

## IMPORTANT INFORMATION ON PENNY STOCKS

This statement is required by the U.S. Securities and Exchange Commission (SEC) and contains important information on penny stocks. You are to read it before making a purchase or sale.

### **Penny stocks can be very risky.**

Penny stocks are low-priced shares of small companies not traded on an exchange or quoted on NASDAQ. Prices often are not available. Investors in penny stocks often are unable to sell stock back to the dealer that sold them the stock. Thus, you may lose your investment. Be cautious of newly issued penny stock.

Your salesperson is not an impartial advisor but is paid to sell you the stock. Do not rely only on the salesperson, but seek outside advice before you buy any stock. If you have problems with a salesperson, contact the firm's compliance officer or the regulators listed below.

### **Information you should get.**

Before you buy penny stock, federal law requires your salesperson to tell you the "*offer*" and the "*bid*" on the stock, and the "*compensation*" the salesperson and the firm receive for the trade. The firm also must mail a confirmation of these prices to you after the trade.

You will need this price information to determine what profit, if any, you will have when you sell your stock. The offer price is the wholesale price at which the dealer is willing to sell stock to other dealers. The bid price is the wholesale price at which the dealer is willing to buy the stock from other dealers. In its trade with you, the dealer may add a retail charge to these wholesale prices as compensation (called a "markup" or "markdown").

The difference between the bid and the offer price is the dealer's "*spread*." A spread that is large compared with the purchase price can make a resale of a stock very costly. To be profitable when you sell, the bid price of your stock must rise above the amount of this spread *and* the compensation charged by both your selling and purchasing dealers. If the dealer has no bid price, you may not be able to sell the stock after you buy it, and may lose your whole investment.

### **Brokers' duties and customer's rights and remedies.**

If you are victim of fraud, you may have rights and remedies under state and federal law. You can get the disciplinary history of a salesperson or firm from the NASD at 1-800-289-9999, and additional information from your state securities official, at the North American Securities Administrators Association's central number: (202) 737-0900. You also may contact the SEC with complaints at (202) 272-7440.

### FURTHER INFORMATION

THE SECURITIES BEING SOLD TO YOU HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION. MOREOVER, THE SECURITIES AND EXCHANGE COMMISSION HAS NOT PASSED UPON THE FAIRNESS OR THE MERITS OF THIS TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN ANY PROSPECTUS OR ANY OTHER INFORMATION PROVIDED BY AN ISSUER OR A BROKER OR DEALER.

Generally, penny stock is a security that:

Is priced under five dollars;

Is *not* traded on a national stock exchange or on NASDAQ (the NASD's automated quotation system for actively traded stocks);

May be listed in the "pink sheets" or the NASD OTC Bulletin Board;

Is issued by a company that has less than \$5 million in net tangible assets and has been in business less than three years, by a company that has under \$2 million in net tangible assets and has been in business for at least three years, or by a company that has revenues of \$6 million for 3 years.

#### *Use Caution When Investing in Penny Stocks*

1. *Do not make a hurried investment decision.* High-pressure sales techniques can be a warning sign of fraud. The salesperson is not an impartial advisor, but is paid for selling stock to you. The salesperson does not have to watch your investment for you. Thus, you should think over the offer and seek outside advice. Check to see if the information given by the salesperson differs from other information you may have. Also, it is illegal for salespersons to promise that a stock will increase in value or is risk-free, or to guarantee against loss. If you think there is a problem, ask to speak with compliance official at the firm, and, if necessary, any of the regulators referred to in this statement.

2. *Study the company issuing the stock.* Be wary of companies that have no operating history, few assets, or no defined business purpose. These may be sham or "shell" corporations. Read the prospectus for the company carefully before you invest. Some dealers fraudulently solicit investors' money to buy stock in sham companies, artificially inflate the stock prices, then cash in their profits before public investors can sell their stock.

3. *Understand the risky nature of these stocks.* You should be aware that you may lose part or all of your investment. Because of large dealer spreads, you will not be able to sell the stock immediately back to the dealer at the same price it sold the stock to you. In some cases, the stock may fall quickly in value. New companies, whose stock is sold in an "initial public offering," often are riskier investments. Try to find out if the shares the salesperson wants to sell you are part of such an offering. Your salesperson must give you a "prospectus" in an initial public offering, but the financial condition shown in the prospectus of new companies can change very quickly.

4. *Know the brokerage firm and the salespeople with whom you are dealing.* Because of the nature of the market for penny stock, you may have to rely solely on the original brokerage firm that sold you the stock for prices and to buy the stock back from you. Ask the National Association of Securities Dealers, Inc. (NASD) or your state securities regulator, which is a member of the North American Securities Administrators Association, Inc. (NASAA), about the licensing and disciplinary record of the brokerage firm and the salesperson contacting you. The telephone numbers of the NASD and NASAA are listed on the first page of this document.

5. *Be cautious if your salesperson leaves the firm.* If the salesperson who sold you the stock leaves his or her firm, the firm may reassign your account to a new salesperson. If you have problems, ask to speak to the firm's branch office manager or a compliance officer. Although the departing salesperson may ask you to transfer your stock to his or her new firm, you do not have to do so. Get information on the new firm. Be wary of requests to sell your securities when the salesperson transfers to a new firm. Also, you have the right to get your stock certificate from your selling firm. You do not have to leave the certificate with that firm or any other firm.

## YOUR RIGHTS

*Disclosures to you.* Under penalty of federal law your brokerage firm must tell you the following information at two different times before you agree to buy or sell a penny stock, and after the trade, by *written confirmation*:

*The bid and offer price quotes for penny stock, and the number of shares to which the quoted prices apply.* The *bid* and *offer* quotes are the wholesale prices at which the dealers trade among themselves. These prices give you an idea of the market value of the stock. The dealer must tell you these price quotes if they appear on an automated quotation system approved by the SEC. If not, the dealer must use its own quotes or trade prices. You should calculate the *spread*, the difference between the bid and offer quotes, to help decide if buying the stock is a good investment.

A lack of quotes may mean that the market among dealers is not active. It thus may be difficult to resell the stock. You also should be aware that the actual price charged to you for the stock may differ from the price quoted to you for 100 shares. You should therefore determine, before you agree to a purchase, what the actual sales price (before the markup) will be for the exact number of shares you want to buy.

*The brokerage firm's compensation for the trade.* A *markup* is the amount a dealer adds to the wholesale offer price of the stock and a *markdown* is the amount it subtracts from the wholesale bid price of the stock as *compensation*. A markup/markdown usually serves the same role as a broker's commission on a trade. Most of the firms in the penny stock market will be dealers, not brokers.

*The compensation received by the brokerage firm's salesperson for the trade.* The brokerage firm must disclose to you, as a total sum, the cash compensation of your salesperson for the trade that is known at the time of the trade. The firm must describe in the written confirmation the nature of any other compensation of your salesperson that is unknown at the time of the trade.

In addition to the items listed above, your brokerage firm must send to you:

*Monthly account statements.* In general your brokerage firm must send you a monthly statement that gives an estimate of the value of each penny stock in your account, if there is enough information to make an estimate. If the firm has not bought or sold any penny stock for your account for six months, it can provide these statements every three months.

*A written statement of you financial situation and investment goals.* In general, unless you have had an account with your brokerage firm for more than one year, or you have previously bought three different penny stocks from that firm, your brokerage firm must send you a written statement for you to sign that accurately describes your financial situation, your investment experience, and your investment goals, and that contains a statement of why your firm decided that penny stocks are a suitable investment for you. The firm also must get your written consent to buy the penny stock.

*Legal remedies.* If penny stocks are sold to you in violation of your rights listed above, or other federal or state securities laws, you may be able to cancel your purchase and get your money back. If the stocks are sold in a fraudulent manner, you may be able to sue the persons and firms that caused the fraud for damages. If you have signed an arbitration agreement, however, you may have to pursue your claim through arbitration. You may wish to contact an attorney. The SEC is not authorized to represent individuals in private litigation.

However, to protect yourself and other investors, you should report any violations of your brokerage firm's duties listed above and other securities laws to the SEC, the NASD, or your state securities administrator at the telephone numbers on the first page of this document. These bodies have the power to stop fraudulent and abusive activity of salespersons and firms engaged in the securities business. Or you can write to the SEC at 450 Fifth St., NW., Washington, DC 20549; the NASD at 1735 K Street, NW., Washington, DC 20006; or NASAA at 555 New Jersey Avenue, NW., Suite 750, Washington, DC 20001. NASAA will give you the telephone number of your state's securities agency. If there is any disciplinary record of a person or a firm, the NASD, NASAA, or your state securities regulator will send you this information if you ask for it.

## MARKET INFORMATION

*The market for penny stocks.* Penny stocks usually are not listed on an exchange or quoted on the NASDAQ system. Instead, they are traded between dealers on the telephone in the “over-the-counter” market. The NASD’s OTC Bulletin Board also will contain information on some penny stocks. At times, however, price information for these stocks is not publicly available.

*Market domination.* In some cases, only one or two dealers, acting as “market Makers,” may be buying and selling given stock. You should first ask if a firm is acting as a *broker* (your agent) or a *dealer*. A *dealer* buys stock itself to fill your order or already owns the stock. A *market maker* is a dealer who holds itself out as ready to buy and sell stock on a regular basis. If the firm is a market maker, ask how many other market makers are dealing in the stock to see if the firm (or group of firms) dominates the market. When there are only one or two market makers, there is a risk that the dealer or group of dealers may control the market in that the stock and set prices that are not based on competitive forces. In recent years, some market makers have created fraudulent markets in certain penny stocks, so that stock prices rose suddenly, but collapsed just as quickly, at a loss to investors.

*Mark-ups and mark-downs.* The actual price that the customer pays usually includes the mark-up or mark-down. Mark-ups and mark-downs are direct profits for the firm and its salespeople, so you should be aware of such amounts to assess the overall value of the trade.

The “*spread*.” The difference between the bid and offer price is the spread. Like a mark-up or mark-down, the spread is another source of profit for the brokerage firm and compensates the firm for the risk of owning the stock. A large spread can make a trade very expensive to an investor. For some penny stocks, the spread between the bid and offer may be a large part of the purchase price of the stock. Where the bid price is much lower than the offer price, the market value of the stock must rise substantially before the stock can be sold at a profit. Moreover, an investor may experience substantial losses if the stock must be sold immediately.

*Example:* If the bid is \$0.04 per share and the offer is \$0.10 per share, the spread (difference) is \$0.06, which appears to be a small amount. But you lose \$0.06 on every share that you bought for \$0.10 if you had to sell that stock immediately to the same firm. If you had invested \$5,000 at the \$0.10 offer price, the market maker’s repurchase price, at \$0.04 bid, would be only \$2,000; thus you would lose \$3,000, or more than half of your investment, if you decided to sell the stock. In addition, you would have to pay compensation (a “mark-up,” “mark-down,” or commission) to buy and sell the stock.

*In addition to the amount of the spread,* the price of your stock must rise enough to make up for the compensation that the dealer charged you when it first sold you the stock. Then, when you want to resell the stock, a dealer again will charge compensation, in the form of a markdown. The dealer subtracts the markdown from the price of the stock when it buys the stock from you. Thus, to make a profit, the bid price of your stock must rise above the amount of the original spread, the markup, and markdown.

*Primary offerings.* Most penny stocks are sold to the public on an ongoing basis. However, dealers sometimes sell these stocks in initial public offerings. You should pay special attention to stocks of companies that have never been offered to the public before, because the market for these stocks is untested. Because the offering is on a first-time basis, there is generally no market information about the stock to help determine its value. The federal securities laws generally require broker-dealers to give investors a “prospectus,” which contains information about the objectives, management, and financial condition of the issuer. In the absence of market information, investors should read the company’s prospectus with special care to find out if the stocks are a good investment. However, the prospectus is only a description of the current condition of the company. The outlook of the start-up companies described in a prospectus often is very uncertain.

For more information about penny stocks, contact the Office of Filings, Information, and Customer Services of the U.S. Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549, (202) 272-7440

The following document should be signed by each person acknowledging their receipt of the required disclosure document:

AGREEMENT TO PURCHASE

UNDER SECURITIES AND EXCHANGE COMMISSION RULE 15G, IT IS UNLAWFUL FOR US TO EFFECT THE SALE OF THE DESIGNATED SECURITIES IDENTIFIED BELOW UNLESS WE HAVE GIVEN YOU A COPY OF THE DISCLOSURE DOCUMENT REQUIRED UNDER SEC RULE 15G.

By signing below you are acknowledging you have received the disclosure document required to be handed out under SEC Rule 15G.

Signature of Customer(s) \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name \_\_\_\_\_

Signature of Customer(s) \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name \_\_\_\_\_

Signature of Registered Representative:

\_\_\_\_\_ Date: \_\_\_\_\_

Printed Name \_\_\_\_\_

**5. 240.15g-3 Broker or dealer disclosure of quotations and other information relating to the penny stock market.**

(a) Requirement. The Firm cannot effect a transaction in any penny stock with or for the account of a customer unless it discloses to such customer within the time periods and in the manner required by paragraph (b) of this section, the following information:

(1) The inside bid quotation and the inside offer quotation for the penny stock.

(2) If paragraph (a)(1) of this section does not apply because of the absence of an inside bid quotation and an inside offer quotation:

(i) With respect to a transaction effected with or for a customer on a principal basis (other than as provided in paragraph (a)(2)(ii) of this section):

(A) The Firm shall disclose its offer price for the security:

(1) If during the previous five days the dealer has effected no fewer than three bona fide sales to other dealers consistently at its offer price for the security current at the time of those sales, and

(2) If the dealer reasonably believes in good faith at the time of the transaction with the customer that its offer price accurately reflects the price at which it is willing to sell one or more round lots to another dealer. For purposes of paragraph (a)(2)(i)(A) of this section, “consistently” shall constitute, at a minimum, seventy-five percent of the dealer’s bona fide inter-dealer sales during the previous five-day period, and if the dealer has effected only three bona fide inter-dealer sales during such period, all three of such sales.

(B) The dealer shall disclose its bid price for the security:

(1) If during the previous five days the dealer has effected no fewer than three bona fide purchases from other dealers consistently at its bid price for the security current at the time of those purchases, and

(2) If the dealer reasonably believes in good faith at the time of the transaction with the customer that its bid price accurately reflects the price at which it is willing to buy one or more round lots from another dealer. For purposes of paragraph (a)(2)(i)(B) of this section, “consistently” shall constitute at a minimum, seventy five percent of the dealer’s bona fide inter-dealer purchases during the previous five-day period, and if the dealer has effected only three bona fide inter-dealer purchases during such period, all three of such purchases.

(C) If the dealer's bid or offer prices to the customer do not satisfy the criteria of paragraphs (a)(2)(i)(A) or (a)(2)(i)(B) of this section, the dealer shall disclose to the customer:

(1) That it has not effected inter-dealer purchases or sales of the penny stock consistently at its bid or offer price, and

(2) The price at which it last purchased the penny stock from, or sold the penny stock to, respectively, another dealer in a bona fide transaction.

(ii) With respect to transactions effected by the Firm with or for the account customer:

(A) On an agency basis or

(B) On a basis other than as a market maker in the security, where, after having received an order from the customer to purchase a penny stock, the dealer effects the purchase from another person to offset a contemporaneous sale of the penny stock to such customer, or after having received an order from the customer to sell the penny stock, the dealer effects the sale to another person to offset a contemporaneous purchase from such customer, the broker or dealer shall disclose the best independent inter-dealer bid and offer prices for the penny stock that the broker dealer obtains through reasonable diligence. A broker-dealer shall be deemed to have exercised reasonable diligence if it obtains quotations from three market makers in the security (or all known market makers if there are fewer than three.)

(3) With respect to bid or offers prices and transaction prices disclosed pursuant to paragraph (a) of this section, the broker or dealer shall disclose the number of shares to which the bid and offer prices apply.

(b) Timing. (1) The information described in paragraph (a) of this section:

(i) Shall be provided to the customer orally or in writing prior to effecting any transaction with or for the customer for the purchase or sale of such penny stock; and

(ii) Shall be given or sent to the customer in writing, at or prior to the time that any written confirmation of the transaction is given or sent to the customer pursuant to 17 CFR 240.10b-10 of this chapter.

(2) A broker or dealer, at the time of making the disclosure pursuant to paragraph (b)(1)(i) of this section, shall make and preserve as part of its records, a record of such disclosure for the period specified in 17 CFR 240.17a-4(b).

(c) Definitions. For purpose of this section:

(1) The term bid price shall mean the price most recently communicated by the dealer to another broker or dealer at which the dealer is willing to purchase one or more round lots of the penny stock, and shall not include indications of interest.

(2) The term offer price shall mean the price most recently communicated by the dealer to another broker or dealer at which the dealer is willing to sell one or more round lots of the penny stock, and shall not include indications of interest.

(3) The term inside bid quotation for a security shall mean the highest bid quotation for the security displayed by a market maker in the security on a Qualifying Electronic Quotation System, at any time in which at least two market makers are contemporaneously displaying on such system bid and offer quotations for the security at specified prices.

(4) The term inside offer quotation for a security shall mean the lowest offer quotation for the security displayed by a market maker in the security on a Qualifying Electronic Quotation System, at any time in which at least two market makers are contemporaneously displaying on such system bid and offer quotations for the security at specified prices.

(5) The term Qualifying Electronic Quotation System shall mean an automated inter-dealer quotation system that has the characteristics set forth in section 17B(b)(2) of the Act, or such other automated inter-dealer quotation system designated by the Commission for purposes of this section.

(6) **240.15g-4 Disclosure of compensation to brokers or dealers:**

(a) Disclosure Requirement. The Firm will not effect a transaction in any penny stock for or with the account of a customer unless it discloses to such customer, with in the time periods and in the manner required by paragraph (b) of this section, the aggregate amount of any compensation received by the Firm in connection with such transaction.

(b) Timing. (1) The information described in paragraph (a) of this section:

(i) Shall be provided to the customer orally or in writing prior to effecting any transaction with or for the customer for the purchase or sale of such penny stock: and

(ii) Shall be given or sent to the customer in writing, at or prior to the time that any written confirmation of the transaction is given or sent to the customer pursuant to 17 CFR 240.10b-10.

(2) The Firm, at the time of making the disclosure pursuant to paragraph (b)(1)(i) of this section, shall make and preserve as part of its records, a record of such disclosure for the period specified in 17 CFR 240.17a-4(b).

(c) Definition of Compensation. For purposes of this section, compensation means, with respect to a transaction in a penny stock:

(1) If the Firm is acting as an agent for a customer, the amount of any remuneration received or to be received by it from such customer in connection with such transaction:

(2) If, after having received a buy order from a customer, a dealer other than a market maker purchased the penny stock as principal from another person to offset a contemporaneous sale to such customer or, after having received a sell order from a customer, sold the penny stock as principal to another person to offset a contemporaneous purchase from such customer, the difference between the price to the customer and such contemporaneous purchase or sale price: or

(3) If the dealer otherwise is acting as principal for its own account, the difference between the price to the customer and the prevailing market price.

(d) “Active and competitive” market. For purposes of this section only, a market may be deemed to be “active and competitive” in determining the prevailing market price with respect to a transaction by a market maker in a penny stock if the aggregate number of transactions effected by such market maker in the penny stock in the five business days preceding such transaction is less than twenty percent of the aggregated number of all transactions in the penny stock reported on a Qualifying Electronic Quotation System (as defined in 17 CFR 240.15g-3(c)(5) during such five day period. No presumption shall arise that a market is not “active and competitive” solely by reason of a market maker not meeting the conditions specified in this paragraph.

#### **7. 240.15g-5 Disclosure of compensation of associated persons in connection with penny stock transactions.**

(a) General. The Firm cannot effect a transaction in any penny stock for or with the account of a customer unless the Firm discloses to such customer, within the time periods and the manner required by paragraph (b) of this section, the aggregate amount of cash compensation that any associated person of the Firm who is a natural person and has communicated with the customer concerning the transaction at or prior to receipt to the customer’s transaction order, other than any person whose function is solely clerical or ministerial, has received or will receive from any source in connection with the transaction and that is determined at or prior to the time of the transaction, including separate disclosure, if applicable, of the source and amount of such compensation that is not paid by the Firm.

(b) Timing. (1) The information described in paragraph (a) of this section:

(i) Shall be provided to the customer orally or in writing prior to effecting any transaction with or for the customer for the purchase or sale of such penny stock; and

(ii) Shall be given or sent to the customer in writing, at or prior to the time that any written confirmation of the transaction is given or sent to the customer pursuant to 17 CFR 240.10b-10.

(c) Contingent compensation arrangements. Where a portion or all of the cash or other compensation that the associated person may receive in connection with the transaction may be determined and paid following the transaction based on aggregate sale volume levels or other contingencies, the written disclosure required by paragraph (b)(1)(ii) of this section shall state that fact and describe the basis upon which such compensation is determined.

#### **8. 240.15g-6 Account statements for penny stock customers.**

(a) Requirement. The Firm cannot effect a sale to any customer, other than in transaction that is exempt pursuant to 17 CFR 240.15g-1, of any security that is a penny stock on the last trading day of any calendar month, or any successor of the Firm, to fail to give or send to such customer a written statement containing the information described in paragraphs (c) and (d) of this section with respect to each such month in which such security is held for the customer's account with the Firm, within ten days following the end of such month.

(b) Exemptions. The Firm shall be exempt from the requirements of paragraph (a) of this section under either of the following circumstances:

(1) If the Firm does not effect any transactions in penny stocks for or with the account of the customer during a period of six consecutive calendar months, then the Firm shall not be required to provide monthly statements for each quarterly period that is immediately subsequent to such six-month period and in which the Firm does not effect any transaction in penny stocks for or with the account of the customer, provided that the Firm gives or sends to the customer written statements containing the information described in paragraphs (d) and (e) of this section on a quarterly basis, within ten days following the end of each such quarterly period.

(2) If, on all but five or fewer trading days of any quarterly period, a security has a price of five dollars or more, the Firm shall not be required to provide a monthly statement covering the security for subsequent quarterly periods, until the end of any such subsequent quarterly period on the last trading day of which the price of the security is less than five dollars.

(c) Price Determinations. For purposes of paragraphs (a) and (b) of this section, the price of a security on any trading day shall be determined at the close of business in accordance with the provisions of 17 CFR 240.3a51-1(d)(1).

(d) Market and price information. The statement required by paragraph (a) of this section shall contain at least the following information with respect to each penny stock covered by paragraph (a) of this section, as of the last trading day of the period to which the statement relates:

(1) The identity and number of shares or units of each such security held for the customer's account; and

(2) The estimated market value of the security, to the extent that such estimated market value can be determined in accordance with the following provisions:

(i) The highest inside bid quotation for the security on the last trading day of the period to which the statement relates, multiplied by the number of shares or units of the security held for the customer's account; or

(ii) If paragraph (d)(2)(i) of this section is not applicable because of the absence of an inside bid quotation, and if the Firm furnishing the statement has effected at least ten separate Qualifying Purchases in the security during the last five trading days of the period to which the statement relates, the weighted average price per share paid by the Firm in all Qualifying Purchases effected during such five-day period, multiplied by the number of shares or units of the security held for the customer's account; or

(iii) If neither of paragraphs (d)(2)(i) nor (d)(2)(ii) of this section is applicable, a statement that there is "no estimated market value" with respect to the security.

(e) Legend. In addition to the information required by paragraph (d) of this section, the written statement required by paragraph (a) of this section shall include a conspicuous legend that is identified with the penny stocks described in the statement and that contains the following language:

IF THIS STATEMENT CONTAINS AN ESTIMATED VALUE, YOU SHOULD BE AWARE THAT THIS VALUE MAY BE BASED ON A LIMITED NUMBER OF TRADES OR QUOTES. THEREFORE, YOU MAY NOT BE ABLE TO SELL THESE SECURITIES AT A PRICE EQUAL OR NEAR TO THE VALUE SHOWN. HOWEVER, THE BROKER-DEALER FURNISHING THIS STATEMENT MAY NOT REFUSE TO ACCEPT YOUR ORDER TO SELL THESE SECURITIES. ALSO, THE AMOUNT YOU RECEIVE FROM A SALE GENERALLY WILL BE REDUCED BY THE AMOUNT OF ANY COMMISSIONS OR SIMILAR CHARGES. IF AN ESTIMATED VALUE IS NOT SHOWN FOR A SECURITY, A VALUE COULD NOT BE DETERMINED BECAUSE OF LACK OF INFORMATION.

(f) Preservation of records. If the Firm is subject to this section is shall preserve, as part of its records, copies of the written statements required by paragraph (a) of this section and keep such records for the periods specified in 17 CFR 240.17a-4(b).

#### 240.15g-8 Sales of Escrowed Securities of Blank Check Companies

It shall be unlawful for any person to sell or offer to sell any security that is deposited and held in an escrow or trust account pursuant to Rule 419 under the Securities Act 1933, or any interest in or related to such security, other than pursuant to a qualified domestic relations order as defined by the Internal Revenue Service of 1986 as amended or title I of ERISA or the rules thereunder.

#### 240.15g-9 Sales practice requirements for certain low-priced securities.

(a) It shall be unlawful for the Firm to sell a designated security to, or to effect the purchase of a designated security by, any person unless:

(1) The transaction is exempt under paragraph (c) of this section; or

(2) Prior to the transaction:

(i) The Sales DP has approved the person's account for transactions in penny stocks in accordance with the procedures set forth in these procedures; and

(ii) The Firm has received from the person written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased.

(b) In order to approve a person's account for transactions in penny stocks, the Firm must:

(i) Obtain from the person information concerning the person's financial situation, investment experience, and investment objectives;

(2) Reasonably determined, based on the information required by paragraph (b)(1) of this section and any other information known by the Firm, that transactions in penny stocks are suitable for the person, and that the person (or person's independent adviser in these transactions) has sufficient knowledge and experience in financial matters that the person (or the person's independent adviser in these transactions) reasonably may be expected to be capable of evaluating the risks of transactions in penny stocks;

(3) Deliver to the person a written statement:

(i) Setting forth the basis on which the Firm made the determination required by paragraph (b)(2) of this section;

(ii) Stating in a highlighted format that it is unlawful for the Firm to effect a transaction in a penny stock subject to the provisions of paragraph (a)(2) if this section unless the Firm has received, prior to the transaction, a written agreement to the transaction from the person; and

(iii) Stating in a highlighted format immediately preceding the customer signature line that:

(A) The Firm is required by this section to provide the person with the written statement; and

(B) The person should not sign and return the written statement to the Firm if it does not accurately reflect the person's financial situation, investment experience, and investment objectives; and

(4) Obtain from the person a manually signed and dated copy of the written statement required by paragraph (b)(3) of this section.

(c) For purposes of this section, the following transactions shall be exempt:

(1) Transactions that are exempt under 17 CFR 240.15g-1 (a), (b), (d), (e), and (f).

(2) Transactions that meet the requirements of 17 CFR 230.505 or 230.506 (including, where applicable, the requirements of 17 CFR 230.501 through 230.503, and 17 CFR 230.507 through 230.508), or transactions with an issuer not involving any public offering pursuant to section 4(2) of the Securities Act of 1933.

(3) Transactions in which the purchaser is an established customer of the broker dealer.

The following forms are to be used to meet the requirements of Rule 15g-9:

**AGREEMENT TO PURCHASE**

**UNDER SECURITIES AND EXCHANGE COMMISSION RULE 15G, IT IS UNLAWFUL FOR US TO EFFECT THE SALE OF THE DESIGNATED SECURITIES IDENTIFIED BELOW UNLESS WE HAVE RECEIVED, *PRIOR TO THE TRANSACTION*, A WRITTEN AGREEMENT TO THE TRANSACTION.**

By signing below, you are agreeing to the purchase of the shares identified below at a price that will be confirmed to you for your agreement by your account executive prior to execution of the transaction.

**DESIGNATED SECURITIES:**

Name of Issuer: \_\_\_\_\_

Type of Security (common stock, units, warrants, etc.): \_\_\_\_\_

Number of Shares: \_\_\_\_\_

Signature of Customer(s) \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name \_\_\_\_\_

Signature of Customer(s) \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name \_\_\_\_\_

Signature of Registered Representative:

\_\_\_\_\_ Date: \_\_\_\_\_

I. PERSONAL INFORMATION

NAME

ADDRESS

SOC. SEC. or TAXPAYER ID# \_\_\_\_\_ TELEPHONE:(HOME) \_\_\_\_\_

Account number: \_\_\_\_\_

Marital Status: \_\_\_ Single \_\_\_ Married \_\_\_ Other:

Number of dependents: \_\_\_\_\_

AGE: \_\_\_\_\_

Occupation: \_\_\_\_\_ Position: \_\_\_\_\_

Employer: \_\_\_\_\_ Address: \_\_\_\_\_

Years with current employer: \_\_\_\_\_ If less than two years,

name of previous employer: \_\_\_\_\_

Education: (Check all that apply)

\_\_\_ High School

\_\_\_ College

\_\_\_ Advance College Degree(s) \_\_\_\_\_

FINANCIAL SITUATION

Estimated annual income form all sources:

\_\_\_\_\_ Below \$20,000

\_\_\_\_\_ \$20,000 to \$35,000

\_\_\_\_\_ \$35,000 to \$50,000

\_\_\_\_\_ \$50,000 to \$100,000

\_\_\_\_\_ \$100,000 to \$200,000

\_\_\_\_\_ Over \$200,000

Estimated new worth (excluding primary residence): (check one)

\_\_\_\_\_ Below \$50,000

\_\_\_\_\_ \$50,000 to \$100,000

\_\_\_\_\_ \$100,000 to \$500,000

\_\_\_\_\_ \$500,000 to \$1 million

\_\_\_\_\_ Over \$1 million

Estimated liquid net worth (cash, equity securities, bonds, etc.):

Check one:

\_\_\_\_\_ Below \$10,000

\_\_\_\_\_ \$10,000 to \$25,000

\_\_\_\_\_ \$25,000 to \$50,000

\_\_\_\_\_ \$50,000 to \$100,000

\_\_\_\_\_ Over \$100,000

Sources of Annual Income (as a % of total income):

Employment Compensation \_\_\_\_\_%

Investment Income \_\_\_\_\_%

Other (please specify): \_\_\_\_\_%

\_\_\_\_\_%

New Account \_\_\_\_\_ Yes \_\_\_\_\_ No

If no, date account opened:

Sources of Information for Section I above: (check one)

\_\_\_\_\_ Customer

\_\_\_\_\_ Other (please identify):

## II. INVESTMENT OBJECTIVES AND EXPERIENCE

Investment Objectives: (if more than one, give order of importance with "1" being most important.)

\_\_\_ Income ( Cash-generating, high dividend stocks and bonds)

\_\_\_ Growth (Long-term capital appreciation)

\_\_\_ Safety of Principal/Income (Protection of investment plus income)

\_\_\_ Safety of Principal/Growth (Protection of investment plus growth)

\_\_\_ Speculation (High risk of loss)

\_\_\_ Trading Profits

\_\_\_ Other (please specify):

### INVESTMENT EXPERIENCE:

TYPE	YEARS OF EXPERIENCE	USUAL DOLLARS INVESTED PER TRADE	NUMBER TRADES YEAR	TYPE PER ACCT. C/M*
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Non-Nasdaq/  
non-exchange  
stocks < \$3  
per share

\_\_\_\_\_

Other stocks  
priced < \$5  
per share

\_\_\_\_\_

Stocks \_\_\_\_\_

Bonds \_\_\_\_\_

Options \_\_\_\_\_

Commodities \_\_\_\_\_

Other (specify): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\*Type of Account: Designate C for Cash, M for Margin.

Source of Information of Section II above: (check one)

\_\_\_\_\_ Customer

\_\_\_\_\_ Other (please identify):

\_\_\_\_\_

Do you understand that you may lose your entire amount invested in your Designated Security purchase?

\_\_\_\_\_ Yes      \_\_\_\_\_ No

**III. INVESTMENT ADVISER** (If not applicable, check here \_\_\_\_ ).

If there is no Investment Adviser for this account, check the box above and proceed to Section IV below. If you have retained an independent adviser to assist you in evaluation of the purchase of Designates Securities in this account, please provide the following information:

Name of Adviser: \_\_\_\_\_

Business Address: \_\_\_\_\_

Business Telephone: \_\_\_\_\_

Credentials/Experience (to extent known by customer): \_\_\_\_\_

Length of Time Adviser Has Advised Customer: \_\_\_\_\_

**IV. OTHER INFORMATION**

Customer may provide any other information he or she deems relevant to his or her financial status, investment objectives, or investment experience. Attach additional sheets if necessary.

**V. SUITABLE DETERMINATION**

Dear Customer,

Based on the information provided in Sections I through IV above, regarding your financial situation, investment objectives, and investment experience. For the reasons set forth below, we have determined that transactions in Designated Securities are suitable for you. In addition, we have determined that you have sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in Designated Securities. The following analysis is the basis for this evaluation: (MUST BE COMPLETED)

Signature of Principal of Firm: \_\_\_\_\_ Date: \_\_\_\_\_

UNDER SECURITIES AND EXCHANGE COMMISSION RULE 15G, IT IS UNLAWFUL FOR US TO EFFECT THE SALE OF DESIGNATED SECURITIES TO YOU UNLESS WE HAVE RECEIVED FROM YOU, PRIOR TO THE TRANSACTION, A WRITTEN AGREEMENT TO THE TRANSACTION.

WE ARE REQUIRED TO PROVIDE YOU WITH THIS STATEMENT AS TO THE SUITABILITY OF TRANSACTIONS IN DESIGNATED SECURITIES FOR YOU. PLEASE READ IT VERY CAREFULLY. YOU SHOULD NOT SIGN AND RETURN THIS STATEMENT IF IT DOES NOT ACCURATELY REFLECT YOUR FINANCIAL SITUATION, INVESTMENT OBJECTIVES, AND INVESTMENT EXPERIENCE, OR IF YOU DO NOT UNDERSTAND THE BASIS SET FORTH ABOVE, OF OUR DETERMINATION THAT TRANSACTIONS IN DESIGNATED SECURITIES ARE SUITABLE FOR YOU.

I CERTIFY THAT THE FOREGOING IS TRUE, CORRECT AND ACCURATE:

Signature of Customer(s) \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name \_\_\_\_\_

Signature of Customer(s) \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name \_\_\_\_\_

Comments:

Note: do not return this completed form to the brokerage firm via facsimile transmission or any other form of electronic transfer. The Firm must have the original copy of this form before it can effect transactions in Designated Securities.

\_\_\_ Original signed copy to be filed in customer account file.

\_\_\_ A copy of this document to be placed in Designated Securities control file.

\_\_\_ Customer copy.

STATEMENT OF NON-SOLICITATION

DATE: \_\_\_\_\_, 20\_\_\_\_

**Scottsdale Capital Advisors, Inc.**

To whom it may concern:

My order given to \_\_\_\_\_ on \_\_\_\_\_, 20\_\_\_\_\_

For \_\_\_\_\_ Shares of \_\_\_\_\_

No. of Shares	Name of Security	Class of Security
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Was not directly or indirectly solicited by **Scottsdale Capital Advisors, Inc.** or any of its officers and / or employees, registered representatives, associated persons, and I in no way hold **Scottsdale Capital Advisors, Inc.**, its officers and / or employees, registered representatives, associated persons responsible for any recommendation to purchase this security.

It is also my understanding that the security may not qualify for secondary trading exemption at this time.

X \_\_\_\_\_  
Name

Customer Account Number: \_\_\_\_\_

X \_\_\_\_\_  
Name

Customer Account Number: \_\_\_\_\_

X \_\_\_\_\_  
Name

Customer Account Number: \_\_\_\_\_

X \_\_\_\_\_  
Officer

Date