

Microcap Policy Update and NSCC Illiquid Fee Change
Legent Clearing, LLC
Microcap Transaction Policy

Effective Date: August 1, 2012

Microcap Stocks

Trading microcap securities is subject to significant risks, increased regulatory requirements, and additional fees.

Microcap stocks are typically defined as low-priced shares of small companies not listed on an exchange or quoted on NASDAQ. However, thinly traded securities on an exchange of NASDAQ may also be considered microcap stocks. Prices for these securities are often not reliable or available. Generally a microcap stock is a security that is:

- Priced under two dollars
- Not traded on a national stock exchange or on NASDAQ
- May be listed in the "pink sheets" or on the Over The Counter (OTC) Bulletin Board
- Issued by a company that has less than \$5 million in net tangible assets

Fees

Microcap securities are subject to settlement fees if they are non-DTC-eligible securities. The Depository Trust Company (DTC) provides clearing, settlement and information services for certain securities. Certain microcap securities are not DTC-eligible or have had their eligibility revoked. As a result, the settlement of these physical positions can carry significant pass-through charges for our clearing firm, Legent Clearing, LLC, including execution fees, DTC fees, deposit fees, and transfer agent fees.

Customers who trade microcap securities are responsible for these charges. Orders that require executions with multiple contra-parties will result in settlement fees for each separate transaction. These pass-through charges may not be immediately charged to a customer account following a trade in non-DTC-eligible securities, as our clearing firm may receive notice of such fees several weeks following the trade. It is your responsibility to investigate the eligibility status of a low-priced equity before trading it.

NSCC Illiquid, Shortened Processing Cycle (SPC) and Volatility charges:

Penalty charges if trades >25% of average daily trading volume = the greater of \$500 or 4 x margin rate on illiquid, SPC & volatility charges

Illiquid Requirements/Buy-ins

The sale of microcap securities may result in an immediate buy-in executed at the current market price, potentially resulting in significant losses.

The National Securities Clearing Corporation (NSCC), a subsidiary of DTC, charges an "Illiquid Requirement" to Legent Clearing, LLC (Legent) when one or more customers in aggregate sells more than 25% of the average daily trading volume of a security over the last rolling 20 business days. The Illiquid Requirement is a deposit that Legent is required to post. The amount of this requirement depends on several risk factors as determined by NSCC. The requirement has very little relation to the value of the trade and is often significantly higher than the amount of the

trade. This requirement is incurred even if the customer owns the shares and holds them in the account.

Notice: If an account generates a NSCC Illiquid Charge greater than \$100,000, the trade(s) may be immediately bought in without notice. If multiple offenses occur, the account will be subject to closure.