PENNY STOCK RISK DISCLOSURE STATEMENT

THIS STATEMENT IS REQUIRED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION ("SEC") AND CONTAINS IMPORTANT INFORMATION ABOUT THE RISKS ASSOCIATED WITH PENNY STOCKS. PLEASE REVIEW THIS STATEMENT CAREFULLY BEFORE MAKING A DECISION TO PURCHASE ANY PENNY STOCKS.

Penny stocks can be very risky.

- Penny stocks are low-priced shares of small companies not traded on an exchange or quoted on the 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, clients may lose the investment. Be cautious of newly issued penny stocks.

- The client's salesperson is not an impartial advisor but is paid to sell the stock. Do not rely only on the salesperson, but seek outside advice before buying any stock. If there are problems with a salesperson, contact the firm's compliance officer or the regulators listed below.

Obtain Information:

- Before buying penny stocks, federal law requires the salesperson to convey the "offer" and the "bid" on the stock, and the "compensation" the salesperson and the firm receive for the trade. The firm also is required to mail a confirmation of these prices to clients after the trade.

- This price information is needed to determine what profit, if any, a client will have when sell their 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 a client, 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 sold, the bid price of this stock must rise above the amount of this spread and the compensation charged by both the selling and purchasing dealers. If the dealer has no bid price, the stock may not be able to be sold after it was purchased, and may lose the whole investment.

Brokers' duties and client's rights and remedies.

- If a client is a victim of fraud, there may be rights and remedies under state and federal law. Obtain the disciplinary history of a salesperson or firm from FINRA at 1-800-289-9999, and additional information from the applicable State securities official at the North American Securities Administrators Association's central number: (202) 737-0900. The client can also contact the SEC with complaints at (202) 272-7440.

FURTHER INFORMATION

Generally, a penny stock is a security that:

- Is priced under five dollars;
- Is not traded on a national stock exchange or on NASDAQ (an automated quotation system for actively traded stocks);
- May be listed in the "pink sheets" or the 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. Avoid hurried investment decisions. High-pressure sales techniques can be a warning sign of fraud. The salesperson is not an impartial advisor, but is paid for selling stock. The salesperson also does not have to watch their client's investment. Thus, think over the offer and seek outside advice. Check to see if the information given by the salesperson differs from other information received. Also, it is illegal for salespersons to promise that stock will increase in value or is risk-free, or to guarantee against loss. If there is a problem, ask to speak with a 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 investing. 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. Be aware that there may be a loss of part or all of the investment. Because of large dealer spreads, investors will not be able to sell the stock immediately back to the dealer at the same price it sold the stock to the same investor. 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 are part of such an offering. The salesperson is required to provide 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 salesperson. Because of the nature of the market for penny stock, the client may need to rely solely on the original brokerage firm that sold the stock for prices and to buy the stock back from the client. Ask the Financial Industry Regulatory Authority (FINRA) or the broker's 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 contact. The telephone numbers of the FINRA and NASAA are listed on the first page of this document.
5. Be cautious if the salesperson leaves the firm. If the salesperson who sold the stock leaves his or her firm, the firm may reassign the client's account to a new salesperson. If there are problems, ask to speak to the firm's branch office manager or a compliance officer. Although the departing salesperson may ask to transfer the client's stock to a new firm, but is not required. Get information on the new firm. Be wary of requests to sell any securities when the salesperson transfers to a new firm. Investors have the right to get their stock certificate from the selling firm. It is not required to leave the certificate with that firm or any other firm.

RIGHTS AND DISCLOSURES

Disclosures. Under penalty of federal law, the brokerage firm has an obligation to inform clients of the following information two different times before the client agrees 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 dealers trade among themselves. These prices give investors an idea of the market value of the stock. The dealer is required to inform of these price quotes if they appear on an automated quotation system approved by the SEC. If not, the dealer is required to use its own quotes or trade prices. 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. Also be aware that the actual price charged for the stock may differ from the price quoted for 100 shares. Determine therefore, before agreeing to a purchase, what the actual sales price (before the markup) will be for the exact number of shares chosen to buy.

* The brokerage firm's compensation for the trade. A mark-up 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 is required to disclose, as a total sum, the cash compensation of the salesperson for the trade that is known at the time of the trade. The firm is required to describe in the written confirmation the nature of any other compensation of the salesperson that is unknown at the time of the trade.

In addition to the items listed above, the brokerage firm has an obligation to send:

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

* A Written Statement of Financial Situation and Investment Goals. In general, unless an account with the client's brokerage firm is held for more than one year, or previously purchased three different penny stocks from that firm, the brokerage firm is required to send a written statement for client signature that accurately describes the individual's financial situation, their investment experience and investment goals, and that contains a statement of why the firm decided that penny stocks are a suitable investment for the client. The firm also is required to get a written consent to buy the penny stock.

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

However, to protect clients and other investors, report any violations of the brokerage firm's duties listed above and other securities laws to the SEC, FINRA, or the applicable 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 write to the SEC at 450 Fifth St., NW, Washington, DC 20549; FINRA at 1735 K Street, NW. Washington, DC 20006; or NASAA at 553 New Jersey Avenue, NW., Suite 750, Washington, DC 20001. NASAA will provide the telephone number of the individual's state securities agency. If there is any disciplinary record of a person or a firm, FINRA, NASAA, or the broker's state securities regulator will send this information if requested.

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 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 a given stock. First ask if a firm is acting as a broker (the agent) or as a dealer. A dealer buys stocks itself to fill the 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 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 client pays usually includes the mark-up or mark-down. Markups and markdowns are direct profits for the firm and its salespeople, so 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 would 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 the 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. 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. For more information about penny stocks, contact the Office of Filings, Information, and Consumer Services of the U.S. Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549 (202) 272-7440.