



## Polar Investment Counsel Inc.

Member: FINRA, NFA, MSRB, SIPC  
Securities Cleared: Hilltop Securities Inc.  
Member NYSE, FINRA, SIPC

Acct#: \_\_\_\_\_ Office: \_\_\_\_\_ Rep ID: \_\_\_\_\_

Name: \_\_\_\_\_

### LOW PRICED SECURITIES (PENNY STOCKS) DISCLOSURE

**This statement is required by the U.S. Securities and Exchange Commission (SEC) and contains important information on low priced securities (penny stocks). You are urged to read it before making a purchase or sale.**

#### LOW PRICED SECURITIES (PENNY STOCKS) CAN BE VERY RISKY:

- Low priced securities (penny stocks) are low-priced shares of small companies not traded on an exchange or quoted on NASDAQ. Prices often are not available. Investors in low priced securities often are unable to sell stock back to the dealer that sold them the stock. Thus, you may lose your investment. Be cautious of newly issued low priced securities.
- Your salesperson is not an impartial advisor but is paid to sell you the stock. Do not rely only on the salesperson, but seek outside advice before you buy any stock. If you have a problem with a salesperson, contact the firm's compliance officer or the regulators listed below.

#### INFORMATION YOU SHOULD GET:

- Before you buy low priced securities, (effective January 1, 1993) federal law requires your salesperson to tell you the "**offer**" and the "**bid**" on the stock, and the "**compensation**" the salesperson and the firm receive for the trade. The firm also must mail a confirmation of these prices to you after the trade.
- You will need this price information to determine what profit, if any, you will have when you sell the stock. The offer price is the wholesale price at which the dealer is willing to buy the stock from other dealers. The bid price is the wholesale price at which the dealer is willing to sell the stock to other dealers. In its trade with you, the dealer may add a retail charge to these wholesale prices as compensation (called a "markup" or "markdown").
- The difference between the bid and the offer prices is the dealer's "**spread**". A spread that is large compared with the purchase price can make a resale of a stock very costly. To be profitable when you sell, the bid price of your stock must rise above the amount of this spread **and** the compensation charged by both your selling and purchasing dealers. If the dealer has no bid price, you may not be able to sell the stock after you buy it and may lose your whole investment.

#### BROKERS' DUTIES AND CUSTOMER'S RIGHTS AND REMEDIES:

- If you are a victim of fraud, you may have rights and remedies under state and federal law. You can get the disciplinary history of a salesperson or firm from the FINRA at [www.finra.org](http://www.finra.org), and additional information from your state securities official at North American Securities Administrators Association at [www.nasaa.org](http://www.nasaa.org). You may also contact the SEC at [www.sec.gov](http://www.sec.gov).

#### YOUR RIGHTS

**Disclosure to you:** Under penalty of federal law, (effective January 1, 1993) your brokerage firm must tell you the following information at two different times—**before** you agree to buy or sell a low priced securities, and after the trade, by **written confirmation**:

- **The bid and offer price quotes for low priced securities, and the number of shares to which the quoted prices apply.** The **bid** and **offer** quotes are the wholesale prices at which dealers trade among themselves. These prices give you an idea of the market value of the stock. The dealer must tell you these price quotes if they appear on an automated quotation system approved by the SEC. If not, the dealer must use its' own quotes or trade prices. You should calculate the **spread**, the difference between the bid and offer quotes, to help decide if buying the stock is a good investment.

Lack of quotes may mean that the market among dealers is not active. It thus may be difficult to resell the stock. You also should be aware that the actual price charged to you for the stock might differ from the price quoted to you for 100 shares. You should therefore determine, before you agree to purchase, what the actual sales price (before the **markup**) would be for the exact number of shares you want to buy.

- **The brokerage firm's compensation for the trade.** A **markup** is the amount a dealer adds to the wholesale offer price of the stock and a **markdown** is the amount it subtracts from the wholesale bid price of the stock as **compensation**. A markup/markdown usually serves the same role as a broker's commission on a trade. Most of the firms in the low priced securities market will be dealers, not brokers.
- **The compensation received by the brokerage firm's salesperson for the trade.** The brokerage firm must disclose to you, as a total sum, the cash compensation of your salesperson for the trade that is known at the time of the trade. The firm must describe in the written confirmation the nature of any other compensation of your salesperson that is unknown at the time of the trade.

In addition to the items listed above, your brokerage firm must send to you:

- **Monthly account statement.** In general, (effective January 1, 1993) your brokerage firm must send you a monthly statement that gives an estimate of the value of each low priced securities in your account, if there is enough information to make an estimate. If the firm has not bought or sold any low priced securities for your account for six months, it can provide these statements every three months.
- **A written statement of your financial situation and investment goals.** In general, unless you have had an account with your brokerage firm for more than one year, or you have previously bought three different low priced securities from that firm, your brokerage firm must send you a written statement for you to sign that accurately describes your financial situation, your investment experience, and your investment goals, and that contains a statement of why your firm decided that low priced securities are a suitable investment for you. The firm also must get your written consent to buy the low priced securities.
- **Legal Remedies.** If low priced securities are sold to you in violation of your rights listed above, or other federal or state securities laws, you may be able to cancel your purchase and get your money back. If the stocks are sold in a fraudulent manner, you may be able to sue the persons and firms that caused the fraud or damages. If you have signed an arbitration agreement, however, you may have to pursue your claim through arbitration. You may wish to contact an attorney. The SEC is not authorized to represent individuals in private litigation.

However, to protect yourself and other investors, you should report any violation of your brokerage firm's duties listed above and other securities laws to the SEC, FINRA, or your state securities administrator. These bodies have the power to stop fraudulent and abusive activity of salespersons and firms engaged in the securities business. Or you can write to the SEC at 450 Fifth St., N.W. Washington, DC 20549; FINRA at 1735 K Street, N.W. Washington, DC 20006; or NASAA at 555 New Jersey Ave, N.W. Ste 750, Washington, DC 20001. NASAA will give you the telephone number of your state's securities agency. If there is any disciplinary record of a person or firm, FINRA, NASAA, or your state securities regulator will send you this information if you ask for it.

#### FURTHER INFORMATION

**IMPORTANT DISCLOSURE INFORMATION LOW PRICED SECURITIES (PENNY STOCKS)**

**THE SECURITIES BEING SOLD TO YOU HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION. MOREOVER, THE SECURITIES AND EXCHANGE COMMISSION HAS NOT PASSED UPON THE FAIRNESS OR THE MERITS OF THIS TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN ANY PROSPECTUS OR ANY OTHER INFORMATION PROVIDED BY AN ISSUER OR A BROKER OR DEALER.**

**Generally, a low priced security (penny stock) is a security that:**

- Is priced under five dollars;
- Is **not** traded on a national stock exchange or on NASDAQ (FINRA's automated quotation system for actively traded stocks);
- May be listed in the "pink sheets" or FINRA 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.

**Use caution when investing in low priced securities:**

1. **Do not make a hurried investment decision.** High-pressure sales techniques can be a warning sign of fraud. The salesperson is not an impartial advisor, but is paid for selling stock to you. The salesperson also does not have to watch your investment for you. Thus, you should think over the offer and seek outside advice. Check to see if the information given by the salesperson differs from other information you may have. Also, it is illegal for salespersons to promise that a stock will increase in value or is risk-free, or to guarantee against loss. If you think there is a problem, ask to speak with a compliance official at the firm, and if necessary, any of the regulators referred in this statement.
2. **Study the company issuing the stock.** Be wary of companies that have no operating history, few assets, or no defined business purpose. These may be sham or "shell" corporation. Read the prospectus for the company carefully before you invest. Some dealers fraudulently solicit investors' money to buy stock in sham companies, artificially inflate the stock prices, and then cash in their profits before public investors can sell their stock.
3. **Understand the risky nature of these stocks.** You should be aware that you may lose part of all of your investment. Because of large dealer spreads, you will not be able to sell the stock immediately back to the dealer at the same price it sold the stock to you. In some cases, the stock may fall quickly in value. New companies, whose stock is sold in an "initial public offering", often are riskier investments. Try to find out if the shares the salesperson wants to sell you are part of such an offering. Your salesperson must give you a "prospectus" in an initial public offering, but the financial condition shown in the prospectus of new companies can change very quickly.
4. **Know the brokerage firm and the salespeople with whom you are dealing.** Because of the nature of the market for low priced securities, you may have to rely solely on the original brokerage firm that sold you the stock for prices and to buy the stock back from you. Ask the Financial Industry Regulatory Authority, (FINRA) or your state securities regulator, which is a member of the North American Securities Administrators Association, Inc. (NASAA), about the licensing and disciplinary record of the brokerage firm and the salesperson contacting you.
5. **Be cautious if your salesperson leaves the firm.** If the salesperson who sold you the stock leaves their firm, the firm may reassign your account to a new salesperson. If you have problems, ask to speak to the firm's branch office manager or a compliance officer. Although the departing salesperson may ask you to transfer your stock to their new firm, you do not have to do so. Get information on the new firm. Be wary of requests to sell your securities when the salesperson transfers to a new firm. Also, you have the right to get your stock certificate from your selling firm. You do not have to leave the certificate with that firm or any other firm.

**MARKET INFORMATION**

**THE MARKET FOR LOW PRICED SECURITIES.** Low priced securities usually are not listed on an exchange or quoted on the NASDAQ system. Instead, they are traded between dealers on the telephone in the "over-the-counter" market. FINRA's OTC Bulletin Board also will contain information on some low priced securities. At times, however, price information for these stocks is not publicly available.

**MARKET DOMINATION.** In some cases, only one or two dealers acting as "market makers" may be buying and selling a given stock. You should first ask if a firm is acting as a **broker** (your agent) or as a dealer. A **dealer** buys stock itself to fill your order or already owns the stock. A **market maker** is a dealer who holds itself out as ready to buy and sell stock on a regular basis. If the firm is a market maker, ask how any other market makers are dealing in the stock to see if the firm (or group of firms) dominates the market. When there are only one or two market makers, there is a risk that the dealer or group of dealers may control the market in that stock and set prices that are not based on competitive forces. In recent years, some market makers have created fraudulent markets in certain low priced securities, so that stock prices rose suddenly, but collapsed just as quickly, at a loss to investors.

**MARK-UPS AND MARK DOWNS.** The actual price that the customer pays usually includes the markup or markdown. Markups and markdowns are direct profits for the firm and its salespeople, so you should be aware of such amounts to assess the overall value of the trade.

**THE SPREAD.** The difference between the bid and offer price is the spread. Like a markup or markdown, the spread is another source of profit for the brokerage firm and compensates the firm for the risk of owning the stock. A large spread can make a trade very expensive to an investor. For some low priced securities, the spread between the bid and offer may be a large part of the purchase price of the stock. Where the bid price is much lower than the offer price, the market value of the stock must rise substantially before the stock can be sold at a profit. Moreover, an investor may experience substantial losses if the stock must be sold immediately.

**EXAMPLE:** If the bid is \$0.04 per share and the offer is \$0.10 per share, the spread (difference) is \$0.06, which appears to be a small amount. But you would lose \$0.06 on every share that you bought for \$0.10 if you had to sell that stock immediately to the same firm. If you had invested \$5000 at the \$0.10 offer price, the market maker's repurchase price, at \$0.04 bid, would be only \$2000; thus you would lose \$3000, or more than half of your investment, if you decided to sell the stock. In addition, you would have to pay compensation (a markup, markdown, or commission) to buy and sell the stock.

**IN ADDITION TO THE AMOUNT OF THE SPREAD,** the price of your stock must rise enough to make up for the compensation that the dealer charged you when it first sold you the stock. Then, when you want to resell the stock, a dealer again will charge compensation, in the form of a markdown. The dealer subtracts the markdown from the price of the stock when it buys the stock from you. Thus, to make a profit, the bid price of your stock must rise above the amount of the original spread, the markup and the markdown.

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**IMPORTANT DISCLOSURE INFORMATION LOW PRICED SECURITIES (PENNY STOCKS)**

**PRIMARY OFFERINGS.** Most low priced securities are sold to the public on an ongoing basis. However, dealers sometimes sell these stocks in initial public offerings. You should pay special attention to stocks of companies that have never been offered to the public before, because the market for these stocks is untested. Because the offering is on a first-time basis, there is generally no market information about the stock to help determine its value. The federal securities laws generally require broker-dealers to give investors a "prospectus", which contains information about the objectives, management, and financial condition of the issuer. In the absence of market information, investors should read the company's prospectus with special care to find out if the stocks are a good investment. However, the prospectus is only a description of the current condition of the company. The outlook of the start-up companies described in a prospectus often is very uncertain.

**For more information about low priced securities,** contact the Office of Filings, Information, and Consumer Services of the U.S. Securities and Exchange Commission, 450 Fifth Street, N.W. Washington, DC, 20549 or [www.sec.gov](http://www.sec.gov).

**IMPORTANT FIRM INFORMATION REGARDING TRANSACTIONS**

By signing below you agree to now and until your account ceases to exist:

The decision to conduct transactions in low priced securities (penny stocks) is entirely my (our) own decision. My (our) representative did not solicit or otherwise encourage the transaction of these shares or subscriptions. It is further acknowledged that any transaction is considered an unsolicited transaction, the decision to purchase or sell this security or subscription is my (our) idea and will in no way be suggested by my (our) representative, PICI, its officers or associates and I (we) am fully aware that this and any further transaction may be highly speculative.

It is understood that PICI will not execute my (our) first transaction until they have received this letter, signed by all registered account holders.

Accordingly, I (we) hold PICI, its associates, officers or directors harmless in any matter concerning this and any future transactions and we acknowledge, again, these types of transactions are not solicited.

I understand and acknowledge that PICI may from time to time record telephonic conversations by electronic device for the purpose of ensuring accuracy. I also acknowledge receipt of this document.

I HAVE READ THE ABOVE

I HAVE READ THE ABOVE

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Customer Signature

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Registered Representative Signature

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Dated