to make investment decisions until the public offering ends.
MODEL PROMOTIONAL SHARES LOCK-IN AGREEMENT

Class A Issuer

I. This Promotional Shares Lock-In Agreement ("Agreement"), which was entered into on the ___ day of _____, 20___, by and between ____ ("Issuer"), whose principal place of business is located in __________, and ____ ("Security Holder") witnesses that:

A. The Issuer has filed an application with the Securities Administrator of the States of ___ ("Administrators") to register certain of its Equity Securities for sale to public investors who are residents of those states ("Registration");

B. The Security Holder is the owner of the shares of common stock or similar securities and/or possesses convertible securities, warrants, options or rights which may be converted into, or exercised to purchase shares of common stock or similar securities of Issuer.

C. As a condition to Registration, the Issuer and Security Holder ("Signatories") agree to be bound by the terms of this Agreement.

II. THEREFORE, the Security Holder agrees not to sell, pledge, hypothecate, assign, grant any option for the sale of, or otherwise transfer or dispose of, whether or not for consideration, directly or indirectly, PROMOTIONAL SHARES as defined in the North American Securities Administrators Association ("NASAA") Statement of Policy on Corporate Securities Definitions and all certificates representing stock dividends, stock splits, recapitalizations, and the like, that are granted to, or received by, the Security Holder while the PROMOTIONAL SHARES are subject to this Agreement ("Restricted Securities").

Beginning one year from the completion date of the public offering, two and one-half percent (2 1/2%) of the Restricted Securities may be released each quarter pro rata among the Security Holders. All remaining Restricted Securities shall be released from this Agreement on the anniversary of the second year from the completion date of the public offering.

III. THEREFORE, the Signatories agree and will cause the following:

A. In the event of a dissolution, liquidation, merger, consolidation,
reorganization, sale or exchange of the Issuer's assets or securities (including by way of tender offer), or any other transaction or proceeding with a person who is not a Promoter, which results in the distribution of the Issuer's assets or securities ("Distribution"), while this Agreement remains in effect that:

1. All holders of the Issuer's EQUITY SECURITIES will initially share on a pro rata, per share basis in the Distribution, in proportion to the amount of cash or other consideration that they paid per share for their EQUITY SECURITIES (provided that the Administrator has accepted the value of the other consideration), until the shareholders who purchased the Issuer's EQUITY SECURITIES pursuant to the public offering ("Public Shareholders") have received, or have had irrevocably set aside for them, an amount that is equal to one hundred percent (100%) of the public offering's price per share times the number of shares of EQUITY SECURITIES that they purchased pursuant to the public offering and which they still hold at the time of the Distribution, adjusted for stock splits, stock dividends, recapitalizations and the like; and

2. All holders of the Issuer's EQUITY SECURITIES shall thereafter participate on an equal, per share basis times the number of shares of EQUITY SECURITIES they hold at the time of the Distribution, adjusted for stock splits, stock dividends, recapitalizations and the like.

3. The Distribution may proceed on lesser terms and conditions than the terms and conditions stated in paragraphs 1 and 2 above if a majority of the EQUITY SECURITIES that are not held by Security Holders, officers, directors, or Promoters of the Issuer, or their associates or affiliates vote, or consent by consent procedure, to approve the lesser terms and conditions.

B. In the event of a dissolution, liquidation, merger, consolidation, reorganization, sale or exchange of the Issuer's assets or securities (including by way of tender offer), or any other transaction or proceeding with a person who is a Promoter, which results in a Distribution while this Agreement remains in effect, the Restricted Securities shall remain subject to the terms of this Agreement.

C. Restricted Securities may be transferred by will, the laws of
descent and distribution, the operation of law, or by order of any court of competent jurisdiction and proper venue.

D. Restricted Securities of a deceased Security Holder may be hypothecated to pay the expenses of the deceased Security Holder's estate. The hypothecated Restricted Securities shall remain subject to the terms of this Agreement. Restricted Securities may not be pledged to secure any other debt.

E. Restricted Securities may be transferred by gift to the Security Holder's family members, provided that the Restricted Securities shall remain subject to the terms of this Agreement.

F. With the exception of paragraph A.3 above, the Restricted Securities shall have the same voting rights as similar EQUITY SECURITIES not subject to the Agreement.

G. A notice shall be placed on the face of each stock certificate of the Restricted Securities covered by the terms of the Agreement stating that the transfer of the stock evidenced by the certificate is restricted in accordance with the conditions set forth on the reverse side of the certificate; and

H. A typed legend shall be placed on the reverse side of each stock certificate of the Restricted Securities representing stock covered by the Agreement which states that the sale or transfer of the shares evidenced by the certificate is subject to certain restrictions until (insert date of termination of the Agreement) pursuant to an agreement between the Security Holder (whether beneficial or of record) and the Issuer, which agreement is on file with the Issuer and the stock transfer agent from which a copy is available upon request and without charge.

I. The term of this Agreement shall begin on the date that the Registration is declared effective by the Administrators ("Effective Date") and shall terminate:

1. On the anniversary of the second year from the completion date of the public offering; or

2. On the date the Registration has been terminated if no securities were sold pursuant thereto; or
3. If the Registration has been terminated, the date that checks representing all of the gross proceeds that were derived therefrom and addressed to the public investors have been placed in the U.S. Postal Service with first class postage affixed; or

4. On the date the securities subject to this Agreement become "Covered Securities," as defined under the National Securities Markets Improvement Act of 1996.

J. This Agreement to be modified only with the written approval of the Administrators.

IV. THEREFORE, the Issuer will cause the following:

A. A manually signed copy of the Agreement signed by the Signatories to be filed with the Administrators prior to the Effective Date;

B. Copies of the Agreement and a statement of the per share initial public offering price to be provided to the Issuer's stock transfer agent;

C. Appropriate stock transfer orders to be placed with the Issuer's stock transfer agent against the sale or transfer of the shares covered by the Agreement prior to its expiration, except as may otherwise be provided in this Agreement;

D. The above stock restriction legends to be placed on the periodic statement sent to the registered owner if the securities subject to this Agreement are uncertificated securities.

Pursuant to the requirements of this Agreement, the Signatories have entered into this Agreement, which may be written in multiple counterparts and each of which shall be considered an original. The Signatories have signed the Agreement in the capacities, and on the dates, indicated.

IN WITNESS WHEREOF, the Signatories have executed this Agreement.

(ISSUERS NAME)
By___________________________________________

President

___________________________________________

Signature

___________________________________________

Printed Name of Security Holder

___________________________________________

Title, if applicable
MODEL PROMOTIONAL SHARES LOCK-IN AGREEMENT

Class B Issuer

I. This Promotional Shares Lock-In Agreement ("Agreement"), which was entered into on the __ day of _______, 20__, by and between ____ ("Issuer"), whose principal place of business is located in __________, and __ ("Security Holder") witnesses that:

A. The Issuer has filed an application with the Securities Administrator of the States of _ ("Administrators") to register certain of its Equity Securities for sale to public investors who are residents of those states ("Registration");

B. The Security Holder is the owner of the shares of common stock or similar securities and/or possesses convertible securities, warrants, options or rights which may be converted into, or exercised to purchase shares of common stock or similar securities of Issuer.

C. As a condition to Registration, the Issuer and Security Holder ("Signatories") agree to be bound by the terms of this Agreement.

II. THEREFORE, the Security Holder agrees not to sell, pledge, hypothecate, assign, grant any option for the sale of, or otherwise transfer or dispose of, whether or not for consideration, directly or indirectly, PROMOTIONAL SHARES as defined in the North American Securities Administrators Association ("NASAA") Statement of Policy on Corporate Securities Definitions and all certificates representing stock dividends, stock splits, recapitalizations, and the like, that are granted to, or received by, the Security Holder while the PROMOTIONAL SHARES are subject to this Agreement ("Restricted Securities").

Beginning two years from the completion date of the public offering, two and one-half percent (2 1/2%) of the Restricted Securities may be released each quarter pro rata among the Security Holders. All remaining Restricted Securities shall be released from this Agreement on the anniversary of the fourth year from the completion date of the public offering.

III. THEREFORE, the Signatories agree and will cause the following:

A. In the event of a dissolution, liquidation, merger, consolidation,
reorganization, sale or exchange of the Issuer's assets or securities (including by way of tender offer), or any other transaction or proceeding with a person who is not a Promoter, which results in the distribution of the Issuer's assets or securities ("Distribution"), while this Agreement remains in effect that:

1. All holders of the Issuer's EQUITY SECURITIES will initially share on a pro rata, per share basis in the Distribution, in proportion to the amount of cash or other consideration that they paid per share for their EQUITY SECURITIES (provided that the Administrator has accepted the value of the other consideration), until the shareholders who purchased the Issuer's EQUITY SECURITIES pursuant to the public offering ("Public Shareholders") have received, or have had irrevocably set aside for them, an amount that is equal to one hundred percent (100%) of the public offering's price per share times the number of shares of EQUITY SECURITIES that they purchased pursuant to the public offering and which they still hold at the time of the Distribution, adjusted for stock splits, stock dividends recapitalizations and the like; and

2. All holders of the Issuer's EQUITY SECURITIES shall thereafter participate on an equal, per share basis times the number of shares of EQUITY SECURITIES they hold at the time of the Distribution, adjusted for stock splits, stock dividends, recapitalizations and the like.

3. The Distribution may proceed on lesser terms and conditions than the terms and conditions stated in paragraphs 1 and 2 above if a majority of the EQUITY SECURITIES that are not held by Security Holders, officers, directors, or Promoters of the Issuer, or their associates or affiliates vote, or consent by consent procedure, to approve the lesser terms and conditions.

B. In the event of a dissolution, liquidation, merger, consolidation, reorganization, sale or exchange of the Issuer's assets or securities (including by way of tender offer), or any other transaction or proceeding with a person who is a Promoter, which results in a Distribution while this Agreement remains in effect, the Restricted Securities shall remain subject to the terms of this Agreement.

C. Restricted Securities may be transferred by will, the laws of
descent and distribution, the operation of law, or by order of any court of competent jurisdiction and proper venue.

D. Restricted Securities of a deceased Security Holder may be hypothecated to pay the expenses of the deceased Security Holder's estate. The hypothecated Restricted Securities shall remain subject to the terms of this Agreement. Restricted Securities may not be pledged to secure any other debt.

E. Restricted Securities may be transferred by gift to the Security Holder's family members, provided that the Restricted Securities shall remain subject to the terms of this Agreement.

F. With the exception of paragraph A.3 above, the Restricted Securities shall have the same voting rights as similar EQUITY SECURITIES not subject to the Agreement.

G. A notice shall be placed on the face of each stock certificate of the Restricted Securities covered by the terms of the Agreement stating that the transfer of the stock evidenced by the certificate is restricted in accordance with the conditions set forth on the reverse side of the certificate; and

H. A typed legend shall be placed on the reverse side of each stock certificate of the Restricted Securities representing stock covered by the Agreement which states that the sale or transfer of the shares evidenced by the certificate is subject to certain restrictions until (insert date of termination of the Agreement) pursuant to an agreement between the Security Holder (whether beneficial or of record) and the Issuer, which agreement is on file with the Issuer and the stock transfer agent from which a copy is available upon request and without charge.

I. The term of this Agreement shall begin on the date that the Registration is declared effective by the Administrators ("Effective Date") and shall terminate:

1. On the anniversary of the fourth year from the completion date of the public offering; or

2. On the date the Registration has been terminated if no securities were sold pursuant thereto; or
3. If the Registration has been terminated, the date that checks representing all of the gross proceeds that were derived therefrom and addressed to the public investors have been placed in the U.S. Postal Service with first class postage affixed; or

4. On the date the securities subject to this Agreement become "Covered Securities," as defined under the National Securities Markets Improvement Act of 1996.

J. This Agreement to be modified only with the written approval of the Administrators.

IV. THEREFORE, the Issuer will cause the following:

A. A manually signed copy of the Agreement signed by the Signatories to be filed with the Administrators prior to the Effective Date;

B. Copies of the Agreement and a statement of the per share initial public offering price to be provided to the Issuer's stock transfer agent;

C. Appropriate stock transfer orders to be placed with the Issuer's stock transfer agent against the sale or transfer of the shares covered by the Agreement prior to its expiration, except as may otherwise be provided in this Agreement;

D. The above stock restriction legends to be placed on the periodic statement sent to the registered owner if the securities subject to this Agreement are uncertificated securities.

Pursuant to the requirements of this Agreement, the Signatories have entered into this Agreement, which may be written in multiple counterparts and each of which shall be considered an original. The Signatories have signed the Agreement in the capacities, and on the dates, indicated.

IN WITNESS WHEREOF, the Signatories have executed this Agreement.

(ISSUERS NAME)
By _____________________________________________
             President

___________________________________________
             Signature

___________________________________________
             Printed Name of Security Holder

___________________________________________
             Title, if applicable