

(Rev. 01/10)

## SECURITY ESCROW AGREEMENT

THIS ESCROW AGREEMENT made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, among the persons and parties who have signed this Agreement as security holders (hereinafter collectively referred to as the "Security Holders"), the Issuer, \_\_\_\_\_, the Escrow Agent, \_\_\_\_\_, and the Director of the New Mexico Securities Division (hereinafter "the Director").

WITNESSETH THAT:

A. Each of the Security Holders is the owner of the number of shares of common stock of the Issuer or possesses conversion rights, warrants or options to acquire shares of stock of the Issuer listed opposite his or her name on the Exhibit A attached hereto.

B. The Issuer has applied to the Director for registration of \_\_\_\_\_ shares of \_\_\_\_\_ stock (warrants) (options) (units) for sale to the residents of New Mexico, and elsewhere. As a condition of registration the Security Holders, the Escrow Agent, the Issuer and the Director agree to be bound by this Agreement and the applicable Rules of the Director pertaining to such agreements.

C. Each of the Security Holders has deposited the securities listed opposite his or her name or documents evidencing the right to acquire the securities on Exhibit A with the Escrow Agent, and the Escrow Agent hereby acknowledges receipt thereof. The securities are herein collectively referred to as "Escrowed Stock" or "Shares".

NOW THEREFORE, the persons and parties hereto agree as follows:

1. DEPOSIT OF CERTIFICATES. Simultaneously with the execution of this Agreement, the Security Holder is depositing with the Escrow Agent and the Escrow Agent hereby acknowledges receipt of the certificates and documents listed on Exhibit A, representing, convertible into, exercisable for, \_\_\_\_\_ Shares of stock of the Issuer. At the written request of the Issuer, the Escrow Agent shall make available to the Issuer and any affected Security Holder, such documents as are necessary to exercise the foregoing rights.

2. TERM. The term of this Agreement and of the escrow provided herein shall commence on the date that the offering is declared effective by the Director. The certificates evidencing the securities are to be deposited with the Escrow Agent and are to be held pursuant hereto, for a period of three years, unless released earlier in accordance with the terms of this Agreement.

3. RELEASE OF SHARES. One hundred (100%) percent of the shares shall be released from escrow to Security Holders at the earliest of the following:

- a. The issuer's aggregate revenues are \$500,000 or more, provided that neither the auditor's report nor any foot notes to the issuer's latest audited financial statement contains an opinion or statement regarding the ability of the issuer to continue as a going concern. Beginning one year from the date the offering is declared effective, two and one-half (2½%) percent of promotional shares may be released per quarter pro rata among the Security Holders. All remaining promotional shares shall be released from escrow on the second anniversary from the date the offering is declared effective; or,
- b. The issuer's aggregate revenues are \$500,000 or less. Beginning two years from the date the offering is declared effective, two and one-half (2½%) percent of promotional shares held in escrow may be released each quarter pro rata among the Security

Holders. All remaining promotional shares shall be released from escrow on the third anniversary from the date the offering is declared effective.

- c. The Escrowed Stock becomes a "federal covered security", as that term is defined in Section 58-13B-2G of the New Mexico Securities Act of 1986.

4. DOCUMENTATION TO ESCROW AGENT REGARDING RELEASE. A request for termination of the escrow shall be forwarded to the Escrow Agent. A request for termination of the escrow based upon paragraph 3a, above, shall be accompanied by an aggregate revenue calculation audited and reported on by an independent certified public accountant.

5. TERMINATED OR PARTIAL OFFERING. The foregoing notwithstanding, the Shares will be released by the Escrow Agent if:

- a. The public offering has been terminated, and no securities were sold pursuant thereto; or
- b. The public offering has been terminated, and all of the gross proceeds that were derived therefrom have been returned to the public investors.

6. RESTRICTION ON TRANSFER. The Escrowed Stock may be transferred by will, or pursuant to the laws of descent and distribution, operation of law, or any court of competent jurisdiction and proper venue or through appropriate legal proceedings, but in all cases the Shares shall remain in escrow and subject to the terms of this Agreement until released pursuant to paragraph 3, above. The Shares in escrow may be transferred by gift to family members, provided that the Shares shall remain subject to the terms of this Agreement. Promotional Shares, any interest therein, or any right or title thereto, may not be transferred other than as provided in this paragraph.

Upon the death of the Security Holder of any Escrowed Stock, the Escrowed Stock of the deceased Security Holder may be hypothecated subject to all of the terms of this Agreement, to the extent necessary to pay the expenses of the Depositor's estate. Other than provided in this paragraph, Promotional Shares may not be pledged to secure a debt.

Promotional Shares, any interest therein or any right or title thereto, may not be transferred, sold or disposed of other than as specified above until the Escrow Agent has received a written statement signed by the proposed transferee which states that the transferee has full knowledge of the terms of the Agreement, the transferee accepts the Promotional Shares subject to the terms of the Agreement and the transferee realizes that the Promotional Shares shall remain in escrow until they are released pursuant to paragraph 3, above.

7. VOTING POWER. The Escrowed Shares shall have all voting rights to which the non-escrowed shares are entitled.

8. DIVIDENDS. Any dividends paid on the Shares shall be paid to the Escrow Agent by checks of the Issuer made payable to the Escrow Agent with a notation of this Agreement thereon and any such dividends shall be held pursuant to the terms of this Agreement. The Escrow Agent shall treat such dividends as assets of the Issuer, available for distribution under the terms of Paragraph 9, below, except as provided herein. The Escrow Agent shall place the dividends in an interest bearing account. The dividends and the interest earned thereon will be disbursed in proportion to the number of Shares released from the escrow at the time the Shares are released pursuant to paragraph 3, above, or unless they are applied to the payment of the fees of the Escrow Agent under paragraph 13, below.

9. STOCK DIVIDENDS OR SPLITS. Stock dividends on, and shares resulting from stock splits of, the Escrowed Stock shall be delivered to the Escrow Agent and shall be held pursuant to this Agreement as if they were original shares of Escrowed Stock deposited hereunder. In the event of any stock dividend, stock split or recapitalization of the Issuer, the price per share figures herein shall be adjusted appropriately.

10. ADDITIONAL SHARES. Upon the exercise by any Security Holder of his or her conversion rights, warrants or options to acquire additional shares of the Issuer pursuant to the documents listed on Exhibit A, the additional shares received from the exercise of such warrants or options shall forthwith be deposited in escrow with the Escrow Agent and shall be subject to the terms and conditions of this Agreement.

11. DISSOLUTION PREFERENCE. The Security Holders agree that in the event of dissolution, liquidation, merger, consolidation, reorganization, sale or exchange of the issuer's assets or securities (including by way of tender offer), or any transaction or proceeding with a person who is not a promoter which results in the distribution of the assets or securities, the Security Holders will initially share on a pro rata, per share basis in the distribution, in proportion to the amount of cash or other consideration they paid per share of equity securities, until the public shareholders have received, or have irrevocably set aside for them, an amount that is equal to one hundred (100%) percent of the public offering price per share times the number of shares of equity securities that they purchased pursuant to the public offering and which they still hold at the time of the distribution, adjusted for stock splits, stock dividends, recapitalizations and the like. Security Holders shall thereafter participate on an equal, per share basis times the number of shares of equity securities they hold at the time of the distribution, adjusted for stock splits, stock dividends, recapitalizations and the like. A distribution may proceed on lesser terms and conditions than the terms and conditions stated above, if a majority of the equity securities that are not held by promoters, or their associates or affiliates vote, or consent by consent procedure to approve the lesser terms and conditions at a special meeting called for that specific purpose.

In the event of a dissolution, liquidation, merger, consolidation reorganization, sale or exchange of the issuer's assets or securities (including by way of tender offer), or any other transaction or proceeding with a person who is a promoter, which results in a distribution while this Agreement remains in effect, the Security Holders' promotional shares shall remain in escrow subject to the terms of this Agreement.

In the event securities in the Escrow become "Covered Securities", as defined in the National Securities Markets Improvement Act of 1996, all securities in the Escrow shall be released.

12. RELIANCE BY ESCROW AGENT. The Escrow Agent may conclusively rely on, and shall be protected, when it acts in good faith upon, any statement, certificate, notice, request, consent, order or other document which it believes to be genuine and signed by the proper party. The Escrow Agent shall have no duty or liability to verify any such statement, certificate, notice, request, consent, order or other document and its sole responsibility shall be to act only as expressly set forth in this Agreement. The Escrow Agent shall be under no obligation to institute or defend any action, suit or proceeding in connection with this Agreement unless it is indemnified to its satisfaction. The Escrow Agent may consult counsel with respect to any question arising under this Agreement and the Escrow Agent shall not be liable for any action taken, or omitted, in good faith upon advice of counsel. In performing any of its duties hereunder, the Escrow Agent shall not incur any liability to anyone for any damages, losses or expenses except for willful default or negligence, and it shall accordingly not incur any such liability with respect to: (i) any action taken or omitted in good faith upon advice of its counsel or counsel for the Issuer given with respect to any questions relating to the duties and responsibility of the Escrow Agent under this Agreement; or, (ii) any action taken or omitted in reliance upon any instrument, including written advice provided for herein, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth and accuracy of any information contained therein, which the Escrow Agent shall in good faith believe to be genuine, to have been signed or presented by a proper person or persons, and to conform with the provisions of the Agreement. All Shares and funds held pursuant to this Agreement shall constitute trust property. The Escrow Agent shall not be liable for any interest on the Shares.

13. COMPENSATION TO ESCROW AGENT. The Escrow Agent shall be entitled to receive from the Issuer reasonable compensation for its services as set forth in Exhibit B attached hereto. In the event that the Escrow Agent renders any additional services not provided for herein, or if any controversy arises hereunder, or if the Escrow Agent is made a party to, or intervenes in any action, suit or proceeding pertaining to this Agreement, it shall be entitled to receive from the Security Holders, or at the option of

the Escrow Agent, the Issuer, reasonable compensation for such additional services. Upon notice to the Security Holders, the Escrow Agent may deduct its compensation from any such dividend or distribution held pursuant to paragraph 8, above.

14. QUALIFICATION AND INDEPENDENCE OF ESCROW AGENT. The Issuer hereby represents that a complete list of its officers, directors and promoters is attached hereto as Exhibit C. Based thereon, the Escrow Agent hereby represents and warrants that it is not affiliated with the Issuer, any officer, director or promoter of the Issuer or any Security Holder.

15. INDEMNIFICATION. The Issuer and the Security Holders agree to hold the Escrow Agent harmless from, and indemnify the Escrow Agent for, any and all costs of disbursements arising out of any administrative investigation or proceeding or any litigation commenced or threatened, relating to this Agreement, including without limitation, the implementation of this Agreement, the distribution of stock or funds, the investment of funds, the interpretation of this Agreement or similar matters, provided that the Escrow Agent shall not be indemnified for any claims, costs, expenses or other liability arising from its bad faith or negligence or that of its employees, officers, directors or agents.

16. SCOPE. This agreement shall be binding upon, and inure to the benefit of, the parties hereto, their heirs, successors and assigns.

17. TERMINATION. Except for the Indemnification provisions of paragraph 15, above, which shall survive in any event, this Agreement shall terminate in its entirety when all the Shares have been released as provided in paragraph 3, above.

IN WITNESS WHEREOF, the Security Holders, the Issuer, the Escrow Agent, and the Director have entered into this Agreement as of the date first above written, in multiple counterparts, each of which shall be considered an original.

SECURITY HOLDERS

X _____	X _____
X _____	X _____
X _____	X _____
X _____	X _____
X _____	X _____

ATTEST:

ISSUER:

\_\_\_\_\_  
Secretary

\_\_\_\_\_

By: \_\_\_\_\_  
President

DIRECTOR:

ESCROW AGENT:

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_