

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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POST-EFFECTIVE  
AMENDMENT NO. 1  
TO  
FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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CORNICHE GROUP INCORPORATED  
(Exact name of registrant as specified in its charter)

DELAWARE

6770

22-2343568

(State or other jurisdiction of  
incorporation or organization)

(Primary standard industrial  
classification code number)

(I.R.S. employer  
identification no.)

610 SOUTH INDUSTRIAL BLVD.  
SUITE 220  
EULESS, TEXAS 76040  
(817) 283-4250  
(Address, including zip code, and telephone  
number, including area code, of registrant's  
principal executive offices)

-----  
ROBERT F. BENOIT  
CHIEF EXECUTIVE OFFICER  
610 SOUTH INDUSTRIAL BLVD.  
SUITE 220  
EULESS, TEXAS 76040  
(817) 283-4250  
(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

-----  
Copies of communications to:

DAVID H. ODEN  
HAYNES AND BOONE, LLP  
1600 NORTH COLLINS, SUITE 2000  
RICHARDSON, TEXAS 75080  
(972) 680-7550

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:  
As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered  
on a delayed or continuous basis pursuant to Rule 415 under the Securities Act  
of 1933, check the following box.

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, check the following box and  
list the Securities Act registration statement number of the earlier effective  
registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
check the following box.

CALCULATION OF REGISTRATION FEE

TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock, par value \$0.001	19,844,585	\$1.22	\$24,210,394	\$6,392

- (1) Pursuant to Rule 416(a) under the Securities Act, this Registration Statement also covers such additional shares of our common stock as may become issuable pursuant to antidilution adjustments.
- (2) Based upon the average of the high and low prices of the Registrant's common stock on the NASDAQ Over-the-Counter Bulletin Board on October 12, 2000, pursuant to Rule 457(c) under the Securities Act of 1933.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

## PROSPECTUS

19,844,585 SHARES

CORNICHE GROUP INCORPORATED  
COMMON STOCK  
\$0.001 PAR VALUE PER SHARE

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This prospectus relates to the sale of 19,844,585 shares of Corniche Group Incorporated common stock, \$0.001 par value, 15,844,585 of which are being sold by certain selling stockholders and 4,000,000 of which are being sold by Corniche.

The common stock is quoted on the National Association of Securities Dealers' Over-the-Counter Bulletin Board under the symbol CNGI. On November 8, 2000, the last reported sales price for our common stock as reported on the Over-the-Counter Bulletin Board was \$1.03.

See "Risk Factors" beginning on page 2 to read about factors you should consider before buying shares of our common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is November 9, 2000.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the Selling Stockholders are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

As used in this prospectus, unless the context otherwise requires, "we," "us," "our" or "Corniche" collectively refers to Corniche Group Incorporated.

## PROSPECTUS SUMMARY

This summary highlights information that we believe is especially important concerning our business and this offering of common stock. It does not contain all of the information that may be important to your investment decision. You should read the entire prospectus, including "Risk Factors" and our financial statements and related notes, before deciding to invest in our common stock.

## CORNICHE

We are a development stage company that is engaged in two businesses: the sale to consumers of warranty service contracts on automobiles and consumer products, and the property/casualty reinsurance business. We have developed a web site on the Internet, WarrantySuperstore.com, to market warranty service contracts directly to consumers. We intend to market service contracts solely over the Internet.

With regard to the reinsurance business, our wholly owned subsidiary is licensed as an insurance company in the Cayman Islands. We accept reinsurance from domestic U.S. insurance companies. Once this subsidiary is sufficiently capitalized, we intend to request the insurance carriers providing contractual liability coverage on our service contracts to share (by way of reinsurance) a portion of the risk with our insurance subsidiary.

Our principal executive office is located at 610 South Industrial Boulevard, Suite 220, Euless, Texas 76040. Our telephone number is (817) 283-4250.

## THE OFFERING

Common stock offered by selling stockholders: 15,844,585 shares

Common stock offered by the Company..... 4,000,000 shares

Common stock outstanding:

Prior to this offering: 22,472,971(1)

After this offering: 26,472,971(1)(2)

Use of proceeds:..... Assuming that all 4,000,000 shares offered by the Company in this offering are sold, we estimate that we will receive net proceeds of approximately \$9,800,000 from the sale of 4,000,000 shares of common stock. We intend to use the net proceeds we receive:

- o to fund marketing and sales efforts; and
- o for working capital and other general corporate purposes.

Nasdaq Over-the-Counter Bulletin Board symbol:

CNGI

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(1) Does not include 175,000 shares of common stock reserved for issuance under our stock option plans and 79,000 shares issuable upon exercise of currently outstanding warrants, but assumes full conversion of all the outstanding Series B convertible redeemable preferred stock.

(2) Of the shares being offered for sale in this offering, 14,222,971 shares of common stock are currently outstanding. 8,250,000 shares are issuable upon the conversion of currently outstanding shares of Series B convertible redeemable preferred stock. The remaining 4,000,000 shares are being offered by Corniche in this offering.

## RISK FACTORS

Investing in our common stock involves a substantial risk. You should consider carefully the risks and uncertainties described below before deciding to buy our common stock. If any of the following risks or uncertainties occurs, our business could be adversely affected. In this event, the trading price of our common stock could decline, and you could lose all or part of your investment.

## RISKS RELATED TO OUR WARRANTY SERVICE CONTRACT BUSINESS

IF WE CANNOT MEET OUR FUTURE CAPITAL REQUIREMENTS, OUR BUSINESS WILL SUFFER.

Since the time of the reorganization of the Company in May 1998, we have experienced operating losses. To date, we have funded our operations from the sale of our stock. There can be no assurance that we will be able to achieve profitability.

We expect that we will need to raise additional funds in the future through debt or equity financings to:

- o fund operating losses;
- o expand our business operations, including our warranty service contract business;
- o take advantage of opportunities, including acquisitions of complementary businesses or technologies;
- o develop new products; or
- o respond to economic and competitive pressures.

Future additional financing may not be available on terms favorable to us, if at all. If adequate funds are not available or are not available on acceptable terms, our operating results and financial condition may suffer, and our stock price may decline.

OUR BUSINESS AND PROSPECTS DEPEND ON DEMAND FOR AND MARKET ACCEPTANCE OF THE INTERNET AS A MEDIUM OF COMMERCE AND THE DEVELOPMENT OF THE INTERNET'S INFRASTRUCTURE.

Use of the Internet for retrieving, sharing and transferring information among businesses, consumers, suppliers and partners has increased substantially in recent years, and our success will depend in large part on continued growth in the use of the Internet. Critical issues concerning the use of the Internet and e-commerce, including security, reliability, cost, ease of access, quality of service, regulatory initiatives and necessary increases in bandwidth availability, remain unresolved and are likely to affect the development of the market for our services. The adoption of the Internet for information retrieval and exchange, commerce and communications generally will require the continued increase in the acceptance of the Internet as a medium for conducting business and exchanging information. Demand for, and market acceptance of, the Internet are subject to a high level of uncertainty and are dependent on a number of factors, including:

- o the growth in consumer access to, and acceptance of, new interactive technologies;
- o concerns regarding the security of e-commerce transactions;
- o the development of technologies that facilitate interactive communication; and
- o increases in user bandwidth and connectivity.

If the Internet develops more slowly than expected as a commercial or business medium, our business and prospects will not grow.

THERE IS NO ASSURANCE THAT THE PUBLIC WILL ACCEPT THE INTERNET AS A MEDIUM OF COMMERCE FOR THE PURCHASE OF WARRANTY SERVICE CONTRACTS.

We market warranty service contracts solely over the Internet. To date, our sales of warranty service contracts has been minimal. There is no assurance that consumers in significant numbers will accept the Internet as a medium for the sale of warranty service contracts.

WE DEPEND ON OUR KEY PERSONNEL TO MANAGE OUR BUSINESS EFFECTIVELY IN A RAPIDLY CHANGING MARKET, AND IF WE ARE UNABLE TO RETAIN OUR KEY EMPLOYEES, OUR ABILITY TO COMPETE COULD BE HARMED.

Our future operating results will depend in significant part upon the continued services of our executive officers and support personnel who have industry experience and relationships that we will rely on in implementing our business plan. We face competition for qualified personnel. The loss of the services of any of our key employees could negatively impact our ability to sell our service. This could have a material adverse effect on our future results of operations and financial condition.

THE MARKET IN WHICH WE OPERATE IS HIGHLY COMPETITIVE AND WE MAY BE UNABLE TO COMPETE SUCCESSFULLY AGAINST NEW ENTRANTS AND ESTABLISHED COMPANIES WITH GREATER RESOURCES.

The warranty service contract market is relatively new, intensely competitive, highly fragmented and rapidly changing. We have experienced and expect to experience increased competition. Many of our current competitors, as well as a number of our potential competitors, have longer operating histories, greater name recognition and substantially greater financial, technical and marketing resources than we do. Some of our current or potential competitors have the financial resources to withstand substantial price competition. Moreover, many of our competitors have more extensive customer bases, broader customer relationships and broader industry alliances that they could use to their advantage in competitive situations. Our competitors may be able to respond more quickly than we can to changes in the warranty service contract market. Some of our current or potential competitors may enter into strategic relationships or combine their service offerings with other business service or consumer products providers in a manner that may make Internet sales for us more difficult.

As competition in the warranty service contract market continues to intensify, new solutions may come to market. We are aware of other companies that are focusing or may in the future focus significant resources on developing services that will compete directly with our WarrantySuperStore.com web site. Increased competition could result in:

- o price and revenue reductions and lower profit margins;
- o increased cost of service from telecommunications providers; and
- o loss of customers.

Any one of the above could materially and adversely affect our business, financial condition and results of operations.

#### RISKS RELATED TO LEGAL AND REGULATORY UNCERTAINTY

THE IMPOSITION OF A SALES TAX FOR INTERNET COMMERCE TRANSACTIONS MAY DISCOURAGE ONLINE SHOPPING AND RESULT IN DECREASED INTERNET COMMERCE WEB SITE TRAFFIC, WHICH IN TURN COULD DECREASE THE DEMAND FOR OUR SERVICE.

In 1998, the U.S. federal government enacted legislation prohibiting states or other local authorities from imposing new taxes on Internet commerce for a three-year period, ending on October 1, 2001. This period has been extended for an additional year. A number of trade groups and government entities have publicly stated their objections to this tax moratorium and have argued for its repeal. There can be no assurance that future laws will not impose taxes or other regulations on Internet commerce, or that the moratorium will not be repealed, or that it will be renewed when it expires. The occurrence of any of these events could substantially impair the growth of Internet commerce, which, in turn, would decrease the demand for our warranty service contracts.

OUR OPERATING RESULTS COULD BE IMPAIRED IF WE BECOME SUBJECT TO BURDENSOME GOVERNMENT REGULATIONS AND INCREASED LEGAL REQUIREMENTS CONCERNING THE INTERNET.

Laws and regulations relating to the Internet remain largely unsettled, even in areas where there has been some legislative action. However, due to the increasing popularity and use of the Internet, additional laws and regulations may be adopted with respect to the Internet, relating to:

- o user privacy;
- o content;
- o copyrights;
- o communications services;
- o characteristics and quality of products and services; and
- o online advertising and marketing.

The adoption of additional laws or regulations, both domestically and abroad, may decrease the popularity or impede the expansion of the Internet and could seriously harm our business. A decline in the popularity or growth of the Internet could decrease demand for our service. Moreover, the applicability of existing laws to the Internet is uncertain with regard to many important issues, including property ownership, intellectual property, export of encryption technology, libel and personal privacy. The application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services, could also harm our business. It may take years to determine whether and how existing and future laws and regulations apply to us.

#### RISKS RELATED TO OUR REINSURANCE BUSINESS

In connection with our reinsurance business, we are accepting risks from direct insurance underwriters. As a result, our reinsurance business is subject to the same risks and economic factors that could affect a direct insurer.

#### THE NATURE OF THE INSURANCE BUSINESS.

The insurance business is cyclical in nature. It has historically been characterized by periods of relatively high levels of price competition, less restrictive underwriting standards and generally low premium rates, followed by periods of capital shortages resulting in a lack of insurance availability, relatively low levels of competition, more selective underwriting of risks and relatively high premium rates. The unpredictability and competitive nature of the insurance industry have contributed to significant quarter-to-quarter and year-to-year fluctuations in underwriting results and net income. We cannot predict if, or when, the market conditions for the insurance industry, including the product lines that we insure, will change. Our profitability is affected by many factors, including not only rate competition, but also severity and frequency of claims, fluctuations in interest rates that affect investment returns, regulation, court decisions, natural disasters, the legislative climate, and general economic conditions and trends, such as inflationary pressures that may affect the adequacy of reserves, all of which are substantially beyond our control.

One of the distinguishing features of the insurance industry is that prices are set before costs are known because rates for individual policies are determined before losses for the policies are reported. Changes in statutory and case law can dramatically affect the liability associated with known risks after the insurance policy is in place. The number of competitors and the similarity of products offered, as well as regulatory constraints, limit the ability of insurance companies such as us to increase prices in response to declines in profitability. In addition, during periods of high interest rates, some insurance companies may be willing to absorb underwriting losses to generate funds for investment, thereby prolonging low premium rates which are not adequate to cover underwriting losses and expenses. As a result of these factors, we may experience significantly lower premiums in the future.

Most insurance underwriting decisions are based on assumptions about events that will occur over a period of future years and are generally based on actuarial projections and historical data reflecting the collective experience of large groups of insureds. The actuarial projections may not accurately predict the aggregate obligations of any given insurer.

#### THE COMPETITION IN THE INDUSTRY IN WHICH WE COMPETE.

The insurance industry is highly competitive. Many of our reinsurance competitors have more established national and international reputations and substantially greater financial resources and market share than Corniche.

#### THE ADEQUACY OF OUR LOSS RESERVES.

We are required to maintain adequate reserves to cover our estimated ultimate liability for losses as of the end of each accounting period. These reserves are estimates of what we expect our ultimate settlement and administration of claims will cost, and are based on facts and circumstances then known, predictions of future events, estimates of future trends in claims severity and other variable, subjective factors. No method is available to estimate precisely the ultimate liability. In recent years, a number of courts have issued decisions expanding civil liability. These decisions have resulted in higher damage awards to injured parties. In many cases, these decisions have also resulted in liability and increased losses to insurance companies. In addition, we rely on policy language, developed by us and by others, to exclude or limit coverage.



Any court ruling that this language is invalid or unenforceable could materially adversely affect our financial position. This possibility of expansion of insurers' liability either through new concepts of liability or a refusal to accept restrictive policy language has added to the inherent uncertainty of reserving for losses. Although management believes that adequate provision has been made for loss reserves, the establishment of appropriate reserves is an inherently uncertain process, and there can be no assurance that ultimate losses will not exceed our loss reserves and have a material adverse effect on our results of operations and financial condition. If our reserves become inadequate, we will be required to increase reserves with a corresponding increase in losses incurred and reduction in our net income and stockholders' equity in the period in which the deficiency is identified.

#### INSURANCE RATINGS.

We compete with other reinsurance companies on the basis of a number of factors, including the rating assigned by A.M. Best. A.M. Best's letter ratings range from A++ (Superior) to C- (Weak) with A++ being highest. A.M. Best ratings are based upon factors relevant to policyholders, agents, insurance brokers and intermediaries and are not directed to the protection of investors.

Our reinsurance subsidiary is currently rated A+ by A.M. Best. There can be no assurance that the rating will not be changed in subsequent periodic reviews by A.M. Best. Any rating downgrade below B+ could have a material adverse effect on our results of operations and our ability to effectively compete in the marketplace.

#### RISKS RELATING TO THE SECURITIES MARKETS AND THIS OFFERING

OUR STOCK PRICE MAY BE VOLATILE, WHICH COULD RESULT IN LITIGATION AGAINST CORNICHE AND SUBSTANTIAL LOSSES FOR INVESTORS PURCHASING SHARES IN THIS OFFERING.

Our stock price may fluctuate in a manner unrelated or disproportionate to our performance. The following factors could cause the market price of our common stock in the public market to fluctuate significantly from the price paid by investors in this offering:

- the addition or departure of key Corniche personnel;
- variations in our quarterly operating results;
- announcements by us or our competitors of new services or enhancements, acquisitions, distribution partnerships, joint ventures or capital commitments;
- sales of our common stock or other securities in the future;
- changes in market valuations of similar, publicly traded companies; and
- fluctuations in stock market prices and volumes.

VOLATILITY IN THE MARKET PRICE OF OUR COMMON STOCK MAY PREVENT INVESTORS FROM BEING ABLE TO SELL THEIR COMMON STOCK AT OR ABOVE OUR CURRENT PRICE.

In the past, class action litigation has often been brought against companies following periods of volatility in the market price of those companies' common stock. We may become involved in this type of litigation in the future. Litigation is often expensive and diverts management's attention and resources, which could materially adversely affect our business and results of operations.

INSIDERS WILL CONTINUE TO HAVE SUBSTANTIAL CONTROL OVER CORNICHE AFTER THIS OFFERING AND COULD LIMIT YOUR ABILITY TO INFLUENCE THE OUTCOME OF KEY TRANSACTIONS, INCLUDING CHANGES OF CONTROL.

The holders of our Series B preferred stock and our executive officers, directors and entities affiliated with them beneficially owned approximately 40% of our outstanding voting stock prior to this offering. Even after this offering, these stockholders, if acting together, could be able to influence significantly all matters requiring the approval of our stockholders, including the election of directors and the approval of mergers or other business combination transactions.

THERE MAY BE SALES OF A SUBSTANTIAL AMOUNT OF OUR COMMON STOCK AFTER THIS OFFERING THAT COULD CAUSE OUR STOCK PRICE TO FALL.

Our current stockholders hold a substantial number of shares, which they are able to sell in the public market at any time. Sales of a substantial number of shares of our common stock within a short period of time after this offering could cause our stock price to fall. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional stock.

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS

This prospectus contains statements about future events and expectations that are "forward-looking statements." Any statement in this prospectus that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements address, among other things:

- the development and management of our business;
- our anticipated revenue, expense levels, liquidity and capital resources and operating losses;
- the success of our marketing efforts;
- our ability to attract customers;
- the extent of acceptance of our services;
- the market opportunity and trends in the market for our services;
- our ability to compete;
- our future capital expenditures and needs; and
- other statements, including statements containing words such as "may," "might," "could," "would," "anticipate," "believe," "plan," "estimate," "project," "expect," "seek," "intend" and other similar words that signify forward-looking statements.

These statements may be found in the sections of the prospectus entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and in this prospectus generally.

We have based these forward-looking statements on our current expectations and projections about future events. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of risks facing us, including risks stated in "Risk Factors," or faulty assumptions on our part. For example, assumptions that could cause actual results to vary materially from future results include, but are not limited to:

- our ability to generate customer demand for our services;
- the development of our target market and market opportunities;
- changes or advances in technology;
- trends in regulatory, legislative and judicial developments; and
- the extent of competition.

These forward-looking statements are made as of the date of this prospectus. We assume no obligation to update them or to explain the reasons why actual results may differ. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

## USE OF PROCEEDS

Corniche will not receive any of the proceeds from the common stock offered by the selling stockholders. Assuming that all 4,000,000 shares offered by Corniche in this offering are sold at an assumed offering price of \$2.50 per share, we estimate that we will receive net proceeds of approximately \$9,800,000 from the sale. We intend to use the net proceeds we receive:

- to fund marketing and sales efforts; and
- for working capital and other general corporate purposes.

We will retain broad discretion in the allocation of the net proceeds of this offering. In addition, we may use a portion of the net proceeds to acquire or invest in businesses that are complementary to our business. We currently do not have any commitments or agreements for any acquisitions or investments of this kind.

## PLAN OF DISTRIBUTION

The common stock offered hereby may be sold directly by Corniche and each selling stockholder or indirectly through agents, dealers or underwriters from time to time in one or more transactions on the Nasdaq Over-the-Counter Bulletin Board or any exchanges on which the common stock is then listed, or in privately negotiated transactions at prices related to market prices, at negotiated prices or fixed prices. The selling stockholders will bear all discounts and commissions paid to broker-dealers in connection with the sale of their common stock. Other offering expenses will be borne by Corniche.

## DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We do not expect to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. Future dividends, if any, will be determined by our board of directors and will depend upon our results of operations, financial condition, and capital expenditure plans, as well as other factors that our board of directors considers relevant.

## CAPITALIZATION

The following table sets forth as of June 30, 2000, (a) the "actual" capitalization of the Company and (b) the "as adjusted" capitalization of the Company after giving effect to the issuance of 4,000,000 shares of common stock being offered by Corniche at an assumed offering price of \$2.50 per share.

	June 30, 2000	
	Actual	As Adjusted
Total current liabilities	\$ 499,334	\$ 499,334
Deferred revenues	\$ 587,766	\$ 587,766
Long-term debt	\$ 64,116	\$ 64,116
Series A \$0.07 convertible preferred stock, stated value - \$1.00 per share authorized - 1,000,000 shares outstanding - 694,974 shares		\$ 694,974
Series B convertible redeemable preferred stock, \$.01 par value, authorized, issued and outstanding - 825,000 shares	\$ 694,974 \$ 8,250	\$ 8,250
Common stock \$.001 par value, authorized - 30,000,000 shares Issued: actual - 14,222,971 shares as adjusted - 18,222,971 shares	14,223 --	-- 18,223(1)
Additional paid-in capital	8,806,734	18,602,734(1)
Accumulated deficit	(4,911,517) 3,917,690	(4,911,517) 13,691,217
	----- \$ 5,763,880 =====	----- \$ 15,563,876 =====

- (1) Reflects the receipt of \$9,800,000 in net proceeds from the issuance of 4,000,000 shares of common stock at an assumed offering price of \$2.50 per share, after deducting estimated offering expenses of \$200,000.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth summary financial data of the Company (i) for each of the six month periods ended June 30, 2000, and 1999, (ii) for the year ended December 31, 1999, (iii) for the period from April 1, 1998, through December 31, 1998, and (iv) for the years ended March 31, 1998, 1997, and 1996. The historical financial data for the year ended December 31, 1999, and for the nine months ended December 31, 1998, are derived from the audited financial statements of Corniche, which were audited by Weinick Sanders Leventhal & Co., LLP, independent certified public accountants, are included elsewhere in this prospectus. The historical financial data for the years ended March 31, 1998, 1997, and 1996 are derived from the audited financial statements of Corniche, which were audited by Simontacchi & Company, LLP, independent certified public accountants. The audited financial statements for Corniche for the year ended March 31, 1998, are included elsewhere in this Prospectus. The summary financial data should be read in conjunction with both the Company's financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus. The financial data for the six month periods ended June 30, 2000, and 1999, are unaudited, but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of results for the interim periods. The operating results for interim periods are not necessarily indicative of results for the full fiscal year.

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED DECEMBER 31,
	2000	1999	1999	1998
<b>OPERATING DATA:</b>				
<b>CONTINUING OPERATIONS:</b>				
Earned revenues	\$ 275,549	\$ --	\$ 12,854	\$ --
Direct costs	106,580	--	7,557	--
Gross profit	168,969	--	5,297	--
Operating expenses	824,041	999,763	1,060,668	428,157
Operating loss	(655,072)	(999,763)	(1,055,371)	(428,157)
Interest income (expense)	86,620	5,965	(56,965)	25,206
Loss from continuing operations before preferred dividend	(566,792)	(993,798)	(1,112,336)	(402,951)
Preferred dividend	24,370	(28,714)	(57,172)	(44,642)
Loss from continuing operations	(581,162)	(1,022,512)	(1,169,508)	(447,593)
<b>DISCONTINUED OPERATIONS:</b>				
Loss from discontinued operations	--	--	--	--
Excess of UK subsidiary cumulative loss over investment	--	--	--	--
Net income (loss) per common share	\$ (581,162)	\$ (1,022,512)	\$ (1,169,508)	\$ (447,593)
<b>PER SHARE DATA:</b>				
Net income (loss) per common share:				
Continuing operations	\$ (0.04)	\$ (0.16)	\$ (0.17)	\$ (0.07)
Discontinued operations	--	--	--	--
	\$ (0.04)	\$ (0.16)	\$ (0.17)	\$ (0.07)
Weighted average number of common shares outstanding	13,820,536	6,377,357	6,905,073	6,367,015

	YEARS ENDED MARCH 31,		
	1998	1997	1996
<b>OPERATING DATA:</b>			
<b>CONTINUING OPERATIONS:</b>			
Earned revenues	\$ --	\$ --	\$ --
Direct costs	--	--	--
Gross profit	--	--	--
Operating expenses	221,602	251,583	257,073
Operating loss	(221,602)	(251,583)	(257,073)
Interest income (expense)	17,804	(17,373)	(600)
Loss from continuing operations before preferred dividend	(203,798)	(268,956)	(260,715)
Preferred dividend	(60,067)	(63,648)	(62,795)
Loss from continuing operations	(263,865)	(332,604)	(323,510)
<b>DISCONTINUED OPERATIONS:</b>			

Loss from discontinued operations	--	--	(3,432,032)
Excess of UK subsidiary cumulative loss over investment	--	--	5,466,636
Net income (loss) per common share	<u>\$ (263,865)</u>	<u>\$ (332,604)</u>	<u>\$ 1,711,094</u>
PER SHARE DATA:			
Net income (loss) per common share:			
Continuing operations	\$ (0.05)	\$ (0.14)	\$ (0.14)
Discontinued operations	--	--	0.88
	<u>\$ (0.05)</u>	<u>\$ (0.14)</u>	<u>\$ 0.74</u>
Weighted average number of common shares outstanding	<u>5,165,272</u>	<u>2,412,278</u>	<u>2,300,289</u>

June 30, 2000

	----- Actual -----	----- As Adjusted(1) -----
--	--------------------------	----------------------------------

Balance sheet data:		
Working capital	\$ 4,624,638	\$ 9,424,638
Total assets	5,763,880	10,563,880
Long-term debt and unearned revenues	651,882	651,882
Series A convertible preferred stock	694,974	694,974
Convertible redeemable preferred stock, common stock and other stockholders' equity	3,917,690	13,691,217

(1) Gives effect to the sale of 4,000,000 shares of common stock being offered hereby, at \$2.50 per share, net of estimated offering costs of \$200,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis when you read the consolidated financial statements and the related notes included in this prospectus.

OVERVIEW

PLAN OF OPERATION

We have relied solely on the proceeds from the sales of securities in October 1997, May 1998, May 1999, December 1999, and during the six months ended June 30, 2000, for the primary source of our funds. These funds were and will be utilized to fund our operating expenses. Management anticipates we will require additional funds from future sales of our securities and/or other financing alternatives to fund our future operational costs and at the same time fully develop our service contract sales and insurance businesses.

On September 30, 1998, we acquired Stamford Reinsurance Company Ltd., which was then an inactive foreign corporation that is licensed in the Cayman Islands as a casualty and property insurer. In the fourth quarter of 1999, Stamford commenced underwriting as a reinsurer. Also in the fourth quarter, we commenced sales of our automotive vehicle and consumer products service contracts through our website.

Our plan of operation for the next 12 months is principally to continue our endeavors to establish ourselves in the vehicle and consumer products service contract business through our Internet web site, [www.warrantysuperstore.com](http://www.warrantysuperstore.com), and to continue to seek additional property/casualty reinsurance opportunities for our wholly owned reinsurance company, Stamford Reinsurance Co. Ltd.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2000, COMPARED TO SIX MONTHS ENDED JUNE 30, 1999.

**Sales.** We did not generate any operating revenues until the fourth quarter of fiscal 1999, when our reinsurance subsidiary commenced generating premium revenues and the Company began the sale of its service contracts.

**Cost of Sales.** In the six months ended June 30, 2000, Stamford continued reinsuring contractual liability insurance policies from one United States carrier that is rated "A-" Excellent by A.M. Best. This insurance generated approximately \$536,000 in premiums, of which \$296,000 was unearned at June 30, 2000. Policy acquisition costs were \$67,000 of which \$49,000 was expensed in the six months ended June 30, 2000. Income from operations in the six months ended June 30, 2000, was \$169,000 of which \$5,000 is management's estimate of incurred by not reported losses at June 30, 2000. Our sales of extended service contracts for new and used service contracts for new and used automotive vehicles in the six months ended June 30, 2000, generated \$28,600 in revenues of which \$10,000 was recognized within the current period with the balance deferred over the life of the contract. Direct costs associated with the sale of the service contracts are being recognized pro rata over the length of the contract.

**General and Administrative.** General and administrative costs decreased by 17.6% to \$824,000 for the six months ended June 30, 2000, compared to \$1,000,000 for the six months ended June 30, 1999. For the three months ended June 30, 2000, general and administrative costs decreased by 17.3% to \$497,000 compared to \$601,000 for the comparable period in 1999. The decreases are primarily attributable to reduced website development costs.

**Interest Income and Interest Expense.** Interest income increased 1416.7% to \$91,000 for the six months ended June 30, 2000, compared to \$6,000 for the six months ended June 30, 1999. For the three months ended June 30, 2000, interest income increased 3600% to \$55,000 compared to \$1,500 for the comparable period in 1999. Interest expense increased \$4,600 for the six months and \$2,400 for the three months ended June 30, 2000, from \$-0- for the both periods in 1999. The increase in interest income and interest expense is the result of the cash, cash equivalents, and investments used to fund the Company's increased operating costs in the current period and the incidence of debt in a prior period.

**Preferred Stock Dividend.** The accrued preferred stock dividend of \$24,000 in June 2000 is \$5,000 less than the \$29,000 accrued during the same period in 1999 principally because of the reduction of the average number of Series A preferred stock outstanding in the current year.

Net Loss. Net loss for the six months ended June 30, 2000 decreased 43.2% to \$581,000 from the comparable loss of \$1,023,000 incurred in 1999. For the three months ended June 30, 2000, the net loss decreased 37.7% to \$382,000 from the comparable loss of \$613,000 in 1999. These decreases are a result of the reasons cited above.

YEAR ENDED DECEMBER 31, 1999, COMPARED TO THE YEAR ENDED DECEMBER 31, 1998.

Sales. We did not generate any operating revenues until the fourth quarter of fiscal 1999, when our reinsurance subsidiary commenced generating premium revenues and we began the sale of our service contracts.

Cost of Sales. Stamford in the quarter ended December 1999 began reinsuring contractual liability reinsurance policies from one United States carrier that is rated "A-" Excellent by A.M. Best. This reinsurance generated approximately \$300,000 in premiums, of which \$288,000 was unearned at December 31, 1999. Policy acquisition costs were \$38,000 of which \$2,000 was expensed in the current period. Losses charged to operations in the current period were \$5,112 of which \$5,000 is management's estimate of incurred but not reported losses at December 31, 1999. Corniche commenced the sales of the extended service contracts for new and used automotive vehicles in the last quarter of 1999, generating \$11,000 in revenues of which \$400 was recognized in 1999 with the balance deferred over the life of the contract. Direct costs associated with the sale of the service contracts are being recognized pro rata over the length of the contract. Since neither we nor our subsidiary generated any revenues in 1998, no meaningful comparative analysis can be made.

General and Administrative. General and administrative costs for 1999 aggregating \$1,071,000 as compared to \$481,000 for the 12 months ended December 31, 1998. The increase of \$590,000 (122.7%) is attributable to increases in (i) advertising of \$253,000 in 1999 (ii) payroll and related employment costs of \$173,000 to \$257,000 in 1999, (iii) website development of \$98,000 to \$140,000 and (iv) depreciation and amortization of \$78,000 to \$83,000 in 1999.

Interest Income and Interest Expense. Interest income decreased \$30,000 (78.9%) from \$38,000 in the 12 months ended December 31, 1998, to \$8,000 for the year ended December 31, 1999. Interest expense increased from \$1,000 in the 12 months ended December 31, 1998, to \$65,000 for the year ended December 31, 1999. The reduction in interest income and increase in interest expense is the result of the cash, cash equivalents, and investments used to fund our increased operating costs for the year ended December 31, 1999, and the incurrence of debt of \$98,000 to fund property asset additions.

Preferred Stock Dividend. The accrued preferred stock dividend of \$57,000 in 1999 is \$3,000 less than the \$60,000 accrued during the 12 months ended December 31, 1998, principally because of the reduction of the average number of Series A preferred shares outstanding for the year ended December 31, 1999.

Net Loss. Net loss for fiscal 1999 increased \$676,000 (133.9%) to \$1,180,000 from the comparable loss of \$504,000 incurred during the 12 months ended December 31, 1998, for the reasons cited above.

#### LIQUIDITY AND CAPITAL RESOURCES

We have committed to acquire computer hardware and software and to develop an Internet website for approximately \$1,500,000 of which \$1,000,000 has been expended through June 30, 2000. Although we are not contractually obligated to fulfill the remaining \$500,000 of the project, we intend to do so over the next one to two years as and if funding permits. If successful, the project will enable us to fully utilize the Internet in the sales, advertising, marketing and collections of our warranty service contract business. There can be no assurance that we will have the funds available to fund the hardware and/or software we will require to successfully develop this project nor can there be assurance that if it is developed such project will aid in the intended results of additional revenues.

The Certificate of Designation for our Series A preferred stock states that at any time after December 1, 1999, any holder of Series A preferred stock may require us to redeem his shares of Series A preferred stock (if there are funds with which we may legally do so) at a price of \$1.00 per share. Notwithstanding the foregoing redemption provisions, if any dividends on the Series A preferred stock are past due, no shares of Series A preferred stock may be redeemed by us unless all outstanding shares of Series A preferred stock are simultaneously redeemed. The holders of Series A preferred stock may convert their Series A preferred stock into shares of our common stock at a price of \$5.20 per share. At June 30, 2000, 694,971 shares of Series A preferred stock were outstanding. If the preferred stockholders do not convert their shares into



common stock, and if we were required to redeem any significant number of shares of Series A preferred stock, our financial condition would be materially affected.

#### INFLATION

Inflation has not had a significant effect on our operations or financial position and management believes that the future effects of inflation on our operations and financial position will be insignificant.

## BUSINESS

## OUR STRATEGY

We are in the process of putting into place a strategic and operational business plan to establish ourselves in the warranty service contract business and the reinsurance industry.

## WARRANTYSUPERSTORE.COM WEB SITE

We have developed a web site on the Internet to market warranty service contracts on automobiles and consumer products. Our web site is called WarrantySuperstore.com. Through this web site, we plan to sell our products and services directly to consumers.

We are currently offering warranty service contracts for automobiles (new and used), office equipment, consumer electronics, home appliances, lawn and garden equipment, and computers.

We intend to advertise our web site through print, radio, and television advertising and links from other Internet sites. We do not currently intend to have distribution channels for our products and services other than the Internet.

We offer our products and services in states that permit program marketers to be the obligor on warranty service contracts. Currently, this represents approximately 40 states for automobile service contracts and most states for other service contracts. We now anticipate that the obligor on warranty service contracts sold on WarrantySuperstore.com will be a third party warranty company. We are responsible for marketing, booking sales, collecting payment for warranty service contracts, reporting and paying premiums to a reinsurance carrier, and providing information to the reinsurance carrier's appointed claims administrator.

Although we will manage most functions for the warranty service contracts, we will not administer the claim functions. The reinsurance carrier has appointed a claims administrator to administer the claims functions, including payment of claims. We are in the process of establishing an electronic data processing interface with the claims administrator and to report details regarding the contracts to the reinsurance carrier.

Great American Insurance Company is providing contractual liability reinsurance covering the obligations to repair or replace the products covered by the service contracts.

We intend to provide customer analysis reports to retailers on a fee basis. We believe that it will be able to develop market research questionnaires and produce market research reports based on database information collected through sales on WarrantySuperstore.com.

We expect to use WarrantySuperstore.com to generate advertising revenues. We plan to sell banner page advertisements on its web site and to sell advertisements on a preferred client list basis.

## REINSURANCE ACTIVITIES

Stamford Reinsurance Company, Ltd. ("Stamford") is a wholly owned subsidiary of ours chartered under the laws of the Cayman Islands. Stamford is licensed to conduct business as an reinsurance company in the Cayman Islands and as a reinsurance company throughout the U.S. Stamford began generating revenues in the fourth quarter of 1999.

When Stamford is sufficiently capitalized, we intend to request the reinsurance carriers providing contractual liability coverage on our warranty service contracts to share (via reinsurance) a portion of the risk with Stamford. Our ability to influence the reinsurance carriers to direct reinsurance business to Stamford will depend on our negotiating strength, which, in turn, will depend on the success of WarrantySuperstore.com. Stamford's ability to reinsure our warranty service contract business will largely depend on the primary reinsurance carriers' willingness to cede reinsurance to Stamford.

Our long-range plans for Stamford depend on Stamford's growth and development of greater financial stability. If Stamford's operations are successful, then we intend to cause Stamford to seek additional reinsurance opportunities that are

not related to us. Stamford may use reinsurance brokers to identify other reinsurance opportunities. We may also consider any appropriate opportunities to sell Stamford that may arise.

#### DOMESTIC LICENSING

As an offshore reinsurance company, Stamford is permitted to function as a reinsurance company in the U.S. As such, it can reinsure U.S. reinsurance companies. Our long-range strategy is to identify and acquire a property and casualty reinsurance carrier that holds state licenses. If we acquire a domestic reinsurance carrier, we plan to use the carrier to serve as a specialty insurer in niche commercial markets that are under served by standard reinsurance carriers.

#### OTHER INFORMATION

We are party to an investment advisory agreement AIG Global Investment Corporation under which AIG Global will function as investment advisor and manager of our investment assets. AIG Global provides management services to all affiliated reinsurance companies of American International Group and other third party institutions worldwide.

#### EMPLOYEES

At September 30, 2000, we employed six full-time personnel.

#### PROPERTIES

We lease approximately 4,100 square feet of office space at 610 South Industrial Boulevard, Euless, Texas. Monthly rental under the lease is \$4,175. The lease expires in July 2001. We do not own any real property.

## MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

The following table presents information with respect to our directors and executive officers.

NAME ----	AGE ---	POSITION(S) -----
James J. Fyfe	45	Chairman of the Board of Directors
Robert F. Benoit	42	Director and Chief Executive Officer
Robert H. Hutchins	71	Director and President
John L. King	56	Vice President, Chief Financial Officer
David H. Boltz	42	Vice President, Chief Information Officer
Paul L. Harrison	38	Director
Joseph P. Raftery	57	Director

JAMES F. FYFE has served as a director of Corniche since May 1995. He became Chairman of the Board in April 2000. From May 1995 until May 1998, Mr. Fyfe served as Vice President and Chief Operating Officer of Corniche. Mr. Fyfe has been a director of Machine Vision Holdings, Inc., an intelligent automation technology software company, since January 1998 and of Transmedia Asia Pacific, Inc., a member benefit loyalty marketing company, since October 1999. From August 1996 to August 1997, Mr. Fyfe was an outside director of Medical Laser Technologies, Inc.

ROBERT F. BENOIT has served as Chief Executive Officer since September 1999 and Secretary since June 1999. He was Executive Vice President and Chief Operating Officer from February 1999 to September 1999. From May 1996 to February 1999, Mr. Benoit was a business analyst at Warrantech Automotive, Inc., a service contract provider, in Euless, Texas, where he served as project leader for Internet applications. From October 1995 to May 1996, Mr. Benoit served as the corporate accounting manager responsible for the non-bank subsidiaries of Shawmut Bank, National Association.

ROBERT H. HUTCHINS has served as a director and the President and Principal Financial Officer of Corniche since May 1998. Mr. Hutchins was employed by Warrantech Automotive, Inc. as National Claims Manager, from May 1995 to May 1998. Prior to joining Warrantech, he spent 45 years in the property and casualty reinsurance industry in various executive and management positions.

JOHN L. KING has served as the Vice President, Chief Financial Officer since June 2000. From January 1996 to June 2000, Mr. King was an independent business consultant. From May 1993 to December 1995, Mr. King was the Chief Financial Officer for Advacare, Inc., a health care billings company based in Dallas, Texas. From April 1989 to April 1993, Mr. King served as the business unit controller for a division of Conner Peripherals, Inc., based in Orlando, Florida.

DAVID H. BOLTZ, PH.D. has served as Vice President, Chief Information Officer since June 2000. From May of 1991 to June 2000, Dr. Bolt was an independent business consultant operating as Language Engineering Services, where he was engaged in providing business technology consulting services and information management services to numerous firms in the Dallas/Ft. Worth metroplex.

PAUL L. HARRISON was elected as a director of Corniche in June 2000. He has been a director of Transmedia Europe, Inc., a member benefit loyalty marketing company in London, England, since June 1996. Mr. Harrison was also President, Principal Financial and Accounting Officer and Secretary of Transmedia Asia Pacific, Inc., also a member benefit loyalty marketing company in London, England, until October 1999. From May 1994 until June 1997, he was a business and financial consultant to Transmedia Europe, Inc.

JOSEPH P. RAFTERY was also elected as a director of Corniche in June 2000. He has been an independent business consultant since 1998. From 1990 to 1998, Mr. Raftery was Chairman and a member of the Board of Directors and President of BankAmerica Insurance Group, Inc., a subsidiary of BankAmerica Corp. based in San Diego, California.

## TERMS OF OFFICE

Members of the board are elected at each annual meeting of stockholders, to serve one year terms or until their successors are elected and qualified or their earlier resignation or removal. Our executive officers are elected annually by the board and serve at the discretion of the board until their successors are elected and qualified or their earlier resignation or removal.

## BOARD COMMITTEES

Our Board of Directors has established two committees: the Audit Committee, and the Compensation Committee.

The Audit Committee is responsible for recommending to the Board of Directors the engagement of our independent auditors and reviewing with the independent auditors the scope and results of the audits, our internal accounting controls, audit practices, and the professional services furnished by the independent auditors. The current members of the Audit Committee are Messrs. Fyfe, Harrison and Raftery.

The Compensation Committee is responsible for reviewing and approving all compensation arrangements for our senior executive officers. The current members of the Compensation Committee are Messrs. Benoit, Harrison and Raftery.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our Board of Directors established the Compensation Committee in June 2000. Prior to establishing the Compensation Committee, our Board of Directors as a whole performed the functions delegated to the Compensation Committee. No current or former member of our Compensation Committee has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

## COMPENSATION OF DIRECTORS

Pursuant to the 1998 Independent Director Compensation Plan, each director who is not an officer or employee of Corniche is entitled to receive compensation of \$2,500 per calendar quarter plus 500 shares of common stock per calendar quarter of board service, in addition to reimbursement of travel expenses. Outside directors are entitled to be compensated for committee service at \$500 per calendar quarter plus 125 shares of common stock per calendar quarter. No directors' fees are payable to Corniche employees who serve as directors. Corniche deferred the payment of directors' fees for service during the year ended December 31, 1999.

All directors are entitled to receive options to purchase 1,500 shares of common stock each May under Corniche's 1992 Stock Option Plan for Directors.

## EXECUTIVE COMPENSATION

In February 1998, Corniche changed its fiscal year end from March 31 to December 31. Consequently, the executive compensation information presented below relates to the period from April 1, 1998, through December 31, 1999. Mr. Hutchins, Corniche's President and former Principal Financial Officer, was Corniche's only executive officer as of December 31, 1998, who received compensation from Corniche during the nine-month period then ended. Mr. Hutchins and Robert F. Benoit were Corniche's only executive officers during 1999. Except for Mr. Hutchins' service in 1998, neither of them was an employee of Corniche during any prior fiscal year. The table below sets forth information concerning the compensation of Hutchins and Benoit for services in all capacities to Corniche for the nine months ended December 31, 1998, and the year ended December 31, 1999.

## SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION -----	ANNUAL COMPENSATION		
	YEAR ----	SALARY -----	OTHER(2) -----
Robert H. Hutchins President and Principal Financial Officer	1997	--	--
	1998(1)	\$ 49,038	\$ 3,200
	1999	\$ 85,000	\$ 4,000

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION		
	YEAR	SALARY	OTHER(2)
Robert A. Benoit Chief Executive Officer, Executive Vice President, and Secretary	1997	--	--
	1998	--	--
	1999(3)	\$ 62,019	\$ 4,000

- (1) From May 18, 1998, when Mr. Hutchins first joined Corniche, to December 31, 1998.
- (2) Represents an automobile allowance.
- (3) From February 15, 1999, when Mr. Benoit first joined Corniche, to December 31, 1999.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning grants of stock options to the named executive officers during 1999. All options granted to executive officers in the last fiscal year were granted under the 1998 Employees Incentive Stock Option Plan. The percent of the total options set forth below is based on an aggregate of 175,000 options granted to one employee during the year ended December 31, 1999. All options were granted at the fair market value on the date of grant as determined by our board of directors and are immediately exercisable.

The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by the rules of the Securities and Exchange Commission. There can be no assurance that the actual stock price appreciation over the 10-year option term will be at the assumed 5% and 10% levels or at any other defined level. Unless the market price of the common stock appreciates over the option term, no value will be realized from the option grants. The potential realizable value is calculated by assuming that the fair market value of the common stock on the date of grant of the options appreciates over the exercise price at the indicated rate for the entire term of the option and that the option is exercised at the exercise price and the resulting shares sold on the last day at the appreciated price.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (PER SHARE)	EXPIRATION DATE	5%	10%
Robert F. Benoit	75,000	43%	\$ 1.097	2/15/2009	\$ 105,000	\$ 132,500
	100,000	57%	\$ 1.000	9/27/2009	\$ 127,900	\$ 161,000

AGGREGATE OPTION EXERCISES IN 1999 AND FISCAL YEAR-END OPTION VALUES

None of the named executive officers exercised any stock options during 1999.

The following table sets forth as of December 31, 1999, for each of the named executive officers:

- o the total number of unexercised options to purchase our common stock; and
- o the value of options that were in-the-money at December 31, 1999.

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (EXERCISABLE/UNEXERCISABLE)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (EXERCISABLE/UNEXERCISABLE)
Robert F. Benoit.....	175,000/-	-/-

## BENEFIT PLANS

## 1992 STOCK OPTION PLAN

In April 1992, Corniche adopted the 1992 Stock Option Plan to provide for the granting of options to directors. According to the terms of this plan, each director is granted options to purchase 1,500 shares each year. The maximum amount of Corniche's common stock that may be granted under this plan is 20,000 shares. Options are exercisable at the fair market value of the common stock on the date of grant and have five-year terms.

## 1998 EMPLOYEE INCENTIVE STOCK OPTION PLAN

Under the 1998 Plan, the maximum aggregate number of shares which may be issued under options is 3,000,000 shares of common stock. The aggregate fair market value (determined at the time the option is granted) of the shares for which incentive stock options are exercisable for the first time under the terms of the 1998 Plan by any eligible employee during any calendar year cannot exceed \$100,000. The option exercise price of each option is 100% of the fair market value of the underlying stock on the date the options are granted, except that no option will be granted to any employee who, at the time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or any subsidiary unless (a) at the time the options are granted, the option exercise price is at least 110% of the fair market value of the shares of common stock subject to the options and (b) the option by its terms is not exercisable after the fifth anniversary of the date on which the option is granted.

The 1998 Plan is administered by the Compensation Committee of the Board of Directors. In 1999, options to acquire 100,000 common shares at \$1.00 per share and options to acquire 75,000 common shares at \$1.097 were granted to an officer. Additionally, an option to acquire 25,000 common shares at \$0.6875 per share was granted to a consultant. In June 2000, options to acquire 100,000 common shares at \$1.88 per share and options to acquire 100,000 common shares at \$1.94 per share were granted to two officers.

## EMPLOYMENT AGREEMENTS

## ROBERT F. BENOIT

Effective June 26, 2000, we entered into an employment agreement with Mr. Benoit. This employment agreement has a three-year term and provides that Mr. Benoit receive a base salary of \$100,000 per year. Mr. Benoit also receives a \$6,000 automobile allowance per year. Additionally, Mr. Benoit is eligible to receive a performance bonus at the sole discretion of our board of directors. Mr. Benoit is also entitled to reimbursement for business or entertainment expenses and other expenses and he may participate in all employee benefit plans, severance plans, health insurance plans, deferred compensation plans, incentive plans and other plans as may be available to our other employees, subject to the terms of those programs. If we terminate Mr. Benoit's employment without cause or he resigns for good reason, as both terms are defined in his employment agreement, we will pay Mr. Benoit a severance payment equal to 18 months base salary and performance bonus for the term of his employment agreement and Mr. Benoit will retain all rights to his vested stock options, among other things described in his employment agreement. Mr. Benoit has agreed, pursuant to his employment agreement, not to compete with us during his employment and for a period of two years following termination of his employment. Further, Mr. Benoit has agreed not to disclose any of our confidential information at any time during or subsequent to his employment with us, other than pursuant to our policies regarding disclosure. In addition, Mr. Benoit has agreed not to solicit our employees for a period of 18 months following termination of his agreement.

## DAVID H. BOLTZ

Effective June 26, 2000, we entered into an employment agreement with Mr. Boltz. This employment agreement has a three-year term and provides that Mr. Boltz receive a base salary of \$75,000 per year. Additionally, Mr. Boltz is eligible to receive a performance bonus at the sole discretion of our board of directors. Mr. Boltz is also entitled to reimbursement for business or entertainment expenses and other expenses and he may participate in all employee benefit plans, severance plans, health insurance plans, deferred compensation plans, incentive plans and other plans as may be available to our other employees, subject to the terms of those programs. If we terminate Mr. Boltz's employment without cause or he resigns for good reason, as both terms are defined in his employment agreement, we will pay Mr. Boltz a severance payment equal to

18 months base salary and performance bonus for the term of his employment agreement and Mr. Boltz will retain all rights to his vested stock options, among other things described in his employment agreement. Mr. Boltz has agreed, pursuant to his employment agreement, not to compete with us during his employment and for a period of two years following termination of his employment. Further, Mr. Boltz has agreed not to disclose any of our confidential information at any time during or subsequent to his employment with us, other than pursuant to our policies regarding disclosure. In addition, Mr. Boltz has agreed not to solicit our employees for a period of 18 months following termination of his agreement.

JOHN L. KING

Effective June 26, 2000, we entered into an employment agreement with Mr. King. This employment agreement has a three-year term and provides that Mr. King receive a base salary of \$75,000 per year. Additionally, Mr. King is eligible to receive a performance bonus at the sole discretion of our board of directors. Mr. King is also entitled to reimbursement for business or entertainment expenses and other expenses and he may participate in all employee benefit plans, severance plans, health insurance plans, deferred compensation plans, incentive plans and other plans as may be available to our other employees, subject to the terms of those programs. If we terminate Mr. King's employment without cause or he resigns for good reason, as both terms are defined in his employment agreement, we will pay Mr. King a severance payment equal to 18 months base salary and performance bonus for the term of his employment agreement and Mr. King will retain all rights to his vested stock options, among other things described in his employment agreement. Mr. King has agreed, pursuant to his employment agreement, not to compete with us during his employment and for a period of two years following termination of his employment. Further, Mr. King has agreed not to disclose any of our confidential information at any time during or subsequent to his employment with us, other than pursuant to our policies regarding disclosure. In addition, Mr. King has agreed not to solicit our employees for a period of 18 months following termination of his agreement.



## RELATED PARTY TRANSACTIONS

Other than the compensation and other arrangements described in "Management," and the transactions described below, since January 1, 1997 there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

- o in which the amount involved exceeded or will exceed \$60,000; and
- o in which any director, executive officer, holder of more than 5% or our common stock on an as-converted basis or any member of their immediate family had or will have a direct or indirect material interest.

We believe that each of the transactions described below were on terms no less favorable than could have been obtained from unaffiliated third parties. All future transactions between Corniche and any director or executive officer will be subject to approval by a majority of the disinterested members of our board of directors.

## STOCK SALES TO DIRECTORS, OFFICERS AND 5% STOCKHOLDERS

On March 4, 1998, we entered into a Stock Purchase Agreement with Joel San Antonio, Robert H. Hutchins (a director and President of Corniche) and certain other individuals acquiring an aggregate of 765,000 shares of a Series B convertible redeemable preferred stock, par value \$0.01 per share. Mr. San Antonio purchased 710,000 shares of Series B convertible redeemable preferred stock at \$0.10 per share, for total consideration of \$71,000 and Mr. Hutchins purchased 15,000 shares of Series B convertible redeemable preferred stock at \$0.10 per share, for total consideration of \$1,500. Assuming the full conversion of the Series B convertible preferred stock into common stock, Mr. San Antonio is the beneficial owner of 4,852,500 shares of common stock, over 20% of the voting power of our voting stock.

## AGREEMENTS WITH DIRECTORS, EXECUTIVE OFFICERS AND 5% STOCKHOLDERS

From May 1998 to September 1999, Mr. San Antonio served as Chairman of the Board of Directors of Corniche. Mr. San Antonio is the Chairman of the Board and Chief Executive Officer of Warrantech Corporation. Warrantech is the claims administrator for our warranty service contracts. Under this arrangement we report all claims to Warrantech and pay \$25 per claim to Warrantech.

## STOCK OPTIONS GRANTED TO DIRECTORS, EXECUTIVE OFFICERS AND 5% STOCKHOLDERS

Since 1997, we have granted the following options to purchase our common stock to our directors, executive officers and stockholders who beneficially own 5% or more of our common stock. In 1999, options to acquire 100,000 common shares at \$1.00 per share and options to acquire 75,000 common shares at \$1.097 per share were granted to Robert F. Benoit, a director and Chief Executive Officer of Corniche. In May 1997, James J. Fyfe (Chairman of the Board of Directors of Corniche) was granted an option to acquire 1,500 common shares at \$0.3125 per share under the 1992 Plan. In June 2000, John L. King (Vice President and Chief Financial Officer of Corniche) was granted options to acquire 100,000 common shares at \$1.88 per share and David H. Boltz (Vice President and Chief Information Officer) was granted options to acquire 100,000 common shares at \$1.94 per share.

## PRINCIPAL AND SELLING STOCKHOLDERS

The following table shows the number and percentage of outstanding shares of Corniche's common stock beneficially owned as of September 30, 2000, by (i) each of our directors and executive officers, (ii) all of our directors and officers as a group, (iii) all persons that we know to be beneficial owners of 5% or more of any class of our voting capital stock, and (iv) each selling stockholder. Unless otherwise noted, each person listed in the table has sole voting and investment power with respect to the shares indicated as beneficially owned by that person. The table assumes that everyone listed below has converted all of their shares of convertible preferred stock into shares of common stock. For a description of Corniche's convertible preferred stock, see "Description of Capital Stock."

NAME AND ADDRESS OF BENEFICIAL OWNER	COMMON SHARES OWNED BEFORE OFFERING		COMMON SHARES TO BE SOLD	COMMON SHARES OWNED AFTER OFFERING (1)	
	AMOUNT	% OF CLASS		AMOUNT	% OF CLASS
Robert F. Benoit	5,000	*	5,000.00	--	--
James J. Fyfe (2)(3)	107,500	*	107,500.00	--	--
Paul L. Harrison	--	--	--	--	--
Robert H. Hutchins (2)(4)	150,000	*	150,000.00	--	--
Joseph P. Raftery	--	--	--	--	--
All Officers and Directors as a Group (5 Persons)	262,500	1.1%	262,500.00	--	--
Glen Aber (2)	150,000	*	150,000.00	--	--
Naomi Anne Aboud	40,000	*	40,000.00	--	--
Adler Corporation PTY, Ltd.	937,500	4.1%	937,500.00	--	--
Advanced Balanced International Investment Strategies N.V	625,000	2.7%	625,000.00	--	--
Placido Amendolia	20,000	*	20,000.00	--	--
Balanced International Investment Strategies (BIIS) N.V	625,000	2.7%	625,000.00	--	--
Michael Barrasso	60,000	*	60,000.00	--	--
Dr. Richard Berger	20,000	*	20,000.00	--	--
Anthony J. Blazej	2,500	*	2,500.00	--	--
Dr. Craig Bloom	10,000	*	10,000.00	--	--
William J. Bozsnayk	5,000	*	5,000.00	--	--
William J. Bozsnayk & Beverly J. Brook-Bozsnayk	30,000	*	30,000.00	--	--
Cappadocia Limited(2)	100,000	*	100,000.00	--	--
Paul M. Cervino	20,000	*	20,000.00	--	--
Jan R. Culp	10,000	*	10,000.00	--	--
Andrew Darmstadter	20,000	*	20,000.00	--	--
Herbert P. Decordova	20,000	*	20,000.00	--	--
Roland A. Desilva	20,000	*	20,000.00	--	--
Dr. C. Durbak	30,000	*	30,000.00	--	--
George N. Faris	27,778	*	27,778.00	--	--
Michael Edward Fitzgerald	80,000	*	80,000.00	--	--
Robert Franco	12,500	*	12,500.00	--	--
Dominick Fusco	2,500	*	2,500.00	--	--
PICTEC & CIE (5)	2,925,000	13%	2,925,000.00	--	--
General & Private Funds Management PTY, Ltd. PTY, Ltd.	10,000	*	10,000.00	--	--
Ronald F. Glime (2)	502,500	2.2%	502,500.00	--	--
Robert C. Gmuer	100,000	*	100,000.00	--	--
Lou Hammer	2,500	*	2,500.00	--	--
Hamo PTY, Ltd.	50,000	*	50,000.00	--	--
Headline Securities, Ltd.	625,000	2.7%	625,000.00	--	--
Maryellen Gussack-Hochstein	10,000	*	10,000.00	--	--
Mark Ian Horrocks	312,500	1.3%	312,500.00	--	--
A.R. Kerr	62,500	*	62,500.00	--	--
Justin and Sharen Kolnick	10,000	*	10,000.00	--	--
Joseph Longo	10,000	*	10,000.00	--	--

NAME AND ADDRESS OF BENEFICIAL OWNER	COMMON SHARES OWNED BEFORE OFFERING		COMMON SHARES TO BE SOLD	COMMON SHARES OWNED AFTER OFFERING (1)	
	AMOUNT	% OF CLASS		AMOUNT	% OF CLASS
Edward J. Madden	11,111	*	11,111.00	--	--
Connor Michael Maloney	105,000	*	105,000.00	--	--
Peter & Alisa Metzner, Trustees, Metzner Family Trust	15,000	*	15,000.00	--	--
Frontier Investments Limited(2)	1,800,000	8%	1,800,000.00	--	--
Steven Miner	2,500	*	2,500.00	--	--
OIC Nominees Limited(2)	100,000	*	100,000.00	--	--
Keith Parker	58,056	*	58,056.00	--	--
Colin Pomfret	20,000	*	20,000.00	--	--
Pritdown PTY, Ltd.	40,000	*	40,000.00	--	--
Alex Pusco	312,500	1.3%	312,500.00	--	--
Peter and Margaret Ranieri	10,000	*	10,000.00	--	--
Michael Salpeter (2)	500,000	2.2%	500,000.00	--	--
Joel San Antonio (2)(6)	4,852,500	21.5%	4,852,500.00	--	--
Mark Seigerman	2,500	*	2,500.00	--	--
Edward Spindel	55,556	*	55,556.00	--	--
Michael R. Spindel	55,556	*	55,556.00	--	--
Charles G. Stiene	2,500	*	2,500.00	--	--
Larry Targan	10,000	*	10,000.00	--	--
Bradley Vidgeon	43,750	*	43,750.00	--	--
Bradley D. Weber	10,000	*	10,000.00	--	--
Joel Weissman	10,000	*	10,000.00	--	--
Grant White	50,000	*	50,000.00	--	--
Sam Wolkowicki	27,778	*	27,778.00	--	--

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\* less than 1%.

- (1) For the purposes of this table, it is assumed that all common shares to be registered will be sold in this offering.
- (2) All of the shares included in the table represent common stock issuable upon conversion of Series B convertible redeemable preferred stock.
- (3) Includes: 3,000 shares of common stock issuable upon exercise of currently exercisable stock options; and 100,000 shares issuable upon conversion of 10,000 shares of Series B convertible redeemable preferred stock.
- (4) Includes: 150,000 shares issuable upon conversion of 15,000 shares of Series B convertible redeemable preferred stock held by Mr. Hutchins and his wife as co-trustees of a living trust for the benefit of their children.
- (5) The address of PICTEC & CIE is B.D. Georges-Favon 29, Geneva 1204, Switzerland.
- (6) Mr. San Antonio's address is c/o Corniche Group Incorporated, 610 South Industrial Boulevard, Euless, Texas 76040. According to Amendment No. 2 to Schedule 13D filed by Mr. San Antonio in August 2000, Mr. San Antonio has sole power to vote and to direct the disposition of 4,850,000 of the shares included in the table. He shares voting and dispositive power with respect to 1,100,000 shares included in the table, which are issued to his wife, children, mother, and brother.

## DESCRIPTION OF CAPITAL STOCK

## GENERAL

The authorized capital stock of Corniche consists of 75,000,000 shares of common stock, \$0.001 par value per share, 14,222,971 of which are outstanding. As of September 30, 2000, there were 694,974 shares of Series A convertible preferred stock outstanding, and 825,000 shares of Series B convertible redeemable preferred stock outstanding. The following statements are brief summaries of certain provisions relating to Corniche's capital stock.

## SERIES A CONVERTIBLE PREFERRED STOCK

The Series A preferred stock has a liquidation value of \$1 per share, is nonvoting and convertible into common stock at a price of \$5.20 per share. Holders of Series A preferred stock are entitled to receive cumulative cash dividends of \$0.07 per share, per year, payable semi-annually. Corniche can call the Series A preferred stock at a price of \$1.05 per share, plus accrued and unpaid dividends. In addition, if the closing price of our common stock exceeds \$13.80 per share for any 20 consecutive trading days, we can call the Series A preferred stock at a price equal to \$0.01 per share, plus accrued and unpaid dividends. The Certificate of Designation for the Series A preferred stock also states that at any time after December 1, 1999, the holders of the Series A preferred stock may require us to redeem their shares of Series A preferred stock (if there are funds with which we may do so) at a price of \$1.00 per share. Notwithstanding any of the foregoing redemption provisions, if any dividends on the Series A preferred stock are past due, we may not redeem any shares of Series A preferred stock unless all outstanding shares of Series A preferred stock are simultaneously redeemed.

## SERIES B CONVERTIBLE REDEEMABLE PREFERRED STOCK

The Series B preferred stock carries a zero coupon and each share of the Series B preferred stock is convertible into 10 shares of our common stock. The holder of a share of the Series B preferred stock is entitled to ten times any dividends paid on the common stock, as well as 10 votes per share, voting as one class with the common stock.

The holder of each share of Series B preferred stock has the right, at the holder's option (but not if the share is called for redemption), to convert the share into 10 fully paid and non-assessable shares of common stock. The conversion rate is subject to adjustment as stipulated in the Series B Stock Purchase Agreement. Upon liquidation, the Series B Stock would be junior to our Series A preferred stock and would share ratably with the common stock with respect to liquidating distributions.

## COMMON STOCK

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. Cumulative voting is not permitted with respect to the election of directors, with the result that the holders of more than 50% of the shares voted in the election of directors can elect all of the directors. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors of Corniche out of funds legally available therefor. Upon the liquidation, dissolution or winding up of Corniche, the holders of common stock are entitled to receive ratably the net assets of Corniche after payment of all debts and liabilities and liquidation preferences of outstanding shares of preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights.

## WARRANTS

As of September 30, 2000, we have issued warrants to purchase 79,000 shares of common stock in connection with certain financings and to certain other persons who provided services to Corniche. The exercise prices of these warrants range from \$3.20 to \$27.50.

## DELAWARE ANTI-TAKEOVER LAW AND CERTAIN CHARTER AND BYLAW PROVISIONS

Certain provisions of Delaware law and our amended certificate of incorporation and amended bylaws could make our acquisition, by means of a tender offer, a proxy contest or otherwise, more difficult and could also make the removal of incumbent officers and directors more difficult. These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate with us first.

We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of their terms.

#### SECTION 203

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits us from engaging in a business combination with an interested stockholder for a period of three years after the date that the stockholder became an interested stockholder, unless:

- o prior to the date that the stockholder became an interested stockholder, the transaction or business combination that resulted in the stockholder becoming an interested stockholder is approved by the Board of Directors;
- o upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of our outstanding voting stock at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers, and employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- o on or after the date the stockholder became an interested stockholder, the business combination is approved by our Board of Directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of our outstanding voting stock that is not owned by the interested stockholder.

Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the stockholder. Subject to certain exceptions, an "interested stockholder" is any entity or person beneficially owning 15% or more of our voting stock and any entity or person affiliated with or controlling or controlled by that entity or person.

#### LIMITATIONS ON DIRECTORS' AND OFFICERS' LIABILITY AND INDEMNIFICATION

Our amended certificate of incorporation and amended bylaws also provide that we shall have the power to indemnify our directors, officers, employees and other agents to the fullest extent authorized by the Delaware General Corporation Law. As a result of these provisions, we and our stockholders may be unable to obtain monetary damages from a director for breach of his or her duty of care.

We believe that the provisions in our amended certificate of incorporation and amended bylaws are necessary to attract and retain qualified persons as directors and officers.

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common stock is Continental Stock Transfer & Trust Company.

#### LEGAL MATTERS

Certain legal matters in connection with the sale of the shares of common stock offered hereby will be passed upon for Corniche by Haynes and Boone, LLP.

#### EXPERTS

The consolidated financial statements of Corniche at December 31, 1999 and for the year then ended appearing in this prospectus and registration statement have been audited by Weinick Sanders Leventhal & Co., LLP ("Weinick"), independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Corniche at March 31, 1997 and 1998 and for the fiscal years then ended appearing in this prospectus and registration statement have been audited by Simontacchi & Company, P.A. ("Simontacchi"), independent

auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

Simontacchi's report on Corniche's financial statements for the fiscal years ended March 31, 1997 expressed an unqualified opinion on those financial statements based upon their audits, but included paragraphs noting a "substantial doubt about Corniche's ability to continue as a going concern" based upon the several matters summarized in such reports.

On August 12, 1998, Corniche and Simontacchi terminated their client-auditor relationship. The reports of Simontacchi on the financial statements of Corniche for the prior two fiscal years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. Corniche's Board of Directors participated in and approved the decision to change the independent accountants. In connection with its audits for the prior two fiscal years and through August 12, 1998, there were no disagreements with Simontacchi on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Simontacchi, would have caused Simontacchi to make reference thereto in its report on the financial statements for such years. No "reportable events" as describe under Item 304(a)(1)(v) of Regulation S-K occurred during the prior two fiscal years.

Corniche simultaneously engaged Weinick as its new independent accountants as of August 12, 1998. Such appointment was approved by Corniche's Board of Directors. Corniche had not consulted with Weinick regarding any matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

#### WHERE YOU CAN FIND ADDITIONAL INFORMATION

The prospectus constitutes a part of the registration statement on Form S-1, together with all amendments, supplements, schedules and exhibits to the registration statement, referred to as the registration statement, which we have filed with the Securities and Exchange Commission with respect to the common stock offered in this prospectus. This prospectus does not contain all of the information in the registration statement. For further information about us and our securities, see the registration statement and its exhibits. This prospectus contains a description of the material terms and features of some material contracts, reports or exhibits to the registration statement required to be disclosed. However, as the descriptions are summaries of the contracts, reports or exhibits, we urge you to refer to the copy of each material contract, report and exhibit attached to the registration statement. Copies of the registration statement and the exhibits to the registration statement, as well as the periodic reports, proxy statements and other information we will file with the SEC, may be examined without charge in the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W. Room 1024, Washington, DC 20549, and the Securities and Exchange Commission's regional offices located at 500 West Madison Street, Suite 1400, Chicago, IL 60661, and 7 World Trade Center, 13th Floor, New York, NY 10048 or on the Internet at <http://www.sec.gov>. You can get information about the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. Copies of all or a portion of the registration statement can be obtained from the Public Reference Section of the Securities and Exchange Commission upon payment of prescribed fees. In addition, the Securities and Exchange Commission maintains a web site which provides online access to periodic reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission at the address <http://www.sec.gov>.

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934 and file periodic reports, proxy statements and other information with the Securities and Exchange Commission. We send an annual report to stockholders and any additional reports or statements required by the Securities and Exchange Commission. The annual report to stockholders contains financial information that has been examined and reported on, with an opinion expressed by an independent public accountant.

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## INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors  
Corniche Group Incorporated

We have audited the accompanying consolidated balance sheets of Corniche Group Incorporated and Subsidiary as at December 31, 1999 and 1998, and the related statements of operations, redeemable preferred stock, common stock, other stockholders' equity and accumulated deficit, and cash flows for the year ended December 31, 1999 and for the nine months ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corniche Group Incorporated and Subsidiary as at December 31, 1999 and 1998, and the results of their operations and their cash flows for the year ended December 31, 1999 and for the nine months ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statements schedules for the year ended December 31, 1999 and for the nine months ended December 31, 1998, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ WEINICK SANDERS LEVENTHAL & CO., LLP

New York, New York  
January 28, 2000 (Except as to a portion of Note 8 (b) to which the date is  
February 15, 2000)



## INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors  
Corniche Group Incorporated

We have audited the accompanying statements of operations, redeemable preferred stock, common stock, other stockholders' equity and accumulated deficit, and cash flows of Corniche Group Incorporated for the year ended March 31, 1998. Our audit also included the financial statement schedule for the year ended March 31, 1998. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of the operations and the cash flows of Corniche Group Incorporated for the year ended March 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended March 31, 1998, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ SIMONTACCHI & COMPANY, LLP

Fairfield, New Jersey  
July 10, 1998

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	1999	1998
Current assets:		
Cash and equivalents	\$ 1,639,473	\$ 206,313
Marketable securities	2,733,319	628,175
Prepaid expenses	71,622	--
Total current assets	4,444,414	834,488
Property and equipment, net	655,002	40,781
Deferred acquisition costs	41,946	--
License, net of accumulated amortization	16,777	17,997
Other assets	12,525	12,525
	-----	-----
	\$ 5,170,664	\$ 905,791
	=====	=====
LIABILITIES, STOCKHOLDERS' EQUITY AND (CAPITAL DEFICIENCY)		
Current liabilities:		
Dividends payable - preferred stock	\$ 288,334	\$ 236,981
Accounts payable, accrued expenses and other current liabilities	561,870	133,941
Current portion of long-term debt	22,662	4,649
Total current liabilities	872,866	375,571
Unearned revenues	298,801	--
	-----	-----
Long-term debt	76,591	9,262
	-----	-----
Series A Convertible Preferred Stock:		
Series A \$0.07 cumulative convertible preferred stock - stated value - \$1.00 per share, authorized - 1,000,000 shares, outstanding - 810,054 shares at December 31, 1999 and 828,765 shares at December 31, 1998	810,054	828,765
	-----	-----
Convertible Redeemable Preferred Stock, Common Stock, Other Stockholders' Equity and (Accumulated Deficit):		
Preferred stock - authorized - 5,000,000 shares, Series B convertible redeemable preferred stock, \$.01 par value Authorized issued and outstanding - 825,000 shares	8,250	8,250
Common stock, \$.001 par value, authorized - 30,000,000 shares Issued and outstanding - 12,513,127 at December 31, 1999	12,513	--
- 6,369,968 at December 31, 1998	--	6,370
Additional paid-in capital	7,421,944	2,838,420
Accumulated deficit	(4,330,355)	(3,160,847)
Total convertible redeemable preferred stock, common stock, other stockholders' equity and (accumulated deficit)	3,112,352	(307,807)
	-----	-----
	\$ 5,170,664	\$ 905,791
	=====	=====

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

## STATEMENT OF OPERATIONS

	For the Year Ended December 31, 1999 ----- (Consolidated)	For the Nine Months Ended December 31, 1998 ----- (Consolidated)	For the Year Ended March 31, 1998 -----
Earned revenues	\$ 12,854	\$ --	\$ --
Direct costs	7,557	--	--
Gross profit	5,297	--	--
General and administrative expenses	1,060,668	428,157	221,602
Operating loss	(1,055,371)	(428,157)	(221,602)
Interest income (expense), net	(56,965)	25,206	17,804
Net loss before preferred dividend	(1,112,336)	(402,951)	(203,798)
Preferred dividend	(57,172)	(44,642)	(60,067)
Net loss	<u>\$ (1,169,508)</u>	<u>\$ (447,593)</u>	<u>\$ (263,865)</u>
Net loss per share of common stock	<u>\$ (0.17)</u>	<u>\$ (0.07)</u>	<u>\$ (0.05)</u>
Weight average number of common shares outstanding	<u>6,905,073</u>	<u>6,367,015</u>	<u>5,165,272</u>

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

STATEMENTS OF CONVERTIBLE REDEEMABLE PREFERRED STOCK, COMMON STOCK,  
OTHER STOCKHOLDERS' EQUITY AND ACCUMULATED DEFICITFOR THE YEAR ENDED DECEMBER 31, 1999 AND  
FOR THE NINE MONTHS ENDED DECEMBER 31, 1998 AND  
FOR THE YEAR ENDED MARCH 31, 1998

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital
	Shares	Amount	Shares	Amount	
Balance at April 1, 1997	--	--	2,630,378	\$ 2,630	\$ 1,090,493
Issuance of common stock for cash, net of related costs of \$184,500	--	--	3,940,000	3,940	1,781,560
Retirement of treasury stock	--	--	(218,100)	(218)	(204,492)
Conversion of Series A convertible preferred stock into common stock	--	--	2,953	3	15,356
Series A convertible preferred stock dividend	--	--	--	--	--
Net loss before preferred stock dividend	--	--	--	--	--
Balance at March 31, 1998	--	--	6,355,231	6,355	2,682,917
Adjustments to common stock	--	--	2,212	2	(2)
Issuance of Series B convertible preferred stock for cash	765,000	7,650	--	--	68,850
Issuance of Series B convertible preferred stock for services rendered	60,000	600	--	--	5,400
Conversion of Series A convertible preferred stock into common stock	--	--	12,525	13	81,255
Series A convertible preferred stock dividend	--	--	--	--	--
Net loss before preferred stock dividend	--	--	--	--	--
Balance at December 31, 1998	825,000	8,250	6,369,968	6,370	2,838,420
Issuance of common stock for interest and services rendered	--	--	55,000	55	57,664
Issuance of common stock for indebtedness	--	--	208,738	209	252,973
Issuance of common stock for cash, net of offering costs	--	--	5,875,835	5,876	4,248,360
Conversion of Series A convertible preferred stock into common stock	--	--	3,586	3	24,527
Series A convertible stock dividends	--	--	--	--	--
Net loss before preferred stock dividend	--	--	--	--	--
Balance at December 31, 1999	825,000	\$ 8,250	12,513,127	\$ 12,513	\$ 7,421,944

	Treasury Stock		Accumulated Deficit	Total
	Shares	Amount		
Balance at April 1, 1997	(218,100)	\$( 204,710)	\$( 2,449,389)	\$( 1,560,976)
Issuance of common stock for cash, net of related costs of \$184,500	--	--	--	1,785,500
Retirement of treasury stock	218,100	204,710	--	--
Conversion of Series A convertible preferred stock into common stock	--	--	--	15,359
Series A convertible preferred stock dividend	--	--	(60,067)	(60,067)
Net loss before preferred stock dividend	--	--	(203,798)	(203,798)
Balance at March 31, 1998	--	--	(2,713,254)	(23,982)
Adjustments to common stock	--	--	--	--
Issuance of Series B convertible preferred stock for cash	--	--	--	76,500
Issuance of Series B convertible preferred stock for services rendered	--	--	--	6,000
Conversion of Series A convertible preferred stock into common stock	--	--	--	81,268
Series A convertible preferred stock dividend	--	--	(44,642)	(44,642)

Net loss before preferred stock dividend	--	--	(402,951)	(402,951)
	-----	-----	-----	-----
Balance at December 31, 1998	--	--	(3,160,847)	(307,807)
Issuance of common stock for interest and services rendered	--	--	--	57,719
Issuance of common stock for indebtedness	--	--	--	253,182
Issuance of common stock for cash, net of offering costs	--	--	--	4,254,236
Conversion of Series A convertible preferred stock into common stock	--	--	--	24,530
Series A convertible stock dividends	--	--	(57,172)	(57,172)
Net loss before preferred stock dividend	--	--	(1,112,336)	(1,112,336)
	-----	-----	-----	-----
Balance at December 31, 1999	--	\$ --	\$( 4,330,355)	\$ 3,112,352
	=====	=====	=====	=====

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

## STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 1999 ----- (Consolidated)	For the Nine Months Ended December 31, 1998 ----- (Consolidated)	For the Year Ended March 31, 1998 -----
Cash flows from operating activities:			
Net loss	\$ (1,169,508)	\$ (447,593)	\$ (263,865)
Adjustments to reconcile net loss to net cash used in operating activities:			
Common shares and Series B preferred shares issued for interest expense and for services rendered	57,719	6,000	--
Series A preferred stock dividends	57,172	44,642	60,067
Depreciation and amortization	82,338	3,435	388
Unearned revenues	298,801	--	--
Increase (decrease) in cash flows as a result of changes in asset and liability account balances net of effects from purchase of Stamford Insurance Company, Ltd.:			
Deferred acquisition costs	(41,946)	--	--
Prepaid expenses and other receivables	(71,622)	179	821
Other assets	--	(12,525)	--
Accounts payable, accrued expenses and other current liabilities	422,929	82,729	(67,014)
Total adjustments	805,391	124,460	(5,738)
Net cash used in operating activities	(364,117)	(323,133)	(269,603)
Cash flows from investing activities:			
Investment in marketable securities	(2,105,144)	(628,175)	--
Acquisition of property assets	(442,157)	(25,745)	--
Acquisition of subsidiary	--	(37,000)	--
Net cash used in investment activities	(2,547,301)	(690,920)	--
Cash flows from financing activities:			
Net proceeds from issuance of capital stock	4,254,236	76,500	1,785,500
Net proceeds from long-term debt	89,264	--	--
Payments of capital lease obligations	(3,922)	(3,995)	--
Net repayments of notes payable	--	--	(400,000)
Net cash provided by financing activities	4,339,578	72,505	1,385,500
Net increase (decrease) in cash	1,428,160	(941,548)	1,115,897
Cash balance acquired with purchase of subsidiary	--	18,797	--
Cash and cash equivalents at beginning of period	206,313	1,129,064	13,167
Cash and cash equivalents at end of period	\$ 1,634,473	\$ 206,313	\$ 1,129,064

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

## STATEMENTS OF CASH FLOWS (Continued)

	For the Year Ended December 31, 1999 ----- (Consolidated)	For the Nine Months Ended December 31, 1998 ----- (Consolidated)	For the Year Ended March 31, 1998 -----
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period			
Income taxes	\$ -- =====	\$ -- =====	\$ -- =====
Interest	\$ 35,193 =====	\$ 886 =====	\$ 4,181 =====
Supplemental Schedules of Noncash Investing and Financing Activities:			
Issuance of common stock for interest	\$ 27,719 =====	\$ -- =====	\$ -- =====
Issuance of preferred and common stock for services rendered	\$ 30,000 =====	\$ 6,000 =====	\$ -- =====
Property assets acquired under capital lease obligations	\$ -- =====	\$ 17,806 =====	\$ -- =====
Net accrual of dividends on Series A preferred stock	\$ 51,353 =====	\$ 28,517 =====	\$ 60,067 =====
Series A preferred stock and dividends thereon converted to common stock and additional paid-in capital upon conversion	\$ 24,530 =====	\$ 81,268 =====	\$ 15,359 =====
Issuance of common stock for indebtedness	\$ 253,182 =====	\$ -- =====	\$ -- =====

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1999 AND 1998 AND  
FOR THE YEARS ENDED DECEMBER 31, 1999,  
FOR THE NINE MONTHS ENDED DECEMBER 31, 1998 AND  
FOR THE YEAR ENDED MARCH 31, 1998

## NOTE 1 - THE COMPANY.

Corniche Group Incorporated (hereinafter referred to as the "Company" or "CGI") as a result of a reverse acquisition with Corniche Distribution Limited and its Subsidiaries ("Corniche"), was engaged in the retail sale and wholesale distribution of stationery products and related office products, including office furniture, in the United Kingdom. In February 1996, the Company was placed in receivership by its creditors. Through March 1998, the Company had no activity.

On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers acquired an aggregate of 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value \$0.01 per share. Thereafter the Initial Purchasers have been endeavoring to establish for the Company new business operations in the property and casualty specialty insurance and the service contract markets.

On September 30, 1998, the Company acquired all of the capital stock of Stamford Insurance Company, Ltd. ("Stamford") from Warrantech Corporation for \$37,000 in cash in a transaction accounted for as a purchase. Warrantech's chairman is the former chairman of the Company. Stamford was chartered under the Laws of, and is licensed to conduct business as an insurance company by, the Cayman Islands. Although Stamford has incurred expenses since its inception, it first generated revenues in the fourth quarter of 1999.



## NOTE 1 - THE COMPANY. (Continued)

The unaudited consolidated combined results of operations, on a pro forma basis as though Stamford has been acquired at the beginning of each period, is as follows:

	For the Nine Months Ended December 31, 1998	For the Years Ended March 31, 1998
	-----	-----
Net sales	\$       --	\$       --
	-----	-----
Costs and expenses	511,335	232,824
	-----	-----
Net loss	\$ (527,991)	\$ (268,321)
	=====	=====
Net loss per share	\$ (0.08)	\$ (0.05)
	=====	=====

At December 31, 1999 and 1998, Stamford's total net assets consisted of the following:

	December 31,	
	-----	-----
	1999	1998
	-----	-----
Assets:		
Cash and equivalents	\$ 384,849	\$ 155,806
Deferred acquisition costs	35,568	--
Licenses, net of accumulated depreciation	16,777	17,997
	-----	-----
	437,194	173,803
Liabilities:		
Current liabilities	5,021	879
Unearned premiums	288,086	--
	-----	-----
	293,107	879
	-----	-----
Net assets	\$ 144,087	\$ 172,924
	=====	=====

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

## (a) Basis of Presentation:

On February 4, 1999, the Board of Directors approved a resolution to change the Company's fiscal year-end from March 31, to December 31. The accompanying financial statements as at and for the year ended December 31, 1999 reflect the consolidated financial position and consolidated results of operations and cash flows of the Company and its wholly-owned subsidiary, Stamford, for the year ended December 31, 1999.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

## (a) Basis of Presentation: (Continued)

The financial statements as at and for the nine months ended December 31, 1999 reflect the consolidated financial position and consolidated results of operations and cash flows of the Company for the nine months ended December 31, 1998 and its wholly-owned subsidiary from its acquisition on September 30, 1998 to December 31, 1998. The financial statements for the year ended March 31, 1998 reflect the financial position and results of operations and cash flows of the Company for the year then ended. All material intercompany transactions have been eliminated in consolidation.

## (b) Cash Equivalents:

Short-term cash investments which have a maturity of ninety days or less when purchased are considered cash equivalents in the statement of cash flows.

## (c) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## (d) Concentrations of Credit-Risk:

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and marketable securities. The Company places its domestic operations cash accounts with high credit quality financial institutions which at times may be in excess of the FDIC insurance limit. The Company's subsidiary places its cash in the Cayman Island subsidiaries of domestic banks whose net worth exceeds \$100,000,000. The Company's marketable securities are primarily comprised of investments in municipal bank funds. The Company employs the services of an investment advisor to assist in monitoring its investments.

## (e) Marketable Securities:

Marketable securities are classified as trading securities and are reported at market value at December 31, 1999 and 1998 which approximates cost.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

## (f) Property and Equipment: (Continued)

The cost of property and equipment is depreciated over the estimated useful lives of the related assets of 5 to 7 years. The cost of computer software programs is amortized over their estimated useful lives of five years. Depreciation is computed on the straight-line method. Repairs and maintenance expenditures which do not extend original asset lives are charged to income as incurred.

## (g) Intangibles:

The excess of the purchase price for the capital stock of Stamford over the net assets acquired has been attributed to the subsidiary's license to conduct business as an insurance carrier in the Cayman Islands. Amortization charged to operations in fiscal 1999 was \$1,220 and in the nine months ended December 31, 1998 was \$305.

## (h) Income Taxes:

The Company adopted SFAS 109, "Accounting for Income Taxes", which recognizes (a) the amount of taxes payable or refundable for the current year and, (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statement or tax returns. There is no difference as to financial and tax basis of assets and liabilities.

## (i) Fair Value of Financial Statements:

The Company adopted Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The statement requires that the Company recognizes and measures impairment losses of long-lived assets, certain identifiable intangibles, value long-lived assets to be disposed of and long-term liabilities. At December 31, 1999 and 1998, the carrying values of the Company's other assets and liabilities approximate their estimated fair values.

## (j) Advertising Costs:

The Company expenses advertising costs as incurred. Advertising costs amounted to \$252,983 in fiscal 1999 and none for the nine months ended December 31, 1998 and year ended March 31, 1998.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

## (k) Earnings Per Share:

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," in the year ended March 31, 1998. Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented as it is anti-dilutive in all periods.

## (l) Recently Issued Accounting Pronouncements:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 - "Reporting Comprehensive Income", No. 131 - "Disclosures about Segments of an Enterprise and Related Information", No. 132 - "Employer's Disclosures about Pension and Other Postretirement Benefits" and No. 133 - "Accounting for Derivative Instruments and Hedging Activities". Management does not believe that the effect of implementing these new standards will be material to the Company's financial position, results of operations and cash flows.

## (m) Revenue Recognition:

Stamford is a property and casualty reinsurance company writing reinsurance coverages for one domestic carrier's consumer products service contracts. The domestic carrier is rated "A-" Excellent by A.M. Best.

Premiums are recognized on a pro rata basis over the policy term. The deferred policy acquisition costs are the net cost of acquiring new and renewal insurance contracts. These costs are charged to expense in proportion to net premium revenue recognized.

The provisions for losses and loss-adjustment expenses includes an amount determined from loss reports on individual cases and an amount, based on past experience for losses incurred but not reported. Such liabilities are necessarily based on estimates, and while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The parent company sells via the Internet directly to consumers automotive vehicle services contracts. The Company recognizes revenue ratably over the length of the contract. The Company purchases insurance to fully cover any losses under the service contracts from the domestic carrier referred to above. The insurance premium and other costs related to the sale are amortized over the contract.

## NOTE 3 - PROPERTY AND EQUIPMENT.

Property and equipment consists of the following:

	December 31,	
	1999	1998
Computer equipment	\$ 116,660	\$ 3,906
Furniture and fixtures	23,266	23,266
Computer software	582,585	--
	722,511	27,172
Less: Accumulated depreciation	77,896	2,713
	644,615	24,459
Lease property under capital lease:		
Office equipment	17,806	17,806
Less: Accumulated depreciation	7,419	1,484
	10,387	16,322
	\$ 655,002	\$ 40,781

Depreciation and amortization charged to operations was \$81,118, \$3,130 and \$388, for the year ended December 31, 1999, for the nine months ended December 31, 1998 and for the year ended March 31, 1998, respectively.

The estimated present value of the capital lease obligations at December 31, 1999 reflects imputed calculated at 12.7% and 19.32%. The obligations are payable in equal monthly installments through January 2002 as follows:

Years Ending December 31,	
2000	\$ 7,115
2001	5,181
2002	317
	12,613
Amount representing interest	2,630
Present value of minimum lease payments	9,983
Present value of minimum lease payments due within one year	5,392
Present value of minimum lease payments due after one year	\$ 4,591

The aggregate maturities of the present value of the minimum lease obligations is as follows:

Years Ending December 31,	
2000	\$5,392
2001	4,294
2002	297
	\$9,983

## NOTE 4 - ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES.

Accounts payable, accrued expenses and other current liabilities consist of the following at:

	December 31,	
	----- 1999 -----	----- 1998 -----
Accrued offering costs	\$ 419,120	\$ --
Accrued professional fees	41,534	80,000
Advertising	69,427	--
Other	26,789	11,956
Due to related party (see Note 10)	--	41,985
Accrued claims losses	5,000	--
	-----	-----
	\$ 556,870	\$ 133,941
	=====	=====

## NOTE 5 - NOTES PAYABLE.

During the period January 1997 through April 30, 1997, the Company engaged in a private offering of securities pursuant to Rule 506 of Regulation D of the Securities Act of 1993, as amended. The offering consists of up to 19 units being sold at an offering price of \$25,000 per unit. Each unit consists of one \$25,000 face amount 90-day, 8% promissory note and one redeemable common stock purchase warrant to purchase 60,000 shares of the Company's common stock at a price of \$.50 per share during a period of three years from issuance. The offering of up to \$475,000 was conducted on a "best efforts" basis through Robert M. Cohen & Co. ("RMCC"). In connection with such offering, RMCC was paid sales commissions equal to 10% of the purchase price of each unit sold or \$2,500 per unit.

The notes payable relating to the above offering were paid in full and the warrants were simultaneously redeemed during the year ended March 31, 1998 with funds generated from the sale of stock (see Note 8).

In October 1999 the Company sold to accredited investors 10 units of its promissory notes and common stock for \$25,025 each. Each unit was comprised of a 5% interest bearing \$25,000 note and 25,000 shares. The variance between the fair market value of the 25,000 common shares issued in the aggregate of \$27,969 and the cash received of \$250 was deemed to be additional interest and was charged to operations over the life of the notes. The notes were repaid in full in December 31, 1999. At December 31, 1999, accrued interest on the notes of \$3,025 remained outstanding and was repaid in January, 2000. The effective weighted average interest rate of the notes during the period they were outstanding was 49.2%.

## NOTE 6 - LONG-TERM DEBT.

Long-term debt consists of the following at December 31, 1999 and 1998:

	1999	1998
	-----	-----
Capital lease obligations (see Note 3)	\$ 9,983	\$ 13,911
Note payable - bank - in equal monthly installments of \$2,043 including interest at 8-3/4%. The notes are collateralized by computer equipment having an undepreciated cost of \$78,927	89,270	--
	-----	-----
Portion payable within one year	99,253 22,662	13,911 4,649
	-----	-----
	\$ 76,591	\$ 9,262
	=====	=====

The aggregate maturities of the obligations is as follows:

Years Ending December 31, -----	
2000	\$22,662
2001	23,459
2002	20,616
2003	22,525
2004	9,991
	-----
	\$99,253
	=====

## NOTE 7 - SERIES A CONVERTIBLE PREFERRED STOCK.

In connection with the settlement of a securities class action litigation in 1994, the Company issued 1,000,000 shares of Series A \$0.07 Convertible Preferred Stock (the "Series A Preferred Stock") with an aggregate value of \$1,000,000. The following summarizes the terms of Series A Preferred Stock as more fully set forth in the Certificate of Designation. The Series A Preferred Stock has a liquidation value of \$1 per share, is non-voting and convertible into common stock of the Company at a price of \$5.20 per share. Holders of Series A Preferred Stock are entitled to receive cumulative cash dividends of \$0.07 per share, per year, payable semi-annually. Until November 30, 1999 the Series A Preferred Stock was callable by the Company at a price of \$1.04 per share, plus accrued and unpaid dividends, and thereafter at a price of \$1.05 per share, plus accrued and unpaid dividends. In addition, if the closing.

## NOTE 7 - SERIES A CONVERTIBLE PREFERRED STOCK. (Continued)

price of the Company's common stock exceeds \$13.80 per share for a period of 20 consecutive trade days, the Series A Preferred Stock is callable by the Company at a price equal to \$0.01 per share, plus accrued and unpaid dividends. The Certificate of Designation for the Series A Preferred Stock also states that at any time after December 1, 1999 the holders of the Series A Preferred Stocks may require the Company to redeem their shares of Series A Preferred Stock (if there are funds with which the Company may do so) at a price of \$1.00 per share. Notwithstanding any of the foregoing redemption provisions, if any dividends on the Series A Preferred Stock are past due, no shares of Series A Preferred Stock may be redeemed by the Company unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed. During the year ended December 31, 1999, 18,711 shares of Series A Preferred Stock were converted into 3,586 shares of common stock. During the nine months ended December 31, 1998, 65,143 shares of the Series A Preferred Stock were converted into 12,525 shares of common stock. During the year ended March 31, 1998, holders of 15,359 shares of the Series A Preferred Stock converted such shares into 2,953 shares of the Company's common stock. At December 31, 1999, 810,054 shares of Series A Preferred Stock were outstanding, and accrued dividends on these outstanding shares are \$288,334.

## NOTE 8 - STOCKHOLDER'S EQUITY.

## (a) Series B Convertible Redeemable Preferred Stock:

On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers and two other persons acquired an aggregate of 825,000 shares of a newly created Series B Convertible Redeemable Preferred Stock ("Series B Stock"), par value \$0.01 per share.

Pursuant to the Agreement and subsequent transactions, the Initial Purchasers acquired 765,000 shares of Series B Stock for \$76,500 in cash. The Company incurred certain legal expenses of the Initial Purchasers equaling approximately \$50,000 in connection with the transaction. In addition, the Company issued 50,000 shares of Series B Stock to a consultant as compensation valued at \$5,000 for his assistance to the Company in the identification and review of business opportunities and this transaction and for his assistance in bringing the transaction to fruition. Additionally, the Company issued 10,000 shares of Series B Stock to James Fyfe as compensation valued at \$1,000 for his work in bringing this transaction to fruition. These issuances diluted the voting rights of the then existing stockholders by approximately 57%. The total authorized shares of Series B Convertible Redeemable Preferred Stock are 825,000.



## NOTE 8 - STOCKHOLDER'S EQUITY. (Continued)

## (a) Series B Convertible Redeemable Preferred Stock: (Continued)

The following summarizes the terms of the Series B Stock whose terms are more fully set forth in the Certificate of Designation. The Series B Stock carries a zero coupon and each share of the Series B Stock is convertible into ten shares of the Company's common stock. The holder of a share of the Series B Stock is entitled to ten times any dividends paid on the common stock and such stock has ten votes per share and vote as one class with the common stock. Accordingly, the Initial Purchasers have sufficient voting power to elect all of the Board of Directors. However, the Initial Purchasers are required to vote in favor of Mr. Fyfe or his designee as a director of the Corporation through June 30, 2000.

The holder of any share of Series B Convertible Redeemable Preferred Stock has the right, at such holder's option (but not if such share is called for redemption), exercisable on or after September 30, 2000, to convert such share into ten (10) fully paid and non-assessable shares of common stock (the "Conversion Rate"). The Conversion Rate is subject to adjustment as stipulated in the Agreement. Upon liquidation, the Series B Stock would be junior to the Corporation's Series A Preferred Stock and would share ratably with the common stock with respect to liquidating distributions.

Since, the Company raised in excess of \$2,500,000 in fiscal 1999 from the sale of its common shares and the Company's common shares maintained a minimum closing bid price in excess of \$2.00 per shares for 10 consecutive trading days, then the Company's right, pursuant to the terms of the Agreement and the Certificate of Designation to repurchase or redeem such shares of Series B Stock from the holders for total consideration of \$0.10 per share was eliminated.

## (b) Common Stock:

On May 15, 1997, the Company commenced a private securities offering pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, of up to 400 units, each unit consisting of 10,000 shares of common stock being offered at a price of \$5,000 per unit. The Company used a placement agent for such offering who received a sales commission equal to 10% of the offering price of each unit sold. In connection with the offering, 369 units were sold for gross receipts of \$1,845,000 from which the agent was paid a commission \$184,500 for net of \$1,660,500 to the Company.

## NOTE 8 - STOCKHOLDER'S EQUITY. (Continued)

## (b) Common Stock: (Continued)

In March 1998, the Company sold 250,000 shares of common stock at \$.50 per share realizing \$125,000.

The stockholders at the annual meeting held on May 18, 1998, approved the reduction of the par value of the common stock from \$0.10 per share to \$0.001 per share.

Commencing in May 1999 through July 1999, the Company sold 688,335 shares of its common stock to accredited investors for \$538,492 net of offering costs. In December 1999, accredited investors purchased 5,187,500 shares of the Company's common stock for \$3,715,744, net of offering costs. Through February 15, 2000, additional investors acquired 1,676,250 shares of the Company's common stock for approximately \$1,206,000, net of offering costs.

The Company in 1999 issued 5,000 shares of its common stock whose fair value was \$5,000 to its President as a signing bonus which was charged to operations at the time of issuance. The Company also issued in 1999, 25,000 shares of its common stock whose fair value was \$25,000 at the date of issuance to a public relations consultant for future services. The arrangement with the consultant was terminated in 1999 and the fair value of the shares was charged to operations in 1999.

## (c) Warrants:

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company.

A total of 101,308 shares of common stock are reserved for issuance upon exercise of warrants as of December 31, 1998 and March 31, 1998. Of these outstanding warrants, warrants for 9,375 common shares at \$46.40 per share expired in April 1999. The remaining warrants to acquire 91,933 common shares at exercise prices ranging from \$3.20 to \$8.10 per share were granted in March 1995 to certain directors, officers and employees who converted previously outstanding stock options under the 1986 Plan into warrants on substantially the same terms as the previously held stock options, except the warrants were immediately vested. During fiscal 1999, warrants to acquire 22,308 common shares at prices ranging from \$3.90 to \$46.40 per share expired. No warrants were exercised during any of the periods presented. A total of 79,000 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of December 31, 1999 at prices ranging from \$3.20 to \$27.50 and expiring through October 2004.

## NOTE 8 - STOCKHOLDER'S EQUITY. (Continued)

## (d) Stock Option Plans:

The Company has two stock option plans. The 1998 Stock Option Plan provides for the grant of options to purchase shares of the Company's common stock to employees. The 1992 Stock Option Plan provides for the grant of options to directors.

In April 1992, the Company adopted the 1992 Stock Option Plan to provide for the granting of options to directors. According to the terms of this plan, each director is granted options to purchase 1,500 shares each year. The maximum amount of the Company's common stock that may be granted under this plan is 20,000 shares. Options are exercisable at the fair market value of the common stock on the date of grant and have five year terms.

Under the 1998 Plan, the maximum aggregate number of shares which may be issued under options is 300,000 shares of common stock. The aggregate fair market value (determined at the time the option is granted) of the shares for which incentive stock options are exercisable for the first time under the terms of the 1998 Plan by any eligible employee during any calendar year cannot exceed \$100,000. The option exercise price of each option is 100% of the fair market value of the underlying stock on the date the options are granted, except that no option will be granted to any employee who, at the time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or any subsidiary unless (a) at the time the options are granted, the option exercise price is at least 110% of the fair market value of the shares of common stock subject to the options and (b) the option by its terms is not exercisable after the expiration of five years from the date such option is granted.

## NOTE 8 - STOCKHOLDER'S EQUITY. (Continued)

## (d) Stock Option Plans: (Continued)

The 1998 Plan is administered by a committee of disinterested directors of the Board of Directors of the Corporation ("Option Committee"). In 1999, options to acquire 100,000 common shares at \$1.00 per share were granted to an officer and an option to acquire 25,000 common shares at \$0.6875 per share was issued to a consultant were granted under the 1998 Plan. In May 1997, a director was granted an option to acquire 1,500 common shares at \$0.3125 per share were granted under the 1992 Plan.

Information with respect to options under the 1992 and 1998 Stock Option Plans is summarized as follows:

	For the Year Ended December 31, 1999		For the Nine Months Ended December 31, 1998		For the Year Ended March 31, 1998	
	Shares	Prices	Shares	Prices	Shares	Prices
Outstanding at beginning of period	3,000	\$0.31 to \$0.41	3,000	\$ .31 to \$.41	1,500	\$ 0.41
Granted	125,000	\$0.69 to \$1.00	--	--	1,500	\$ 0.31
Converted	--	--	--	--	--	--
Expired	--	--	--	--	--	--
Exercised	--	--	--	--	--	--
Outstanding at end of period	128,000	\$0.31 to \$1.00	3,000	\$ .31 to \$.41	3,000	\$ .31 to \$.41

Outstanding options expire 90 days after termination of holder's status as employee or director. At December 31, 1999 and 1998, options to acquire 3,000 common shares were exercisable at prices ranging from \$0.31 to \$0.41 per share. The Company has 332,000 shares available for grant under all plans.

All options were granted at an exercise price equal to the fair value of the common stock at the grant date. Therefore, in accordance with the provisions of APB Opinion No. 25 related to fixed stock options, no compensation expense is recognized with respect to options granted or exercised. Under the alternative fair-value based method defined in SFAS No. 123, the fair value of all fixed stock options on the grant date would be recognized as expense over the vesting period. Assuming the fair market value of the stock at the date of grant to be \$0.3125 per share in May 1996, \$0.40625 per share in May 1997, \$0.6875 in January 1999 and \$1.00 per share in September 1999, the life of the options to be from three to ten years, the expected volatility at 200%, expected dividends are none, and the risk-free interest rate of 10%, the Company would have recorded compensation expense of \$7,750 for the year ended December 31, 1999 as calculated by the Black-Scholes option pricing model. As such, pro-forma net loss and loss per share would be as follows:

## NOTE 8 - STOCKHOLDER'S EQUITY. (Continued)

## (d) Stock Option Plans: (Continued)

Net loss as reported	\$ (1,169,508)
Additional compensation	7,750
	-----
Adjusted net loss	\$ (1,177,258)
	=====
Loss per share as reported	\$ (0.17)
	=====
Adjusted loss per share	\$ (0.17)
	=====

As the number of options granted at December 31, 1998 and March 31, 1998 is immaterial, recognizing the expense would not have a material effect on the Company's financial statements for the nine months ended December 31, 1998 and the year ended March 31, 1998.

## NOTE 9 - INCOME TAXES.

The Company has received permission from the Internal Revenue Service to change its taxable year-end from March 31, to December 31, effective with the December 31, 1998 period.

The differences between income taxes computed using the statutory federal income tax rate and that shown in the financial statements are summarized as follows:

	For the Year Ended December 31, 1999		For the Nine Months Ended December 31, 1998		For the Year Ended March 31, 1998	
	(Consolidated)		Consolidated			
	-----	-----	-----	-----	-----	-----
Loss before income taxes and preferred dividend	\$ (1,112,336)	%	\$ (402,951)	%	\$ (203,798)	%
	=====	-----	=====	-----	=====	-----
Computed tax benefit at statutory rate	\$ (378,000)	(34.0)	\$ (137,000)	(34.0)	\$ (69,300)	(34.0)
Compensatory element of common stock issuances	19,600	1.8	--	--	--	--
Foreign subsidiary loss not subject to U.S. taxes	9,800	0.9	300	--	--	--
Net operating loss valuation reserve	348,600	31.3	136,700	34.0	69,300	34.0
	-----	-----	-----	-----	-----	-----
Total tax benefits	\$ --	--	\$ --	--	\$ --	--
	=====	=====	=====	=====	=====	=====

There are no significant differences between the financial statement and tax basis of assets and liabilities and, accordingly, no deferred tax provision/benefit is required.

## NOTE 9 - INCOME TAXES. (Continued)

The Tax Reform Act of 1986 enacted a complex set of rules limiting the utilization of net operating loss carryforwards to offset future taxable income following a corporate ownership change. The Company's ability to utilize its NOL carryforwards is limited following a change in ownership in excess of fifty percentage points during any three year period. Upon receipt of the proceeds from the last foreign purchasers of the Company's common stock in January 2000, common stock ownership changed in excess of 50% during the three year period then ended. The utilization of the Company's net operating loss carryforward at December 31, 1999 of \$2,063,000 was not negatively impacted by this ownership change. The future tax benefit of the net operating loss carryforward aggregated \$701,000 at December 31, 1999 has been fully reserved as it is not more likely than not that the Company will be able to use the operating loss in the future.

## NOTE 10 - COMMITMENTS, CONTINGENCIES AND OTHER.

## (a) Leases:

Commencing in August 1998, the Company entered into short-term operating leases for its general office space and certain office equipment. Prior to August 1998, the Company did not incur rent expense as it was inactive. Rent expense charged to operations for the year ended December 31, 1999 and for the nine months ended December 31, 1998 was \$63,162 and \$23,000 and none for the year ended March 31, 1998. Future minimum annual rent commitments under operating leases as of December 31, 1999 are as follows:

Years Ending  
December 31,  
-----

2000	\$54,000
2001	33,000
2002	3,000
	-----

Total minimum annual rentals	\$90,000
	=====

## (b) Web Site:

At December 31, 1998, a liability in the amount of \$41,985 was owed to Warrantech Corporation, an affiliate, for expenses associated with a Web Site that were incurred by the Company. They are included in accounts payable, accrued expenses and other current liabilities in the accompanying financial statements. The affiliate had paid the vendors on the Company's behalf for their services.

## NOTE 10 - COMMITMENTS, CONTINGENCIES AND OTHER. (Continued)

## (c) Investment Contract:

The Corporation has entered into an investment advisory agreement with AIG Global Investment Corporation ("AIG") under which AIG will function as investment advisor and manager of all the Corporation's investable assets. AIG provides management services to all affiliated insurance companies of American International Group and other third-party institutions on a world-wide basis.

## (d) Year 2000:

Although the Company has had limited operations through December 31, 1999, it recognized the need to ensure that its operations will not be adversely effected by Year 2000 software or hardware failures. The Company in developing its software and hardware made certain that all its systems were compliant with Year 2000 requirements. The Company has not experienced any adverse computer hardware or software effect to date. If, despite the Company's effects under its Year 2000 related failures affecting the Company from outside sources, management at the present time does not believe the impact will be substantial.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

## SCHEDULE II

## VALUATION AND QUALIFYING ACCOUNTS

Col. A -----	Col. B -----	Col. C -----		Col. D -----	Col. E -----
		Additions -----			
	Balance Beginning of Period -----	Charged to Costs and Expenses -----	Acquisition of Subsidiaries -----	Deductions Describe -----	Balance at end of Period -----
For the year ended March 31, 1998:					
Reserve against notes receivable in default	\$ 75,000	\$ --	\$ --	\$ --	\$ 75,000
For the nine months ended December 31, 1998:					
Reserve against notes receivable in default	75,000	--	--	--	75,000
For the year ended December 31, 1999:					
Reserve against notes receivable in default	75,000	--	--	--	75,000



## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

## ASSETS

	June 30, 2000	December 31, 1999
	-----	-----
Current assets:		
Cash and equivalents	\$ 1,082,014	\$ 1,639,473
Marketable securities	3,765,618	2,733,319
Prepaid expenses and other current assets	276,340	71,622
	-----	-----
Total current assets	5,123,972	4,444,414
Property and equipment, net	579,055	655,002
Deferred acquisition costs	32,161	41,946
License, net of accumulated amortization	16,167	16,777
Other assets	12,525	12,525
	-----	-----
	\$ 5,763,880	\$ 5,170,664
	=====	=====

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Continued)  
(Unaudited)

## LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2000	December 31, 1999
	-----	-----
Current liabilities:		
Dividends payable - preferred stock	\$ 271,742	\$ 288,334
Accounts payable, accrued expenses and other current liabilities	203,903	561,870
Current portion of long-term debt	23,689	22,662
	-----	-----
Total current liabilities	499,334	872,866
	-----	-----
Unearned revenues	587,766	298,801
	-----	-----
Long-term debt	64,116	76,591
	-----	-----
Series A Convertible Preferred Stock: Series A \$0.07 cumulative convertible preferred stock - stated value - \$1.00 per share, authorized - 1,000,000 shares, outstanding - 694,974 shares at June 30, 2000 and 810,054 shares at December 31, 1999	694,974	810,054
	-----	-----
Convertible Redeemable Preferred Stock, Common Stock, Other Stockholders' Equity and Accumulated Deficit:		
Preferred stock - authorized - 5,000,000 shares Series B convertible redeemable preferred stock, \$0.1 par value, authorized, issued and outstanding - 825,000 shares	8,250	8,250
Common stock, \$0.001 par value, authorized - 75,000,000 shares, issued and outstanding - 14,222,971 shares at June 30, 2000 and 12,513,127 shares at December 31, 1999	14,223	12,513
Additional paid-in capital	8,806,734	7,421,944
Accumulated deficit	(4,911,517)	(4,330,355)
	-----	-----
Total convertible redeemable preferred stock, common stock, other stockholders' equity	3,917,690	3,112,352
	-----	-----
	\$ 5,763,880	\$ 5,170,664
	=====	=====

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2000	1999	2000	1999
Earned revenues	\$ 275,549	\$ --	\$ 129,949	\$ --
Direct costs	106,580	--	63,080	--
Gross profit	168,969	--	66,869	--
General and administrative expenses	824,041	999,763	496,765	600,641
Operating loss	(655,072)	(999,763)	(429,896)	(600,641)
Other income (expense):				
Unrealized gain on marketable securities	11,660	--	7,478	--
Interest income	91,259	5,965	54,958	1,512
Interest expense	(4,639)	--	(2,399)	--
Total other income (expense)	98,280	5,965	60,037	1,512
Loss before preferred dividend	(556,792)	(993,798)	(369,859)	(599,129)
Preferred dividend	24,370	28,714	12,162	14,268
Net loss	\$ (581,162)	\$ (1,022,512)	\$ (382,021)	\$ (613,397)
Net loss per share of common stock	\$ (0.04)	\$ (0.16)	\$ (0.03)	\$ (0.10)
Weighted average number of common shares outstanding	13,820,536	6,377,357	14,211,840	6,380,997

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CONVERTIBLE REDEEMABLE PREFERRED STOCK, COMMON STOCK,  
OTHER STOCKHOLDERS' EQUITY AND ACCUMULATED DEFICITFOR THE SIX MONTHS ENDED JUNE 30, 2000  
(Unaudited)

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance - January 1, 2000	825,000	\$8,250	12,513,127	\$12,513	\$7,421,944	\$(4,330,355)	\$ 3,112,352
Issuance of common stock for cash, net of offering costs	--	--	1,676,250	1,676	1,205,094	--	1,206,770
Issuance of common stock for services rendered	--	--	2,000	2	5,873	--	5,875
Conversion of Series A Convertible Preferred Stock into Common Stock	--	--	22,094	22	156,020	--	156,042
Series A Convertible Stock dividends	--	--	--	--	--	(24,370)	(24,370)
Net loss before preferred stock dividend	--	--	--	--	--	(556,792)	(556,792)
Shares to be issued for services rendered	--	--	9,500	10	17,803	--	17,813
Balance - June 30, 2000	825,000	\$8,250	14,222,971	\$14,223	\$8,806,734	\$(4,911,517)	\$ 3,917,690

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Six Months Ended June 30,	
	2000	1999
Cash flows from operating activities:		
Net loss	\$ (581,162)	\$ (1,022,512)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain on marketable securities	(11,660)	--
Issuance of common stock for services rendered	23,688	--
Series A preferred stock dividends	24,370	28,714
Depreciation and amortization	76,557	10,866
Unearned revenues	288,965	--
Deferred acquisition costs	9,785	--
Increase (decrease) in cash flows as a result of changes in asset and liability account balances:		
Prepaid expenses and other current assets	(204,718)	(22,464)
Accounts payable, accrued expenses and other current liabilities	(357,967)	107,325
Total adjustments	(150,980)	124,441
Net cash used in operating activities	(732,142)	(898,071)
Cash flows from investing activities:		
(Increase) decrease in marketable securities	(1,020,639)	545,689
Acquisition of property assets	--	(103,618)
Net cash provided by (used in) investment activities	(1,020,639)	442,071
Cash flows from financing activities:		
Net proceeds from issuance of capital stock - net	1,206,770	556,527
Payments of capital lease obligations	(2,944)	(2,328)
Proceeds from notes payable	--	97,336
Repayments of notes payable	(8,504)	--
Net cash provided by financing activities	1,195,322	651,535
Net increase (decrease) in cash	(557,459)	195,535
Cash and cash equivalents at beginning of period	1,639,473	206,313
Cash and cash equivalents at end of period	\$ 1,082,014	\$ 401,848

See notes to financial statements.

CORNICHE GROUP INCORPORATED AND SUBSIDIARY  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
 (Unaudited)

	For the Six Months Ended June 30,	
	2000	1999
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period:		
Income taxes	\$           -- =====	\$           -- =====
Interest	\$       4,639 =====	\$       719 =====
 <b>Supplemental Schedules of Noncash Financing Activities:</b>		
Series A Preferred Stock and dividends thereon converted to common stock and additional paid-in capital upon conversion	\$   156,020 =====	\$    28,714 =====
Issuance of common stock for services rendered	\$     23,688 =====	\$           -- =====

See notes to financial statements.

CORNICHE GROUP INCORPORATED AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2000  
(Unaudited)

NOTE 1 - THE COMPANY.

Corniche Group Incorporated (hereinafter referred to as the "Company" or "CGI") as a result of a reverse acquisition with Corniche Distribution Limited and its Subsidiaries ("Corniche"), was engaged in the retail sale and wholesale distribution of stationery products and related office products, including office furniture, in the United Kingdom. In February 1996, the Company was placed in receivership by its creditors. Through March 1998, the Company had no activity.

On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers acquired an aggregate of 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value \$0.01 per share. Thereafter the Initial Purchasers have been endeavoring to establish for the Company new business operations in the property and casualty specialty insurance and the service contract markets.

On September 30, 1998, the Company acquired all of the capital stock of Stamford Insurance Company, Ltd. ("Stamford") from Warrantech Corporation for \$37,000 in cash in a transaction accounted for as a purchase. Warrantech's chairman is the former chairman of the Company. Stamford was chartered under the Laws of, and is licensed to conduct business as an insurance company by, the Cayman Islands. Although Stamford has incurred expenses since its inception, it first generated revenues in the fourth quarter of 1999.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

## (a) Basis of Presentation:

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2000 and the results of operations and cash flows for the six and three months ended June 30, 2000 and 1999. The results of operations for the six and three months ended June 30, 2000 and 1999 are not necessarily indicative of the results to be expected for the full year.

The December 31, 1999 balance sheet has been derived from the audited financial statements at that date included in the Company's annual report on Form 10-K. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K.

## (b) Cash Equivalents:

Short-term cash investments which have a maturity of ninety days or less when purchased are considered cash equivalents in the statement of cash flows.

## (c) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## (d) Concentrations of Credit-Risk:

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and marketable securities. The Company places its domestic operations cash accounts with high credit quality financial institutions, which at times may be in excess of the FDIC insurance limit. The Company's subsidiary places its cash in the Cayman Island subsidiaries of domestic banks whose net worth exceeds \$100,000,000. The Company's marketable securities are primarily comprised of investments in municipal bank funds. The Company employs the services of an investment advisor to assist in monitoring its investments.



## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

## (e) Marketable Securities:

Marketable securities are classified as trading securities and are reported at market value at December 31, 1999. At June 30, 2000, the market value of securities exceeded their cost by \$11,660. The market value of the investment approximated cost at December 31, 1999.

## (f) Property and Equipment:

The cost of property and equipment is depreciated over the estimated useful lives of the related assets of 5 to 7 years. The cost of computer software programs is amortized over their estimated useful lives of five years. Depreciation is computed on the straight-line method. Repairs and maintenance expenditures which do not extend original asset lives are charged to income as incurred.

## (g) Intangibles:

The excess of the purchase price for the capital stock of Stamford over the net assets acquired has been attributed to the subsidiary's license to conduct business as an insurance carrier in the Cayman Islands. Amortization charged to operations in the six months ended June 30, 2000 and 1999 was \$610, in each period, and for the three months ended March 31, 2000 and 1999 was \$305, in each period.

## (h) Income Taxes:

The Company adopted SFAS 109, "Accounting for Income Taxes", which recognizes (a) the amount of taxes payable or refundable for the current year and, (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statement or tax returns. There is no difference as to financial and tax basis of assets and liabilities.

## (i) Fair Value of Financial Statements:

The Company adopted Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The statement requires that the Company recognizes and measures impairment losses of long-lived assets, certain identifiable intangibles, value long-lived assets to be disposed of and long-term liabilities. At June 30, 2000 and December 31, 1999, the carrying values of the Company's other assets and liabilities approximate their estimated fair values.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

## (j) Advertising Costs:

The Company expenses advertising costs as incurred. Advertising costs amounted to \$282,521 and \$276,752 for the six and three months ended June 30, 2000 and none for the six and three months ended June 30, 1999.

## (k) Earnings Per Share:

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented as it is anti-dilutive in all periods.

## (l) Recently Issued Accounting Pronouncements:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 - "Reporting Comprehensive Income", No. 131 - "Disclosures about Segments of an Enterprise and Related Information", No. 132 - "Employer's Disclosures about Pension and Other Postretirement Benefits" and No. 133 - "Accounting for Derivative Instruments and Hedging Activities". Management does not believe that the effect of implementing these new standards will be material to the Company's financial position, results of operations and cash flows.

## (m) Revenue Recognition:

Stamford is a property and casualty reinsurance company writing reinsurance coverages for one domestic carrier's consumer products service contracts. The domestic carrier is rated "A-" Excellent by A.M. Best.

Premiums are recognized on a pro rata basis over the policy term. The deferred policy acquisition costs are the net cost of acquiring new and renewal insurance contracts. These costs are charged to expense in proportion to net premium revenue recognized.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

## (m) Revenue Recognition: (Continued)

The provisions for losses and loss-adjustment expenses include an amount determined from loss reports on individual cases and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on estimates, and while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The parent company sells via the Internet directly to consumers automotive vehicle services contracts. The Company recognizes revenue ratably over the length of the contract. The Company purchases insurance to fully cover any losses under the service contracts from the domestic carrier referred to above. The insurance premium and other costs related to the sale are amortized over the contract.

## NOTE 3 - PROPERTY AND EQUIPMENT.

Property and equipment consists of the following:

	June 30, 2000	December 31, 1999
	-----	-----
Computer equipment	\$ 116,660	\$ 116,660
Furniture and fixtures	23,266	23,266
Computer software	582,585	582,585
	-----	-----
	722,511	722,511
Less: Accumulated depreciation	150,875	77,896
	-----	-----
	571,636	644,615
	-----	-----
Lease property under capital lease:		
Office equipment	17,806	17,806
Less: Accumulated depreciation	10,387	7,419
	-----	-----
	7,419	10,387
	-----	-----
	\$ 579,055	\$ 655,002
	=====	=====

Depreciation and amortization charged to operations was \$76,577 and \$10,866 for the six months ended June 30, 2000 and 1999, respectively, and \$38,269 and \$3,580 for the three months ended June 30, 2000 and 1999, respectively.

## NOTE 3 - PROPERTY AND EQUIPMENT. (Continued)

The estimated present value of the capital lease obligations at June 30, 2000 reflects imputed calculated at 12.7% and 19.32%. The obligations are payable in equal monthly installments through February 2002 as follows:

Years Ending June 30, -----		
2001	\$	5,750
2002		2,721
		-----
		8,471
Amount representing interest		1,431
		-----
Present value of minimum lease payments	7,040	
Present value of minimum lease payments due within one year	5,519	
		-----
Present value of minimum lease payments due after one year	\$ 1,521	
		=====

The aggregate maturities of the present value of the minimum lease obligation is as follows:

Years Ending June 30, -----		
2001	\$5,519	
2002	1,521	
	-----	
	\$7,040	
		=====

## NOTE 4 - ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES.

Accounts payable, accrued expenses and other current liabilities consist of the following at:

	June 30, 2000	December 31, 1999
	-----	-----
Accrued offering costs	\$ --	\$ 419,120
Accrued professional fees	43,006	41,534
Advertising	30,000	69,427
Insurance	7,118	--
Other	118,779	26,789
Accrued claims losses	5,000	5,000
	-----	-----
	\$ 203,903	\$ 561,870
	=====	=====

## NOTE 5 - NOTES PAYABLE.

In October 1999, the Company sold to accredited investors 10 units of its promissory notes and common stock for \$25,025 each. Each unit was comprised of a 5% interest bearing \$25,000 note and 25,000 shares. The variance between the fair market value of the 25,000 common shares issued in the aggregate of \$27,969 and the cash received of \$250 was deemed to be additional interest and was charged to operations over the life of the notes. The notes were repaid in full in December 31, 1999. At December 31, 1999, accrued interest on the notes of \$3,025 remained outstanding and was repaid in January, 2000.

## NOTE 6 - LONG-TERM DEBT.

Long-term debt consists of the following at June 30, 2000 and December 31, 1999:

	June 30, 2000	December 31, 1999
	-----	-----
Capital lease obligations	\$ 7,040	\$ 9,983
Note payable - bank - in equal monthly installments of \$2,043 including interest at 8-3/4%. The notes are collateralized by computer equipment having an undepreciated cost of \$78,927	80,765	89,270
	-----	-----
Portion payable within one year	87,805 23,689	99,253 22,662
	-----	-----
	\$ 64,116	\$ 76,591
	=====	=====

The aggregate maturities of the obligations are as follows:

Years Ending June 30, -----	
2001	\$23,689
2002	21,347
2003	21,631
2004	21,138
	-----
	\$87,805
	=====

## NOTE 7 - SERIES A CONVERTIBLE PREFERRED STOCK.

In connection with the settlement of a securities class action litigation in 1994, the Company issued 1,000,000 shares of Series A \$0.07 Convertible Preferred Stock (the "Series A Preferred Stock") with an aggregate value of \$1,000,000. The following summarizes the terms of the Series A Preferred Stock as more fully set forth in the Certificates of Designation. The Series A Preferred Stock has a liquidation value of \$1 per share, is non-voting and convertible into common stock of the Company at a price of \$5.20 per share. Holders of Series A Preferred Stock are entitled to receive cumulative cash dividends of \$0.07 per share, per year, payable semi-annually. Until November 30, 1999 the Series A Preferred Stock was callable by the Company at a price of \$1.04 per share, plus accrued and unpaid dividends, and thereafter at a price of \$1.05 per share, plus accrued and unpaid dividends. In addition, if the closing price of the Company's common stock exceeds \$13.80 per share for a period of 20 consecutive trade days, the Series A Preferred Stock is callable by the Company at a price equal to \$0.01 per share, plus accrued and unpaid dividends. The Certificate of Designation for the Series A Preferred Stock also states that at any time after December 1, 1999 the holders of the Series A Preferred Stocks may require the Company to redeem their shares of Series A Preferred Stock (if there are funds with which the Company may do so) at a price of \$1.00 per share. Notwithstanding any of the foregoing redemption provisions, if any dividends on the Series A Preferred Stock are past due, no shares of Series A Preferred Stock may be redeemed by the Company unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed. During the year ended December 31, 1999, 18,711 shares of Series A Preferred Stock were converted into 3,586 shares of common stock. During the six months ended June 30, 2000, holders of 115,080 shares of the Series A Preferred Stock converted such shares into 22,094 shares of the Company's common stock. At June 30, 2000 and December 31, 1999, 694,974 and 810,054 shares of Series A Preferred Stock were outstanding, respectively. At June 30, 2000 and 1999, and accrued dividends on these outstanding shares were \$271,742 and \$288,334, respectively.

## NOTE 8 - STOCKHOLDERS' EQUITY.

## (a) Series B Convertible Redeemable Preferred Stock:

On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers and two other persons acquired an aggregate of 825,000 shares of a newly created Series B Convertible Redeemable Preferred Stock ("Series B Stock"), par value \$0.01 per share.

## NOTE 8 - STOCKHOLDERS' EQUITY. (Continued)

## (a) Series B Convertible Redeemable Preferred Stock: (Continued)

Pursuant to the Agreement and Subsequent transactions, the Initial Purchasers acquired 765,000 shares of Series B Stock for \$76,500 in cash. The Company incurred certain legal expenses of the Initial Purchasers equaling approximately \$50,000 in connection with the transaction. In addition, the Company issued 50,000 shares of Series B Stock to a consultant as compensation valued at \$5,000 for his assistance to the Company in the identification and review of business opportunities and this transaction and for his assistance in bring the transaction to fruition. Additionally, the Company issued 10,000 shares of Series B Stock to James Fyfe as compensation valued at \$1,000 for his work in bringing this transaction to fruition. These issuances diluted the voting rights of the then existing stockholders by approximately 57%. The total authorized shares of Series B Convertible Redeemable Preferred Stock is 825,000.

The following summarizes the terms of the Series B Stock whose terms are more fully set forth in the Certificate of Designation. The Series B Stock carries a zero coupon and each share of the Series B Stock is convertible into ten shares of the Company's common stock. The holder of a share of the Series B Stock is entitled to ten times any dividends paid on the common stock and such stock has ten votes per share and vote as one class with the common stock. Accordingly, the Initial Purchasers have sufficient voting power to elect all of the Board of Directors. However, the Initial Purchasers are required to vote in favor of Mr. Fyfe or his designee as a director of the Corporation through June 30, 2000.

The holder of any share of Series B Convertible Redeemable Preferred Stock has the right, at such holder's option (but not if such share is called for redemption), exercisable on or after September 30, 2000, to convert such share into ten (10) fully paid and non-assessable shares of common stock (the "Conversion Rate"). The Conversion Rate is subject to adjustment as stipulated in the Agreement. Upon liquidation, the Series B Stock would be junior to the Corporation's Series A Preferred Stock and would share ratably with the common stock with respect to liquidating distributions.

Since, the Company raised in excess of \$2,500,000 in fiscal 1999 from the sale of its common shares and the Company's common shares maintained a minimum closing bid price in excess of \$2.00 per shares for 10 consecutive trading days, then the Company's right, pursuant to the terms of the Agreement and the Certificate of Designation to repurchase or redeem such shares of Series B Stock from the holders for total consideration of \$0.10 per share was eliminated.

## NOTE 8 - STOCKHOLDERS' EQUITY. (Continued)

## (b) Common Stock:

On May 15, 1997, the Company commenced a private securities offering pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, of up to 400 units, each unit consisting of 10,000 shares of common stock being offered at a price of \$5,000 per unit. The Company used a placement agent for such offering who received a sales commission equal to 10% of the offering price of each unit sold. In connection with the offering, 369 units were sold for gross receipts of \$1,845,000 from which the agent was paid a commission of \$184,500 for net of \$1,660,500 to the Company.

In March 1998, the Company sold 250,000 shares of common stock at \$.50 per share realizing \$125,000.

The stockholders at the 1998 annual meeting approved the reduction of the par value of the common stock from \$0.10 per share to \$0.001 per share.

The stockholders at the 2000 annual meeting approved amending the authorized common stock to 75 million shares from 30 million shares.

Commencing in May 1999 through July 1999, the Company sold 688,335 shares of its common stock to accredited investors for \$538,492 net of offering costs. In December 1999, accredited investors purchased 5,187,500 shares of the Company's common stock for \$3,715,744, net of offering costs. During the six months ended June 30, 2000, the Company sold 1,676,250 shares of common stock at \$.80 per share realizing \$1,206,770, net of offering costs.

The Company in 1999 issued 5,000 shares of its common stock whose fair value was \$5,000 to its President as a signing bonus, which was charged to operations at the time of issuance. The Company also issued in 1999, 25,000 shares of its common stock whose fair value was \$25,000 at the date of issuance to a public relations consultant for future services. The arrangement with the consultant was terminated in 1999 and the fair value of the shares was charged to operations in 1999.

During the quarter ended June 30, 2000, the Company issued 2000 shares of its common stock to a consultant for promotional activities amounting to \$5,875.



## NOTE 8 - STOCKHOLDERS' EQUITY. (Continued)

## (c) Warrants:

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company.

A total of 101,308 shares of common stock are reserved for issuance upon exercise of warrants as of December 31, 1998 and March 31, 1998. Of these outstanding warrants, warrants for 9,375 common shares at \$46.40 per share expired in April 1999. The remaining warrants to acquire 91,933 common shares at exercise prices ranging from \$3.20 to \$8.10 per share were granted in March 1995 to certain directors, officers and employees who converted previously outstanding stock options under the 1986 Plan into warrants on substantially the same terms as the previously held stock options, except the warrants were immediately vested. During the fiscal 1999, warrants to acquire 22,308 common shares at prices ranging from \$3.90 to \$46.40 per share expired. No warrants were exercised during any of the periods presented. A total of 79,000 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of December 31, 1999 at prices ranging from \$3.20 to \$27.50 and expiring through October 2004.

## (d) Stock Options Plans:

The Company has two stock option plans. The 1998 Employee Incentive Stock Option Plan provides for the grant of options to purchase shares of the Company's common stock to employees. The 1992 Stock Option Plan provides for the grant of options to directors.

## NOTE 8 - STOCKHOLDERS' EQUITY. (Continued)

## (d) Stock Options Plans: (Continued)

In April 1992, the Company adopted the 1992 Stock Option Plan to provide for the granting of options to directors. According to the terms of this plan, each director is granted options to purchase 1,500 shares each year. The maximum amount of the Company's common stock that may be granted under this plan is 20,000 shares. Options are exercisable at the fair market value of the common stock on the date of grant and have five year terms.

Under the 1998 Plan, the maximum aggregate number of shares which may be issued under options has been amended to 3,000,000 from 300,000 shares of common stock. The aggregate fair market value (determined at the time the option is granted) of the shares for which incentive stock options are exercisable for the first time under the terms of the 1998 Plan by any eligible employee during any calendar year cannot exceed \$100,000. The option exercise price of each option is 100% of the fair market value of the underlying stock on the date of the options are granted, except that no option will be granted to any employee who, at the time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or any subsidiary unless (a) at the time the options are granted, the option exercise price is at least 110% of the fair market value of the shares of common stock subject to the options and (b) the option by its terms is not exercisable after the expiration of five years from the date such option is granted.

The 1998 Plan will be administered by a committee of disinterested directors of the Board of Directors of the Corporation ("Option Committee"). In 1999, options to acquire 100,000 common shares at \$1.00 per share were granted to an officer and an option to acquire 25,000 common shares at \$0.6875 per share was issued to a consultant were granted under the 1998 Plan. In May 1997, a director was granted an option to acquire 1,500 common shares at \$0.3125 per share were granted under the 1992 Plan. In February 2000, the Company's CEO was granted an option to acquire 75,000 common shares of \$1.10 per share in the 1998 plan.

Information with respect to options under the 1992 and 1998 Stock Option Plans is summarized as follows:

	For the Six Months Ended June 30,			
	2000		1999	
	Shares	Prices	Shares	Prices
Outstanding at beginning of period	128,000	\$0.31 to \$1.00 =====	3,000	\$0.31 to \$0.40 =====
Options issued	75,000	\$ 1.10 =====	--	
Outstanding at end of period	203,000	\$0.31 to \$1.10 =====	3,000	\$0.31 to \$0.40 =====

## NOTE 8 - STOCKHOLDERS' EQUITY. (Continued)

## (d) Stock Options Plans: (Continued)

Outstanding options expire 90 days after termination of holder's status as employee or director.

All options were granted at an exercise price equal to the fair value of the common stock at the grant date. Therefore, in accordance with the provisions of APB Opinion No. 25 related to fixed stock options, no compensation expense is recognized with respect to options granted or exercised. Under the alternative fair-value based method defined in SFAS No. 123, the fair value of all fixed stock options on the grant date would be recognized as expense over the vesting period. Assuming the fair market value of the stock at the date of grant to be \$.3125 per share in May 1996, \$.40625 per share in May 1997, \$.6875 in January 1999 and \$1.00 per share in September 1999, the life of the options to be from three to ten years, the expected volatility at 200%, expected dividends are none, and the risk-free interest rate of 10%, the Company would have recorded compensation expense of \$10,523 for the six months ended June 30, 2000 and \$1,938 for the three months ended June 30, 2000 as calculated by the Black-Scholes option pricing model. As such, pro-forma net loss and loss per share would be as follows:

	For the Six Months Ended June 30, 2000 -----	For the Three Months Ended June 30, 2000 -----
Net loss as reported	\$ (581,162)	\$ (382,021)
Additional compensation	10,523	1,938
	-----	-----
	\$ (591,685)	\$ (383,959)
	=====	=====
Loss per share as reported	\$ (0.04)	\$ (0.03)
	=====	=====
Adjusted loss per share	\$ (0.04)	\$ (0.03)
	=====	=====

As the number of options granted at December 31, 1998 and March 31, 1998 is immaterial, recognizing the expense would not have a material effect on the Company's financial statements for the three months and six months ended June 30, 1999.

## NOTE 9 - INCOME TAXES.

The Company has received permission from the Internal Revenue Service to change its taxable year-end from March 31, to December 31, effective with the December 31, 1998 period.

The differences between income taxes computed using the statutory federal income tax rate and that shown in the financial statements are summarized as follows:

	For the Six Months Ended June 30,			
	2000 %		1999 %	
Loss before income taxes and preferred dividend	\$ 556,792	--	\$ (993,798)	--
Computed tax benefit at statutory rate	\$ (189,300)	(34.0)	\$ (337,900)	(34.0)
Foreign subsidiary income not subject to U.S. taxes	(49,700)	(9.2)	(7,560)	(.8)
Net operating loss valuation reserve	239,000	43.2	345,460	34.8
Total tax benefits	\$ --	--	\$ --	--

There are no significant differences between the financial statement and tax basis of assets and liabilities and, accordingly, no deferred tax provision/benefit is required.

The Tax Reform Act of 1986 enacted a complex set of rules limiting the utilization of net operating loss carryforwards to offset future taxable income following a corporate ownership change. The Company's ability to utilize its NOL carryforwards is limited following a change in ownership in excess of fifty percentage points during any three year period. Upon receipt of the proceeds from the last foreign purchasers of the Company's common stock in January 2000, common stock ownership changed in excess of 50% during the three year period then ended. The utilization of the Company's net operating loss carryforward at December 31, 1999 of \$2,063,000 was not negatively impacted by this ownership change. The future tax benefit of the net operating loss carryforward aggregated \$701,000 at December 31, 1999 has been fully reserved as it is not more likely than not that the Company will be able to use the operating loss in the future.

## NOTE 10 - COMMITMENTS, CONTINGENCIES AND OTHER.

## (a) Leases:

Commencing in August 1998, the Company entered into short-term operating leases for its general office space and certain office equipment. Prior to August 1998, the Company did not incur rent expense as it was inactive. Rent expense charged to operations for the six and three months ended June 30, 2000 and 1999 was \$25,050 and \$12,525, respectively in each period. Future minimum annual rent commitments under operating leases as of June 30, 2000 are as follows:

Years Ending  
June 30,  
-----

2001	\$50,000
2002	4,167
	-----
	\$54,167
	=====

## (b) Investment Contract:

The Corporation has entered into an investment advisory agreement with AIG Global Investment Corporation ("AIG") under which AIG will function as investment advisor and manager of all the Corporation's investable assets. AIG provides management services to all affiliated insurance companies of American International Group and other third-party institutions on a world-wide basis.

## (c) Year 2000:

Although the Company has had limited operations through December 31, 1999, it recognized the need to ensure that its operations will not be adversely effected by Year 2000 software or hardware failures. The Company in developing its software and hardware made certain that all its systems were compliant with Year 2000 requirements. The Company has not experienced any adverse computer hardware or software effect to date. If, despite the Company's effects under its Year 2000 related failures affecting the Company from outside sources, management at the present time does not believe the impact will be substantial.

## PART II

## INFORMATION NOT REQUIRED IN THE PROSPECTUS

## ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the various expenses and costs expected to be incurred in connection with the issuance and distribution of the securities to be registered. All of the amounts shown are estimated, except for the Securities and Exchange Commission registration fee.

Securities and Exchange Commission registration fee .....	\$	6,392
Legal fees and expenses .....		50,000
Accounting fees and expenses .....		50,000
Miscellaneous expenses .....		93,708
		-----
Total .....	\$	200,000
		=====

## ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if the person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if the person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which the person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that indemnification is proper under the circumstances.

Article X of the amended Certificate of Incorporation (the "Certificate") of Corniche Group Incorporated ("Corniche") provides that no director of Corniche shall be personally liable to Corniche or its stockholders for monetary damage for breach of fiduciary duty as a director, except for liability

- o for any breach of the director's duty of loyalty to Corniche or its stockholders,
- o for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law,
- o under Section 174 of the Delaware General Corporation Law, or
- o for any transaction from which the director derived any improper personal benefit.

Article VI of the amended Certificate also provides that Corniche's Board of Directors has the power on behalf of Corniche to indemnify any person, other than a director, officer, employee, or agent of Corniche made a party to any action, suit or proceeding by reason of the fact that he is or was a director, officer, employee or agent of Corniche.

Article V of Corniche's amended bylaws (the "Bylaws") provides that Corniche may indemnify any and all persons who it shall have power to indemnify against any and all expenses, liabilities or other matters to the fullest extent authorized under Delaware law.

Corniche has directors' and officers' liability insurance covering its directors and officers.

## ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Summarized below are issuances of securities by Corniche that have occurred since September 30, 1997, that were not registered under the Securities Act. None of the following transactions involved any underwriters, underwriter discounts or commissions, or any public offering, and Corniche believes that each transaction was exempt from the registration requirements

of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients in these transactions represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in the transactions.

COMMON STOCK / SERIES B CONVERTIBLE REDEEMABLE PREFERRED STOCK

DATE SOLD -----	TITLE AND AMOUNT OF SECURITIES -----	PURCHASER -----	CONSIDERATION RECEIVED -----
March 1998	250,000 shares of common stock	A group of 2 accredited investors	An aggregate amount of \$125,000
May 1998	875,000 shares of Series B convertible redeemable preferred stock	A group of 6 accredited investors	An aggregate amount of \$87,500
January 1999	25,000 shares of common stock	A consultant	Consulting services valued at \$25,000
February 1999	5,000 shares of common stock	Robert H. Benoit, President	Signing bonus valued at \$5,000
May 1999 - July 1999	688,335 shares of common stock	A group of 27 accredited investors	An aggregate amount of \$619,499.90
October - November 1999	250,000 shares of common stock	A group of 10 accredited investors	An aggregate amount of \$250,000
December 1999 - April 2000	6,863,750 shares of common stock	A group of 18 accredited investors	An aggregate amount of \$5,491,000
August 2000	5,000 shares of common stock	A group of 2 accredited investors	Consulting services valued at \$9,250
August 2000	4,500 shares of common stock	James J. Fyfe, Chairman of the Board of Directors	Consulting services valued at \$8,325

STOCK OPTIONS

- o Pursuant to Corniche's 1998 Stock Plan, between September 30, 1997, and the date hereof, Corniche granted options to four employees and one consultant to purchase an aggregate of 403,000 shares of its common stock at exercise prices ranging from \$.31 to \$1.097 per share.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits:

The exhibits are as set forth in the Exhibit Index.

(b) Financial Statement Schedules:

No financial statement schedules are filed because the required information is not applicable or is included in the financial statements or related notes.

## ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts of events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be in the initial bona fide offering thereof.

(3) For determining liability under the Securities Act of 1933, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(4) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(5) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(6) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by Corniche pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(7) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of Corniche pursuant to the foregoing provisions, or otherwise, Corniche has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than the payment by Corniche of expenses incurred or paid by a director, officer or controlling person of Corniche in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, then Corniche will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.



## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Corniche has duly caused this Registration Statement to be signed on its behalf by the undersigned, hereunto duly authorized, in the City of Euless, State of Texas as of December 9, 2000.

## CORNICHE GROUP INCORPORATED

By: /s/ Robert F. Benoit

-----  
 Robert F. Benoit  
 Chief Executive Officer

## POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated as of December 9, 2000.

NAME ----	TITLE -----	DATE ----
/s/ Robert F. Benoit ----- Robert F. Benoit	Chief Executive Officer, Director	December 9, 2000
/s/ Robert H. Hutchins ----- Robert H. Hutchins	President, Director	December 9, 2000
/s/ John L. King ----- John L. King	Vice President, Chief Financial Officer	December 9, 2000
/s/ James J. Fyfe ----- James J. Fyfe*	Chairman of the Board of Directors	December 9, 2000
/s/ Paul L. Harrison ----- Paul L. Harrison*	Director	December 9, 2000
/s/ Joseph P. Raftery ----- Joseph P. Raftery*	Director	December 9, 2000

\* By Robert F. Benoit, Attorney In Fact

## INDEX TO EXHIBITS

EXHIBIT  
NUMBER  
-----EXHIBIT TITLE  
-----

- |   |  |
|---|--|
| 3 | <ul style="list-style-type: none"> <li>(a) Certificate of Incorporation filed September 18, 1980 (1)</li> <li>(b) Amendment to Certificate filed September 29, 1980 (1)</li> <li>(c) Amendment to Certificate of Incorporation filed July 28, 1983 (2)</li> <li>(d) Amendment to Certificate of Incorporation filed February 10, 1984 (2)</li> <li>(e) Amendment to Certificate of Incorporation filed March 31, 1986 (3)</li> <li>(f) Amendment to Certificate of Incorporation filed March 23, 1987 (4)</li> <li>(g) Amendment to Certificate of Incorporation filed June 12, 1990 (5)</li> <li>(h) Amendment to Certificate of Incorporation filed September 27, 1991 (6)</li> <li>(i) Certificate of Designation filed November 12, 1994 (7)</li> <li>(j) Amendment to Certificate of Incorporation filed September 2, 1995 (1)</li> <li>(k) Certificate of Designation for the Series B Preferred Stock dated May 18, 1998 (12)</li> <li>(l) By-laws of the Corporation, as amended on April 25, 1991 (6)</li> <li>(m) Amendment to Certificate of Incorporation dated May 18, 1998 (12)</li> </ul> |
| 4 | <ul style="list-style-type: none"> <li>(a) 1992 Stock Option Plan (8)</li> <li>(b) Form of 1992 Incentive Stock Option Agreement, previously filed</li> <li>(c) Form of 1992 Non-Qualified Stock Option Agreement, previously filed</li> <li>(d) Stock Purchase Agreement dated as of January 30, 1997 by and among the Company, the Bank of Scotland and 12 buyers (10)</li> <li>(e) Mutual Release dated as of January 30, 1997 by and among the Company, James Fyfe and the Bank of Scotland (10)</li> <li>(f) Stock Purchase Agreement, dated as of March 4, 1998, between the Company and the Initial Purchasers named therein (12)</li> <li>(g) 1998 Employees Stock Option Plan (12)</li> <li>(h) Form of 1998 Incentive Stock Option Agreement, previously filed</li> <li>(i) Form of 1998 Non-Qualified Stock Option Agreement, previously filed</li> <li>(j) 1998 Independent Director Compensation Plan, previously filed</li> </ul>  |
| 5 | <ul style="list-style-type: none"> <li>(a) Opinion of Haynes and Boone, LLP, filed herewith</li> </ul>   |

EXHIBIT NUMBER -----	EXHIBIT TITLE -----
10	(a) Employment Agreement by and between the Company and Robert F. Benoit, dated February 15, 1999, previously filed
	(b) Employment Agreement by and between the Company and John L. King, dated June 27, 2000, previously filed
	(c) Employment Agreement by and between the Company and David H. Boltz, dated June 26, 2000, previously filed
	(d) Lease Agreement by and between Shoal Creek No. 2, L.L. and the Company dated July 7, 1998, filed herewith
23	(a) Consent of Weinick Sanders Leventhal & Co., LLP, previously filed
	(b) Consent of Simontacchi & Company, LLP, previously filed
27	(a) Financial Data Schedule, previously filed

## Notes:

- (1) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our registration statement on Form S-18, File No. 2-69627, which exhibit is incorporated here by reference.
- (2) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our registration statement on Form S-288712, which exhibit is incorporated here by reference.
- (3) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our registration statement on Form S-2, File No. 33-4458, which exhibit is incorporated here by reference.
- (4) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our annual report on Form 10-K for the year ended September 30, 1987, which exhibit is incorporated here by reference.
- (5) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our registration statement on Form S-3, File No. 33-42154, which exhibit is incorporated here by reference.
- (6) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our registration statement on Form S-1, File No. 33-42154, which exhibit is incorporated here by reference.
- (7) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our registration statement on Form 10-K for the year ended September 30, 1994, which exhibit is incorporated here by reference.
- (8) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our proxy statement dated March 30, 1992, which exhibit is incorporated here by reference.
- (9) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our current report on Form 8-K, dated April 5, 1995, which exhibit is incorporated here by reference.
- (10) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our annual report on Form 10-K for the year ended March 31, 1996, which exhibit is incorporated here by reference.
- (11) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our annual report on Form 10-K/A for the year ended March 31, 1996, which exhibit is incorporated here by reference.
- (12) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to our proxy statement dated April 23, 1998, which exhibit is incorporated here by reference.

HAYNES AND BOONE, LLP  
901 Main Street, Suite 3100  
Dallas, Texas 75202  
214.651.5000

November 9, 2000

Corniche Group Incorporated  
610 South Industrial Blvd.  
Suite 220  
Eules, Texas 76040

Re: Corniche Group Incorporated Registration Statement on Form S-1

Gentlemen:

We have acted as counsel to Corniche Group Incorporated, a Delaware corporation (the "Company"), in connection with the preparation of the Company's Registration Statement on Form S-1 (Registration No. 333-48020) and the amendments thereto (the Registration Statement, as amended, is hereinafter referred to as the "Registration Statement") filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"). The Registration Statement relates to the offer and sale by the Company of up to 19,844,585 shares of its Common Stock, par value \$0.001 per share ("Common Stock"). The opinions expressed herein relate solely to, are based solely upon and are limited exclusively to, the internal substantive laws of the State of Texas, the General Corporation Laws of the State of Delaware and applicable federal laws of the United States of America.

In connection therewith, we have examined and relied upon the original, or copies certified to our satisfaction, of (i) the Amended Certificate of Incorporation of the Company (the "Certificate of Incorporation"), and the Amended Bylaws of the Company (the "Bylaws"); (ii) the minutes and records of the corporate proceedings of the Company with respect to the issuance by the Company of the shares of Common Stock; (iii) the Registration Statement and all exhibits thereto and (iv) such other documents and instruments as we have deemed necessary for the expression of the opinions contained herein.

In making the foregoing examinations, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us as originals, and the conformity to original documents of all documents submitted to us as certified or photostatic copies thereof. As to various questions of fact material to this opinion, where such facts have not been independently established, and as to the content and form of certain minutes, records, resolutions and other documents or writings of the Company, we have relied, to the extent we have deemed reasonably appropriate, upon representations or certificates of officers of the Company or governmental officials. Finally, we have assumed that all formalities required by the Company's Certificate of Incorporation, Bylaws and the Delaware General Corporation Law will be complied with when the shares of Common Stock are issued.

Corniche Group Incorporated  
November 9, 2000  
Page 2

Based upon the foregoing, and having due regard for such legal considerations as we deem relevant, we are of the opinion that the shares of Common Stock, upon receipt by the Company of the full consideration for the shares of Common Stock, will, when sold, be validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion with the Securities and Exchange Commission as Exhibit 5(a) to the Registration Statement, and to the reference to our firm under the caption "Legal Matters" in the prospectus constituting a part of such Registration Statement. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Very truly yours,

/s/ Haynes and Boone, LLP

Haynes and Boone, LLP

LEASE AGREEMENT

MADE THIS DAY THE  
7th DAY OF JULY, 1998

BETWEEN

SHOAL CREEK NO. 2, L.C.

AND

CORNICHE GROUP INCORPORATED

AS TENANT

IN

610 S. INDUSTRIAL  
EULESS, TEXAS

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LEASE AGREEMENT

THIS Lease Agreement ("Lease") is made this 17th day of June, 1988 between Shoal Creek No. 2, L.C., a Texas Limited Liability Company hereinafter called "Landlord," and Corniche Group Incorporated hereinafter called "Tenant."

LEASE OF PREMISES

In consideration of the mutual covenants herein, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, subject to all the terms and conditions hereinafter set forth those certain premises (hereinafter called the "Premises") set forth in Item 2 of the Basic Lease Provisions and shown on the drawings attached hereto and made a part hereof as Exhibit "A." Exhibits A through H are also attached hereto and incorporated herein. The office building in which the Premises are located, the land on which the office building is situated, the parking area and all improvements and appurtenances to the building, are referred to collectively herein as the "Building."

BASIC LEASE PROVISIONS

- 1. Building Address: 610 S. Industrial, Euless, Texas
- 2. Suite(s): 200 Floor(s): 2nd Floor  
Rentable Area: 4,175 square feet Usable Area: 3,630 square feet  
Total Rentable Area of Building: 40,000 square feet  
Tenant's Building Expense Percentage: .104% (See Article 2)
- 4. (a) Basic Annual Rent: \$50,100.00 (\$12.00 per rentable square foot)  
(b) Basic Monthly Rent: \$4,175.00  
(c) Tenant's Operating Expense Stop: Actual building operating expenses for Premises in calendar year Lease commences.
- 5. Term: (3) three years and (0) zero months
- 6. Target Commencement Date: August 1, 1998
- 7. Expiration Date: July 31, 2001
- 8. Security Deposit: \$12,525.00 payable on Lease execution to be credited on the 12th and 24th months of the Lease term and the remainder \$4,175.00 to be used as the security deposit. First months rent due upon move-in.
- 9. Broker(s): C&G Management and PultsOnCor
- 10. Permitted Use: General Office Purposes
- 11. Addresses for notices due under this Lease:

LANDLORD:

TENANT:

Shoal Creek No. 2, L.C.  
16901 North Dallas Parkway  
Suite 126  
Dallas, Texas 75248

Corniche Group Incorporated  
610 S. Industrial Blvd.  
Suite 200  
Euless, Texas

ARTICLE I  
TERM AND POSSESSION

SECTION 1.01. COMMENCEMENT AND EXPIRATION. The term of this Lease shall be the period of time specified in Item 5 of the Basic Lease Provisions, adjusted as provided below. The term shall commence on the Target Commencement Date shown in Item 6 of the Basic Lease Provisions or such later date as the Premises



shall be tendered to Tenant as set forth below, or such earlier date as Tenant takes possession or commences use of the Premises for any purpose, including construction. The term of this Lease shall expire, without notice to Tenant, on the Expiration Date (as defined below). If the Lease commences on any day other than the first day of a calendar month, the term of the Lease shall be extended by that part of that month necessary to cause the expiration of the term to be on the last day of a calendar month. The dates of commencement ("Commencement Date") and expiration ("Expiration Date"), shall be documented by Landlord and Tenant by execution of an "Acceptance of Premises Amendment" attached hereto as Exhibit "B" and made a part hereof.

SECTION 1.02. CONSTRUCTION OF LEASE SPACE IMPROVEMENTS AND POSSESSION. Landlord will perform or cause to be performed the work as described in Exhibit "C", in accordance with the terms of said Exhibit "C", in a good and workmanlike manner and in compliance with applicable law, subject to events and delays beyond its control for which Landlord will not be liable to Tenant in any way. In the event any delays beyond the control of Landlord cause a delay in the tendering of the Premises, of sixty (60) days after Tenant's execution of this Lease, Tenant shall have the right to terminate this Lease as its sole remedy. Landlord will tender the Premises to Tenant by providing fifteen days prior written notice of the day on which Landlord's work is scheduled to be completed. Upon delivery of possession of the Premises to Tenant, Landlord and Tenant shall execute the above-mentioned Acceptance of Premises Amendment, which, besides fixing the Commencement Date and Expiration Date, will contain acknowledgments that Tenant has accepted the Premises and their condition, and that the Premises and the Building are satisfactory in all respects except for minor "punch list" items agreed to in writing by Landlord and Tenant, which Landlord will remedy. If Tenant takes possession of the Premises, Tenant shall be deemed to have accepted the Premises even though the Acceptance of Premises Amendment may not have been executed.

In the event Tenant requires work in the Premises and Landlord does not perform or cause the performance of that work ("Non-Standard Work" ), Landlord's notice of tender of the Premises shall specify the day on which possession could have been taken if Landlord had performed or caused the performance of the Non-Standard Work. The Commencement Date in such a case shall be the earlier of the date of completion of Tenant's Non-Standard Work or the date on which possession could have been taken if Landlord had performed the Non-Standard Work, notwithstanding that such Non-Standard Work may not be completed by Tenant on such date.

SECTION 1.03. SURRENDER OF PREMISES. Upon the expiration or earlier termination of this Lease, or upon the exercise by Landlord of its right to re-enter the Premises without terminating this Lease, Tenant shall immediately surrender the Premises and all keys to the Premises to Landlord, together with all alterations, improvements and other property as provided elsewhere herein, in good order, condition and repair, except for ordinary wear and tear, and damage by fire or other casualty, provided that at Landlord's written request Tenant shall remove at its expense any physical additions and/or alterations to the Premises made subsequent to the Commencement Date by Tenant or at Tenant's request if at the time Landlord granted its consent to such addition or alteration Landlord advised Tenant that Landlord's consent to the addition or alteration was conditioned upon Tenant's removal of the addition or alteration at the termination of the Lease. Tenant shall, at its expense, promptly repair any damage caused by removal of any other improvements requested by Landlord as aforesaid, and shall restore the Premises to the condition existing prior to the installation of the items removed. If Tenant fails to surrender the Premises in the condition aforesaid, then Landlord may restore the Premises to such a condition at Tenant's expense. Upon the expiration or earlier termination of this Lease, Tenant will, at the option of Landlord, execute a Release of Lease and Waiver of Claim, in recordable form, containing Tenant's release of all its interest in the Premises.

SECTION 1.04. HOLDING OVER. In the event Tenant, or any party under Tenant claiming rights to this Lease, retains possession of the Premises after the expiration or earlier termination of this Lease, such possession shall be an unlawful detainer, and no tenancy or interest shall result from such possession; such parties shall be

subject to eviction and removal, and Tenant or any such party shall pay Landlord as rent for the period of such holdover an amount equal to one and one-half times the highest rental rate (including Additional Rent, as adjusted in Section 2.02.A.1 hereof) provided for in this Lease. Tenant shall also pay any and all damages sustained by Landlord as a result of such holdover. Tenant will vacate the Premises and deliver same to Landlord immediately upon Tenant's receipt of notice from Landlord to so vacate. This provision shall not be deemed to waive Landlord's right to re-entry or any other right hereunder or at law. The rent during such holdover period shall be payable to Landlord on demand. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease.

ARTICLE 2  
RENT

SECTION 2.01. BASIC RENT. Tenant shall pay as Basic Rent for the Premises the annual sum shown in Item 4(a) of the Basic Lease Provisions. The Basic Rent shall be payable in equal monthly installments (as shown in Item 4(b) of the Basic Lease Provisions) in advance, without demand, deduction or setoff, except as provided for herein, commencing on the Commencement Date (subject to the provisions of Section 2.02.0 hereof) and continuing on the first day of each calendar month thereafter. If the term of this Lease commences on a day other than the first day of a calendar month, the rent for such partial month shall be prorated in the proportion that the number of days (including the Commencement Date) this Lease is in effect during such partial month bears to the number of days in that calendar month.

SECTION 2.02. ADDITIONAL RENT.

A. Definitions. For purposes of this Section 2.02, the following definitions shall apply:

1. "Additional Rent" shall mean the sum of "Tenant's Proportionate Share of Building Operating Expenses," as deemed in Section 2.02.A.4 hereof.
2. "Building Operating Expenses" shall mean all of Landlord's costs and expenses paid or incurred in operating and maintaining the Building for a particular calendar year or portion thereof as determined by Landlord in accordance with generally accepted accounting principles, including all additional costs and expenses of operation and maintenance of the Building which Landlord determines that it would have paid or incurred during such year, grossed up to 100% occupancy for the Building. Building Operating Expenses shall include by way of illustration but not limitation: insurance premiums; water, sewer, electrical and other utility charges; service and other charges incurred in the operation and maintenance of the elevators and the heating; ventilation and air-conditioning system; cleaning and other janitorial services; tools and supplies; repair costs; landscape maintenance costs; security services; license, permit and inspection fees; management fees and expenses; wages and related benefits payable to employees relating thereto; legal services; accounting services; trash removal; parking maintenance and operating costs; all other costs and expenses which would generally be regarded as operating and maintenance costs and expenses, including those which would normally be amortized over a period not to exceed five (5) years; all taxes, assessments and governmental charges of any kind and nature whatsoever lawfully levied or assessed against the Building and paid or incurred by Landlord for a particular calendar year or portion thereof; and any fees, expenses and costs incurred by Landlord in its efforts to ensure a fair and equitable tax burden on the Building or to contest the validity of any assessments, levies or tax rates. There shall also be included in Building Operating Expenses the cost of any capital improvement made to the Building by Landlord after the date of this Lease which is required under any governmental law or regulation or ordinance that was not applicable to the Building at the time it was constructed, or was applicable

at the time of the Lease and has been amended or regulations have been issued thereon, amortized over such period as Landlord shall reasonably determine, together with an amount equal to interest at the rate of 8% per annum on the unamortized balance.

If Landlord shall install a labor-saving device or other equipment which improves the operating efficiency of any system within the Building and thereby reduces Building Operating Expenses, the Landlord may add to Building Operating Expenses in each year during the useful life of such installed device or equipment an amount equal to the annual amortization allowance of the cost of such installed device or equipment as determined in accordance with applicable regulations of the Internal Revenue Service or generally accepted accounting principles, together with an amount equal to interest at the rate of 8% per annum on the unamortized balance thereof, provided, however, that the amount of such allowance and interest shall not exceed the annual cost or expense reduction attributed by Landlord to such installed device or equipment; and further provided, that in no event shall such allowance and interest increase Tenant's Additional Rent over what it would have been if such labor-saving device or other equipment had not been installed. Building Operating Expenses shall expressly exclude the following items:

- (a) the cost of repairs made by Landlord resulting from damage, destruction or condemnation of all or a portion of the Building;
- (b) the cost of preparing space in the Building for occupancy by tenants;
- (c) book depreciation on the Building;
- (d) any amount paid for services rendered and/or materials furnished to the Building to any person or entity which is in excess of that which would have been reasonably paid by Landlord in an arms-length transaction;
- (e) the cost of any repair made by Landlord to remedy damage caused by or resulting from the negligence of Landlord or its agents, servants or employees;
- (f) ground rent, if any;
- (g) interest and principal amortization on mortgages presently encumbering or hereafter encumbering the Property and charges and fees incurred by Landlord in connection with the procurement and recording of such mortgages;
- (h) rent and additional rent paid by Landlord for its office space in the Building or elsewhere and incidental expenses relating to such office space;
- (i) damages paid by Landlord and costs of litigation in connection with actions by tenants for Landlord's negligence or claimed breaches by it of its contractual obligations with such tenants if such tenant prevails;
- (j) the cost of repairs made by Landlord resulting from damage, destruction or condemnation of all or a portion of the Building, only to the extent Landlord receives insurance proceeds or condemnation awards with respect thereto;
- (k) to the extent that any employee of Landlord performs work or services other than for the Building, the reasonably allocable portion of his compensation with respect to work not performed in connection with the Building; and
- (l) the cost of any work or services rendered or performed by Landlord for the benefit of any other tenant in the Building to the extent such work or services are in excess of those to be afforded or rendered to Tenant under this Lease.

3. "Building Expense Percentage" shall mean the percentage specified in Item 3 of the Basic Lease Provisions, This percentage is determined by dividing Rentable area in the Premises, as specified in Item 2 of the Basic Lease Provisions by the total Rentable Area in the Building.

4. "Tenant's Proportionate Share of Building Operating Expenses" shall be the dollar amount, if any, by which the product of Tenant's Building Expense Percentage multiplied by The Building Operating Expenses exceeds Tenant's Operating Expense Stop as specified in Item 4(c) of the Basic Lease Provisions.
- B. Payment Obligation. In addition to the Basic Rent specified in this Lease, Tenant shall pay to Landlord as Additional Rent for the Premises, in each calendar year or partial calendar year during the term of this lease, an amount equal to Tenant's Proportionate Share of Building Operating Expenses for such calendar year.
1. Payment of Additional Rent. Tenant's Additional Rent shall be estimated by Landlord, in a reasonable manner and such estimate shall not be more than 105% of the actual operating expenses for the prior year (however the foregoing cap on the estimate shall not constitute a cap on the actual amount due), and written notice thereof shall be given to Tenant at least thirty (30) days prior to the Commencement Date or the beginning of each calendar year, as the case may be, or as soon thereafter as is reasonably possible. For any such remainder of the calendar year after the Commencement Date, Tenant shall pay to Landlord each month, at the same time the Basic Rent is due, an amount equal to the amount of such estimated Additional Rent for the remainder of such calendar year divided by the number of months remaining in such year, and for each calendar year thereafter, Tenant shall pay to Landlord each month, at the same time the Basic Rent is due, an amount equal to one-twelfth (1/12) of the estimated annual Additional Rent due.
2. Revisions in Estimated Additional Rent. If Building Operating Expenses increase during a calendar year, Landlord may revise the Estimated Additional Rent during such year by giving Tenant written notice to that effect, and thereafter Tenant shall pay to Landlord, in each of the remaining months of such year, an additional amount equal to the amount of such increase in the estimated Additional Rent divided by the number of months remaining in such year.
3. Adjustments to Actual Additional Rent. Within ninety (90) days after the end of each calendar year or as soon thereafter as is reasonably possible, Landlord shall prepare and deliver to Tenant a statement showing Tenant's actual Additional Rent. Within thirty (30) days after receipt of the aforementioned statement, Tenant shall pay to Landlord, or Landlord shall credit against the next Additional Rent payment or payments due from Tenant, as the case may be, the difference between Tenant's actual Additional Rent for the preceding calendar year and the estimated Additional Rent paid by Tenant during such year.
- C. Rent. The Basic Rent, the Additional Rent, and all other sums required to be paid by Tenant hereunder, including any sums due for construction in the Premises, are sometimes collectively referred to as, and shall constitute, "Rent". Rent shall be paid by Tenant when due, without prior demand therefor, and without deduction or setoff unless otherwise specifically provided herein, at the office of the building manager or at such other place as Landlord may designate.

In the event any installment of Rent under this Lease shall not be paid when due, then further Rent in the amount of Ten Cents (.10) per each dollar so overdue may be charged by Landlord in consideration of Landlord's administration expense and time consumed incident to the handling of such overdue installment or Rent. Acceptance of such further Rent shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder.

- D. Deposit - First Month's Rent. Tenant shall deposit with Landlord, on execution of this Lease, a sum equal to one full month's total rent installment as set forth in Item 4(b) of the Basic Lease Provisions which shall be credited to the first installment(s) of basic Rent and Additional Rent due hereunder.

ARTICLE 3  
SECURITY DEPOSIT

Tenant has paid or will pay Landlord the sum set forth in Item 8 of the Basic Lease Provisions as security for the performance of the terms hereof by Tenant. Tenant shall not be entitled to interest thereon. If Tenant defaults with respect to any provision of this Lease, and fails to cure same within any applicable cure period or grace period, if any, Landlord may, but shall not be required to, use, apply or retain all or part of this security deposit for the payment of any Rent or any other sum in default, or for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default, including, without limitation, costs and attorneys' fees incurred by Landlord to recover possession of the Premises. If any portion of said deposit is so used or applied, Tenant shall, within five (5) days of demand therefor, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount and Tenant's failure to do so shall constitute a default hereunder by Tenant. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the security deposit shall be returned to Tenant within thirty (30) days of the Expiration Date.

ARTICLE 4  
OCCUPANCY AND USE

SECTION 4.01. USE OF PREMISES. The Premises shall be used solely for the purpose specified in Item 10 of the Basic Lease Provisions. Tenant will not use, occupy or permit the use or occupancy of the Premises for any purpose which is forbidden by law, ordinance or governmental or municipal regulation or order, or which may be dangerous to life, limb or property, or permit the maintenance of any public or private nuisance, or do or permit any other thing which may disturb the quiet enjoyment of any other tenant of the Building; or keep any substance or carry on or permit any operation which might emit offensive odors or conditions into other portions of the Building; or at any time sell, purchase, or give away, or permit, except with Landlord's prior written approval, the sale, purchase, or gift of food in any form by or to any of Tenant's agents or employees or other parties in the Premises; or use any apparatus which might make undue noise or set up vibrations in the Building; or permit anything to be done which would increase the fire and extended coverage insurance rate on the Building or contents, and if there is any increase in such rate by reason of acts of Tenant, then Tenant agrees to pay such increase promptly upon demand therefor by Landlord. Payment by Tenant of any such rate increase shall not be a waiver of Tenant's duty to comply herewith.

SECTION 4.02. RULES AND REGULATIONS. Tenant shall comply with all rules and regulations set forth in Exhibit "D" attached hereto and forming a part hereof, Landlord shall have the right at all times to change such rules and regulations or to amend them in any reasonable manner. All changes and amendments will be sent by Landlord to Tenant in writing and shall be thereafter carried out and observed by Tenant. Landlord shall apply such rules and regulations against all Tenants in a uniform manner.

SECTION 4.03. SIGNS. Tenant shall not inscribe, paint, affix or display any signs, advancements or notices on or in the Building, except for such tenant identification information as Landlord permits to be included or shown on the directory in the main lobby and adjacent to the access door or doors to the Premises.

SECTION 4.04. ACCESS. Landlord or its authorized agents shall at any and all reasonable times have the right

to enter the Premises to inspect the same, to supply janitorial service or any other service to be provided by Landlord to Tenant hereunder, to show the Premises to prospective lenders, purchasers or tenants, to alter, improve or repair the Premises or any other portion of the Building, all without being deemed guilty of an eviction of Tenant and without abatement of Rent, and may for that purpose erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, provided the business of Tenant shall be interfered with as little as is reasonably practicable. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes. Landlord shall have the right to use any and all means which Landlord may deem proper to open any door(s) in an emergency without liability therefor. Tenant shall not change Landlord's lock system or in any way prohibit Landlord from entering the Premises.

SECTION 4.05. QUIET POSSESSION. Upon Tenant's paying the Rent reserved hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have the quiet possession of the Premises for the entire term of this Lease, subject to all of the provisions of this Lease.

#### ARTICLE 5 UTILITIES AND SERVICES

SECTION 5.01. SERVICES TO BE PROVIDED. Provided Tenant is not in default hereunder, Landlord agrees to furnish or cause to be furnished to the Premises the utilities and services described below, subject to the conditions and in accordance with the standards set forth herein;

- A. Landlord shall provide automatic elevator facilities on Monday through Friday from 6:45 a.m. to 7:00 p.m. and on Saturdays from 8 a.m. to 1 p.m., holidays excepted, and have at least one elevator available for use at all other times.
- B. Monday through Sunday from 5:00 a.m. to 11:00 p.m. Landlord shall ventilate the Premises and furnish heat or air conditioning, at such temperatures and in such amounts as Landlord deems standard, when, in the judgment of Landlord, it is required for the comfortable occupancy of the Premises, subject to any governmental requirements or standards relating to, among other things, energy conservation. Upon request, Landlord shall make available at Tenant's expense after-hours heat or air conditioning. The minimum charge and the hourly rate for the use of after hours heat or air conditioning shall be determined from time to time by Landlord and confirmed in writing to Tenant. Subject to the foregoing, Tenant shall have access to the Premises 24 hours per day, seven days per week.
- C. Landlord shall furnish to the Premises at all times, subject to interruptions beyond Landlord's control, electric current as required by the building standard office lighting and outlets. Tenant's use of electric current shall at no time exceed the capacity of the feeders to the Building or the risers or wiring installation. Tenant shall not install or use or permit the installation or use of any computer or electronic data processing equipment or similar machines of high electrical consumption greater than 110-115 volts in the Premises, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Should such consent be granted by Landlord, electrical consumption in the Premises, or in that portion of the Premises affected by such installation, will, at Landlord's option, be separately metered. All costs associated with any such separate metering required by Landlord, including but not limited to

installation of any separate metering devices and the costs of all electrical consumption generated thereon, shall be borne by Tenant.

D. Landlord shall furnish water for drinking, cleaning and lavatory purposes only.

E. Landlord shall provide janitorial services to the Premises, comparable to that provided in other similar office buildings in the Dallas/Ft. Worth area, provided the Premises are used exclusively as offices.

SECTION 5.02. ADDITIONAL SERVICES. Landlord may impose a reasonable charge for any utilities and services, including without limitation, air conditioning, electrical current, and water, provided by Landlord by reason of any substantial use of the Premises at any time other than the hours set forth above or for any use beyond what Landlord agrees herein to furnish or because of special electrical, cooling and ventilating needs created by Tenant's hybrid telephone equipment, computers and other similar equipment or uses.

SECTION 5.03. TENANT'S OBLIGATION. Tenant agrees to cooperate fully at all times with Landlord and to abide by all regulations and requirements which Landlord may prescribe for the use of the above utilities and services. Any failure to pay any excess costs as described above upon demand by Landlord shall constitute a breach of the obligation to pay Rent under this Lease and shall entitle the Landlord to the rights herein granted for such breach.

SECTION 5.04. SERVICE INTERRUPTION. Landlord shall not be liable for, and Tenant shall not be entitled to, any abatement or reduction of Rent by reason of Landlord's failure to maintain temperature or electrical constancy levels or to furnish any of the foregoing services when such failure is caused by accident, breakage, repairs, strikes, lockouts or other labor disturbance or labor dispute of any character, governmental regulation, moratorium or other government action, inability by exercise of reasonable diligence to obtain electricity, water or fuel, or by any other cause beyond Landlord's reasonable control. Nor shall any such failure, stoppage or interruption of any such service be construed as an eviction of Tenant, or relieve Tenant from the obligation to perform any covenant or agreement herein, and in no event shall Landlord be liable for damage to persons or property, or in default hereunder, as a result of such failure, stoppage or interruption of any such service. In the event of any failure, stoppage or interruption thereof, however, Landlord shall use reasonable diligence to resume service promptly.

SECTION 5.05. MODIFICATIONS. Notwithstanding anything herein above to the contrary, Landlord reserves the right from time to time to make reasonable and nondiscriminatory modifications to the above standards for utilities and services.

#### ARTICLE 6 REPAIRS, MAINTENANCE, ALTERATIONS AND IMPROVEMENTS

SECTION 6.01. REPAIR AND MAINTENANCE OF THE BUILDING. Landlord shall provide for the cleaning and maintenance of the public portions of the Building. Unless otherwise expressly stipulated herein, Landlord shall not be required to make any improvements or repairs of any kind or character on the Premises during the term of this Lease, except repairs to the exterior walls, corridors, windows, roof, other structural elements and equipment of the Building, plumbing, electrical or other mechanical devices, and such additional maintenance as may be necessary because of damage by persons other than Tenant, its agents, employees, invitees or visitors. Landlord shall not be liable to Tenant for losses due to theft or burglary or for damages done by unauthorized persons on the Premises.

## SECTION 6.02. IMPROVEMENTS AND ALTERATIONS.

- A. Landlord's sole construction obligation under this Lease is as set forth in the Agreement for Construction attached hereto as Exhibit "C" and incorporated herein by this reference.
- B. Landlord shall have the right at any time to change arrangement, location and/or size of entrances or passageways, doors and doorways, and corridors, elevators, stairs, toilets or other public parts of the Building and, upon giving Tenant reasonable notice thereof, to change the name, number or designation by which the Building is commonly known.
- C. Tenant shall not make any alterations, additions or improvements to the Premises without the prior written consent of Landlord which consent shall not be unreasonably withheld. Should Landlord's consent be granted, any such alterations, additions or improvements made by Tenant shall be at Tenant's sole cost and expense. Any contractor or person making such improvements must first be approved in writing by Landlord, all such alterations, additions or improvements (except movable furniture and trade fixtures) shall become the property of Landlord, and unless Landlord requires Tenant to remove such alterations and additions pursuant to Section 1.03 herein, shall be surrendered with the Premises, as a part thereof, at the expiration or earlier termination of this Lease. All work performed by Tenant or its contractor shall conform to applicable governmental laws, rules and regulations.

SECTION 6.03. LANDLORD'S OPTION TO REPAIR. Landlord may, at its option and at the cost and expense of Tenant, unless covered by Landlord's insurance, repair or replace any damage or injury done to the Building or any part thereof caused by Tenant, Tenant's agents, employees, licensees, invitees or visitors. Tenant shall pay the cost thereof, plus interest thereon as provided in Section 15.13 herein, to Landlord on demand. Tenant further agrees to maintain and keep the interior of the Premises in good repair and condition at Tenant's expense. Tenant agrees not to commit or allow any waste or damage to be committed on any portion of the Premises.



ARTICLE 7  
DAMAGE, FIRE AND CASUALTY

SECTION 7.01. TOTAL OR PARTIAL DESTRUCTION OF THE BUILDING OR PREMISES.

If the Building is totally destroyed by fire or other casualty or if the Premises or the building are so damaged that rebuilding or repairs cannot be completed within one hundred eighty (180) days after the date of such damage, or determined by Landlord and Tenant. Landlord or Tenant may at its option terminate this Lease, in which event the Rent shall be abated during the unexpired portion of this Lease effective on the date of such damage. If the Building or the Premises are damaged by fire or other casualty covered by Landlord's insurance, but only to such extent that rebuilding or repairs can be completed within one hundred eighty (180) days after the date of such damage or if the damage should be more serious but Landlord does not elect to terminate this Lease, in either such event Landlord shall within thirty (30) days after the date of such damage shall proceed with reasonable diligence to restore the Building and/or Premises to substantially the same condition in which it was immediately prior to the happening of the casualty, except that Landlord shall not be required to rebuild, repair or replace any part of the furniture, equipment, fixtures and other improvements which may have been placed by Tenant or other tenants within the Building or Premises. Landlord shall allow Tenant a fair diminution of rent during the time the Premises are unfit for occupancy. In the event any mortgagee under a deed of trust, security agreement or mortgage on the Building should require that the insurance proceeds be used to retire the mortgage debt, Landlord shall have no obligation to rebuild and this Lease shall terminate upon notice to Tenant. The insurance which shall be carried by Landlord pursuant to Section 7.04 hereof and by Tenant pursuant to 7.03. B hereof shall be for the sole benefit of the party carrying such insurance and under its sole control.

SECTION 7.02. TENANT'S RESPONSIBILITIES.

A. If the building or the Premises shall be damaged by fire or other casualty resulting from the fault or policy form with a minimum limit of liability of \$1,000,000.00 in respect to injuries, death or property damage, and (b) Worker's Compensation insurance in form and amounts as required by law.

SECTION 7.04. LANDLORD'S INSURANCE. Landlord shall at all times during the term of this Lease, maintain in effect a policy or policies of insurance covering the Building (excluding property required to be insured by Tenant) in such amounts as Landlord may from time to time determine, but at least covering the replacement cost of the Building, providing protection against loss or damage by fire, explosion or other hazards and contingencies together with insurance against sprinkler damage, vandalism and malicious mischief, and such other risks as Landlord may from time to time determine and with any such deductibles as Landlord may from time to time determine. Landlord reserves the right to self insure the Building.

Any insurance provided for in this Section 7.04 may be effected by a policy or policies of blanket insurance, covering additional items or locations or assureds, provided that the requirements of this Paragraph are otherwise satisfied. Tenant shall have no rights in any policy or policies maintained by Landlord and shall not, by reason of payment by Tenant, as part of the Building Operating Expenses, of its prorata share of the Landlord's premium for the insurance, be entitled to be a named insured thereunder.

SECTION 7.05. WAIVER OF SUBROGATION. Landlord and Tenant hereby waive any rights each may have against the other, on account of any loss or damage occasioned to Landlord or Tenant, as the case may be, their respective property, the Premises, its contents or to the other portion of the Building arising from any risk generally covered by fire and extended coverage insurance. The parties hereto each, on behalf of their respective insurance companies insuring the property of either Landlord or Tenant against any such loss, waive any right of subrogation that it may have against Landlord or Tenant, as the case may be. Each party to the Lease agrees immediately to give to each such insurance company written notification of the terms of the mutual waivers

contained in this paragraph, and to have said insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance coverage by reason of said waivers.

ARTICLE 8  
CONDEMNATION

In the event the Building, or any portion thereof necessary, in the sole opinion of Landlord, to the continued efficient and/or economically feasible use of the Building shall be taken or condemned in whole or in part for public purposes, or sold to a condemning authority to prevent taking, then the term of this Lease shall, at the option of the Landlord, forthwith cease and terminate, and the Landlord shall receive the entire award for land and buildings; Tenant hereby expressly assigns to Landlord any and all right, title and interest of Tenant now or hereafter arising in and to any such award. Tenant shall have the right to recover from such authority, but not from Landlord, only any compensation as may be awarded to Tenant on account of moving and relocation expenses and depreciation to and removal of Tenant's physical property.

ARTICLE 9  
LIENS

Tenant shall keep the premises free from any liens arising out of any work performed, materials negligence of Tenant, or the agents, employees, licensees or invitees of Tenant (except as set forth in Section 7.05), such damage shall be repaired by and at the expense of Tenant, unless covered by Landlord's insurance, under the direction and supervision of Landlord, and Rent shall continue without abatement.

- B. Except for that portion, if any, of Landlord's gross negligence or willful misconduct not waived by Tenant, Tenant covenants that Landlord shall not be liable for any damage or liability of any kind or for any injury to or death of persons or damage to property of Tenant or any other person during the term of this Lease, including consequential loss or damage from any cause whatsoever by reason of the construction, use, occupancy or enjoyment of the Premises by Tenant or any person therein or holding under Tenant or by or through the acts or omissions of other tenants of the Building or Landlord. Tenant hereby agrees, as part of the material consideration for this Lease, to indemnify and save Landlord harmless from all claims, actions demands, costs and expenses and liability whatsoever, including reasonable attorneys' fees, on account of any such real or claimed damage or liability, and from all liens, claims and demands occurring in, on or at the Premises, or arising out of the construction, use, occupancy or enjoyment of the Premises and its facilities, or any repairs or alterations which Tenant may make upon the Premises.

SECTION 7.03. TENANT'S INSURANCE. Tenant covenants and agrees that from and after the date of delivery of the Premises from Landlord to Tenant, Tenant will carry and maintain, at its sole cost and expense, the following, types of insurance, in the amounts specified and in the form hereinafter provided, as follows:

- A. Commercial General Liability Insurance on an occurrence policy form covering the Premises and Tenant's use thereof against claims for bodily injury or death and property damage occurring upon, in or about the Premises, such insurance to insure both Landlord and Tenant and to afford protection to the limit of not less than \$1,000,000.00 each occurrence in respect to injuries, death or property damage to any number of persons arising out of any one occurrence. Such insurance shall name Landlord as additional insured and shall provide that it is primary insurance. This insurance coverage shall extend to any liability of Tenant arising out of the indemnities provided for in Section 7.02.
- B. Tenant Improvements and Property Insurance covering all leasehold improvements, heating, ventilating

and air-conditioning equipment installed by reason of Tenant's Non-Standard Work, fixtures installed by or at the expense of Tenant; and personal property in, on or upon the Premises, in an amount not less than 100% of full replacement cost thereof.

- C. Worker's Compensation in statutory amounts and Employer's Liability in an amount not less than \$100,000.

Tenant agrees to provide Landlord, on or prior to the Commencement Date, with certificates of such insurance evidencing the specified types and amounts of insurance required above and to permit Landlord at all reasonable times to inspect the policies or insurance required herein. Landlord shall receive thirty (30) calendar days written notice from the insurer prior to any cancellation or material change of coverage referenced in Article 7.

Tenant shall require any third party vendor or contractor performing work on the Premises to carry and maintain at no expense to Landlord: (a) Commercial General Liability Insurance on an occurrence furnished, or obligations incurred by or for Tenant. In the event that Tenant shall not, within thirty (30) days following the imposition of any such lien, cause the same to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of or defense against the claim giving rise to such lien. All sums paid by Landlord and all expenses incurred by it in connection therewith shall create automatically an obligation of Tenant to pay, on demand, an equivalent amount, plus interest thereon as provided in Section 15.13 herein, as Rent. No work which Landlord permits Tenant to perform in the Premises shall be deemed to be for the immediate use and benefit of Landlord so that no mechanics or other lien shall be allowed against the estate of Landlord by reason of its consent to such work.

#### ARTICLE 10 TAXES ON TENANT'S PROPERTY

Tenant shall be liable for and shall pay, prior to their becoming delinquent, any and all taxes and assessments levied against any personal property or trade or other fixtures placed by Tenant in or about the Premises, including any additional real estate taxes or assessments which Building by reason of Tenant's requirements for work in the Premises.

#### ARTICLE 11 SUBLETTING AND ASSIGNING

Tenant shall not assign this Lease, or allow it to be assigned, in whole or in part, by operation of law or otherwise or mortgage or pledge the same, or sublet the Premises or any part thereof or permit the Premises to be occupied by any firm, person, partnership or corporation or any combination thereof, other than Tenant or Tenant's parent company or subsidiaries, without the prior written consent of Landlord which shall not be unreasonably withheld. In no event shall any assignment or sublease ever release Tenant from any obligation or liability hereunder. No assignee or subleasee of the Premises or any portion thereof may assign or sublet the Premises or any portion thereof. Consent by Landlord to one or more assignments or subletting shall not operate as a waiver of Landlord's rights as to any subsequent assignments and/or sublettings. All reasonable legal fees and expenses incurred by Landlord in connection with any assignment or sublease proposed by Tenant will be the responsibility of Tenant and will be paid by Tenant within five (5) days of receipt of an invoice from Landlord. In addition, Tenant will pay to Landlord an administrative overhead fee of \$500.00 in consideration for Landlord's review of any requested assignment or sublease.

Tenant hereby irrevocably authorizes and directs any such subtenant, upon receipt of a written notice from

Landlord stating that a default exists in the performance of Tenant's obligations under this Lease, to pay to Landlord the rents due and to become due under the sublease. Tenant agrees that such subtenant shall have the right to rely upon any such statement and request from Landlord, and that such subtenant shall pay such rents to Landlord without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Tenant to the contrary. Tenant shall have no right or claim against said subtenant or Landlord for any such rents so paid by said subtenant to Landlord.

Any subtenant shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Landlord, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Tenant other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Landlord has expressly consented in writing. In lieu of accepting the subleases, Landlord has the option to terminate this lease at their sole discretion.

In the event Tenant shall default in the performance of its obligations under this Lease, Landlord at its option and without any obligation to do so, may require any subtenant to attorn to Landlord, in which event Landlord shall undertake the obligations of Tenant under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Landlord shall not be liable for any prepaid rents or security deposit paid by such subtenant to Tenant or for any other prior defaults or Tenant under such sublease.

If the rent due and payable by any assignee or sublessee under any such permitted assignment or sublease (or a combination of the rent payable under such assignment or sublease plus any bonus or any other consideration therefor or any payment, incident thereto) exceeds the Rent payable under the Lease for such space, Tenant shall pay to Landlord all such excess rent and other excess consideration within ten (10) days following receipt thereof by Tenant.

#### ARTICLE 12 TRANSFERS BY LANDLORD

SECTION 12.01. SALE OF THE BUILDING. In the event of a sale, assignment, transfer or conveyance by Landlord of all of the Building, the same shall operate to release Landlord from any and all liability under this Lease arising after the date of such sale, assignment, transfer or conveyance. If any security deposit has been made by Tenant, Landlord shall either transfer such security deposit to the purchaser, or give a credit in the amount of the security deposit, thereupon Landlord shall be discharged from any further liability in reference thereto.

SECTION 12.02. SUBORDINATION AND ATTORNMENT.

- A. This Lease is subject and subordinate to any lease wherein Landlord is the tenant and to the liens of any and all mortgage or deeds of trust, regardless of whether such lease, mortgages or deeds of trust now exist or may hereafter be created with regard to all or any part of the Building, and to any and all advances to be made thereunder, and to the interest thereon, and all modifications, consolidations, renewals, replacements and extensions thereof. Tenant also agrees that any lessor, mortgagee or trustee may elect to have this Lease prior to any lease or lien of its mortgage or deed of trust, and in the event of such election and upon notification by such lessor, mortgagee or trustee to Tenant to that effect, this Lease shall be deemed prior to the said lease, mortgage or deed of trust, whether this Lease is dated prior to or subsequent to the date of said lease, mortgage or trust deed.
- B. Tenant shall, in the event of the sale, assignment, transfer or conveyance of Landlord's interest in the

Premises (except in a sale-leaseback financing transaction), or in the event of the termination of any lease in a sale-leaseback financing transaction wherein Landlord is the lessee, attorn to and recognize such purchaser or assignee or mortgagee as Landlord under this Lease.

- C. Tenant shall, in the event of any proceedings brought for the foreclosure of, or in the event of the exercise of the power of sale under, any mortgage or deed of trust covering the Premises, attorn to and recognize such purchaser or assignee or mortgagee as Landlord under this Lease.
- D. The above subordination and attornment clauses shall be self-operative and no further instruments of subordination or attornment need be required by any mortgagee, trustee, lessor, purchaser or assignee. In confirmation thereof, Tenant agrees that, upon the request of Landlord, or any such lessor, mortgagee, trustee, purchaser or assignee, Tenant shall execute and deliver whatever instruments may be required for such purposes and to carry out the intent of this Section.

ARTICLE 13  
DEFAULT

SECTION 13.01. DEFAULTS BY TENANT. The occurrence of any of the events described in subsections 13.011 through 13.018 shall constitute a default by Tenant under this Lease.

13.011. FAILURE TO PAY RENT. With respect to any payment of Rent not made by Tenant when due, the failure by Tenant to make such payment to Landlord within five (5) business days after Tenant receives written notice specifying that the payment was not made when due.

13.012. FAILURE TO PERFORM. Except for a failure covered by subsection 13.011 above, any failure by Tenant to observe and perform any provision of this Lease to be observed or performed by Tenant where such failure continues for thirty (30) days after written notice to Tenant, provided that if such failure cannot be cured within said thirty (30) day period, Tenant shall not be in default hereunder so long as Tenant commences curative action within such thirty (30) day period, diligently and continuously pursues the curative action and fully and completely cures the failure within sixty (60) days after such written notice to Tenant.

13.013. BANKRUPTCY, INSOLVENCY, ETC. Tenant or any guarantor of Tenant's obligations hereunder (hereinafter called "Guarantor") whether one (1) or more, (i) cannot meet its obligations as they become due, (ii) becomes or is declared insolvent according to any law, (iii) makes a transfer in fraud of creditors according to any applicable law, (iv) assigns or conveys all or a substantial portion of its property for the benefit of creditors or (v) Tenant or Guarantor files a petition for relief under the Federal Bankruptcy Code or any other present or future federal or state insolvency, bankruptcy or similar law (collectively, "applicable bankruptcy law"); a receiver or trustee is appointed for Tenant or Guarantor or its property; the interest of Tenant or Guarantor under this Lease is levied on under execution or under other legal process; any involuntary petition is filed against Tenant or Guarantor under applicable bankruptcy law; or any action is taken to reorganize or modify Tenant's or Guarantor capital structure if either Tenant or Guarantor be a corporation or other entity (provided that no such levy, execution, legal process or petition filed against Tenant or Guarantor shall constitute a breach of this Lease if Tenant or Guarantor shall vigorously contest the same by appropriate proceedings and shall remove or vacate the same within ninety (90) days from the date of its creation, service or filing).

13.014. ABANDONMENT. The abandonment of the Premises by Tenant.

13.015. VACATION. The vacating of the Premises by Tenant, which shall be conclusively presumed if Tenant is absent from the Premises for ten (10) consecutive days or more or if Tenant shall fail to move into or take

possession of the Premises within ten (10) days after the date on which Rent is to commence under the terms of this Lease.

13.016. LOSS OF RIGHT TO DO BUSINESS. If Tenant is a corporation or limited partnership, Tenant fails to maintain its right to do business in the State of Texas or fails to pay any applicable annual franchise taxes as and when same become finally due and payable.

13.017. DISSOLUTION OR LIQUIDATION. If Tenant is a corporation or partnership, Tenant dissolves or liquidates or otherwise fails to maintain its corporate or partnership structure, as applicable.

13.018. FINANCIAL STATEMENT. The discovery by Landlord that any financial statement given to Landlord by Tenant, or its successor in interest or by any guarantor of Tenant's obligation hereunder, was materially false.

With respect to the defaults described in subsections 13.013 through 13.018, Landlord shall be obligated to leave Tenant written notices of default and Tenant shall have thirty (30) days to cure such defaults.

SECTION 13.02. REMEDIES OF LANDLORD. Upon the occurrence of any event of default specified in this Lease, Landlord, at its option, may have one or more of the following remedies, in addition to all other rights and remedies provided at law or in equity:

- A. Landlord may terminate this Lease and without further notice repossess the Premises and be entitled to recover all damages incurred by Landlord by reason of Tenant's default including, but not limited to, a sum of money equal to the total of (1) the cost of recovering the Premises, (2) the unpaid Rent earned at the time of termination, plus interest thereon, (3) Late Charges on unpaid Rent and accrued interest thereon, (4) the balance of the Rent for the remainder of the term, (5) costs of reletting and refurbishing, and (6) any other sum of money and damages owed by Tenant to Landlord.
- B. Landlord may immediately terminate Tenant's right of possession of the Premises but not terminate the Lease, and without notice or demand enter upon the Premises or any part thereof and take absolute possession of the same, expel or remove Tenant and any other person or entity who may be occupying the Premises, by force if necessary, change the locks, and at Landlord's option. Landlord may relet the Premises or any part thereof for such terms and such rents as Landlord may reasonably elect. In the event Landlord shall elect to so relet, then rent received by Landlord from such reletting shall be applied first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord, second, to the payment of any cost of such reletting, including, without limitation, refurbishing costs and leasing, commissions, and third, to the payment of Rent due and unpaid hereunder, and Tenant shall satisfy and pay any deficiency upon demand therefor from time to time. Any entry into and possession of the Premises by Landlord under this Article shall be without liability or responsibility for damages to Tenant and shall not be in lieu of or in substitution for any other rights of Landlord hereunder or at law or in equity Tenant further agrees that Landlord may file suit to recover any sums due under the terms of this Article and that no recovery of any portion due Landlord hereunder shall be any defense to any subsequent action brought for any amount not therefore reduced to judgment in favor of Landlord. reletting of the Premises shall not be construed as an election on the part of Landlord to terminate this Lease and, notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

Tenant shall pay any Landlord's costs, charges and expenses, including the fees of legal counsel, agents and others retained by Landlord, incurred in enforcing Tenant's obligations hereunder or incurred by Landlord in any litigation, negotiation or transaction in which Tenant causes Landlord to become involved or concerned, including,

but not limited to, all attorney's fees and any other costs and expenses incurred in the preparation and service of notices of default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such default.

SECTION 13.03. LANDLORD'S LIEN AND SECURITY INTEREST. To assure payment of Rent and all other sums due hereunder and which may become due hereafter, and to assure faithful performance of all other covenants of this Lease, Tenant hereby grants to Landlord an express contract lien on and security interest in and to all present and future receivables of Tenant and all property, chattels or merchandise now or hereafter owned by Tenant which may be placed on the Premises, including, but not limited to, all equipment, inventory and fixtures now owned or hereafter acquired. Landlord's lien and security interest shall continue in such property of Tenant so long as Tenant is indebted to Landlord under the terms of this Lease, regardless of whether the Tenant moves from the Premises or such property is removed from the Premises. Landlord's lien and security interest also extends to all proceeds of any insurance which may accrue to Tenant by reason of damage or destruction of any such property. Landlord shall have all the rights and remedies of a secured party under the Texas Business and Commerce Code and other laws of Texas, and this lien and security interest may be foreclosed as provided in the Texas Business and Commerce Code or by judicial process. Tenant will be in default under this security agreement at such time as Tenant may be in default under this Lease, said events of default having been described in other parts of this Lease. The use of one foreclosure procedure shall not be a bar to foreclosure by any other procedure. Tenant shall execute all security agreements, financing statements and other documents as required by Landlord to secure Landlord's rights established herein. The lien and security interest herein granted shall be cumulative of and in addition to any statutory lien rights in favor of Landlord, now or hereafter existing.

SECTION 13.04. DEFAULTS BY LANDLORD. Except as otherwise provided in this Lease, Landlord shall be in default under this Lease if Landlord fails to perform any of its obligations hereunder and said failure continues for a period of thirty (30) days after written notice thereof from Tenant to Landlord (unless such failure cannot reasonably be cured within thirty (30) days and Landlord shall have commenced to cure said failure within said thirty (30) days and continues diligently to pursue the curing of the same). If Landlord shall be in default under this Lease and, if as a consequence of such default, Tenant shall recover a money judgment against Landlord, such judgment shall be satisfied only out of the right, title and interest of Landlord in the Building as the same may then be encumbered and Landlord shall not be liable for any deficiency. In no event shall Tenant have the right to levy execution against any property of Landlord other than its interest in the Building as herein before expressly provided.

#### ARTICLE 14 NOTICES

All notices which Landlord or Tenant may be required, or may desire, to serve on the other shall be in writing and may be served, as an alternative to personal service, by depositing the same with the U. S. Postal Service, by registered or certified mail, postage prepaid, addressed as follows: (i) to Landlord at the address set forth in Item 11 of the Basic Lease Provisions; and (ii) prior to the Commencement Date of this Lease, to Tenant at the address set forth in Item 11 of the Basic Lease Provisions and (iii) after the Commencement Date, to Tenant at the Premises. Any notices by mail as aforesaid shall be deemed delivered, served and given two (2) business days after deposit of the same with the U. S. Postal Service. The addresses stated above shall be effective for all notices to the respective parties until written notice of a change of address is given pursuant to the provisions hereof.

ARTICLE 15  
MISCELLANEOUS PROVISIONS

SECTION 15.01. ESTOPPEL CERTIFICATE. Tenant shall, upon the request of the Landlord or any first mortgagee of Landlord, without additional consideration, deliver an Estoppel Certificate, containing the following information and statements, if true:

- A. This Lease is in full force and effect, amount of rental then payable, with rent paid through the specified date;
- B. This Lease has not been modified or amended; and
- C. Landlord is not in default and Landlord has fully performed all of Landlord's obligations hereunder, and any such further consents and instruments of a similar nature evidencing the agreement of Tenant to the mortgage or other hypothecation by Landlord of the reversionary interest of Landlord thereunder as may be reasonably requested by Landlord or any mortgagee of Landlord.
- D. Tenant is in possession of the Premises, and not in default.
- E. Such other information and/or statements as Landlord shall reasonably request.

SECTION 15.02. RELOCATION. In the event Landlord decides to utilize the Premises for other purposes during the term of this Lease, Tenant agrees to relocate to other space in the Building provided such other space is comparable in size and finish to the Premises. Landlord shall pay reasonable out-of-pocket expenses of any such relocation, including the expenses of moving and reconstruction of all Tenant-furnished and Land-furnished improvements. In the event of such relocation, this Lease shall continue in full force and effect without any change in the terms or other conditions, but with the new location substituted for the old location set forth in Item 2 of the Basic Lease Provisions and on Exhibit "A". Landlord acknowledges that it may only relocate Tenant one time during the term of this Lease and will give Tenant ninety (90) days notice prior to the proposed relocation.

SECTION 15.03. WAIVER. No waiver by Landlord of any provision of this Lease or of any breach of Tenant hereunder shall be deemed to be a waiver of any other provision hereof, or of any subsequent breach by Tenant of the same or any other provision. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act of Tenant. No act or thing done by Landlord or Landlord's agents during the term of this Lease shall be deemed an acceptance of a surrender of the Premises, unless done in writing signed by Landlord. The delivery of the keys to any employee or agent of Landlord shall not operate as a termination of the Lease or a surrender of the Premises. The acceptance of any Rent by Landlord following a breach of this Lease by Tenant shall not constitute a waiver by Landlord of such breach or any other breach unless such waiver is expressly stated in writing signed by Landlord.

SECTION 15.04. INSOLVENCY OR BANKRUPTCY. In no event shall this Lease be assigned or assignable by operation of law and in no event shall this Lease be an asset of Tenant in any receivership, bankruptcy, insolvency or reorganization proceeding.

SECTION 15.05. APPLICABLE LAWS. This Lease shall be governed by and construed pursuant to the laws of the state in which the building is located.

SECTION 15.06. COMMON FACILITIES PARKING. Tenant shall have the non-exclusive right, in



common with others, to the use of common entrances, lobbies, elevators, ramps, drives, stairs and similar access and serviceways and other common facilities in and adjacent to the Building, subject to such rules and regulations as may be adopted by the Landlord.

SECTION 15.07. SUCCESSORS AND ASSIGNS. Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

SECTION 15.08. BROKERS. Tenant warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the broker(s) named in item 8 of the Basic Lease Provisions, and that it knows of no other real estate broker(s) or agent(s) who is (are) or might be entitled to a commission in connection with this Lease. Tenant agrees to indemnify and hold harmless Landlord from and against any liability or claim, whether meritorious or not, arising in respect to broker(s) not so named.

SECTION 15.09. SEVERABILITY. If any provision of this Lease or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the remainder of this Lease and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

SECTION 15.10. NAME. Tenant shall not, without the written consent of Landlord, use the name of the Building for any purpose other than as the address of the business to be conducted by Tenant in the Premises, and in no event shall Tenant acquire any rights in or to such names.

SECTION 15.11. EXAMINATION OF LEASE. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for lease, and it is not effective as a Lease or otherwise until execution by and delivery to both Landlord and Tenant.

SECTION 15.12. INTEREST OF TENANT'S OBLIGATIONS. Any amount due from Tenant to Landlord which is not paid when due shall bear interest at the highest rate allowed by law from the date such payment is due until paid, but the payment of such interest shall not excuse or cure the default.

SECTION 15.13. TIME. Time is of the essence in this Lease and in each and all of the provisions hereof.

SECTION 15.14. DEFINED TERMS AND MARGINAL READINGS. The words "Landlord" and "Tenant" as used herein shall include the plural as well as singular. If more than one person is named as Tenant, the obligations of such persons are joint and several. The headings and titles to the articles of this Lease are not a part of this Lease shall have no effect upon the construction or interpretation of any part hereof.

SECTION 15.15. CORPORATE AUTHORITY. If Tenant executes this Lease as a corporation, each of the persons executing this Lease on behalf of Tenant does hereby personally covenant and warrant that Tenant is a duly authorized and existing corporation, that Tenant has and is qualified to do business in the state in which the Building is located, that the corporation has full right and authority to enter into this Lease, and that each person signing on behalf of the corporation was authorized to do so.

SECTION 15.16. FORCE MAJEURE. Whenever a period of time is herein prescribed for action to be taken by Landlord, or Tenant, other than the payment of rent, Landlord or Tenant shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other causes of any kind whatsoever which are beyond the control of Landlord.

SECTION 15.17. RECORDING. This lease shall not be recorded. However, Landlord shall have the right to record a short form or memorandum thereof, at Landlord's expense, at any time during the term hereof, and Tenant agrees to join in the execution thereof if requested.

SECTION 15.18. RENT TAX. If applicable in the jurisdiction where the Premises are situated, Tenant shall pay and be liable for all rental, sales and use taxes or other similar taxes, if any, levied or imposed by any city, state, county or other governmental body having authority, such payments to be in addition to all other payments required to be paid to Landlord by Tenant under the terms of this Lease. Any such payment shall be paid concurrently with the payment of the Rent upon which such tax is based.

SECTION 15.19. HAZARDOUS OR TOXIC MATERIALS.

- A. Prohibition on placement or disposal. Tenant shall not knowingly incorporate into, use or otherwise place or dispose of at the leased Premises or in the Building or Project any toxic or hazardous materials in concentrations or levels sufficient that by the then-applicable EPA, OSHA or other applicable governmental standards cause the specific materials so identified to be classified or identified as toxic or hazardous materials except for the limited purposes of use and storage only where (i) such materials are in small quantities, properly labeled and contained (ii) such materials are handled and disposed of in accordance with the highest accepted industry standards for safety, storage, use and disposal (iii) such materials are for use in the ordinary course of business (i.e., as with office or cleaning supplies), (iv) notice of and a copy of the current material safety data sheet is provided to Landlord for each such hazardous or toxic material and (v) such materials are used, transported, stored, handled and disposed of in accordance with all applicable governmental laws, rules and regulations and Tenant has secured the necessary permits, if any, Landlord shall not knowingly dispose of at the leased Premises, Building or the Project any toxic or hazardous materials in concentrations or levels sufficient that by then applicable EPA, OSHA or other applicable governmental standards cause the specific Materials so identified to be classified or identified as toxic or hazardous materials and shall otherwise deal with all toxic or hazardous materials at the leased Premises, Building or Project in a manner that will not materially and adversely affect Tenant's access, use or occupancy of the leased Premises and that any redemption or controls at the leased Premises will be in accordance with all applicable governmental laws, rules and regulations. If Landlord or Tenant ever has knowledge of the presence in the leased Premises or the-Building or the Project of such toxic or hazardous materials which affect the leased Premises, the party having knowledge shall notify the other party thereof in writing; promptly after obtaining such knowledge. For purposes of this Lease, hazardous or toxic materials shall mean hazardous or toxic chemicals or any materials or wastes containing hazardous or toxic chemicals at levels or content which cause such materials or wastes to be classified as hazardous or toxic as then prescribed by the prevalent industry practice and standards or by the then current levels or content as set from time to time by EPA or OSHA or as defined under 29 CFR 1910 OR 29 CFR 1925 or other applicable governmental laws, rules and regulations.
- B. Tenant's Covenants to Remove. If Tenant or its employees, agents, or contractors shall ever violate the provisions of Paragraph (b) or (c) above (that apply to Tenant regarding toxic or hazardous materials), or if Tenant's acts, negligence, breach of this provision or business operations directly and materially expand the scope of or materially worsen any contamination from toxic or hazardous materials, then Tenant shall clean-up, remove and dispose of the material causing the violation, in compliance with all applicable governmental standards, laws, rules and regulations and repair any damage to the leased Premises or Building within such period of time as may be reasonable under the circumstances after written notice by Landlord, provided that such work shall commence not later than thirty (30) days from such notice and be diligently and continuously carried to completion by Tenant or Tenant's designated

contractors. Tenant shall notify Landlord of its method, time and procedure for any clean-tip or removal of toxic or hazardous materials under this provision, and Landlord shall have the right to require reasonable changes in such method, time or procedure or to require the same to be done after normal business hours or when the Building is otherwise closed (i.e., weekends or holidays).

- C. Inspections. Landlord shall have the right to periodically inspect, take samples for testing and otherwise investigate the leased Premises for the presence of hazardous or toxic materials including such studies and investigations, tests and surveys, and engage such specialists as Landlord deems appropriate to fairly evaluate the leased Premises and any risk from hazardous or toxic materials. In connection with any inspections, samples, surveys or tests to be performed by Landlord, Landlord shall not unreasonably interfere with Tenant's business operations at the leased Premises and shall repair any damage to Tenant's property, inventory or fixtures damaged as a result of such inspections, samples, surveys or tests and shall furnish Tenant on request with a true and complete copy of any resulting report, survey or study.
- D. The purpose of the hazardous substance surveys is to indicate the presence or absence of toxic or hazardous materials (as defined hereafter) at the Building housing the leased Premises ("Building") based on the present levels or content of said toxic or hazardous materials as presently set by the U.S. Environmental Protection Agency ("EPA") or the U.S. Occupational Safety and Health Administration ("OSHA"). Landlord makes no representations or warranties whatsoever to Tenant regarding: (i) the hazardous substance surveys [including, without limitation, the contents, accuracy and/or scope thereof and Landlord has informed Tenant that said hazardous substance surveys are not comprehensive surveys of the Building for all forms of hazardous or toxic materials, including but not limited to asbestos containing materials, and cannot be relied upon as a representation that there are no hazardous or toxic materials at the leased Premises or Building, whether addressed therein or not], or (ii) the presence or absence of toxic or hazardous materials in, at, or under the leased Premises, the Building, or the Project. Tenant: (x) shall not rely on and Tenant hereby represents to Landlord that it has not relied on the hazardous substance surveys, the same having been provided for informational purposes only and (y) acknowledges that Tenant will make or has made such studies and investigations, will conduct or has conducted such tests and surveys, and will engage or has engaged such specialists as Tenant deems appropriate to fairly evaluate the leased Premises and any risks from hazardous or toxic materials.

Tenant shall furnish Landlord with a complete and legible copy of any study, report, test, survey or investigation performed by or on behalf of Tenant at any time involving the leased Premises and shall fully restore all areas and improvements where samples were taken or work performed and repair all damage resulting from any of the same and shall indemnify and hold Landlord harmless from and against all claims, actions, liabilities, damages, losses, injuries or deaths in connection with or arising out of or from any inspection, testing, sampling, or similar or dissimilar activity conducted by Tenant, Tenant's agents or contractors at the leased Premises or the Building for hazardous or toxic materials, whether under this Paragraph or otherwise under or in connection with this Lease.

SECTION 15.20. REMEDIES NOT EXCLUSIVE. Each of the rights, remedies and benefits provided by this Lease shall be cumulative and shall not be exclusive of any other of said rights, remedies and benefits or of any other rights, remedies, and benefits allowed by law.

SECTION 15.21. RELATIONSHIP OF THE PARTIES. Nothing herein contained shall be deemed or construed as creating the relationship of principal and agent or of partnership or joint venture between parties hereto; it being understood and agreed that neither the method of computing rent nor any provision contained herein nor any acts of the parties hereto shall be deemed to create any relationship between the parties other than that of Landlord and Tenant.

SECTION 15.22 NONLIABILITY OF LANDLORD. Landlord shall not be responsible or liable to Tenant for any loss or damage that may be occasioned by or through the acts or omissions of persons occupying adjoining areas or any part of the area adjacent to or connected with the Premises or any part of the Building or for any loss or damage resulting to Tenant or his property from theft or failure of the security systems in the Building and hazardous waste contamination, or for any damage or loss of property within the Premises from any cause other than solely by reason of the gross negligence or willful act of Landlord, and no such occurrence shall be deemed to be an actual or constructive eviction from the Premises or result in an abatement or rental.

SECTION 15.23. THEFT OR BURGLARY. Landlord shall not be liable to Tenant for losses to Tenant's property or personal injury caused by criminal acts or entry by unauthorized persons into the Premises or the Building. Tenant agrees to indemnify, defend and hold Landlord harmless therefrom.

SECTION 15.24. NOTICE OF TERMINATION. Notwithstanding any provision of law or any judicial decision to the contrary, no notice shall be required to terminate the term of this Lease, or extension hereof, on the date herein specified, and the term hereof shall expire on the date herein provided without notice being required from either party.

SECTION 15.25. CONDITION PRECEDENT. Tenant shall deliver to Landlord certified copies of its year end financial statements for its last three (3) fiscal years for Landlord's review and approval within five (5) business days of Landlord's request for same.

SECTION 15.26. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall be a guarantor of payment under this Lease, and shall have the same obligations as Tenant under this Lease.

SECTION 15.27. NO OFFER. Preparation of this Lease by Tenant or Landlord's agent and submission of same to Tenant shall not be deemed an offer to tenant to lease. This lease shall become binding upon Landlord and Tenant only when fully executed by both parties.

SECTION 15.28. ENTIRE AGREEMENT. This Lease contains all the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and to prior agreement, understanding or representation pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by any agreement in writing signed by the parties hereto or their respective successors in interest.

IN WITNESS WHEREOF, the parties hereto have executed this Lease, consisting of the forgoing provisions and Articles 1 through 15, together with all Exhibits attached hereto and incorporated herein by this reference, as of the date first above written.

TENANT: CORNICHE GROUP INCORPORATED  
BY: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_  
ATTEST: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

LANDLORD: SHOAL CREEK NO. 2, L.C., a Texas Limited Liability Company

BY: -----

NAME: Anthony Cimino  
TITLE: Vice President

DATE: -----

ATTEST: -----

TITLE: -----

DATE: -----

EXHIBIT "A"  
FLOOR PLAN

EXHIBIT "B"  
ACCEPTANCE OF PREMISES AMENDMENT

This amendment to the Lease for space in the Building, executed on the 7th day of July, 1998, between Shoal Creek No. 2, L.C., a Texas Limited Liability Company as Landlord and Corniche Group Incorporated, as Tenant.

Landlord and Tenant hereby agree that:

1. Except for those items shown on the attached "punch list", which Landlord will remedy within fifteen (15) days hereof, Landlord has fully completed the construction work required under the terms of the lease and the Agreement for Construction attached hereto, and Tenant accepts the Premises in their present condition and further accepts the premises as suitable for the Tenant's intended purposes.
2. The Premises are tenantable, the Landlord has no further obligation for construction (except as specified above), and Tenant acknowledges that both the Building and the Premises are satisfactory in all respects.
3. The Commencement Date of the Lease is hereby agreed to be the 1st day of August, 1998.
4. The Expiration Date of the Lease is hereby agreed to be the 31st day of July, 2001.

TENANT: CORNICHE GROUP INCORPORATED

By:

NAME: -----  
TITLE: -----

LANDLORD: SHOAL CREEK NO. 2, L.C. a Texas Limited Liability Company

BY: -----

NAME: Anthony Cimino  
TITLE: Vice President

EXHIBIT "C"  
AGREEMENT FOR CONSTRUCTION

Shoal Creek No. 2. L.C., Limited Liability Company ("Landlord") and Corniche Group Incorporated ("Tenant") simultaneously with the execution of this Agreement for Construction ("Agreement") are executing a Lease for space (the "Premises") in Fountainview Office Building (the "Building"). The Premises are described in the Lease.

As further inducement, each to the other, to enter into the Lease (which is hereby incorporated by reference to the extent the provisions of this Agreement apply thereto) and in consideration of the mutual covenants herein, Landlord and Tenant mutually agree as follows:

1. The Landlord agrees to normal building standard tenant finishout.



EXHIBIT "D"  
RULES AND REGULATIONS

The following standards shall be observed by Tenant for the mutual safety, cleanliness and convenience of all occupants of the Building, and shall apply, where applicable, to the Premises, the building, the parking area, the land situated beneath the Building and appurtenances thereto:

1. Tenant shall not use the Premises or the Building to sell any items or services at retail price or cost without written approval of Landlord. The sale of services for stenography, typewriting, blueprinting, duplicating, and similar businesses shall not be conducted from or within the Premises or Building for the service or accommodation of occupants of the Building without prior written consent of the Landlord. Tenant shall not conduct any auction on the Premises. Tenant shall not store goods, wares or merchandise on the Premises, except for Tenant's own personal use.
2. Sidewalks, halls, doorways, vestibules, passageways, stairwells and other similar areas shall not be obstructed or used by Tenant for a purpose other than ingress and egress to and from the Premises and Building.
3. Flammable, explosive or other hazardous liquids and materials shall not be brought on the Premises or into the Building without prior written consent of Landlord.
4. Tenant shall not make any alterations or improvements to the Premises without the written consent of the Landlord which consent shall not be unreasonably withheld. All improvements and the methods of installing and constructing, such improvements must be approved in writing by the Landlord prior to Commencement of installation and/or construction. Should Tenant require telegraphic, telephonic, annunciation or other communication service, Landlord will direct the electrician where and how wires are to be introduced and placed, and none shall be introduced or placed except as Landlord shall direct. All contractors and technicians performing work for Tenant within the Building shall be referred to Landlord for approval before performing such work. Tenant agrees to pay Landlord a fee equal to fifteen percent (15%) of the cost of such alterations, additions or improvements for Landlord's super-vision or review of same. All work performed by Tenant or its contractor shall conform to applicable governmental laws, rules and regulations.
5. Movement into or out of the Building of freight, furniture, office equipment or other material for dispatch or receipt by Tenant which requires movement through public corridors or lobbies or entrances to the Building shall be limited to the use of service elevators only and shall be done at hours and in a manner approved by Landlord for such purposes from time to time. Only licensed commercial movers shall be used for the purpose of moving freight, furniture or office equipment to and from the Premises and Building. All hand trucks shall be equipped with rubber tires and rubber side guards.
6. Requests by Tenant for building services, maintenance or repair shall be made in writing to the office of the Building Manager.
7. Tenant shall not change locks or install additional locks on doors without prior written consent of Landlord. Tenant shall not make or cause to be made duplicates of keys procured from Landlord without prior approval of Landlord. All keys to the Premises shall be surrendered to Landlord upon termination of tenancy.
8. Tenant shall give prompt notice to the office of the Building Manager of any damage to or defects in

plumbing, electrical fixtures or heating and cooling equipment. Liquids, or other materials or substances which will cause injury to the plumbing, shall not be put into the lavatories, water closets or other plumbing fixtures by Tenant, its agents, employees or invitees, and damages resulting to such fixture or appliances from misuse by Tenant or Tenant's agents, employees or invitees shall be paid by Tenant, and Landlord shall not in any case be liable therefor.

9. No food shall be prepared in or distributed from Tenant's office without prior written approval of the Building Manager. Vending machines or dispensing machines of any kind will not be placed in the Premises by Tenant unless prior written approval has been obtained from Landlord.
10. Landlord shall have the power to prescribe the weight and position of safes, filing cabinets, or other heavy equipment which may overstress any portion of a floor. Any damage done to the Building by the improper placing of heavy items which overstress the floor will be repaired at the sole expense of Tenant. Tenant shall notify the Building Manager when safes or other heavy equipment are taken in or out of the Building, and the moving shall be done under the supervision of the Building manager after written permission from Landlord. Persons employed to move such property must be acceptable to Landlord.
11. Tenant shall cooperate with Building employees in keeping the Premises neat and clean. Nothing shall be swept or thrown into the corridors, halls, elevator shafts or stair-ways.
12. Tenant, its employees, or agents, or anyone else who desires to enter the Building after normal working hours, will be required to identify themselves and to sign in upon entry and sign out upon leaving, giving the location during their stay and their time of arrival and departure. The Building will normally be open for business from 7 a.m. until 6 p.m. Monday through Friday and 8 a.m. until 1 p.m. on Saturdays, holidays excepted.
13. Prior written approval, which shall be at Landlord's sole discretion, must be obtained for installation of any solar screen material, window shades, blinds, drapes, awnings, window ventilators, or other similar equipment and any window treatment of any kind whatsoever. Landlord will control all internal lighting that may be visible from the exterior of the Building and shall have the right to change any unapproved lighting, without notice to Tenant at Tenant's expense.
14. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on, about or from any part of the Premises or the Building without the prior written consent of the Landlord. Landlord will provide and maintain a directory in the Building, and no other directory shall be permitted.
15. Tenant shall not make or permit any improper, objectionable or unpleasant noises or odors in the Building, nor shall tenant permit the operation of any machinery or equipment in the Premises that could in any way annoy any other tenant in the building, nor shall Tenant otherwise interfere in any way with other tenants or persons having business with them.
16. Corridor doors, when not in use, shall be kept closed.
17. No portion of the Premises or the Building shall at any time be used or occupied as sleeping or lodging quarters.
18. Tenant shall place solid pads under all rolling chairs.

19. Tenant agrees to cooperate and assist Landlord in the prevention of canvassing, soliciting and peddling within the Building.
20. Animals or birds shall not be kept in or about the Premises or the Building.
21. Tenant shall comply with parking rules and regulations as may be posted and distributed from time to time. For purposes of this Lease, all parking spaces on the surface parking lot established as such on the land adjoining the Building will be marked reserved parking unless specifically identified as either "Handicapped" or "Visitor".
22. At no time shall tenant have more than 1 person per 150 square feet of usable space for any particular lease or addendum to that lease.
23. Landlord reserves the right to rescind any of these rules and regulations and to make such other further rules and regulations as in its judgment shall from time to time be needed for the safety, protection, care and cleanliness of the Building, the operation thereof, the preservation of good order therein and the protection and comfort of the tenants and their agents, employees and invitees, which rules and regulations, when made and written notice thereof is given to a tenant, shall be binding upon it in like manner as if originally herein prescribed.

EXHIBIT "E"  
RENEWAL OPTION

Option to Renew: Provided that Tenant's not in default after expiration of any applicable cure period of any of the terms, conditions, or covenants of this Lease. Tenant, but not any subtenant of Tenant, shall have an option (the "Option") to extend the term of this Lease for one (1) additional term of three (3) years (the "Renewal Term") commencing on the first day next succeeding the Expiration Date upon the same terms, conditions and provisions as are provided for in this Lease (other than the provisions of this Section except that the fixed annual rent payable pursuant to this Lease for the Renewal Term shall be the fair market rent for the demised premises (hereinafter "FMV") on the thirtieth (30th) monthly anniversary date of the Commencement Date (hereinafter "Rent Appraisal Date").

The FMV shall be determined by the mutual written agreement of Landlord and Tenant. In the event that Landlord and Tenant shall not have reached mutual agreement as to the FMV on or before the twentieth (20th) day following the Rent Appraisal Date, but Landlord's determination of the FMV is less than 10 percent (10%) greater than Tenant's determination of the FMV (which respective determinations shall be based on blind written bids submitted at the end of the twenty (20) day period by each of Landlord and Tenant to the other), the FMV will be the average of Landlord's and Tenant's respective determinations.

In the event that Landlord and Tenant shall not have reached mutual agreement as to the FMV on or before the twentieth (20th) day following the Rent Appraisal Date and Landlord's determination of the FMV is more than 10 percent (10%) greater than Tenant's determination of the FMV, then Landlord and Tenant each shall, no later than the thirtieth (30th) day following the Rent Appraisal Date, select a Real Estate Appraiser, as hereinafter defined. If either party shall fail to so appoint a Real Estate Appraiser, the one Real Estate appraiser so appointed shall proceed to determine the FMV. In the event that the Real Estate Appraisers selected by Landlord and Tenant agree as to the FMV, said determination shall be binding on Landlord and Tenant.

In the event that the Real Estate Appraisers selected by Landlord and Tenant cannot agree as to the FMV on or before the sixtieth (60th) day following the Rent Appraisal Date, then said Real Estate Appraisers shall jointly select a third Real Estate Appraiser, provided that if they cannot agree on the third Real Estate Appraiser on or before the seventy-fifth (75th) day following the Rent Appraisal Date, then said third Real Estate Appraiser shall be selected in accordance with the rules prescribed by the American Arbitration Association in Dallas, Texas (or any successor thereto). The FMV shall then be determined by the third Real Estate Appraiser no later than the ninetieth (90th) day following the Rent Appraisal Date and said determination shall be binding on Landlord and Tenant.

The term "Real Estate Appraiser" shall mean a fit and impartial person having not less than five (5) years experience as an appraiser of leasehold estates relating to first class office space in the Dallas, Texas vicinity. The appraisal shall be conducted in accordance with the provisions of this Section and, to the extent not inconsistent herewith, in accordance with the prevailing rules of the American Arbitration Association in Dallas, Texas or any successor thereto. In rendering such decision the Real Estate Appraiser(s) shall not add to, subtract from or otherwise modify the provision of this Lease. The fees and expenses of the Real Estate Appraiser selected by Landlord and Tenant shall be shared equally by Landlord and Tenant.

EXHIBIT "F"  
BASIC RENTAL SCHEDULE

This Exhibit "F" is made a part of that certain Lease Agreement dated July 7, 1998, by and between Corniche Group Incorporated, Tenant, and Shoal Creek No. 2, L.C., (a Texas Limited Liability Company), Landlord, with respect to the Premises known as Suite 220 in Fountainview Office Building.

Tenant shall pay basic monthly rental in accordance with the following schedule for the term of this lease.

## 1. Monthly Payment Schedule:

PERIOD -----	RATE/SQ. FT. -----	MONTHLY RENT -----	ANNUAL RENT -----
August 1, 1998 thru July 31, 2001	12.00	\$4,175.00	\$50,100.00

EXHIBIT "G"  
PARKING

This exhibit is made a part of that certain Lease Agreement dated July 7, 1998, by and between, Corniche Group Incorporated, Tenant and Shoal Creek No. 2, L.C., a Texas Limited Liability Company, Landlord, with respect to the Premises known as Suite 220 Fountainview Office Building. Landlord shall make available to Tenant at the commencement of the term of this Lease the use of the following parking spaces for the primary term of this Lease:

Type of Parking -----	Number of Spaces -----	Monthly Rental -----
Unreserved Surface Parking	15	\$ 0.00

All parking spaces on the surface parking lot established as such on the land adjoining the Building is available to Tenant or Licensee and their customers and guests and employees on the first come, first use basis, except that no Tenant or Licensee or employee or a Tenant or Licensee shall park in any space specifically marked for the use of "Visitors Only" or "Bank Customers Only." Provided however, if for any reason Landlord fails or unable to provide parking space to Tenant or Licensee or Tenant or Licensee is not permitted to utilize parking space in such parking facilities for all or any portion of such vehicles at any time during the initial term of any lease from office space in the Building by Tenant or Licensee's employer, or any renewals or extensions thereof, such fact shall never be deemed to be such a default by Landlord as to permit Tenant to terminate its lease, either in whole or by part. Landlord and Tenant or Licensee shall equitably adjust parking charges paid by Tenant or Licensee during any such period for which Tenant or Licensee does not have use of the parking spaces, or any portion thereof, specified herein. The monthly parking fees stated above shall be subject to change on a month-to-month basis, provided that the monthly fees for comparable parking spaces are a market rate applied uniformly to all Tenants or Licensees. Nothing herein shall obligate Tenant or Licensee to use or retain any parking spaces on other than a month-to-month, and Tenant or Licensee may, by thirty (30) days advance written notice to Landlord, surrender one or more parking space to Landlord and have no further liability for the rent therefor specified.

It is hereby agreed and understood that Landlord's sole obligation hereunder is to make Parking Lot available to Tenant. Tenant's right to park vehicles on the Property shall be subject to compliance with the rules and regulations promulgated from time to time by the Operator and Building Manager and shall be subject to termination for violation of any such rules or regulations upon notice from the Operator or Landlord. Landlord shall have no liability whatsoever for any property damage and/or personal injury which might occur as a result of, or in connection with, the use of the Parking Lot by Tenant, its employees, agents, invitees and licensees, and Tenant hereby agrees to indemnify and hold Landlord and the Operator harmless from and against any and all costs, claims, expenses, and/or causes or action which Landlord may incur in connection with or arising out of Tenant's use of Parking Lot.