EXHIBIT 5
Reclassification of a Warrant from Equity to Liability

After the closing date of the private placement discussed in Exhibit 1 (December 22, 2006), Company A had 15 million authorized shares, of which 9 million shares were issued and outstanding. Also at this date, Company A had commitments to issue an additional 3,525,000 shares, which consisted of the 1 million warrants issued in the private placement, the contingent registration rights penalty of 25,000 shares, 2 million stock options either vested or expected to be vested by November 30, 2011, and debt that can be converted into 500,000 shares anytime prior to its maturity date of December 31, 2012. On December 22, 2006, Company A determines that it has a sufficient number of authorized but unissued shares to cover any exercise of warrants.

On June 1, 2007, Company A issues 3 million shares in another private placement. Company A no longer has sufficient authorized common shares to cover its commitments. Company A has 15 million authorized shares, but with 12 million shares now issued and outstanding, its commitment to issue 3,525,000 additional shares cannot be met in its entirety.

The SEC has concluded that, in this scenario, Company A would have to settle the excess commitment warrants with cash and therefore would need to classify all the warrants issued in the private placement as liabilities because the entire issuance is deemed tainted. Company A cannot classify 475,000 warrants as equity and the remaining 525,000 warrants as a liability.

Company A would account for the reclassification of the instruments from equity to a liability by measuring the warrants at fair value as of June 1, 2007, and record the change in carrying value in stockholders' equity. If the fair value of the warrants increased to $2,600,000, Company A would record the reclassification as follows:

Additional Paid-in Capital—Warrants (original value)	$2,443,750	
Additional Paid-in Capital	$ 156,250	
Warrant Liability		$2,600,000

Future changes in the fair value of the warrant liability would be reflected in earnings.