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RECENT CHANGES TO JAPANESE EXCHANGE RULES

The rules of both the Tokyo and Osaka (including JASDAQ) securities exchanges are being revised this fall to address several issues that have been a cause for concern among the foreign investment community in Japan and have posed a significant impediment to venture capital investments.

Until recently, Japanese securities exchange rules prohibited a company from issuing shares (including shares issued upon conversion of preferred stock, convertible bonds or warrants) in the fiscal year in which a listing application is filed (the "Prohibited Period"). Exchange rules were also interpreted to require that all convertible securities be converted during the fiscal year prior to the fiscal year in which the listing occurs (the "Restricted Period").

The rules also provided that investors who acquire shares during the Restricted Period are subject to a lockup that extends until the later of (a) six months from the date of the listing, or (b) twelve months from the date of issuance of the acquired shares (the "Lockup Period").

On September 4, 2001, revisions to the Tokyo Stock Exchange's rules came into effect that will abolish the Prohibited Period (with respect to stock to be listed and convertible securities issued after September 4, 2001) and make it possible for companies to (i) leave convertible securities outstanding and (ii) issue new shares and/or new convertible securities during the fiscal year in which the listing application is filed. The Osaka Stock Exchange is expected to make similar rule changes later this fall.

The new changes make it easier for investors to make later-stage investments and make it possible to provide for conversion of convertible securities immediately prior to an IPO, as is usual in the U.S. and other markets.

However, investors should keep in mind that, in connection with shares and/or convertible securities that are issued during the Restricted Period or the former Prohibited Period (including shares issued upon conversion of convertible securities), the

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company must obtain a letter from the holder of such newly issued shares or convertible securities, as the case may be, showing such holder's commitment to retain the newly issued shares or convertible securities for the duration of the Lockup Period.