Low-Priced Securities (Penny and Sub-Penny Stocks)

The term "penny stock" generally refers to low-priced (below $5), speculative securities of very small companies. While penny stocks generally are quoted over-the-counter, such as on the OTC Bulletin Board or in the Pink Sheets, they may also trade on securities exchanges, including foreign securities exchanges. In addition, penny stocks include the securities of certain private companies with no active trading market.

Risks

Investing in low-priced securities is speculative and involves considerable risk. Low-priced securities often exhibit high price volatility and erratic market movements. Often, when investors buy or sell these securities, they significantly affect the quoted price. In some cases, the liquidation of a position in a low- priced security may not be possible within a reasonable period of time and is subject to additional fees.

It may be difficult to properly value an investment in a low-priced security. Reliable information regarding issuers of low-priced securities, their prospects, or the risks associated with investing in such securities may not be available. Certain issuers of low-priced securities have no obligation to provide information to investors. Some issuers register securities with the Securities and Exchange Commission (SEC) and may provide regular reports to investors. Others however may not be required to maintain such registration or provide such reports. Securities may continue to be traded if issuers are delinquent in their reporting obligation to the SEC or other federal or state regulatory agencies.

Penny stocks have not been approved or disapproved by the Securities and Exchange Commission (SEC). The SEC has not passed upon the fairness, the merits, the accuracy or adequacy of the information contained in any prospectus or any other information provided by an issuer or a broker or a dealer of penny stocks.

Trading low-priced securities is subject to significant risks, increasing regulatory requirements and oversight, and additional fees.

Generally a penny stock is a security that:

- Is priced under five dollars;
- Is 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;
- Is issued by a company that has less than $5 million in net tangible assets and has been in business less than three years, by a company that has under $2 million in net tangible assets and has been in business for at least three years, or by a company that has revenues of $6 million for 3 years

Settlement Fees for Non-DTC Eligible Securities

For various reasons, certain low-priced 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 including execution fees, DTC fees, deposit fees, New York window fees, and transfer agent fees. These fees, which can vary and may be substantial, increase the cost of clearing and execution.

Customers who trade non-DTC eligible securities are responsible for these charges, which can be as high as 10 times the value of the trade. Orders that require executions with multiple contra-parties will result in settlement fees for each separate transaction. TradeStation ("The Firm") does not mark up any of these fees before they are passed through to customers. The Firm may not receive notice of such fees until several weeks following the trade, so pass-through charges may not be immediately charged to a customer account following a trade in non-DTC eligible securities. TradeStation reserves the right to withhold funds in a customer account pending potential assessment of fees associated with trading in low-priced securities. It is your responsibility to investigate the eligibility status of a low- priced security before trading it. It is strongly recommended that you contact the specific company whose equity you intend to trade to confirm eligibility.

Can I trade non-DTC eligible securities at TradeStation?

Yes. However, please be aware that trading such securities can result in large fees in excess of ten times the value of the trade. If your order requires multiple contra parties to execute, your account will be assessed a separate set of fees for each of these transactions.

Does TradeStation inform customers of non-DTC eligible securities prior to trading?

TradeStation receives a list of non-DTC eligible securities; however, the list does not encompass the entire market of non-DTC eligible securities. **It is up to you as a TradeStation customer to determine the eligibility of these securities prior to trading OTC Bulletin Board, Pink Sheet, and other low priced securities.**

Forced Buy-Ins

Your sale of a low-priced security may be reversed with a forced buy-in executed at the current market price, leading to potential large losses.

The National Securities Clearing Corporation (NSCC), a subsidiary of DTC, enforces an “Illiquid Requirement” onto the clearing firm when one customer 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 (“charge”) that the Clearing firm is required to post under certain circumstances. The amount of this requirement depends on the percentage of the ADV (Average Daily Value) represented by the open sales. The requirement has very little relation to the value of the trade, and is generally at least ten times the trade value and may be as high as one hundred times the trade value, or even more. This requirement is incurred even if the customer owns the shares and even when the Firm has these shares long in its DTC account. If a customer creates a NSCC Illiquid Charge greater than $50,000, the offending trade or trades may be bought in on T+1, without notice to the customer. If a customer creates a second NSCC Illiquid Charge greater than $50,000 in a ninety day period, in addition to the buy-in, the customer account may be subject to closure for ninety days.