

Executive Summary

BOPH Corporate Description:

“Based in the city of Yantai, Shandong Province, China, Bohai Pharmaceuticals Group, Inc. (OTCBB/OTCQB: BOPH) is engaged in the production, manufacturing and distribution of herbal pharmaceuticals based on Traditional Chinese Medicine in China. Bohai’s medicines address common health problems such as rheumatoid arthritis, viral infections, gynecological diseases, cardio vascular issues and respiratory diseases. Bohai’s products are sold either by prescription through hospitals or over-the-counter through hospitals, local pharmacies, and retail drug store chains. Bohai has approximately 600 employees, including approximately 300 sales representatives, operating from 20 offices throughout China. Bohai’s three lead products, Tongbi Capsules, Tongbi Tablets and Lung Nourishing Syrup, are eligible for reimbursement under China’s National Medical Insurance Program.”

Outlook for BOPH:

BOPH reported \$0.15 in fully diluted earnings per share for fiscal Q1 2011, the quarter ended 9/30/10. Ignoring any seasonality that may increase revenues throughout the year, annualizing these results implies full year EPS of \$0.60 per diluted share. At a recent price of \$1.75, BOPH is trading at approximately 2.9x annualized earnings, despite delivering year over year revenue growth of 22%. As noted later in this report, four funds based on indices with relevance for BOPH are trading around a P/E multiple of 15x. Assuming conversion of all convertible debt and the exercise of all outstanding warrants, the total potential share count for BOPH is approximately 29.3 million shares. \$3.94 million in fiscal Q1 2011 comprehensive income is approximately \$0.13 per total possible BOPH common shares. Annualizing this amount results in approximately \$0.50 per share in earnings.

In considering whether BOPH may continue to deliver this level of revenue and earnings growth, it is instructive to examine the outlook for the Company’s overall markets. Whether analyzing the trends in the general Chinese healthcare market, or solely within the segment known as Traditional Chinese Medicine (TCM), the near and long term trends seem highly favorable, with significant continued growth expected for the foreseeable future.

BOPH is delivering recurring revenue and earnings growth in the rapidly expanding TCM segment of the emerging Chinese healthcare market. The Company benefits from key protection status for its core products and very positive preliminary results on the launching of 5 new products, which bring the total number of manufactured medicines to 15 prescription and over the counter products. The Company has a strategy to capitalize on growth opportunities in urban and rural markets and seems to be well positioned to monetize these opportunities.

Assuming the conversion of all debt and the exercise of all warrants, Murphy Analytics (MA) is estimating it is reasonable to expect \$0.50 per share in earnings for BOPH. Utilizing a P/E multiple of 15x derived from relevant indices implies a share price of \$7.50. Based on the market opportunity before the Company and the results delivered to date, Murphy Analytics is raising the price target on BOPH from \$6.45 to \$7.50.

BOPH Recent Price	\$1.70	Please review the risk factors outlined later in this report and the important disclosures and disclaimers at the end of this report.
Outstanding Share Estimate	16.98 Million	
BOPH - Market Cap Estimate	\$28.9 Million	
MA 12-Month Price Target	\$7.50	

BOPH Update: **Table of Contents**

Chinese Healthcare and TCM Markets and the Opportunity for BOPH	3
BOPH Unaudited Financial Condition and Results	5
PowerShares Dynamic Biotechnology & Genome Portfolio (Fund) and Dynamic Pharmaceuticals Portfolio (Fund)	8
PowerShares Golden Dragon Halter USX China Portfolio (Fund) and PowerShares Zacks Micro Cap Portfolio (Fund)	9
U.S Dollar and Chinese Yuan Renminbi	10
BOPH Risks	11
BOPH and Comparable ETF Performance Charts from quotemedia.com	11
Murphy Analytics Disclosures and Disclaimers	12
Overview of the OTC Bulletin Board	13

Company Contact Information:**Company Contact:**

Bohai Pharmaceuticals Group, Inc.
Gene Hsiao, Chief Financial Officer
856-499-4475

Investor Relations Contacts:

The Trout Group
Danielle Spangler
646-378-2924

Trilogy Capital Partners - Asia
Darren Minton, President
Toll-free: 800-592-6067
info@trilogy-capital.com

Analyst Contact Information:

Patrick J. Murphy, CFA
Analyst
Murphy Analytics
Phone 636-273-9440
www.murphyanalytics.com
pmurphy@murphyanalytics.com

Chinese Healthcare and TCM Markets and the Opportunity for BOPH

90% Coverage Target by 2011 - Targeting 900 Million Rural Chinese¹:

Outlined in by the PRC State Council in 2009, the Chinese government has: *“promised universal access to basic health insurance, introduction of an essential drug system, improved primary health care facilities, equitable access to basic public health services and pilot reform of state-run hospitals.”*

The government expected this expansion would cost \$124 billion over three years. With the PRC government paying for up to 90% of the certain pharmaceutical products and 100% of products on the Essential Drug List, there will be a significant increase in the size of the overall market opportunity for BOPH.

With a 20% Compound Annual Growth Rate from 2000 – 2007, TCM Represents Approximately 27% of China’s Pharma Market²:

“Traditional Chinese Medicine (TCM) and folk medicine are special characteristics and advantages of Chinese medical science, and also important parts of the splendid culture of the Chinese nation. So far, more than 9,000 kinds of TCM preparations have been approved by the state to be sold on the market, and about 58,000 approval numbers have been granted. In 2007, the industrial output value of TCM reached 177.2 billion yuan, accounting for 26.53 percent of the total pharmaceutical industrial output value. The Chinese government attaches great importance to TCM’s role in the prevention and treatment of diseases, has drawn up a series of administrative regulations and policies, works constantly to improve the supervision of TCM, and promotes the steady improvement of the quality of TCM.”

“Protected” and “Patented” Status for BOPH Products:

Protected status provides exclusive or near exclusive manufacturing rights to TCM formulas. BOPH’s Tongbi Capsules benefit from Exclusive Protection Status, which has

an initial 7-year term and one 7-year renewal. Patented status is granted for 20 years and covers the production process as well as the formula. BOPH was recently awarded a patent for its lung nourishing Syrup.

PRC EDL and NDRL Drug Lists: One of BOPH’s products is among the limited number of approved reimbursable products for rural areas on the PRC’s Essential Drug List (EDL). BOPH has the rights to produce another nine EDL products at any time of the Company’s choosing. The rural reimbursement initiatives supported by the EDL are separate from the China’s National Drug Reimbursement List (NDRL), for which 3 of BOPH’s top selling products (Tongbi Capsules, Tongbi Tablets and Lung Nourishing Syrup) are eligible and reimbursable by the government under China’s National Medical Insurance Program. Currently, BOPH produces five out of seventeen products that are under NDRL and has right to produce another 12 at any time of the Company’s choosing.

In December 2010, in an attempt to keep the prices of certain medicines affordable to China’s 900 million strong rural population, the PRC government enacted certain pricing caps, targeted in part at foreign generic medicines. Of the 15 products currently manufactured by BOPH, only one medicine, accounting for approximately 1% of total revenue, is affected by these caps. Although the national level restrictions will affect the pricing some of the Company’s pipeline, BOPH sees significant opportunity for driving new product sales with a low price / high volume marketing strategy targeting the massive rural population.

PRC Enforced Reduction in Competition:

As part of the PRC government State Food and Drug Administration’s (SFDA) initiative to eliminate manufacturing by non-GMP (Good Manufacturing Practices) certified producers, the government has reduced the number of Chinese pharmaceutical producers by approximately 1/3rd since 2004.

1 http://www.gov.cn/english/2009-04/07/content_1279122.htm

2 http://english.gov.cn/2008-07/18/content_1049011.htm

15 TCM Products and Counting:

BOPH currently sells 15 products and has the rights to produce 28 additional medicines. BOPH products are sold by prescription (Rx) and over-the-counter (OTC). The products are all-natural and herbal based. As evidenced by significant revenue growth, BOPH products are differentiated by the focus on quality, purity and effectiveness. Coupled with a robust sales network and strong advertising presence, this focus on production quality provides BOPH products with real brand presence.

- *Continue developing the Company's pipeline, especially the four EDL national level and five NDRL products included among the recently acquired 14 new medicines, which bring the total number of products that Bohai has the rights to produce to 43.*
- *Consider targeted merger and acquisition opportunities for profitable operations with products complementary to the Company's sales and marketing strategy.*

Strategies for Growth:

With regard to its prescription products, BOPH estimates that only 10% of 11,000 Grade AA Hospitals currently use BOPH Products. Advertising of prescription products is not permitted except in medical journals, but BOPH will continue building the hospital distribution network and promote Rx products via conferences and seminars. Other strategies for growth include:

- *Develop Sales Force and Channels in Rural Provinces*
- *Expand Hospital Presence in Urban Markets*
- *Expand Onsite Training for Physicians Covering Both Rx and OTC Products*
- *Aggressive Integrated Advertising and Marketing Efforts*
- *Continue to focus on growing the existing portfolio of approved TCM medicines, leveraging the premium pricing opportunity resulting from the exclusively "protected" status of Tongbi Capsules and the 20-year patent awarded to the Company's Lung Nourishing Cream.*

BOPH – Unaudited Financial Condition and Results³

Financial Condition as of 9/30/10	
Current Assets	\$31.5 million including \$15.5 million in cash and equivalents, and \$12 million in accounts receivable. As of 9/30/10, no allowance for doubtful accounts was deemed necessary based on management's assessment.
Current Liabilities	\$10.8 million including \$4.5 million in short-term borrowings.
Working Capital	\$20.7 million, a current ratio of 2.9 times. A cash payment of \$4.7 million was made for prepaid land use rights for future factory expansion. An additional \$2.3 million is due 3/31/11.
Total Assets	\$70.6 million including \$17.6 million in intangible assets representing pharmaceutical formulas, \$12.3 million in prepayment for land use right, and \$7.9 million in net property, plant and equipment.
Total Liabilities	\$16.4 million. Long term liabilities consist of \$5.5 million in derivative liabilities / warrants, and \$150,000 in convertible notes.
Stockholders' Equity	\$54.2 million with retained earnings of \$35 million, additional paid in capital of \$15 million and statutory reserves of \$2.2 million. Book value per outstanding common share of \$3.28.
Share Count	For the quarter ended 9/30/10, the diluted weighted average share count was 22,250,104. As of 11/12/10, there were 16,977,221 common shares outstanding. Common share count if converted from convertible debt at a \$2.00 conversion price was 5,743,478. As of 9/30/10, there were 6,600,000 warrants outstanding, with an exercise price of \$2.40. Assuming conversion of all debt and exercise of all warrants, the potential common share count is approximately 29.3 million.

³ BOPH fiscal year begins June 30. Results represent Fiscal Q1 2011 activity.

Operating Results for Fiscal Q1 2011 Ended 9/30/10

Sales	<p>\$17 million, an increase of 22% over fiscal Q1 2010. No customer accounts for more than 10% of gross sales. Tongbi Capsules accounted for 27.8% of revenues, followed by Lung Nourishing Cream liquid syrup (27.7%), Tongbi Tablets (15%), and Shangtongning Tablets (9.6%). 62% of sales were prescription products, with 38% over the counter (OTC). Net revenues from the Company's 5 new products represented 5% of total period sales, but increased 160% of the quarter ended 6/30/10.</p>
Gross Profit	<p>\$13.6 million, an increase of 16% over fiscal Q1 2010. Gross profit margin was 80% compared to 84% for fiscal Q1 2010, a decline attributable primarily to the launching of 5 new products, and higher raw material prices for Danqi Tablets and Anti-Flu Granules.</p>
Selling / general / administrative expenses	<p>Selling / general / administrative expense fell to \$8.6 million - decrease of 6% relative to fiscal Q1 2010. Include in S/G/A expense was \$2.8 million in advertising / promotion, \$1.6 million in travel expenses, \$1.4 million for conferences, and \$184,000 for research / development. The Company expects to increase marketing / advertising for its portfolio of 15 TCM products.</p>
Comprehensive Income	<p>\$3.9 million, an increase of 110% relative to fiscal Q1 2010.</p>
EPS	<p>\$0.18 per basic share and \$0.15 per diluted share for fiscal Q1 2011 compared to \$0.15 per basic and diluted share for fiscal Q1 2010.</p>

Highlights Regarding BOPH Fiscal Q1 2011 Financial Results:

Following are additional comments regarding BOPH results for the quarter ended 9/30/10:



- **Revenue Up 22%:** Net Revenues of \$17.0 million, an increase of 22% from \$14.0 million in 2009
- **Gross Profit Up 16%:** Gross profit of \$13.6 million, compared to \$11.7 million in 2009
- **Net Income Up 57%:** Net income of \$3.0 million, an increase of 57% from \$1.9 million in 2009
- **\$0.15 Fully Diluted Quarterly EPS:** Fully diluted EPS of \$0.15 for fiscal Q1 2011. Basic EPS of \$0.18 for fiscal Q1 2011, exceeding performance for Q1 2009
- **Working capital of \$20.7 million:** A current ratio of 2.9x
- **Investment in Future Expansion:** A cash payment of \$4.7 million was made for prepaid land use rights for future factory expansion. An additional \$2.3 million is due 3/31/11.
- **Progress with Newly Launched Products:** The Company's top four products, out of a portfolio of 15 total products, account for approximately 80% of revenue. However, revenue for the 5 newly launched products accounted for 5% of total revenue, and increased over 160% for fiscal Q4 2010, ended 6/30/10.
- **Net Income Margin Increased:** Net income margin increased to 18% compared to 14% for the prior year, despite a lower gross profit margin in fiscal Q1 2011 related to the launching of the 5 new products and higher raw material prices for 2 products.

Commenting on the results, BOPH Chairman, President and CEO, Mr. Hongwei Qu, noted:

"Improving upon our past financial achievements, Bohai is excited to announce its record results for the first quarter of fiscal 2011. During the quarter, we recognized double digit top line growth by focusing our strong marketing efforts on our lead products while at the same time continuing the roll out of our five new TCM products. We were also able to cut administrative costs, allowing us to boost net income by 57% compared to the same period last year. We look forward to making further progress with our sales initiatives as we continue to take advantage of the Chinese government's growing support of the TCM industry through the implementation of its new healthcare policies."



"We anticipate our overall net revenues will continue to increase due to the national medical and health plan initiated by Chinese government in 2009, which is expected to eventually cover individual health insurance over 90% of China's population by 2011. As these policies continue to be implemented, we believe endorsements for Traditional Chinese Medicine, along with its coverage and reimbursement from hospitals and medical centers throughout China, will be a major driver of growth for Bohai as we seek to increase revenues, earnings and ultimately shareholder value."

PowerShares Dynamic Biotechnology & Genome Portfolio (Fund) and Dynamic Pharmaceuticals Portfolio (Fund)

PowerShares Dynamic Biotechnology & Genome Portfolio (Fund)¹	PowerShares Dynamic Dynamic Pharmaceuticals Portfolio (Fund)²
<p>Recent 52 Week Performance:</p>  <p>PBE Daily</p>	<p>Recent 52 Week Performance:</p>  <p>PJP Daily</p>
<p>Recent Top Holdings:</p> <ul style="list-style-type: none"> Illumina Inc. 5.71% Alexion Pharmaceuticals Inc. 5.55% Waters Corp. 5.36% Biogen Idec Inc. 5.23% Sigma-Aldrich Corp. 5.18% Gilead Sciences Inc. 5.10% Life Technologies Corp. 4.95% Amgen Inc. 4.56% Theravance Inc. 3.98% Myriad Genetics Inc. 3.16% 	<p>Recent Top Holdings:</p> <ul style="list-style-type: none"> Gilead Sciences Inc. 5.17% Johnson & Johnson 4.92% Amgen Inc. 4.62% Pfizer Inc. 4.60% Eli Lilly & Co. 4.48% Bristol-Myers Squibb Co. 4.45% Merck & Co Inc 4.36% Abbott Laboratories 4.27% Jazz Pharmaceuticals Inc. 4.26% King Pharmaceuticals Inc. 3.78%
<p>Recent Select Metrics:</p> <ul style="list-style-type: none"> Price/Earnings Multiple: 15.9x Average Market Cap: \$7 billion Price/Book Multiple: 3.7x Return on Equity: 9.9% 1 Year Performance: 14% Ticker: PBE 	<p>Recent Select Metrics:</p> <ul style="list-style-type: none"> Price/Earnings Multiple: 11x Average Market Cap: \$38 billion Price / Book: 2.6x Return on Equity: 29.1% 1 Year Performance: 23% Ticker: PJP

1 <http://www.invescopowershares.com/products/overview.aspx?ticker=pbe>
 2 <http://www.invescopowershares.com/products/overview.aspx?ticker=pjp>

PowerShares Golden Dragon Halter USX China Portfolio (Fund) and PowerShares Zacks Small Cap Portfolio (Fund)

PowerShares Golden Dragon Halter USX China Portfolio (Fund)¹	PowerShares Zacks Small Cap Portfolio (Fund)²
<p>Recent 52 Week Performance:</p>  <p>PGJ Daily</p>	<p>Recent 52 Week Performance:</p>  <p>PZI Daily</p>
<p>Recent Top Holdings:</p> <ul style="list-style-type: none"> Baidu Inc. ADS 5.72% PetroChina Co. Ltd. ADS 5.67% Yanzhou Coal Mining Co. Ltd. ADS 5.35% China Mobile Ltd. ADS 4.93% CNOOC Ltd. ADS 4.90% China Petroleum & Chemical Corp. ADS 4.70% China Life Insurance Co. Ltd. (ADS) 4.68% Aluminum Corp. of China Ltd. ADS 4.35% China Unicom (Hong Kong) Ltd. ADS 4.09% China Telecom Corp. Ltd. ADS 3.84% 	<p>Recent Top Holdings:</p> <ul style="list-style-type: none"> ValueVision Media Inc. (Cl A) 0.62% Cost Plus Inc. 0.46% Approach Resources Inc. 0.45% Western Refining Inc. 0.41% Kodiak Oil & Gas Corp. 0.41% Global Ship Lease Inc. 0.40% First Industrial Realty Trust Inc. 0.40% Basic Energy Services Inc. 0.39% Puda Coal Inc. 0.39% Houston American Energy Corp. 0.38%
<p>Recent Select Metrics:</p> <ul style="list-style-type: none"> Price/Earnings Multiple: 17.4 Average Market Cap: \$23 billion Price/Book Multiple: 2x Return on Equity: 15.7% 1 Year Performance: 14.9% Ticker: PGJ 	<p>Recent Select Metrics:</p> <ul style="list-style-type: none"> Price/Earnings Multiple: 13.5x Average Market Cap: \$302 million Price / Book: 0.99x Return on Equity: 3.7% 1 Year Performance: 4.3% Ticker: PZJ

¹ <http://www.invescopowershares.com/products/overview.aspx?ticker=pgj>

² <http://www.invescopowershares.com/products/overview.aspx?ticker=pzj>

U.S. Dollar and Chinese Yuan Renminbi

Background on China’s Currency Policy:

Beginning in July of 2005, the PRC government changed its policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, the value of the Renminbi has fluctuated within a narrow and managed band against a basket of certain foreign currencies. However, the Chinese government has come under increasing U.S. and international pressure to revalue the Renminbi or to permit it to trade in a wider band, which many observers believe would lead to substantial appreciation of the Renminbi against the U.S. dollar and other major currencies. There can be no assurance that Renminbi will be stable against the U.S. dollar.

Historical and Recent Conversion Relationship:

Following are the recent conversion rates and a chart showing the appreciation of the Chinese Yuan (CNY) versus the United States dollar (\$). Recent conversion rates were:

1 CNY = \$0.1518
\$1 = 6.588 CNY



Source: <http://finance.yahoo.com/currency-converter/#from=CNY;to=USD;amt=1>

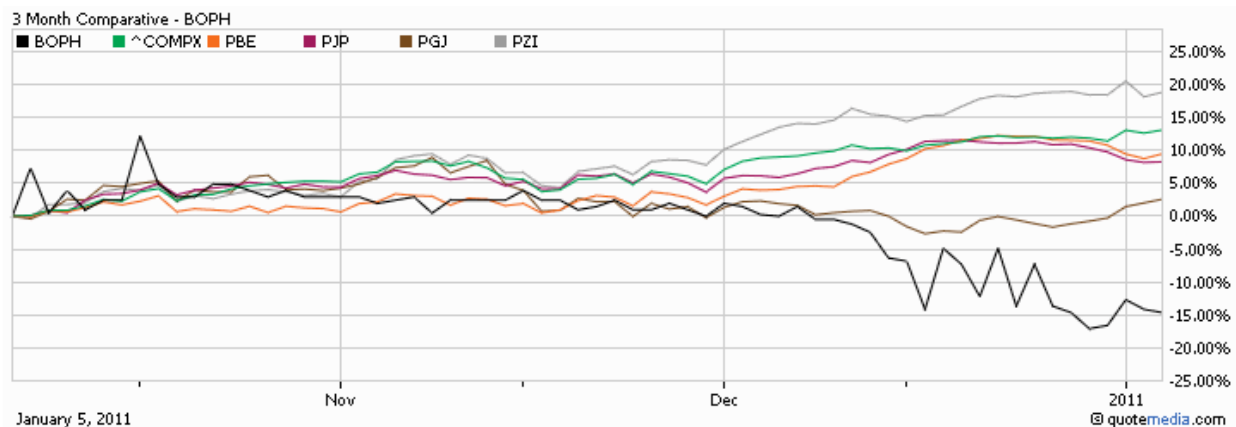
BOPH Risks

In addition to currency risk and a number of political, governmental and other risks unique to companies with operations in China, BOPH operations and share performance is subject to a number of risks and uncertainties, outlined in detail in Company filings with the SEC. These filings should be read in conjunction with this report. These risks include:

- The ability to obtain sufficient working capital to support the business
- The ability expand product offering and maintain product quality control
- The availability of Chinese government granted rights to exclusively manufacture or co-manufacture products
- Availability of Chinese national healthcare reimbursement for Company products
- The ability to manage expanding operations and continue to fill customers' orders on time
- The ability to maintain adequate control of expenses allowing the Company to realize anticipated revenue growth
- Ability to maintain or protect intellectual property
- Ability to maintain proprietary technology
- The impact of government regulation in China and elsewhere, including the support provided the Chinese government to the TCM and healthcare sectors

BOPH and Comparable ETF Performance Chart from Quotemedia.com

BOPH: Bohai Pharmaceuticals Group, Inc.	^CompX: Nasdaq Composite	PBE: PowerShares Dynamic Biotechnology & Genome Portfolio
PJP: PowerShares Dynamic Pharmaceuticals Portfolio	PGJ: PowerShares Golden Dragon Halter USX China Portfolio	PZJ: PowerShares Zacks Small Cap Portfolio



MURPHY ANALYTICS DISCLOSURES AND DISCLAIMERS

This report by Murphy Analytics LLC and the Analyst (together referred to as “MA”) on Bohai Pharmaceuticals Group, Inc. (the “Company”) is to be used for informational purposes only. Nothing in this report should be construed as investment advice or as an offer to buy or sell any securities. This report is based on information assumed to be reliable and accurate, but MA does not guarantee or make any representation with regard to its reliability, accuracy or completeness. MA made no attempt to independently verify the reliability, accuracy or completeness of this information utilized in the writing of this report. The opinions expressed in this report are subject to change without notice. MA accepts no liability with regard to any loss arising from any use of this report. Past performance of the Company should not be taken as an indication or guarantee of future performance, and no representation or warranty, expressed or implied, is made by MA regarding future performance. Any security discussed in this report may be deemed speculative and therefore not appropriate or suitable for all investors. This report contains statements that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on estimates and projections made by the Company and/or by MA. These estimates and projections are derived in part on assumptions, and are not guarantees of future performance. Because future performance is quite difficult to predict, actual outcomes and results may differ materially from what is expressed or forecasted in forward-looking statements due to numerous factors. Such factors include, but are not limited to, the Company’s ability to execute effectively its business plan and acquisition strategy, failure by the Company to retain key personnel, changes in the markets in which the Company operates, the development of new products and services that compete with those offered by the Company, competitive pressures, economic and political conditions, changes in consumer behavior, the introduction of competing products having technological and/or other advantages, and other risks not contemplated by the Company or by MA. These and other risks are described in the Company’s

filings with the Securities and Exchange Commission. These filings should be read in conjunction with the MA report. MA was paid an aggregate of \$11,500 by the Company through Trilogy Capital Partners in advance of the publication of this Update Report and an Initiation Report dated 9/17/10. MA assumes no responsibility to update information concerning the Company. MA owns no shares in the Company. MA does not provide investment banking services. No part of the compensation to MA is tied to any content contained in this report or any view expressed in this report. The Analyst for this report Patrick J. Murphy, CFA, has over 15 years of investment and transaction analysis across a range of asset classes including microcap equities, commercial real estate debt and equity, municipal derivatives and public finance, venture capital, fixed income, commercial MBS and mortgage REIT’s. In addition to his work with Murphy Analytics, Mr. Murphy also serves as a consultant to a municipal derivatives advisory firm. Mr. Murphy is an alumnus of the University of Notre Dame (1991), with an undergraduate degree in Economics, and earned a Masters Degree in Finance from St. Louis University in 1997. Mr. Murphy is a CFA Charterholder and a member of the CFA Society of St. Louis.

I, Patrick J. Murphy, hereby certify that all views expressed in this report accurately reflect my personal views about the Company, and that no part of my compensation was or will be related to the views expressed in this report.

Overview of the OTCBB¹

The OTC Bulletin Board® (OTCBB) is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ® or a national securities exchange. OTCBB securities include national, regional, and foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs). The OTCBB is a quotation medium for subscribing members, not an issuer listing service, and should not be confused with The NASDAQ Stock MarketSM. There are no minimum quantitative standards which must be met by an issuer for its securities to be quoted on the OTCBB; however, the new Eligibility Rule limits quotations on the OTCBB to the securities of issuers that are current in their reports filed with the SEC or other regulatory authority. Issuers do not have any filing or reporting requirements with The NASDAQ Stock Market, Inc., or FINRA. Market Makers will be required to provide the periodic financial reports filed by OTCBB issuers with the SEC or other regulatory authorities pursuant to the Eligibility Rule. NASDAQ has no business relationship with the issuers of securities quoted on the OTCBB. Investors must contact a broker/dealer to trade OTCBB securities. Investors do not have direct access to the OTCBB service. The Securities and Exchange Commission's (SEC's) Order-Handling Rules which apply to NASDAQ-listed securities do not apply to OTCBB securities.

It is important to note that FINRA has no regulatory authority over OTC Bulletin Board issuers. FINRA's responsibilities include establishing rules governing its broker/dealer members' business conduct; setting qualification standards for securities industry professionals; examining members for their financial and operational condition as well as their compliance with appropriate rules and regulations; investigating alleged violations of securities laws; disciplining violators of applicable rules and regulations; and responding to inquiries and complaints from investors and members. Due to the high level of risk involved in investing in Penny Stocks, the SEC created Rule 15g-2, which makes it "unlawful for a broker or dealer to effect a transaction in any penny stock for or with the account of a customer unless, prior to effecting such transaction, the broker or dealer has furnished to the customer a document containing the information set forth in Schedule 15G, Rule 15g-100, and has obtained from the customer a manually signed and dated written acknowledgement of receipt of the document." (SEC Rule 15g-2(a), Risk Disclosure Document Relating to the Penny Stock Market). If you believe that you have been defrauded by an OTC Bulletin Board issuer, you may file a complaint with your State Securities Regulator or contact the SEC's Office of Investor Education and Assistance.

¹ <http://www.otcbb.com/investorinformation/investorinfo.stm>