Important Information about Non-Exchange Traded 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". While a purchase of non-exchange traded 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 New York Stock Exchange 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 national exchanges such as the New York Stock Exchange and the NASDAQ.

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 penny stocks may not be able to sell those stocks at times or at prices they desire, and investors who buy or sell penny stocks may not have enough information to determine whether the price they pay or receive represents fair market value.

Understanding Risks Related to an Investment in Non-Exchange Traded 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):

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

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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.

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.

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