Important Information about Non-Exchange Traded and/or Low-Priced Equity Securities

Baird has prepared this document to help you understand the characteristics and risks associated with an investment in securities not registered for trading on a national securities exchange, including those non-exchange traded securities trading at less than $5.00 per share, commonly referred to as “penny stocks”. These characteristics and risks also apply to low-priced exchange-traded equity securities. While a purchase of non-exchange traded or low-priced equity securities may be appropriate for speculative investors, as discussed in more detail below, there is additional risk for investment losses, lack of liquidity and greater potential for market abuses when investing in these securities.

**Characteristics of Non-Exchange Traded Equity Securities**

Equity securities not listed for trading on a national exchange (such as the NYSE or NASDAQ) have the same general characteristics as other equity securities. However, such securities either never have been or are no longer traded on a national securities exchange. Non-exchange traded securities are traded, if at all, in the over the counter (“OTC”) market, as opposed to on a national exchange.

Because national exchanges impose ongoing listing requirements, securities traded in the OTC market include securities issued by issuers delinquent in required filings, distressed or insolvent issuers as well as issuers of certain foreign securities which may or may not be listed on foreign exchanges. While pricing and trade volume information for securities trading on a national exchange is regularly reported to the public, locating up-to-date information on securities not listed on such exchanges may be difficult or, in some cases, impossible. Trading on the OTC market thus does not provide the liquidity or price transparency that investors typically seek when buying or selling equity securities. Investors who buy OTC securities may not be able to sell those stocks at times or at prices they desire, and investors who buy or sell OTC securities may not have enough information to determine whether the price they pay or receive represents fair market value. Due to these challenges, the OTC categorizes OTC traded securities by risk tier and assigns risk indicator labels when certain point-in-time issues are present.

**Understanding Risks Related to an Investment in Non-Exchange Traded and/or Low-Priced Equity Securities**

Because of the potential for a lack of visibility or transparency into securities not traded on national exchanges, an investment in these securities is considered speculative and may involve a high degree of risk. Before making a decision to purchase a security not listed on a national securities exchange, you should consider the following risks (note that an investment in any security involves the risk of loss of principal):
Important Information about Non-Exchange Traded Equity Securities, continued.

Potential Lack of Information about the Issuer and the Investment
As discussed above, information on securities not traded on a national exchange may not be continuously available to the public and it may be difficult to locate publicly available information on issuers of “penny stocks”. This potential lack of information about an issuer's operating history and financial health increases the risk to an investor.

Potential Illiquidity and Higher Volatility
Trading in securities not traded on a national exchange may be rare or infrequent and an investor's ability to exit (sell) an investment quickly may be severely limited by a lack of liquidity or trading volume in such securities. In addition, for securities with a lack of an active market, the “spread” between the price at which an investor may purchase a security from (the “ask price”) and the price at which an investor may sell such a security (the “bid price”) may be larger than those with actively traded securities. A lack of liquidity can cause prices to fluctuate wildly and may prevent an investor from selling without adversely affecting the quoted price of the security.

Increased Risk of Potential Market Manipulation
Because of a potential lack of transparency into securities not traded on a national exchange, as well as lower prices and volume, there is a greater risk of fraud and an increased incidence of market manipulation with respect to securities not traded on a national exchange as well as low-priced exchange-traded securities.

Changes in Quality and Level of Risk
The quality and condition of OTC securities may change over time, causing securities to further degrade and be categorized by OTC in higher-risk tiers than they were previously. In addition, point-in-time risk issues may present themselves causing the OTC market to label a security with a warning it did not previously carry. Just because an OTC security is categorized a certain way today doesn’t mean it won’t be high risk in the future. Likewise, exchange listed securities may degrade in price or quality over time, becoming subject to risks associated with price volatility, liquidity, and fraud or manipulation.

Baird Limitations
Because of the risks associated with OTC securities Baird limits the activity it will facilitate. Baird may not accept certain securities via deposit or transfer and may not facilitate buy or sell trades in securities of certain risk tiers or when securities are assigned risk indicator labels. Further, Baird will limit how much trading activity it will allow in OTC securities for which it will facilitate trading activity. Even if Baird previously facilitated activity in a certain security, it may not do so in the future.

More Information
For more information on the risks associated with a purchase of securities not listed on a national exchange, please consult your Baird Financial Advisor.