

STATEMENT OF POLICY REGARDING LOANS AND OTHER MATERIAL AFFILIATED TRANSACTIONS

Amended November 18, 1997

- I. INTRODUCTION. The North American Securities Administrators Association, Inc. ("NASAA.") has determined that the following guideline relating to loans and other material affiliated transactions 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. Where there have been or will be loans and other material affiliated transactions as described in this Statement of Policy, the offer or sale of securities may be disallowed by the Administrator unless the Issuer has, and represents in the prospectus or offering document that it will maintain, at least 2 INDEPENDENT DIRECTORS on its board of directors.
- IV. The offer or sale of securities may be disallowed by the Administrator if the Issuer or its AFFILIATES will have loans outstanding after the offering, or intends to make loans to or loan guarantees on behalf of its PROMOTERS, other than:
 - A. Advances to officers, directors, and employees for travel, business expense, and similar ordinary operating expenditures;
 - B. Loans or loan guarantees made for the purchase of an Issuer's securities by its officers, directors, and employees, and loans for relocation of officers, directors, and employees, provided the loans or loan guarantees that are ongoing were approved by a majority of the INDEPENDENT DIRECTORS of the Issuer's board of directors who did not have an interest in the transactions and who had access, at the issuer's expense, to issuer's or independent legal counsel; or
 - C. Loans made by an Issuer or its AFFILIATES whose primary business is that of making loans, provided that:
 1. The loans will be evidenced by promissory notes naming the lender as payee;
 2. The loans will bear interest at rates which are comparable to those normally charged by other commercial lenders for similar loans made in the lender's locale;
 3. The loans will be repaid pursuant to appropriate amortization schedules and contain default provisions comparable to those normally used by other commercial lenders for similar loans made in the lender's locale;

4. The loans will be made only if credit reports and financial statements show the loans to be collectible and the borrowers are satisfactory credit risks, in light of the nature and terms of the loans and other circumstances;
5. The loans meet the loan policies normally used by other commercial lenders for similar loans made in the lender's locale;
6. The purposes of the loans and the disbursements of proceeds will be reviewed and monitored in a manner comparable to that normally used by other commercial lenders for similar loans made in the lender's locale; and
7. The loans will not violate the requirements of any banking or other financial institutions regulatory authority.

- V. Except for loans described in IV., above, all loans existing at the time of the application for registration shall be repaid in full prior to the offering. The Administrator may waive this requirement if:
 - A. Repayment of the loans will be made pursuant to appropriate amortization schedules; or
 - B. Any portion of the offering is made on behalf of a PROMOTER and the PROMOTER undertakes to immediately repay the loans from the proceeds of the offering.
- VI. The offer or sale of securities may be disallowed by the Administrator if the Issuer or its AFFILIATES have engaged in other material transactions with PROMOTERS, unless the prospectus discloses the terms of transactions and indicates whether such terms were as favorable to the issuer or its AFFILIATES as those generally available from unaffiliated third parties; and
 - A. The transaction is ratified by a majority of the Issuer's INDEPENDENT DIRECTORS who did not have an interest in the transactions and who had access, at the issuer's expense, to issuer's or independent legal counsel; or
 - B. For transactions which were entered into when there were less than two such disinterested INDEPENDENT DIRECTORS, the prospectus discloses that the Issuer lacked sufficient disinterested INDEPENDENT DIRECTORS to ratify the transactions at the time the transactions were initiated.
- VII. The Issuer shall disclose in the prospectus or offering document whether or not it or its AFFILIATES have made or will make loans to, have made or will make loan guarantees on behalf of, or have engaged or will engage in material transactions with PROMOTERS and the terms and details relating thereto. If material affiliated transactions or loans have been made, or may be made, the Administrator may

require the following representations to appear in the prospectus or offering document:

- A. All future material affiliated transactions and loans will be made or entered into on terms that are no less favorable to the Issuer than those that can be obtained from unaffiliated third parties; and
- B. All future material affiliated transactions and loans, and any forgiveness of loans, must be approved by a majority of the Issuer's INDEPENDENT DIRECTORS who do not have an interest in the transactions and who had access, at the issuer's expense, to issuer's or independent legal counsel.

NOTE: The Issuer and its officers and directors should consider their due diligence and other obligations to affirmatively demonstrate a reasonable basis for the representations in VI. and VII., above. In particular, they should consider whether the representations in VII. B., above, should be embodied in the Issuer's charter or bylaws.

NOTE: In order to satisfy the ratification provisions of Sections IV.B., VI.A., and VII. of this Statement of Policy the issuer must have at least two INDEPENDENT DIRECTORS on its board of directors. In the event the issuer has only two INDEPENDENT DIRECTORS on its board or directors, both INDEPENDENT DIRECTORS must be disinterested in and approve loans and other material transactions covered by Sections IV.B., VI.A., and VII.B.