

Subject: Unsolicited Quotations in OTC Equity Securities
For: OTC Trading Departments & Compliance Managers

Dear Subscriber:

Links to the new Pink Sheets Unsolicited Quote Entry Form and Pink Sheet's Guidelines for Providing Adequate Current Information Pursuant to Rule 15c2-11 are enclosed with this letter. We will require you to complete and submit the Form before you enter a quote representing an unsolicited indication of interest from a customer in a security that is not currently quoted on the Pink Sheets. Subsequent unsolicited quotations by other firms in that security will not require the Form as long as the security is continuously quoted in the Pink Sheets.

The Form lists six conditions under which Pink Sheets is prepared to accept unsolicited quotations in OTC Equity Securities. Exceptions will be considered on a case-by-case basis for good cause. The Guidelines contain our specific requirements for determining whether unsolicited quotes may be entered in reliance on the sixth condition -- when adequate current information is publicly available regarding the issuer and its securities.

These requirements represent a change in Pink Sheet's policies, and I would like to share with you our reasons for requiring this information.

It has been a great privilege in my years as a trader and as the CEO of Pink Sheets to participate in the market for securities issued by small businesses. Together with the broker-dealer community, Pink Sheets has helped the OTC market become an efficient, transparent and cost competitive trading venue that is now a very compelling place for companies to have their shares quoted. The OTC market is a vital part of the great incubator process where the entrepreneur with a dream and energy can find capital to fund new ventures. Some may fail, but others will become successful, growing enterprises that contribute to our economy. The risks are great, but the rewards are enormous, both for the hard-working small business owner and those investors with enough insight and determination to discover the diamonds in the rough that will ultimately succeed. This process generates the new products and ideas that make life better for all of us.

Unfortunately, the great OTC market that we have all helped create also attracts some unscrupulous individuals who seek profits from deceiving the unwary and unsophisticated. Pink Sheets is not a regulator; we leave it to the federal and state securities regulators to bring these people to justice. We are, however, determined to implement processes that protect Pink Sheets and our broker-dealer customers from swindlers intent on perpetrating their unlawful schemes.

Pink Sheets has become increasingly concerned that the salutary unsolicited quote exception in Exchange Act Rule 15c2-11 is being abused by unscrupulous individuals to engage in questionable and possibly fraudulent activities in violation of the federal securities laws. The Rule is intended to enable unaffiliated persons who happen to own an obscure and inactive freely trading security to sell the security in a trading market and for sophisticated investors in inactive securities to find sellers. Unfortunately, we have seen examples that suggest the Rule is being abused by unscrupulous issuers and their promoters to sell securities of new companies into the OTC market in violation of the registration and antifraud requirements of the federal securities laws. Moreover, broker-dealers, who are likely innocent of any wrongdoing, are being used to facilitate these unlawful practices. This unlawful activity has been the subject of recent news articles and resulted in increased regulatory scrutiny.

Federal securities laws require an issuer making a public offering of securities to file a registration statement with the Securities and Exchange Commission containing certain disclosures regarding the issuer and its securities. To avoid these requirements, an issuer and its promoters will directly or indirectly cause a broker-dealer to make an unsolicited quotation in the Pink Sheets on their behalf, and then advertise on the Internet that they have "gone public." Sometimes, the persons selling the securities may have held them for two years, thereby technically complying with the holding period requirements of Rule 144 under the Securities Act. Others have made use of the freely tradable exception for Rule 504 offerings in questionable ways. For some time now, the SEC has taken the view that such offerings and other forms of technical but not substantive compliance may violate the registration requirements of the Securities Act.

Broker-dealers who become involved in such illegal offerings may themselves be at risk of being charged with a violation of the Securities Act. Moreover, broker-dealers who participate in these offerings from insiders, affiliates or those acting on behalf of them might be considered "underwriters" and face underwriter's liability from the persons who purchase securities as a result of their Pink Sheets quotations. For these reasons it is important that Pink Sheets' broker-dealers implement practices to protect themselves from being unwittingly involved in such activities. Just because a security has been issued a symbol and/or a Cusip does not mean that the issuer has any freely tradable securities.

Even if a broker-dealer is confident that a quotation in the Pink Sheets will not involve a violation of the registration requirements of the Securities Act, the quotation may still violate the antifraud requirements of the Exchange Act. Pink Sheet's counsel has advised that the unsolicited quotation exception to Rule 15c2-11 cannot apply to offers to sell made on behalf of an issuer, any of its affiliates, or a promoter. Adequate current information must be available to the marketplace before such persons can offer and sell securities to the public, regardless of the length of time they have held the securities prior to sale. Our counsel also believes that the purchase and sale of securities by corporate

insiders through the use of any quotations advertised in a quotation medium by broker-dealers is “trading on the basis of material nonpublic information” in violation of Exchange Act Rule 10b5-1, unless adequate current information has been made available to the market place. Accordingly, broker-dealers should make sure that the issuer has complied with the current information availability requirement prescribed in Rule 15c2-11 before submitting any quotation that may be on behalf of any affiliate of the issuer or a promoter.

To serve the need to make information publicly available, we have created the Pink Sheets News Service as a solution for issuers to make their current information publicly available. Issuers can now easily inform investors by making their information freely available on www.pinksheets.com. By creating a centralized repository for non-reporting issuers to publish their current information, we believe that OTC markets will be vastly improved.

We also urge you to consider the risks involved when an issuer’s transfer agent is not registered under the Exchange Act. The transfer agent is an important gatekeeper. You can have no assurance that an unregistered transfer agent will comply with legending of restricted securities, stop transfer and other critical share recordkeeping, issuance, clearing and settlement procedures. Your firm can also become involved in the purchase and sale of invalid instruments, a fraud, not only under the federal securities laws, but the laws of every State. We can supply you with a list of SEC registered transfer agents as of January 2004.

Fraudulent activity causes investors to lose confidence in the market. Complaints from victims cause bad publicity and provoke investigations by regulators. Lost confidence and negative news reports are bad for business. Increased regulatory scrutiny is expensive and time-consuming even for the innocent. Prompt action is therefore necessary to protect our marketplace and innocent broker-dealers from these frauds and their undesirable consequences.

The enclosed unsolicited quotation form and guidelines are intended to help you evaluate whether the quotation you wish to submit involves a violation of the registration requirements of the Securities Act. In addition, they should help you determine whether the marketplace has sufficient information regarding an issuer and its securities to warrant a quotation representing an unsolicited indication of interest from a customer, when that customer may be related in some way to the issuer.

Please note that we are not asking you to affirm the truth of the issuer’s disclosures. We are only asking that you review the information that is publicly available and determine that the disclosures required under our guidelines have been made before submitting a quotation. Of course, if you believe the disclosures are incomplete, false or have no reasonable basis for believing them, you cannot quote the security unless the misstatements are corrected.



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PINK SHEETS BELIEVES THAT CURTAILING THE IMPROPER USE OF THE UNSOLICITED QUOTE EXEMPTION IS CRITICAL FOR THE PROTECTION OF THE OTC EQUITY MARKET AND ITS BROKER-DEALER PARTICIPANTS.

Pink Sheets believes that the first broker-dealer to publish a quote for an issuer's securities in the public markets has a responsibility to perform a basic review that the issuer has made adequate current information available and take basic steps to verify that the issuer has freely tradable securities outstanding.

As such, Pink Sheets will monitor quotes and may cease to accept any quotes for publication from a subscriber who initiates unsolicited quotations in new securities but consistently fails to determine whether adequate current information is publicly available about the issuer and its securities.

Please contact Liz Heese at 212.896.4426 / liz@pinksheets.com or myself at the below number if you have any questions or feedback on how we can better serve you.

Very truly yours,

R. Cromwell Coulson
Chief Executive Officer