

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

**October 26, 2004
(October 20, 2004)**

NATURAL GAS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation)

0-27862

(Commission
File Number)

80-0028196

(IRS Employer
Identification No.)

820 Gessner, Suite 1340, Houston, Texas

(Address of principal executive offices)

77024

(Zip Code)

Registrant's telephone number, including area code **(713) 935-0122**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 1.01. Entry into a Material Definitive Agreement

Seaside Share Exchange

On October 20, 2004, Natural Gas Systems, Inc. ("NGS") entered into a Stock Purchase Agreement (the "Seaside Agreement") with Seaside Investments PLC, a corporation organized under the laws of England and Wales ("Seaside"). The Seaside Agreement provides for the issuance by NGS to Seaside of 1,000,000 shares of NGS common stock ("NGS Common Stock") in exchange for up to 1,484,031 ordinary shares of Seaside ("Seaside Ordinary Shares"). The Seaside Agreement and related Escrow Agreement provide for the shares of NGS Common Stock and the Seaside Ordinary Shares to be placed in escrow pending the satisfaction of certain closing conditions, including the admission of the Seaside Ordinary Shares for listing on the London Stock Exchange (the "Seaside Listing"). In addition, the Seaside Agreement provides that 30% of the Seaside Ordinary Shares will remain in escrow for one year following the closing and will be subject to return to Seaside in the event that the market price of the NGS Common Stock as of the one year anniversary of the closing is less than \$2.695. In the event the market price decreases by 30% or more, all of such shares shall be returned to Seaside; in the event the price declines by less than 30%, a proportionate number of shares shall be returned. In the event the Seaside Listing is not obtained by October 30, 2004, NGS will have the option to terminate the Seaside Agreement, in which case the Seaside Ordinary Shares and the shares of NGS Common Stock will be returned to Seaside and NGS, respectively.

Pursuant to a registration rights agreement entered into in connection with this transaction, NGS has agreed to grant to Seaside certain registration rights, including the obligation by NGS to file and have declared effective with the Securities and Exchange Commission within one year of the closing a registration statement covering the shares of NGS Common Stock to be acquired by Seaside.

A commission of 50,000 shares of NGS Common Stock, and 74,193 Seaside Ordinary Shares is payable to Hunter Wise Financial Group, LLC, and/or Hunter Wise Securities, LLC, for advisory services rendered in this transaction. In addition, a commission of 50,000 shares of NGS Common Stock is payable to a finder for his services in connection with this transaction.

In connection with the issuance of shares of NGS Common Stock in this transaction, NGS will rely on certain exemptions from registration provided by Regulation S of the Securities Act of 1933, as amended.

Private Placement

NGS has entered into certain agreements in connection with a private placement of securities described below in Item 3.02 of this Current Report on Form 8-K, all of which information is incorporated by reference into this Item 1.01

Item 3.02. Unregistered Sales of Equity Securities.

In October 2004, NGS sold 126,900 Units, each Unit being comprised of one share of common stock of NGS ("Common Stock") and warrants to acquire up to one-third of a share of Common Stock at an exercise price of \$0.01 per share ("Warrants"). The Units were sold in private transactions pursuant to Subscription Agreements to a total of eight accredited investors. The consideration paid for the Units was \$2.00 per Unit, resulting in aggregate gross proceeds to NGS of \$253,800. All of the Warrants were immediately exercised, resulting in the issuance by NGS of an additional 42,300 shares of Common Stock for total additional consideration to NGS of \$423.00.

Pursuant to a registration rights agreement entered into in connection with these transactions, NGS has granted to the investors certain registration rights, including an unlimited number of piggyback registration rights that require NGS to register sales of an investor's shares when NGS undertakes a public offering and certain other types of offerings, subject to customary limitations.

A commission of \$16,131 was paid to Chadbourn Securities, Inc., an NASD broker dealer, and Laird Q. Cagan, Chairman of Board of NGS and a registered representative of Chadbourn Securities, Inc. (collectively, the "Placement Agent") in connection with this private placement. As addition consideration, the Placement Agent was issued seven-year warrants to purchase up to 10,736 shares of common stock of NGS at an exercise price of \$1.50 per share. A fee of \$5,258 was also paid to an individual for his services as a finder in connection with the private placement.

NGS issued and sold the foregoing securities pursuant to certain exemptions from registration provided by Rule 506 of Regulation D and Section 4(2) and Section 4(6) of the Securities Act of 1933, as amended.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits.

The following are filed as exhibits to this Current Report on Form 8-K:

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|-------------------------------|
| 10.1 | Subscription Agreement |
| 10.2 | Registration Rights Agreement |

EXHIBIT INDEX

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NATURAL GAS SYSTEMS, INC.

NATURAL GAS SYSTEMS, INC.

Registrable Common Stock at \$2.00 per Share

SUBSCRIPTION AGREEMENT

1. Subscription:

(a) The undersigned (individually and/or collectively, the "Participant") hereby applies to become a participant in the registrable common stock (the "Shares" or the "Common Stock") of NATURAL GAS SYSTEMS, INC., a Nevada corporation ("NGS" or the "Company"), in accordance with the terms and conditions of this Subscription Agreement (the "Subscription"). The Company is offering up to 8,000,000 shares of Common Stock in this offering, subject to the right of the Company to sell such lesser number of shares of Common Stock as the Company may, in its sole discretion, deem necessary or advisable. The subscription period will begin on June 11, 2004 and will terminate at 11:59 p.m., Eastern time, on August 31, 2004, unless terminated or extended by the Company (which termination or extension may be effected without notice) for up to an additional 60 days. The purchase and sale of the Shares shall occur as soon as practicable after the execution of this Subscription by the Company and each of the Participants. On such date, the Company will deliver or cause to be delivered one or more physical certificates representing the Shares purchased by each Subscriber.

(b) Before this subscription for participation in the Shares is considered, the Participant must complete, execute and deliver to the Company the following:

- (i) This Subscription;
- (ii) The Certificate of Accredited Investor Status attached hereto as Exhibit A;
- (iii) The NGS Registration Rights Agreement; and
- (iv) The Participant's check or wire transfer in the amount of \$ _____.

(c) Participant hereby subscribes for _____ Shares at a purchase price of TWO DOLLARS (\$2.00) per share.

(d) This Subscription is irrevocable by the Participant.

(e) This Subscription is not transferable or assignable by the Participant.

(f) This Subscription shall be deemed to be accepted only when this Subscription has been executed by an authorized officer of the Company. The deposit of Participant's check or wire transfer funds will not be deemed an acceptance of this Subscription.

(g) This Subscription may be rejected in whole or in part by the Company in its sole discretion. In the event this Subscription is rejected in its entirety by the Company, all funds (without interest) and documents tendered by the Participant shall be returned. In the event that this Subscription is rejected in part by the Company, the Company shall return to the Participant the part of the payment relating to such rejected portion without interest. The Company shall have the right to allocate Shares

among Participants in any manner it may desire; provided, that no Participant shall be obligated to purchase more than the number of Shares set forth in Section 1(c) above without such Participant's prior written consent.

(h) Participant understands that separate Subscriptions will be executed with other Participants for the remainder of the Shares to be sold in this offering.

(i) Placement agents and broker dealers, including Laird Q. Cagan, registered representative of Chadbourn Securities, Inc. (an NASD broker-dealer), may be paid commissions in an amount up to but not to exceed (i) selling commissions from the Company up to eight percent (8%) of the aggregate proceeds from the sale of the Shares, and (iii) warrants to purchase up to eight percent (8%) of the aggregate number of Shares sold in the offering, exercisable for seven years at an exercise price equal to the Offering Price, with a net exercise ("cashless exercise") provision.

(j) Until the registration statement contemplated by the NGS Registration Rights Agreement is declared effective, Participant hereby agrees not to, and will cause its affiliates not to, enter into any "put equivalent position" as such term is defined in Rule 16a-1 under the Securities Exchange Act of 1934, as amended, or short sale position with respect to the Common Stock.

2. Representations by Participant. In consideration of the Company's acceptance of participation, I make the following representations and warranties to the Company, to its principals, and to participating broker-dealers, if any, jointly and severally, which warranties and representations shall survive any acceptance of my participation in the Shares:

(a) I have had the opportunity to ask questions and receive any additional information from persons acting on behalf of the Company to verify my understanding of the terms thereof and of the Company's business and status thereof, and that no oral information furnished to the undersigned or my advisors in connection with my participation in the Shares has been in any way inconsistent with other documentary information provided.

(b) I acknowledge that I have not seen, received, been presented with, or been solicited by any leaflet, public promotional meeting, newspaper or magazine article or advertisement, radio or television advertisement, or any other form of advertising or general solicitation with respect to my participation in the Shares.

(c) The Shares are being purchased for my own account for long-term investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meanings of the Securities Act of 1933, as amended (the "Securities Act"), and any applicable state securities

laws. No other person or entity will have any direct or indirect beneficial interest in, or right to, the Shares. I or my agents or investment advisors have such knowledge and experience in financial and business matters relating to an investment of this type that will enable me to utilize the information made available to me in connection with the participation in the Shares to evaluate the merits and risks of participation and to make an informed investment decision.

(d) I understand that (A) the Shares (1) have not been registered under the Securities Act or any state securities laws, (2) will be issued in reliance upon an exemption from the registration and prospectus delivery requirements of the Securities Act pursuant to Section 4(2) and/or Regulation D thereof and (3) will be issued in reliance upon exemptions from the registration and prospectus delivery requirements of state securities laws which relate to private offerings, and (B) I must therefore bear the economic risk of such investment indefinitely unless a subsequent disposition thereof is registered under

the Securities Act and applicable state securities laws or is exempt therefrom. I further understand that such exemptions depend upon, among other things, the bona fide nature of my investment intent as expressed herein. Pursuant to the foregoing, I acknowledge that the certificates representing the Shares acquired pursuant to this Subscription shall bear a restrictive legend substantially as follows:

“THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND STATE SECURITIES LAWS, AND MAY NOT BE OFFERED FOR SALE, SOLD, ASSIGNED, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF UNLESS (I) REGISTERED UNDER THE APPLICABLE SECURITIES LAWS OR (II) AN OPINION OF COUNSEL, WHICH OPINION AND COUNSEL ARE BOTH REASONABLY SATISFACTORY TO THE COMPANY, HAS BEEN DELIVERED TO THE COMPANY AND SUCH OPINION STATES THAT THE SHARES MAY BE TRANSFERRED WITHOUT SUCH REGISTRATION.”

(e) I acknowledge that I have been advised that:

(i) The Shares offered hereby have not been approved or disapproved by the Securities and Exchange Commission (“SEC”) or any state securities commission nor has the SEC or any state securities commission passed upon the accuracy or adequacy of any representations by the Company. Any representation to the contrary is a criminal offense.

(ii) In making an investment decision, I must rely on my own examination of the Company and the terms of the offering of the Shares, including the merits and risks involved. The Shares have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of any representation. Any representation to the contrary is a criminal offense.

(iii) The Shares are “Restricted Securities” within the meaning of Rule 144 under the Securities Act, are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws, pursuant to registration or exemption therefrom.

(f) Other than the rights specifically set forth in the NGS Registration Rights Agreement, I represent, warrant and agree that the Company and the officers of the Company (the “Company’s Officers”) are under no obligation to register or qualify the participation in the Shares under the Securities Act or under any state securities law, or to assist the undersigned in complying with any exemption from registration and qualification.

(g) I represent that I am an “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act and I have executed the Certificate of Accredited Investor Status, attached hereto as Exhibit A.

(h) I understand that the participation in the Shares is illiquid, cannot be readily sold as there will not be a public market for them and that I may not be able to sell or dispose of my participation in the Shares, or to utilize the Shares as collateral for a loan. I understand that the purchase of the Shares is a speculative investment and involves substantial risks and that I could lose my entire investment in the

Shares. I must not purchase participation in the Shares unless I have liquid assets sufficient to assure myself that such purchase will cause me no undue financial difficulties and that I can still provide for my current and possible personal contingencies, and that the commitment herein for participation in the Shares, combined with other investments of mine, is reasonable in relation to my net worth.

(i) I understand that my right to transfer my participation in the Shares will be restricted against transfers unless the transfer is not in violation of the Securities Act, the Nevada Securities Law, and any other applicable state securities laws (including investment suitability standards), that the Company will not consent to a transfer of participation in the Shares unless the transferee represents that such transferee meets the financial suitability standards required of an initial participant and that the Company has the right, in its absolute discretion, to refuse to consent to such transfer.

(j) I have been advised to consult with my own attorney or attorneys regarding all legal matters concerning an investment in the Company and the tax consequences of participation in the Shares, and have done so, to the extent I consider necessary.

(k) I acknowledge that the tax consequences to me of investing in the Company will depend on my particular circumstances, and neither the Company, the Company’s officers, any other investors, nor the partners, shareholders, members, managers, agents, officers, directors, employees, affiliates or consultants of any of them, will be responsible or liable for the tax consequences to me of an investment in the Company. I will look solely to and rely upon my own advisers with respect to the tax consequences of this investment.

(l) I acknowledge that I have made the decision to invest in the Shares solely on the basis of the information set forth in the Company’s Private Placement Memorandum (the “Memorandum”), dated June 11, 2004, included herewith, and that no officer, director, or other person affiliated with the Company has given me any information or made any representations, oral or written, other than as provided in the Memorandum, on which I have relied upon in deciding to invest in the Shares, including without limitation, any information with respect to future operations of the Company or the economic returns which may accrue as a result of the purchase of the Shares.

(m) All information which I have provided to the Company concerning myself, my financial position and my knowledge of financial and business matters is truthful, accurate, correct and complete as of the date set forth herein. I agree to furnish the Company such other information as the Company may reasonably request in order to verify the accuracy of the information contained herein and agree to notify the Company immediately of any material change in the information provided herein that occurs prior to the Company's acceptance of this Subscription.

(n) I and my affiliates do not have, and during the 30 day period prior to the date of this Subscription, I and my affiliates have not entered into, any "put equivalent position" or short sale positions with respect to the Common Stock.

(o) If I am not a United States person, I hereby represent that I have satisfied myself as to the full observance of the laws of my applicable jurisdiction in connection with any invitation to subscribe for the Shares or any use of this Subscription, including (i) the legal requirements within such jurisdiction for the purchase of the Shares, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained, and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of the Shares. My subscription and payment for, and my continued beneficial ownership of the Shares, will not violate any applicable securities or other laws of such jurisdiction.

3. Agreement to Indemnify Company. I hereby agree to indemnify and hold harmless the Company, its principals, the Company's officers, directors and attorneys, from any and all damages, costs and expenses (including actual attorneys' fees) which they may incur (i) by reason of my failure to fulfill any of the terms and conditions of participation, (ii) by reason of my breach of any of my representations, warranties or agreements contained herein; (iii) with respect to any and all claims made by or involving any person, other than me personally, claiming any interest, right, title, power or authority in respect to my participation. I further agree and acknowledge that these indemnifications shall survive any sale or transfer, or attempted sale or transfer, of any portion of my participation.

4. Subscription Binding on Heirs, etc. This Subscription, upon acceptance by the Company, shall be binding upon the heirs, executors, administrators, successors and assigns of the Participant. If the undersigned is more than one person, the obligations of the undersigned shall be joint and several and the representations and warranties shall be deemed to be made by and be binding on each such person and his heirs, executors, administrators, successors, and assigns.

5. Execution Authorized. If this Subscription is executed on behalf of a corporation, partnership, trust or other entity, the undersigned has been duly authorized and empowered to legally represent such entity and to execute this Subscription and all other instruments in connection with participation in the Shares and the signature of the person is binding upon such entity.

6. Adoption of Terms and Provisions. The Participant hereby adopts, accepts and agrees to be bound by all the terms and provisions hereof.

7. Governing Law. This Subscription shall be construed in accordance with the laws of the State of Nevada.

8. Counsel. The Participant hereby acknowledges that the Company and its counsel, Steven D. Lee, Attorney-At-Law., represent the interests of the Company and not those of the Participant in any agreement (including this Subscription) to which the Company is a party.

9. Investor Information:

(The information below should be consistent with the form of ownership selected below.)

Name (please print): _____

If entity named above By: _____
Its: _____

Social Security or Taxpayer I.D. Number: _____

Business Address (including zip code): _____

Business Phone: _____

Business Fax: _____

Residence Address (including zip code): _____

Residence Phone: _____

All communications to be sent to:

_____ Business or

_____ Residence Address

Please indicate below the form in which you will hold title to your interest in the Shares. PLEASE CONSIDER CAREFULLY. ONCE YOUR SUBSCRIPTION IS ACCEPTED, A CHANGE IN THE FORM OF TITLE CONSTITUTES A TRANSFER OF THE INTEREST IN THE SHARES AND MAY THEREFORE BE RESTRICTED BY THE TERMS OF THIS SUBSCRIPTION, AND MAY RESULT IN ADDITIONAL COSTS TO YOU. Subscribers should seek the advice of their attorneys in deciding in which of the forms they should take ownership of the interest in the Shares, because different forms of ownership can have varying gift tax, estate tax, income tax, and other consequences, depending on the state of the investor's domicile and his or her particular personal circumstances.

- _____ INDIVIDUAL OWNERSHIP (one signature required)
- _____ JOINT TENANTS WITH RIGHT OF SURVIVORSHIP AND NOT AS TENANTS IN COMMON (both or all parties must sign)
- _____ COMMUNITY PROPERTY (one signature required if interest held in one name, i.e., managing spouse; two signatures required if interest held in both names)
- _____ TENANTS IN COMMON (both or all parties must sign)
- _____ GENERAL PARTNERSHIP (fill out all documents in the name of the PARTNERSHIP, by a PARTNER authorized to sign, and include a copy of the Partnership Agreement)
- _____ LIMITED PARTNERSHIP (fill out all documents in the name of the LIMITED PARTNERSHIP, by a GENERAL PARTNER authorized to sign, and include a copy of the Limited Partnership Agreement and any other document showing that the investment is authorized)
- _____ LIMITED LIABILITY COMPANY (fill out all documents in the name of the LIMITED LIABILITY COMPANY, by a member authorized to sign, and include a copy of the LIMITED LIABILITY COMPANY's Operating Agreement and any other documents necessary to show the investment is authorized.)
- _____ CORPORATION (fill out all documents in the name of the CORPORATION, by the President or other officer authorized to sign, and include a copy of the Corporation's Articles and certified Corporate Resolution authorizing the signature)
- _____ TRUST (fill out all documents in the name of the TRUST, by the Trustee, and include a copy of the instrument creating the trust and any other documents necessary to show the investment by the Trustee is authorized. The date of the trust must appear on the Notarial where indicated.)

Subject to acceptance by the Company, the undersigned has completed this Subscription Agreement to evidence his/her subscription for participation in the Shares of the Company, this _____ day of _____, 2004, at _____, _____.

Participant

The Company has accepted this subscription as of the _____ day of _____, 2004.

NATURAL GAS SYSTEMS, INC.,
a Nevada corporation

By: _____

Print: _____

Exhibit A

CERTIFICATE OF ACCREDITED INVESTOR STATUS

Except as may be indicated by the undersigned below, the undersigned is an "accredited investor," as that term is defined in Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). The undersigned has checked the box below indicating the basis on which he is representing his status as an "accredited investor":

- a bank as defined in Section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"); an insurance company as defined in Section 2(13) of the Securities Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; a small business investment company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, and such plan has total assets in excess of \$5,000,000; an employee benefit plan within

the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are “accredited investors”;

- o a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940;
- o an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
- o a natural person whose individual net worth, or joint net worth with the undersigned’s spouse, at the time of this purchase exceeds \$1,000,000;
- o a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with the undersigned’s spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- o a trust with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment; or
- o an entity in which all of the equity holders are “accredited investors” by virtue of their meeting one or more of the above standards.
- o an individual who is a director or executive officer of Natural Gas Systems, Inc.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Accredited Investor Status effective as of _____, 2004.

Name of Participant

By: _____
Name: _____
Title: _____

[Signature Page to Certificate of Accredited Investor Status]

NATURAL GAS SYSTEMS, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made as of _____, 2004, by and among Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and the undersigned holders of common stock of the Company together with their qualifying transferees (the "Holders").

RECITALS:

A. In connection with a private placement of up to \$16 million of common stock the Company has sold to the Holders pursuant to one or more Registrable Common Stock Subscription Agreements.

B. The sale of the Common Shares is conditional upon the extension of the rights set forth herein, and by this Agreement the Company and the Holders desire to provide for certain rights as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein, the parties, severally and not jointly, hereby agree as follows:

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein, the parties agree as follows:

1. Registration Rights.

1.1 Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) The terms "register", "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act of 1933, as amended (the "Securities Act"), and the declaration or ordering of the effectiveness of such registration statement.

(b) The term "Registrable Securities" means (i) any and all shares of Common Stock of the Company issued and sold by the Company pursuant to the Registrable Common Stock Subscription Agreements (which shares of Registrable Common Stock are referred to herein as the "Common Shares"); (ii) stock issued in lieu of the stock referred to in (i) in any reorganization which has not been sold to the public; or (iii) stock issued in respect of the stock referred to in (i) and (ii) as a result of a stock split, stock dividend, recapitalization or the like, which has not been sold to the public.

(c) The terms "Holder" or "Holders" means any person or persons to whom Registrable Securities were originally issued or qualifying transferees under subsection 1.9 hereof who hold Registrable Securities.

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(d) The term "Initiating Holders" means any Holder or Holders, of 40% or greater of the aggregate of the Registrable Securities then outstanding.

(e) The term "SEC" means the Securities and Exchange Commission.

(f) The term "Registration Expenses" shall mean all expenses incurred by the Company in complying with subsections 1.2, 1.3 and 1.4 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company.)

1.2 Company Registration.

(a) Registration. If at any time or from time to time, the Company shall determine to register any of its securities, for its own account or the account of any of its shareholders, other than a registration on Form S-8 relating solely to employee stock option or purchase plans, or a registration on Form S-4 relating solely to a SEC Rule 145 transaction, the Company will:

(i) promptly give to each Holder written notice thereof at least 15 days prior to the initial filing of the registration statement relating to such offering; and

(ii) include in such registration (and compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within 15 days after receipt of such written notice from the Company, by any Holder or Holders, except as set forth in subsection 1.2(b) below.

(b) Underwriting.

(i) If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise the Holders as a part of the written notice given pursuant to subsection 1.2(a)(i). In such event the right of any Holder to registration pursuant to subsection 1.2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and the other shareholders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company.

(ii) Notwithstanding any other provision of this subsection 1.2, if the underwriter managing such public offering determines that marketing factors require a limitation of the number of shares to be underwritten, the underwriter may limit the number of Registrable Securities to be included in the registration and underwriting, or may exclude Registrable Securities entirely from such registration and underwriting. The Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among Holders requesting registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by each of such Holders as of the date of the notice pursuant to subsection 1.2(a)(i) above; provided that the number of shares of Registrable Securities requested to be included in such underwriting shall not be reduced unless the securities being sold by shareholders other than the Holders are excluded

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from the Underwriting on a proportional basis. If any Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

1.3 Form S-3. In addition to the rights and obligations set forth in subsection 1.2 above, if Initiating Holders request that the Company file a registration statement on Form S-3 (or any successor to Form S-3) for a public offering of shares of Registrable Securities, the reasonably anticipated aggregate price to the public of which (net of underwriting discounts and commissions) would exceed \$5,000,000 and the Company is then a registrant entitled to use Form S-3 to register the shares for such an offering, the Company shall use its best efforts to cause such shares to be registered for the offering as soon as practicable on Form S-3 (or any successor form to Form S-3); provided, however the Company shall not be required to effect a registration pursuant to this subsection 1.3:

(a) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(b) during the period starting with the date of filing of, and ending on a date 90 days following the effective date of, a registration statement pursuant to subsection 1.2, provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective;

(c) if the Company has effected a registration pursuant to this subsection 1.3 within a 12-month period from the date of such request; or

(d) if the Company shall furnish to such Initiating Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be detrimental to the Company and its shareholders for such registration statement to be filed on or before the date filing would be required and it is therefore essential to defer the filing of such registration statement, in which case the Company shall have the right to defer such filing for a period of not more than 90 days after the furnishing of such a certificate of deferral, provided that the Company may not defer such filing pursuant to this subsection 1.3 more than once in any six month period.

In the event such Initiating Holders propose to offer the shares of Registrable Securities pursuant to this subsection 1.3 by means of an underwriting, the proposed underwriter(s) shall be selected by a majority in interest of the Initiating Holders and shall be reasonably acceptable to the Company. The Company shall give written notice to all Holders of the receipt of a request for registration pursuant to this subsection 1.3 and shall provide a reasonable opportunity for other Holders to participate in the registration. The right of any Holder to registration pursuant to this subsection 1.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. The Company shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters. Notwithstanding any other provision of this subsection 1.3, if the underwriter advises the Company in writing that marketing factors require a limitation of the number of shares to be underwritten, the Company shall so advise all Holders, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders thereof in proportion, as nearly as practicable, to the respective amounts

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of Registrable Securities held by such Holders; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting. If any Holder of Registrable Securities disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Company, the underwriter and the Initiating Holders. Any Registrable Securities which are excluded from the underwriting by reason of the underwriter's marketing limitation or withdrawn from such underwriting shall be withdrawn from such registration.

1.4 Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Section 1 shall be borne by the Company except as follows:

(a) The Company shall not be required to pay for expenses of any registration proceeding begun pursuant to subsection 1.3, the request for which has been subsequently withdrawn by the Initiating Holders, in which latter such case, such expenses shall be borne by the Holders requesting such withdrawal. In the event that a withdrawal by the Holders is based on material adverse information relating to the Company that is different from the information known or available to the Holders requesting registration at the time of their request for registration under subsection 1.3, such registration shall not be treated as a counted requested registration for the purposes of subsection 1.3 hereof, and in which case, such expenses shall be borne by the Company.

(b) The Company shall not be required to pay fees or disbursements of more than one firm of legal counsel to the Holders, such fees to not exceed \$10,000 in the aggregate.

(c) The Company shall not be required to pay underwriters' fees, discounts or commissions relating to Registrable Securities.

1.5 Registration Procedures. In the case of each registration, qualification or compliance effected by the Company pursuant to this Agreement, the Company will keep each Holder participating therein advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. Except as otherwise provided in subsection 1.4, at its expense the Company will:

(a) with respect to a demand made for registration pursuant to Section 1.3, prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to 120 days or if such registration statement is on Form S-3 (or any successor to Form S-3) and provides for sales of securities from time to time pursuant to Rule 415 under the Securities Act for up to one year.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish, without charge, to the Holders such numbers of copies of a prospectus, including each preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

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(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act or the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) The Company shall:

(i) make available for inspection by a representative of the Holders, the managing underwriter participating in any disposition pursuant to such registration statement and one firm of attorneys designated by the Holders (upon execution of customary confidentiality agreements reasonably satisfactory to the Company and its counsel), at reasonable times and in reasonable manner, financial and other records, documents and properties of the Company that are pertinent to the conduct of due diligence customary for an underwritten offering, and cause the officers, directors and employees of the Company to supply all information reasonably requested by any such representative, underwriter or attorney in connection with a registration statement as shall be necessary to enable such persons to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act.

(ii) use its best efforts to cause all Registrable Securities covered by a registration statement to be listed on any securities exchange or any automated quotation system on which similar securities issued by the Company are then listed;

(iii) cause to be provided to the Holders that are selling Registrable Securities pursuant to such registration statement and to the managing underwriter if any disposition pursuant to such registration statement is an underwritten offering, upon the effectiveness of such registration statement, a customary "10b-5" opinion of independent counsel (an "Opinion") and a customary "cold comfort" letter of independent auditors (a "Comfort Letter") in each case addressed to such Holders and managing underwriter, if any;

(iv) notify in writing the Holders that are selling Registrable Securities pursuant to such registration statement and any managing underwriter if any disposition pursuant to such registration statement is an underwritten offering, (A) when the registration statement has become effective and when any post-effective amendment thereto has been filed and becomes effective, (B) of any request by the SEC or any state securities authority for amendments and supplements to the registration statement or of any material request by the SEC or any state securities authority for additional information after the registration statement has become effective, (C) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings for that purpose, (D) if, between the effective date of the registration statement and the closing of any sale of Registrable Securities covered thereby, the

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representations and warranties of the Company contained in any underwriting agreement, securities sales agreement or other similar agreement, including this Agreement, relating to disclosure cease to be true and correct in all material respects or if the Company receives any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose, (E) of the happening of any event during the period the registration statement is effective such that such registration statement or the related prospectus contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make statements therein not misleading (in the case of a prospectus, in light of circumstances under which they were made) and (F) of any determination by the Company that a post-effective amendment to the registration statement would be appropriate. The Holders hereby agree to suspend, and to cause any managing underwriter to suspend, use of the prospectus contained in a registration statement upon receipt of such notice under clause (C), (E) or (F) above until, in the case of clause (C), such stop order

is removed or rescinded or, in the case of clauses (E) and (F), the Company has amended or supplemented such prospectus to correct such misstatement or omission or otherwise.

If the notification relates to an event described in clauses (E) or (F), the Company shall promptly prepare and furnish to such seller and each underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein no misleading.

(v) provide and cause to be maintained a transfer agent and registrar for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement;

(vi) deliver promptly to each Holder participating in the offering and each underwriter, if any, copies of all correspondence between the SEC and the Company, its counsel or auditors and all memoranda relating to discussions with the SEC and its staff with respect to the registration statement, other than those portions of any such correspondence and memoranda which contain information subject to attorney-client privilege with respect to the Company, and, upon receipt of such confidentiality agreements as the Company may reasonably request, make reasonably available for inspection by any Holder of such Registrable Securities covered by such registration statement, by any underwriter, if any, participating in any disposition to be effected pursuant to such registration statement and by any attorney, accountant or other agent retained by any such Holder or any such underwriter, all pertinent financial and other records, pertinent corporate documents and properties of the Company, and cause all of the Company's officers, directors and employees to supply all information reasonably requested by any such Holder, underwriter, attorney, accountant or agent in connection with such registration statement;

(vii) use its best efforts to obtain the withdrawal of any order suspending the effectiveness of the registration statement;

(viii) provide a CUSIP number for all Registrable Securities not later than the effective date of the registration statement;

(ix) make reasonably available its employees and personnel and otherwise provide reasonable assistance to the underwriters in the marketing of Registrable Securities in any underwritten offering;

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(x) promptly prior to the filing of any document which is to be incorporated by reference into the registration statement or the prospectus (after the initial filing of such registration statement) provide copies of such document to counsel to the seller of Registrable Securities and to the managing underwriter, if any, and make the Company's representatives reasonably available for discussion of such document and make such changes in such document concerning such sellers prior to the filing thereof as counsel for such sellers or underwriters may reasonably request; and

(xi) cooperate with the sellers of Registrable Securities and the managing underwriter, if any, to facilitate the timely preparation and delivery of certificates not bearing any restrictive legends representing the Registrable Securities to be sold, and cause such Registrable Securities to be issued in such denominations and registered in such names in accordance with the underwriting agreement prior to any sale of Registrable Securities to the underwriters or, if not an underwritten offering, in accordance with the instructions of the sellers of Registrable Securities at least three business days prior to any sale of Registrable Securities.

1.6 Indemnification.

(a) The Company will indemnify and hold harmless to the fullest extent permitted by law each Holder of Registrable Securities and each of its officers, directors and partners, and each person controlling such Holder, with respect to which such registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter of the Registrable Securities held by or issuable to such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereto) arising out of or based on (i) any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement under which such securities were registered under the Securities Act or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; (ii) any untrue statement (or alleged untrue statement) of a material fact contained in any preliminary, final or summary prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statement therein, in light of the circumstances under which they were made, or not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Securities Exchange Act of 1934, as amended, (the "Exchange Act") or any state securities law applicable to the Company or any rule or regulation promulgated under the Securities Act, the Exchange Act or any such state law and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each of its officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, within a reasonable amount of time after incurred for any reasonable legal and any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action; provided, however, that the indemnity agreement contained in this subsection 1.6(a) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); and provided further, that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by an instrument duly executed by such Holder or underwriter specifically for use therein.

(b) Each Holder will, if Registrable Securities held by or issuable to such Holder are included in the securities as to which such registration, qualification or compliance is being effected, severally and not jointly, indemnify and hold harmless to the fullest extent permitted by law the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered

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by such a registration statement, each person who controls the Company within the meaning of the Securities Act, and each other such Holder, each of its officers, directors and partners and each person controlling such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, partners, persons or underwriters for any reasonable legal or any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by the Holder in an instrument duly executed by such Holder specifically for use therein; provided, however, that the indemnity agreement contained in this subsection 1.6(b) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability or action if such settlement is effected without the consent of the Holder, (which consent shall not be unreasonably withheld); provided further, that the total amount for which any Holder shall be liable under this subsection 1.6(b) shall not in any event exceed the net proceeds received by such Holder from the sale of Registrable Securities held by such Holder in such registration; and provided further, that a Holder will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Holder by an instrument duly executed by the Company or underwriter specifically for use therein.

(c) Each party entitled to indemnification under this subsection 1.6 (the “Indemnified Party”) shall give notice to the party required to provide indemnification (the “Indemnifying Party”) promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party’s expense; and provided further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations hereunder, except to the extent such failure resulted in material prejudice to the Indemnifying Party; and provided further, that an Indemnified Party (together with all other Indemnified Parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the Indemnifying Party, if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between such Indemnified Party and any other party represented by such counsel in such proceeding. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) If for any reason the foregoing indemnity is unavailable or is insufficient to hold harmless an indemnified party under Section 1.6, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of any Claim in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party, on the one hand, and the Indemnified Party, on the other hand, with respect to such offering of securities. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties’ relative intent, knowledge, access to

information and opportunity to correct or prevent such untrue statement or omission. If, however, the allocation provided in the second preceding sentence is not permitted by applicable law, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party in such proportion as is appropriate to reflect not only such relative faults, but also any other relevant equitable considerations. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 1.6(d) were to be determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the preceding sentences of this Section 1.6(d). The amount paid or payable in respect of any Claim shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such Claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the U.S. Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Notwithstanding anything in this Section 1.6 to the contrary, no Indemnifying Party (other than the Company) shall be required pursuant to this Section 1.6(d) to contribute any amount in excess of the net proceeds received by such Indemnifying Party from the sale of Registrable Securities in the offering to which the losses, claims, damages or liabilities of the Indemnified Parties relate, less the amount of any indemnification payment made pursuant to Section 1.6.

(e) The indemnity agreements contained herein shall be in addition to any other rights to indemnification or contribution which any Indemnified Party may have pursuant to law or contract and shall remain operative and in full force and effect regardless of any investigation made or omitted by, or on behalf of, any Indemnified Party and shall survive the transfer of the Registrable Securities by any such party.

1.7 Information by Holder. Any Holder or Holders of Registrable Securities included in any registration shall promptly furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to herein.

1.8 Rule 144 Reporting. With a view to making available to Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees at all times to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, after 90 days after the effective date of the first registration filed by the Company for an offering of its securities to the general public;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) so long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as the Holder may reasonably request in complying with any rule or regulation of the SEC allowing the Holder to sell any such securities without registration.

1.9 Transfer of Registration Rights. A Holder's rights to cause the Company to register its securities and keep information available, granted to it by the Company under subsections 1.2, 1.3 and 1.8, may be not be assigned except for an assignment (i) by such Holder of at least 100,000 shares (as adjusted for stock splits, stock dividends, recapitalizations and like events), (or such lesser number of shares as represents all of the Registrable Shares then held by such Holder, or (ii) to any constituent partners or members of a Holder which is a partnership or limited liability company, or to affiliates (as such term is defined in Rule 405 of the Securities Act) of a Holder, provided, that (a) the Company is given written notice by such Holder at the time of or within a reasonable time after said transfer, stating the name and address of said transferee or assignee; and identifying the securities with respect to which such registration rights are being assigned; (b) the assignee or transferee of such rights agrees in writing to be bound by the terms and conditions of this Agreement, and (c) solely as to transfers pursuant to clause (iii) above, any transferees or assignees agree to act through a single representative. The Company may prohibit the transfer of any Holders' rights under this subsection 1.9 to any proposed transferee or assignee who the Company reasonably believes is a competitor of the Company, or when such transfer may violate applicable securities laws. .

1.10 Subordination of Registration Rights. Notwithstanding anything to the contrary, each Holder expressly agrees and acknowledges that the rights granted to it pursuant to this Agreement are subordinated to and expressly subject to the rights granted to certain other holders of the Company's securities pursuant to those certain Registration Rights Agreements entered into between September 2003 and June 2004.

1.11 Limitations on Subsequent Registration Rights. From and after the date hereof, the Company shall not, without the prior written consent of the Holders (which consent will not be unreasonably withheld) of not less than a majority of the Registrable Securities then outstanding enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder to demand any registration including any registration rights similar to those rights described in subsection 1.3 or include such securities in any registration filed under subsections 1.2 or 1.3 hereof if such inclusion would adversely affect the rights of any Holder (or any qualifying transferee under subsection 1.9) under such subsections.

1.11 "Market Stand-Off" Agreement. Each Holder hereby agrees that, during the period of duration (not to exceed 90 days) specified by the Company and an underwriter of common stock or other securities of the Company following the effective date of public offering of securities, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase, pledge or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except common stock included in such registration pursuant to the terms of this Agreement. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares of securities of every other person subject to the foregoing restriction) until the end of such period.

1.12 Delay of Registration. No Holder shall have any rights to take any actions to restrain, enjoin, or otherwise delay any registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.12 Termination of Registration Rights. No holder shall be entitled to exercise any right provided for in this Section 1 at any time when such Holder may sell all its shares in a three (3) month period under Rule 144 of the Act.

2. General.

2.1 Waivers and Amendments. With the written consent of the record holders of at least a majority of the Registrable Securities, the obligations of the Company and the rights of the parties under this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely), and with the same consent the Company, when authorized by resolution of its Board of Directors, may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement; provided, however, that no such modification, amendment or waiver shall reduce the aforesaid percentage of Registrable Securities without the consent of all of the Holders of the Registrable Securities. . Upon the effectuation of each such waiver, consent, agreement of amendment or modification, the Company shall promptly give written notice thereof to the record holders of the Registrable Securities who have not previously consented thereto in writing. This Agreement or any provision hereof may be changed, waived, discharged or terminated only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought, except to the extent provided in this subsection 3.1.

2.2 Governing Law. This Agreement shall be governed in all respects by the laws of the State of Nevada without regard the principles of conflicts of law thereof.

2.3 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

2.4 Entire Agreement. Except as set forth below, this Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and this Agreement shall supersede and cancel all prior agreements between the parties hereto with regard to the subject matter hereof.

2.5 Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be delivered by overnight courier service or mailed by first class mail, postage prepaid, certified or registered mail, return receipt requested, addressed (a) if to any Holder, at such party's address as set forth in the Company's records, or at such other address as such party shall have furnished to the Company in writing, or (b) if to the Company, at such address as the Company shall have furnished to the Holder in writing.

2.6 Severability. In case any provision of this Agreement shall be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement or any provision of the other Agreement s shall not in any way be affected or impaired thereby.

2.7 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

2.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

— SIGNATURES ON NEXT PAGE —

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date set forth underneath their respective signatures below.

“COMPANY”

**Natural Gas Systems, Inc.,
a Nevada corporation**

By: _____
Robert S. Herlin, President and CEO

Date: _____, 2004

“HOLDER”

By: _____

Print: _____

Date: _____, 2004