

TRIAD SECURITIES CORP.

WRITTEN

SUPERVISORY

PROCEDURES

MANUAL

May 1, 2013

Written Supervisory Procedures Manual

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INTRODUCTION

The Firm will conduct its business consistent with high standards of commercial honor and just and equitable principles of trade. Keeping our customers' interest foremost is a key to the Firm's success. The trust of our customers and the Firm's reputation are of paramount importance. Effective supervision is an integral part of achieving our goals in serving our customers.

“Compliance” is not a static event; it is a process which evolves in tandem with regulations that govern our industry and the circumstances of each particular interaction. This Written Supervisory Procedures Manual (the “Manual”) includes the Firm's supervisory policies and procedures to provide guidance to designated supervisors in their oversight of the Firm's business. It is a working document and reference for supervisors and will be updated when necessary. The Firm’s Compliance Officer will be responsible for making amendments to the Manual, with the approval of senior management, based on changes in applicable securities industry laws and regulations, advice from the Firm’s designated examining authority, and recommendations from the Firm’s supervisory committees.

It is recognized that supervision must be a flexible tool for use by those charged with managing the Firm's various activities. While it is generally expected these procedures will be followed, supervisors are encouraged to adapt these procedures to the needs of the Firm, their particular department, and the employees and customers of the Firm. These procedures are meant to be a basic framework upon which supervisors oversee the Firm's activities.

Supervision may be delegated to others, where appropriate; however, designated supervisors are responsible for ultimate supervision of assigned areas. The term “employee” as used in this Manual includes Registered Representatives (“RRs”) (and others as identified by the Firm) who may be independent contractors for tax and compensation purposes.

This Manual is the property of the Firm and may not be provided to anyone outside the Firm without the permission of Compliance or the Firm's counsel.

1.0 DESIGNATION OF SUPERVISORS

The following includes the Firm's designated supervisors responsible for supervision of the areas of business indicated.

Special Supervision.....	Arthur Linden
Firm & Regulatory Element.....	Cynthia DeMarco
Electronic Communication.....	Cynthia DeMarco
Best Execution.....	A committee comprised of Ray Holland, Arthur Linden and Cynthia DeMarco
Annual Review of Firm.....	Arthur Linden
Director of Compliance.....	Cynthia DeMarco
Branches.....	Ray Holland
Trade Reporting.....	Arthur Linden/Darren Mattos
Mutual Funds.....	Arthur Linden
Corporate Securities Sales.....	Arthur Linden
Options.....	Arthur Linden
AML Compliance Officer.....	Larry Goldsmith
Operations.....	Larry Goldsmith
FINOP.....	Russell Campbell

Supervisory personnel are appointed by Arthur Linden. They must have passed a FINRA General Securities Supervisor examination (series 24), and have extensive experience in their area of supervision. The principal designated as Chief Compliance Officer will be identified to FINRA on Schedule A of Form BD.

2.0 GENERAL EMPLOYEE POLICIES

2.1 Standards of Conduct

It is the Firm's policy and mandate to its employees to conduct the Firm's business under the high standards and principles of the rules governing our industry. Employees are expected to deal with customers in a fair and honest way, with the customer's interest of primary concern.

2.2 Outside Business Activities

Employees are required to disclose to the Firm, in writing, any outside business activities prior to engaging in such activity. Charitable activities are not included in this requirement unless the employee is being compensated for such activity. Outside business activities may include a wide range of activities including but not limited to the following:

- Employment with an outside entity
- Acting as an independent contractor to an outside party
- Serving as an officer, director or partner
- Acting as a finder
- Referring someone and receiving a referral fee
- Receiving other compensation for services rendered outside the scope of employment with the Firm

Compensation may include salary, stock options or warrants, referral fees or providing of services or products as remuneration. Generally, remuneration, consisting of anything of present or future value for services rendered, may be considered compensation.

The information to be disclosed should include the following:

- Name of the outside employer or association
- Nature of activity or association
- Time spent at this activity per week or month and whether the activity occurs during the Firm's normal business hours
- Type of compensation

Compliance will approve or disapprove the outside business activity in writing. If disapproved, the employee will be notified. A record of the approval or disapproval will be retained in the employee's file or a file established for outside business activities.

2.3 Private Securities Transactions

Employees are not permitted to engage in private securities transactions, whether or not there is compensation paid for effecting the transaction. Private securities transactions are defined as any securities transaction outside the regular course or scope of an employee's employment with the Firm. This does not include outside securities accounts approved by the Firm, transactions with immediate family members where the employee receives no selling compensation, and personal transactions in investment company and variable annuity securities. The proliferation of sales of promissory notes to the public has caused a refocusing on what constitutes a security. See **Notice To Members 01-79**.

Employees are expected to conduct all securities transactions through the Firm.

2.4 Employee and Employee Related Accounts

2.4.1 Employee and Employee Related Accounts Defined

Employee accounts include any accounts where an employee has a personal financial interest; the employee is the named trustee or custodian or otherwise has control over the account. "Accounts" include securities or commodities accounts at the Firm or other financial institutions including foreign or domestic broker-dealers, investment advisers, banks and other financial institutions.

Employee related accounts include accounts for relatives residing with the employee and accounts for any person who is supported, directly or indirectly, to a material extent by the employee.

2.4.2 Outside Accounts

It is the general policy of the Firm to encourage employees to maintain their personal securities accounts at the Firm. Exceptions require the written approval of Compliance which will request duplicate confirmations and statements from the other dealer carrying the employee's account.

Under NYSE rules, this requirement extends to the account of an employee's spouse unless the spouse can prove to the satisfaction of the Firm that the account is completely independent of the employee. An account for a spouse established in a community property state will be presumed to be the joint property of the spouse and the employee unless proven otherwise. Exceptions to requirements affecting spouse accounts require the approval of Compliance.

Employees are required to request approval of outside accounts prior to opening an outside account. This requirement includes any employee account as defined in this section.

Review of confirmations and statements for outside accounts is the responsibility of

Compliance. The Firm's Annual Certification includes a request for information regarding outside securities accounts.

These requirements do not apply to accounts limited exclusively to transactions in unit investment trusts and variable contracts or redeemable securities in mutual funds.

2.4.3 Review of Transactions

Transactions in employee and employee related accounts will be reviewed periodically by reviewing monthly statements in a cycle determined by the designated supervisor. Additionally, a daily report generated by the clearing firm listing transactions in employee and employee related accounts is reviewed by the compliance officer. Transactions are also reviewed in the normal course of daily transaction reviews.

2.4.4 Insider Trading

Employees are prohibited from effecting transactions based on knowledge of material, non-public information. The Firm has established reasonable procedures to detect and prevent insider trading. The section "Insider Trading" includes the Firm's policy (Subsections 7.1-7.4), and the section "Chinese Wall Procedures" (Subsection 7.5) details the Firm's procedures for protecting the confidentiality of inside information known to Firm personnel.

2.4.5 Sharing in Accounts

The Firm and its employees may not share directly or indirectly in the profits or losses of a customer's account. The Firm does not permit employees to share in customer accounts.

Accounts where the employee is a joint owner with individuals who are not family-related to the employee require the approval of Compliance prior to opening the account.

2.4.6 Restrictions on Purchases of Hot Issues

The NASD Free Riding and Withholding Interpretation imposes restrictions on employees and their immediate families when purchasing new issues that trade at a premium in the aftermarket ("hot issues"). Employees of broker-dealers are prohibited from buying hot issues. Details regarding the Interpretation's restrictions are included in the section titled "Free Riding and Withholding".

2.4.7 Research Restrictions

Employees are restricted from acting on an internal research recommendation for

forty-eight (48) hours from the time of announcement or publication. Procedures regarding research restrictions are included in the section titled “Research”.

2.4.8 Investment in Outside Securities or Financial Services Businesses

Prior to investing in a securities or financial services business, all employees must obtain the written approval of Compliance. This does not apply to investments in companies where the security is publicly owned and where the investment would not constitute control of the company.

2.5 Gifts and Gratuities

2.5.1. Gifts to Others

Gifts of anything of value and gratuities to anyone relating to the Firm's business are limited to \$100 per year per person (other than to persons with a written employment agreement with the Firm). Gifts to a particular recipient will be aggregated on a calendar year basis. (***Amended 12/5/06***) This limitation does not include usual business entertainment such as dinners or sporting events where the employee hosts the entertainment. Gifts of tickets to sporting events or similar gifts (where the employee does not accompany the recipient) are subject to the limitations on gifts and gratuities. Such gifts may not be so frequent or so expensive as to raise a suggestion of unethical conduct.

Gifts and gratuities are not permitted when given for the purpose of influencing or rewarding the action of a person in connection with the publication of information which has or is intended to have an effect upon the market price of any security. This does not apply to paid advertising.

2.5.2 Accepting Gifts

Employees may not solicit gifts or gratuities from customers or other persons with business dealings with the Firm. Employees are not permitted to accept gifts from outside vendors currently doing business with the Firm or seeking future business without the written approval of Compliance. This policy does not include customary business lunches or entertainment; promotional items (caps, T-shirts, pens, etc.); or gifts of nominal (less than \$100.00) value.

2.6 Media Contact is Limited to Certain Authorized Employees

The Firm is sometimes contacted by media representatives (television, radio, newspapers, magazines, and other types of media). Employees who are contacted by media representatives are not permitted to comment but must refer the representative to one of the following individuals within the Firm:

- CEO

- President
- General Counsel
- Director of Compliance
- Director of Research (as applicable)
- Others specifically authorized by the Firm

Individuals authorized to speak to the media are expected to make comments consistent with good taste and the Firm's opinion or position on matters discussed.

2.7 Requests for Information from Outside Sources

The Firm and its employees are sometimes contacted by outside parties such as regulators (SEC, FINRA, exchanges, state and other regulators), attorneys and governmental agencies (e.g., the IRS) that request information about customer accounts, Firm activities or an individual employee's activities.

Information regarding customer accounts, the Firm, and its employees is considered confidential and may be released only to those authorized to receive it. Any requests from outside parties (other than the principal or authorized person on behalf of an account requesting information on the account) should be immediately referred to Compliance for response. This includes requests received in any form whether written, by phone or in person. This also includes visits by regulators. Proof of identification should be requested and Compliance immediately notified.

2.8 Required Notifications to the Firm

Employees are required to immediately notify Compliance of the following where the employee is the subject of the types of action described:

- Regarding any criminal offense; arrest, arraignment, indictment or conviction, pleading guilty or no contest
- Disciplinary action, formal complaint or proceeding initiated by any regulator or professional organization (bar association, etc.)
- Temporary or permanent injunction by any state or federal court from engaging in any conduct relating to securities, commodities, insurance or banking matters
- Bankruptcy

2.9 Prohibited Activities

2.9.1 Use of Firm Name

No employee may use the Firm's name in any manner which could be reasonably misinterpreted to indicate a tie-in between the Firm and any outside activity of the employee.

2.9.2 High Pressure Sales Tactics

The Firm and its RRs will not engage in high pressure sales tactics which may include excessive telephone calls, implying that a price may change on a security if the customer doesn't act immediately or falsely representing that there is a limited supply of a security at a particular price.

2.9.3 Providing Tax Advice Not Permitted

Employees may not give tax advice to customers since the Firm and its employees are not engaged in the practice of providing tax advice. Customers requiring specific tax guidance should be referred to their personal tax advisers.

2.9.4 Rebates of Commission

Employees are prohibited from rebating to anyone, directly or indirectly, any commission or compensation received.

2.9.5 Settling Complaints or Errors Directly with Customers

Employees may not make payments to customers of any kind to resolve an error or customer complaint. Errors and complaints must be brought to the attention of the employee's designated supervisor.

2.9.6 Personal Loans with Customers

Employees are not permitted to borrow from or lend to customers of the Firm (unless the employee is borrowing from a customer bank in a normal bank transaction). Exceptions require the review and approval of Compliance.

2.9.7 Personal Funds Deposited in Customer Accounts

In general, employees are not permitted to deposit personal funds or securities in customers' accounts or deposit customers' personal funds or securities in employee accounts. The same prohibitions apply to withdrawals. Exceptions should be reviewed by Compliance.

2.9.8 Prohibition against Guarantees

The Firm and its employees are prohibited from guaranteeing a customer against loss in any securities transaction. Designated supervisors are responsible for identifying prohibited guarantees in correspondence or other written communications with public customers. Options or written agreements that establish the future price of a transaction such as repurchase agreements are not included in this prohibition.

2.9.9 Fees and Other Charges

Employees are not permitted to charge fees or assess other charges to customers or

customers' accounts.

2.9.10 Customer Signatures

Employees are not permitted to sign documents on behalf of customers, even when doing so is meant to accommodate a customer's request. Customer signatures must be original by the customer on all documents.

2.9.11 Rumors

No employee may spread any rumors or misinformation that the employee knows to be false or misleading. This includes rumors of a sensational character that might reasonably be expected to affect market conditions. Discussion of unsubstantiated information published by a widely circulated public media is not prohibited providing the source and unsubstantiated nature are also disclosed.

2.9.12 Misrepresentations

Employees may not disseminate any information that falsely states or implies guarantees or approval of securities by the government or other institution such as government guarantee of securities that carry no such guarantee. The Securities Investors Protection Corporation ("SIPC") may not be misrepresented as a guarantor of a customer's account against losses from transactions.

2.9.13 Bribes

No employee may offer or solicit explicit inducements to or from employees or representatives of other institutions or foreign governmental or political officials to obtain business. Entertainment and gifts in reasonable amounts are not included in this prohibition and are discussed in the section titled "Gifts and Gratuities".

2.9.14 Acting without Registration

No employee may engage in activities that require registration (selling securities, soliciting accounts, trading, etc.) unless registered in the appropriate capacities. Questions regarding the need for registration should be referred to Compliance.

2.10 Computer Records, Equipment, and Software

The Firm considers its computer records, systems, and software to be corporate assets. Employees are responsible for protecting these assets from unauthorized use, destruction or unauthorized modification. This includes a prohibition against violating copyright laws or licensing agreements applicable to computer software.

Physical equipment (PCs, printers, software, diskettes, etc.) must be placed in a secure location to avoid theft, tampering, unauthorized use, and environmental hazards (water, smoke, magnets, etc.). The use of personal computers for Firm business is subject to the same guidelines and restrictions as Firm computers.

2.11 Electronic Communications

2.11.1 Use of the Internet

The Internet is a worldwide network of computers containing millions of pages of information and diverse points of view. Because of its global nature and its unregulated environment, users of the Internet have access to material that may be inappropriate, offensive, and, in some instances, illegal. The following are guidelines for employee use of the Internet:

- Drafting customer correspondence for electronic transmission requires the same care as for any written correspondence.
- Sending, receiving, displaying, printing or otherwise disseminating material that is fraudulent, harassing, illegal, embarrassing, sexually-explicit, obscene, intimidating or defamatory is prohibited.
- Employees who encounter inappropriate use of the Internet should notify their direct supervisor or Compliance immediately.

2.11.2 Employee Communications are Subject to Review

Employee communications are subject to the Firm's review whether in written form or electronic form, as required by regulators. By using the Firm's computer and electronic communication resources, employees waive any right to privacy in anything created, stored, sent, or received by them on computer equipment located on the Firm's premises.

The Firm has systems in place that can retrieve all e-mail and instant message communications. The Firm utilizes Google's Postini system to retain and search e-mails. A random sampling (approximately 20% of unique messages) of e-mail will be reviewed by a designated supervisor. William Vohrer has been delegated this responsibility by Sis DeMarco. On a semi-monthly basis, Mr. Vohrer reviews these e-mails, documents his findings and prepares a report for Sis DeMarco's approval and signature. Mr. Vohrer follows a similar procedure for reviewing instant messages. In this case an outside software system, AIM Enterprise Gateway, is used to flag messages that meet keyword search term criteria. Flagged items are reviewed by Mr. Vohrer on a semi-monthly basis and his findings are reviewed and approved by Ms. DeMarco. The Firm has employed the services of a third party storage medium vendor, Prime Data, to maintain a copy of all archived messages in a remote location, which will be preserved in accordance with SEC Rules 17a-3 and 17a-4. *(Amended 3/30/12)*.

Employees are prohibited from maintaining outside e-mail accounts for business purposes because they cannot be adequately monitored. The Firm will also provide additional training about the use of correspondence by all associated persons. *(Amended 12/31/04)*

2.11.3 Firm Review of Internet Communications

The Firm will, on a spot check basis, review employee electronic communications. Compliance will conduct such reviews and will contact employees and their supervisors if inappropriate communications are identified. Failure to cease such inappropriate activity will result in disciplinary action which may include termination.

2.12 Advertising and Publishing Activities

Prior to issuing any advertising or writing any books, articles, newsletters, or other materials to be published in public media (magazines, newspaper, computer bulletin boards, Internet, etc.) for public access, employees must contact Compliance for review and approval. Approval is not required for use of Firm-issued research or other materials approved by the Firm and intended for public distribution.

2.13 Use of Titles

Employees may not use titles unrelated to their activities with the Firm. The use of any other title requires the prior approval of Compliance. Examples of the types of titles not specifically related to the Firm's activities include (but are not limited to) C.P.A., J.D., M.B.A., or Attorney-at-Law.

2.14 Annual Certification

The Firm will, on an annual basis, ask employees to complete an Annual Certification form. The purpose of this form is to ensure the Firm's records are current regarding items to be reported to the Firm (outside business activities, outside accounts, etc.). The forms will be reviewed by Compliance for follow-up action on items reported. See *Appendix A*.

2.15 New Hire Procedures

2.15.1 Interview Guidelines

At the time a RR is being considered for hire, the following are areas the designated supervisor (or other employee involved in the interview process) should consider:

1. Discuss with the applicant the nature of the applicant's prior customers and the types of securities sold while associated with prior employers.
2. Obtain the applicant's explanations regarding any customer complaints and regulatory actions to determine the merit, to the extent practicable, of each before hiring.
3. Ask the applicant about the existence of and nature of any pending proceedings, customer complaints, regulatory investigations or arbitrations not listed in the Central Registration Depository ("CRD").
4. Discuss the reasons for the applicant's frequent change of employers, if

applicable.

5. Ask the RR whether he or she signed an employment contract with the present employer and if so, obtain a copy from the RR.

2.15.2 Background Investigation

The Firm will conduct a background investigation for all new employees including the following:

- Contact the RR's employers for the last three (3) years
- For registered persons, obtain a copy of the RR's Form U-5 from the prior firm or inquire for the Form U-5 information through the CRD FAQs system
- Any "Yes" answers or termination for cause on Form U-5 that were not previously known will be reviewed by Compliance.

A record of contacting prior employers will be included on the RR's Form U-4 and/or in the RR's personnel or registration file. A copy of Form U-5 or the FAQs inquiry will be maintained in the RR's file.

2.15.3 Compliance Review

Whenever a prospective or new RR has "Yes" answers on Form U-4 and/or Form U-5 or the RR has pending non-CRD listed customer complaints or regulatory issues or the individual was terminated for cause from the prior employer, it will be Compliance's responsibility to review and, if necessary, conduct further investigation. Compliance will notify the RR's designated supervisor of any required special supervision (as described in the section "Special Supervision") or other necessary action.

2.15.4 Policies and Procedures

At the time of hire, Compliance will provide the RR with a current copy of the Firm's policies and procedures. The RR will be asked to sign a written acknowledgement at the time of hire and annually thereafter that the policies were received and that they have been read. (*Amended 4/17/07*)

2.16 Special Supervision

2.16.1 Introduction

The Firm will institute special supervision for RRs or others when appropriate. The following sections describe the Firm's procedures for identifying RRs subject to special supervision and the types of supervision that may be conducted.

2.16.2 Identifying RRs for Special Supervision

It is the responsibility of Compliance to identify RRs for potential special

supervision. RRs will be identified at the time of hire or when an RR becomes subject to regulatory action and/or a pattern of customer complaints. Unregistered individuals who were previously registered and the subject of customer or regulatory complaints are also subject to consideration for special supervision. (see *Appendix B* for a list of individuals subject to special supervision)

2.16.3 Criteria for Identifying Candidates for Special Supervision

The following are criteria that will trigger a review by Compliance to determine whether an RR should be subject to special supervision. Pending as well as resolved matters will be considered. The criteria are subjective and the details of the complaints and/or regulatory actions must be considered in determining whether special supervision is necessary.

- Three or more customer complaints alleging sales practice abuse within the past two (2) years (complaints include written complaints, arbitrations, other civil actions)
- Complaint filed by a regulator
- Injunction in connection with an investment-related activity
- Termination for cause or permitted to resign from a former employer where the termination appears to involve a significant sales practice or regulatory violation
- Employment with three or more broker-dealers in the past five years

2.16.4 Special Supervision Memorandum

When a candidate is identified for possible special supervision Compliance, in consultation with the RR's designated supervisor, will consider whether special supervision will be established. After the determination is made, Compliance will prepare a Special Supervision Memorandum ("Memorandum") outlining the action taken.

Where it is determined that the Firm's existing supervision is adequate to address oversight of the candidate, Compliance will document in the memorandum the reasons why existing supervision is adequate. Where it is decided special supervision will be conducted, Compliance will outline the supervision to be conducted (including type, frequency, time period of special supervision, and how supervision should be documented) and provide copies of the memorandum to the subject RR and the RR's designated supervisor outlining the terms of the special supervision. The RR and the supervisor will sign and return copies of the memorandum to Compliance.

2.16.5 Scope of Potential Special Supervision

Special supervision will be established after considering the specifics that apply to the subject RR. Special supervision may take many forms and may include some of

the following, to be determined by Compliance. This list does not limit or prescribe how special supervision should be structured for any one RR, since each case must be reviewed individually.

- Limits on type of business (option, futures, etc.)
- Limits on types of accounts (discretionary, certain age groups or other demographics, etc.)
- Verification with customers of new account information when accounts are opened
- Pre-approval of some or all trades entered
- Pre-approval of certain types of accounts
- Contact with customers by the RR's designated supervisor
- Pre-approval of all written public communications originated by the RR
- Extra training or continuing education in areas subject to special supervision
- Assignment of the RR to a "mentor" or partner

2.16.6 Certification by Designated Supervisor

During the term of special supervision, the RR's designated supervisor will certify to Compliance, in writing, that the special supervision has been conducted. The form and frequency of certification will be determined by Compliance and will be explained in the Memorandum provided to the designated supervisor.

2.16.7 Special Supervision of Statutorily Disqualified Individuals

Employees identified as statutorily disqualified individuals are subject to special supervision. The procedures particular to each circumstance will be detailed in an appendix at the end of this manual. (*Amended 7/1/05*)

2.17 Dual Registration

2.17.1 Introduction

A "dual licensing" situation exists where an associated person maintains a license with another broker-dealer as a Registered Representative, a registered investment advisor or an investment advisor representative. Written approval from the President of the Firm is required before any associated person may maintain dual registration. The Firm recognizes that many state jurisdictions restrict or prohibit "dual licensing" and any such activity must be conducted with full knowledge of these state restrictions.

NASD Rule 3040 requires associated persons to provide notice to the Firm, in writing, of any proposed transaction before the sale is made. The notice must describe the proposed transaction(s) in detail and the associated person's proposed role and must also state whether the individual has received or may receive selling compensation (including any type of referral fee). Oral notice to the firm is not sufficient to meet the requirements of Rule 3040. If the associated person expects to receive compensation, the Firm must advise the associated person, in writing, whether it approves or disapproves the person's participation in the proposed transaction. If the Firm disapproves the participation by the associated person, he or she may not participate in the transaction in any manner, directly or indirectly.

If the Firm approves the associated person's participation in the proposed transaction, it must record the transaction on its books and records and supervise that associated person's participation in the transaction as if the transaction had been executed on behalf of the Firm. The Firm must also exercise appropriate supervision over the associated person to prevent securities laws violations.

In addition, the Firm is responsible for appropriate education and training of its associated persons with respect to reporting any kind of income-producing activity, particularly when that associated person is dually licensed. Associated persons are reminded that "participation" in a securities transaction includes not only making the sale, but referring customers, introducing customers to the issuer, arranging and/or participating in meetings between customers and the issuer, or receiving a referral or finder's fee from the issuer.

2.17.2 FINRA Rule 3270

In accordance with FINRA Rule 3270 and NASD Rule 3040, no associated person shall accept compensation from any other person, or entity, as a result of any business activity, other than as a result of a passive investment, outside the scope of his relationship with the Firm unless he has provided written notice to the Firm prior to entering into such compensatory relationship, and the Firm has approved such relationship. Supplemental Material to FINRA Rule 3270 sets forth the obligation of the Firm upon receipt of written notice of a proposed outside business activity.

FINRA Rule 3270 requires that, upon receipt of a written notice, the Firm must consider whether the proposed activity will (1) interfere with or otherwise compromise the associated person's responsibilities to the Firm and/or the Firm's customers, or (2) be viewed by customers or the public as part of the Firm's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Additionally, based upon the Firm's review of such factors, the Firm must evaluate the advisability of imposing

specific conditions or limitations on an associated person's outside business activity, including, where circumstances warrant, prohibiting the activity. The Firm must also evaluate the proposed activity to determine whether the activity properly is characterized as an outside business activity or whether it should be treated as an outside securities activity subject to the requirements of NASD Rule 3040. The Firm must keep a record of its compliance with these obligations.

2.17.3 Suitability of Transactions

FINRA Rule 2111 states that a member Firm or associated person must have a reasonable basis to believe that any recommended transaction or investment strategy is suitable for the customer, based on information obtained as part of the Firm's KYC procedures. In general, it is asserted that a member's suitability obligation applies to securities that the member "recommends" to a customer. These rules also apply when the Firm approves transactions by dually registered associated persons.

2.17.4 Additional Supervisory Actions

Advertising materials, websites, seminars, newsletters, scripts, and other promotional material used by the dually-registered associated person in the conduct of business are subject to review by the designated Principal of the Firm under the "communications with the public" - or "advertising" - rules. See Sections 2.12 and 5.0. As part of its overall supervisory monitoring of dually-registered associated person, the Firm will include such individuals within its existing e-mail monitoring system, in accordance with FINRA Rule 2210. If appropriate, the Firm may enter into a joint supervision agreement with the other employer of the dually-registered associated person. Under such an agreement, the two member firms may clarify which entity is responsible for which type of activity and jointly agree on what documentation each firm will provide the other for their regulatory due diligence files. In addition, each firm will segregate the work that the dually-registered associated person performs for the other member firm from that firm's other associated persons. Such segregation may include password-protected computer files and locked physical files.

3.0 TRAINING AND EDUCATION

3.1 Annual Compliance Meeting

RRs will attend an Annual Compliance Meeting or interview. A record of the Annual Compliance Meeting or interview will be retained and will include the RR's name, date of meeting, and subject matter included in the meeting. Compliance is responsible for

conducting the Annual Compliance Meeting with RRs. Such meeting will typically take place in the first week of September of each year.

3.2 Continuing Education

3.2.1 Introduction

RRs are subject to continuing education requirements imposed by the SROs. RRs are required to complete one or both elements at specified time intervals. Continuing education is not a test but rather a program to ensure RRs are knowledgeable on issues important to conducting business in the securities industry. The two elements are:

3.2.2 –3.2.3 Regulatory Element

The Company will ensure that all registered principals and representatives fulfill the Regulatory Element of the continuing education requirement by completing the required computer based training (“CBT”) session on the FINRA's Thompson Prometrics System. The Regulatory Element of the Securities Industry Continuing Education Program requires all registered persons to complete a prescribed CBT session within 120 days of the second anniversary date and, thereafter, within 120 days after every third registration anniversary date throughout their careers. As of April 4, 2005, persons who have been registered for more than ten (10) years and have not been the subject of a serious disciplinary action during the most recent ten (10) years will **no longer be exempt** from the Regulatory Element. Also, registered persons will no longer graduate from the Regulatory Element after their 10th anniversary.

Any person who would otherwise be exempt from the Regulatory Element is required to re-enter the program if that person: becomes subject to a statutory disqualification, becomes subject to a suspension or to the imposition of a fine of \$5,000 or more for violating any provision of any securities law or regulation or is ordered to re-enter the Regulatory Element as a sanction in a disciplinary action by any securities governmental agency or SRO. The Company will ensure that if it receives notification about Directed Sequences or Directed Sessions it will notify the registered representative of his/her requirement to reenter the Regulatory Element. The Designated Principal will also ensure the persons complete the training session within the prescribed time period.

The Company will rely on the FINRA's WEB CRD to monitor its representatives' compliance with the Regulatory Element of continuing education. Cynthia DeMarco or her designee will access and view the continuing education information on our Firm Queues on Web CRD. Mrs. DeMarco or her designee will be responsible for maintaining a list of CE Firm Queues supplied in NTM's 00-35. The designated principal will be responsible for informing registered representatives of their 120-day windows and those who are approaching their

continuing education requirement. In the event a registered representative fails to comply with the CBT requirements on a timely basis, the Company will enforce the appropriate inactive status by restricting trading, withholding commissions, and possibly terminating the registered representative for continued non-compliance.

3.2.4 Firm Element

The Company will prepare an annual educational Needs Analysis document designed as the basis for the Company's formal written training plan to satisfy the Firm Element of the Continuing Education requirement. In accordance with the Firm Element requirement, the Company will:

- Devise a customized training plan
- Prioritize training topics
- Identify target audiences
- Select the most effective delivery method.

The Company will also deliver the training to its "covered persons" within the Company's predetermined format and time requirements. All training efforts will be documented and evaluated for their effectiveness. Participants will be solicited for feedback regarding the effectiveness of their training.

Continuous informal training and enforcement of laws, regulations, rules, and policies will be the responsibility of Designated Principals as required in their daily supervision of registered representative activities.

3.2.5 RRs Who Fail to Complete Requirements

Compliance will restrict the activities requiring registration of anyone who fails to complete the required continuing education (whether Regulatory or Firm Element) in the prescribed timeframe. Individuals so restricted will be notified by written memorandum with a copy to the individual's supervisor. The registered representative's RR number will be placed on "inactive" status and the RR may not conduct further business with the public until the requirement is completed.

3.2.6 Records of Continuing Education

Compliance will retain a record of the annual needs analysis for three years, two (2) years in a readily accessible location. Each individual who participates in the Firm's continuing education program will be requested to complete an evaluation. This evaluation will be used to review the effectiveness of the program and serve as a record of the individual's participation.

3.3 Trainees

When the Firm hires individuals to train to serve as RRs, those individuals will complete a training program as designed by the designated supervisor. Trainees are not permitted

to conduct business with public customers until all required registrations are successfully completed.

4.0 REGISTRATION AND LICENSING

4.1 Registration Requirement

All individuals engaged in activities (including selling or trading products such as stocks, bonds, options, insurance, etc.) subject to registration requirements of SROs or other regulators must complete the necessary registration and licensing prior to engaging in such activities. Employees may not conduct business with public customers until required registrations or licenses are effective.

4.1.1 Prospective RRs Require Pre-Clearance by Compliance

Information regarding RRs who are being considered for hire should be referred to Compliance for review of the individual's CRD record. A copy of the request for permission is included in the next section. Information regarding complaints, regulatory actions, and other information determined by Compliance will be referred to the hiring manager for consideration in extending an offer of employment.

4.1.2 Background Investigations

Compliance will conduct a background investigation of all registered employees including at least the last three (3) years' employers. Compliance will also obtain a copy of any transferring RR's Form U-5 filed by the prior employer. A copy of the Form U-5 will be retained in a file for the employee.

4.1.3 Fingerprints

Upon filing electronic Form U-4 on behalf of an applicant for registration, a member shall promptly submit a fingerprint card for the applicant. NASD Regulation may make a registration effective pending receipt of the fingerprint card. If a member fails to submit a fingerprint card within thirty (30) days after NASD Regulation receives the electronic Form U-4, the person's registration shall be deemed inactive. Cynthia DeMarco or her designee will review the FINRA's CRD WEB site on a continual basis to ensure that there are no U-4 deficiencies. NASD Regulation shall administratively terminate a registration that is inactive for a period of two (2) years. A person whose registration is administratively terminated may reactivate the registration only by reapplying for registration and meeting the qualification requirements of the applicable provisions of the Rule 1020 Series and the Rule 1030 Series. Upon application and showing of good cause, Compliance will obtain and submit fingerprints of all registered personnel. Fingerprints for other personnel will be obtained and submitted by Human Resources. A record of the submission will be retained in a file on behalf of the employee. Pertinent information received from the fingerprint search will be

referred to the appropriate supervisor for review.

4.2 State Registrations

RRs must be registered in the state from which they conduct business and may be required to be registered in other states where customers are domiciled. Most states require successful completion of the Series 63 Uniform State Agent Securities Law Examination. Successful completion of the exam does not automatically confer registered status on the examinee. Application must be made to the CRD to obtain each state registration.

The designated supervisor is responsible for identifying transactions in states where registration may be required.

4.3 Parking Registrations

The Firm does not permit individuals to “park” licenses. Parking occurs when the Firm maintains a registration on behalf of an individual who does not work for the Firm or who does not need that registration for his or her job function. Registration status is retained only for those persons where it is required.

4.4 Form U-4

It is the RR's responsibility to include accurate information and promptly notify the Firm of any updates that may require amendment to Form U-4.

4.5 Terminations-Form U-5

The Firm will file with the CRD an RR's Form U-5 within thirty (30) days of termination of employment. U-5 forms will be reviewed by Compliance prior to submission to ensure all necessary information is included.

Compliance will forward a copy of the terminated employee's Form U-5 to the former employee and will retain a record in the terminated employee's file noting when the copy was sent.

4.6 Amendments to Form U-4 or Form U-5

The Firm will submit amendments to Form U-4 when an RR advises of updates that require amendment. Compliance is responsible for determining whether disciplinary or complaint matters or matters reported on the Firm's Annual Certification require the filing of an amendment to an RR's Form U-4. Compliance is also responsible for identifying disciplinary or complaint matters to be reported on Form U-5 termination notices including amendments required after termination.

The Securities and Exchange Commission (“SEC”) has approved revised Forms U-4 and U-5 and adopted revised Forms BD and BDW. The SEC also approved amendments to the NASD Rule 1140-The Electronic Filing Rule-which requires such forms (with the exception of the initial Form BD application) to be filed electronically, effective August

16, 1999. Arthur Linden or his designee will be responsible for reviewing and approving electronic forms filed pursuant to this rule. (*Amended 4/20/07*)

4.7 Assignment of RR Numbers

RR numbers are assigned by the Operations Department. New numbers will not be assigned to individuals who are not yet registered with the Firm. An RR number may be assigned prior to registration approval when customer accounts are being transferred and the RR number is needed to transfer accounts. However, the number is not approved for conducting business until all registration approvals have been received.

4.8 Form BD

Compliance is responsible for updating Form BD when necessary and filing with the required SROs and other regulatory agencies.

4.9 Statutorily Disqualified Persons

4.9.1 Introduction

Individuals may become subject to statutory disqualification as a result of a suspension, revocation of registrations or injunctions. The definition of statutory disqualification is included in Sections 3(a)(39) and 19(b)(4) of the Securities Exchange Act of 1934 (the "34 Act").

4.9.2 Hiring a Statutorily Disqualified Person

Prior to hiring an individual subject to a statutory disqualification, Compliance should be consulted to review the nature of the statutory disqualification and potential special supervision that may be required upon hiring.

4.9.3 Filing Form MC400

Compliance is responsible for completion and filing of NASD Form MC400 which will be signed by a senior officer or partner of the Firm. A hearing may be required prior to approval of the individual's association with the Firm. The individual may not conduct any activities requiring registration until approval is received from the appropriate regulatory authorities.

4.9.4 Supervision

Compliance will establish procedures to carry out the supervision required under agreement with the SRO reviewing the disqualified person, including records of supervision to be conducted by the designated supervisor. The supervisor assigned to supervise the statutorily disqualified person will be provided a copy of the procedures and will be responsible for carrying them out.

4.9.5 Reporting Statutory Disqualifications

When an employee becomes subject to a statutory disqualification, Compliance will

file the necessary registration updates. In addition, the required notification on the quarterly complaint report will be made to FINRA.

4.9.6 Reporting Requirements

The Firm will promptly report to FINRA (within 30 days) any violative behavior by the Firm or any associated person of the Firm, as detailed in FINRA Rule 4530. This includes actions by former associated persons, if the event occurred while the individual was associated with the member.

5.0 COMMUNICATIONS WITH THE PUBLIC

5.1 Communications

5.1.1 Retail Communication Defined

Retail communication is defined in FINRA Rule 2210 (a)(5) as any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period. “Retail investor” includes any person other than an institutional investor, regardless of whether the person has an account with the Firm. Categories of correspondence previously defined in NASD Rule 2210 as advertisements, sales literature, independent reprint and public appearance are now included in the definition of a retail communication.

5.1.2 General Guidelines

All retail communications must be based on principles of fair dealing and good faith, must be fair and balanced and must provide a sound basis for evaluation the facts in regard to any particular security, industry or service. Promissory, exaggerated or false statements as well as language inferring guarantees are not permitted. Projections and predictions are not permitted. Past performance is not a guarantee of future performance and should be identified as such if included in advertising or sales literature. Portraying the performance of past recommendations or actual transactions must include an acceptable universe over a reasonable period of time. The Firm's name will be included in all communications regarding products or services offered by the Firm. “Blind” ads are not permitted.

5.1.3 Approval Prior to Publication

All retail communications must be submitted to Cynthia DeMarco prior to publication or use. Ms. DeMarco will review all advertisements and sales literature to ensure compliance with FINRA Rule 2210 (d), will obtain the necessary signature or initial from Arthur Linden, and will file all advertisements with FINRA Advertising Regulation as required in accordance with FINRA Conduct Rule 2210(c).

5.1.4 Disclosures for Recommended Securities

In communications where securities are recommended, the Firm must disclose the price of the security at the time of the recommendation, if the Firm makes a market in the security, and if the Firm was a manager of a public offering by the issuer of the securities within the last 12 months. The Firm must also provide, or offer to furnish upon request, available investment information supporting the recommendation.

5.1.5 Use of Outside Retail Communications

Retail communications provided by outside entities and intended for re-publication with the name of the Firm or an employee requires the prior approval of Compliance. A copy of the approved item including the approval and date of approval will be included in the Firm's central communications file.

5.1.6 SIPC Membership Required on All Advertising

All advertising must include a notation that the Firm is a member of SIPC, e.g., "Member, SIPC".

5.1.7 Special Filing or Approval Requirements

There are special filing or approval requirements for certain products and broker-dealers, as outlined below.

- Certain members are required to file retail communication with FINRA prior to first use
- Certain communications are required to be filed with FINRA prior to first use

Certain communications are required to be filed with FINRA within 10 business days of first use

FINRA Rule 2210 should be consulted for specific requirements and some exclusions from the requirements.

5.1.8 Records of Communications

Compliance maintains a central file of all communications, retail and institutional, approved by the Firm. The file will include, for each item reviewed:

- A copy of the communication
- The approval by the designated supervisor
- A record that the item was filed with FINRA and when (if required)
- Approval received from FINRA (if required)
- When the item was used (if undated on the item)

Communications will be maintained for the retention period and in a format that complies with SEA Rule 17a-4, NASD Rule 3010(d)(3) and FINRA Rule 4511.

5.1.9 Institutional Communications

Institutional Communication is defined as any written (including electronic) communication that is distributed or made available only to institutional investors (as defined in FINRA Rule 2210(a)(4)). Institutional communications are subject to the same content standards as other communications and correspondence and are subject to the same supervision and review as other correspondence.

5.2 Correspondence

5.2.1 Correspondence Defined

Correspondence is defined as any written (including electronic) communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar day period.

5.2.2 Outgoing Correspondence

Outgoing correspondence will be reviewed and approved by the designated supervisor (procedures for the supervision of electronic correspondence can be found in Section 2.11 of this Manual). Items to consider when reviewing outgoing correspondence include:

- Truthfulness and good taste
- Exaggerated or flamboyant language is not permitted
- Promises or guarantees; past performance may not be used to promise, guarantee or imply future profits or income from securities
- Projections and predictions are not permitted
- Comparisons of personnel, facilities or charges with those of other broker-dealers should not be made unless supported by the facts
- Correspondence or other written communications regarding securities subject to pending distributions (underwritings) are generally not permitted
- Correspondence regarding securities sold by prospectus (mutual funds, limited partnerships, etc.) may be subject to certain limitations. Compliance should be contacted to clarify requirements
- Tax advice should be avoided and the customer referred to his or her tax adviser for such issues
- Correspondence regarding options is subject to specific requirements which are discussed in the section titled "Options"
- Photocopying and distributing copyrighted material may violate copyright

laws

- Profit and loss or other portfolio analyses should include a disclaimer that the customer should rely on customer statements provided by the Firm and any analysis or calculation is provided for information purposes only
- The use of Firm letterhead should be restricted to Firm–related matters
- Other items determined by the reviewer of correspondence

Form letters may be approved once and future copies sent to customers without additional approval if used without revision. The approved form letter and the names and addresses of addressees should be included in the branch's correspondence files.

5.2.3 Outgoing Correspondence to Multiple Customers

When the same outgoing correspondence or other written communication (other than Firm approved third party research or other Firm pre–approved materials) is to be sent to five (5) or more customers or prospective customers, the approval of Compliance is required in addition to the approval of the designated supervisor.

5.2.4 Incoming Correspondence

All incoming correspondence will be opened and reviewed by someone authorized by the designated supervisor. This review includes correspondence identified as “Confidential”. Incoming mail that obviously is not customer correspondence (bank statements, advertising, etc.) will not be opened and will be forwarded directly to the addressee. The original of incoming customer correspondence will be reviewed and initialed by the designated supervisor and retained in an incoming correspondence file. The addressee will receive a copy of the correspondence. Complaints are to be immediately referred to the designated supervisor and Compliance. If checks or securities are received with incoming correspondence, these items will be immediately deposited with the appropriate operations personnel.

5.2.5 Correspondence Regarding Issues Sold by Prospectus

Prior to the effective date of the registration statement of a public offering, the only permissible written communication with customers regarding the new issue security is the preliminary prospectus (“red herring”).

During the period prior to the effective date, written communications, other than letters or notes limited to stating that a prospectus is enclosed, require the prior approval of Compliance. This restriction applies to letters or notes to customers, broad mailings to the public, and any other written communication to prospective or existing customers.

Internal fact sheets, summaries of the proposed offering or other communications

for “internal use only” may not be sent or otherwise given to any prospective or existing customer. Prospectus excerpts or markings or highlighting on prospectuses also is not permitted.

RRs may orally inform customers regarding the proposed offering and may provide the preliminary prospectus in unaltered form.

5.3 Internal Use Only Information

Information marked “internal use only” may not be sent or otherwise provided to individuals outside the Firm.

5.4 Complaints

5.4.1 Complaint Defined

“Complaint” is defined in FINRA rules as any written statement by a customer or a person acting on behalf of a customer alleging a grievance involving the activities of a person under the broker–dealer's control “in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer”.

5.4.2 Handling of Customer Complaints

When a written complaint is received, a copy should be forwarded immediately to Compliance for follow-up.

Oral complaints may be resolved by the designated supervisor if the nature of the complaint is operational such as late check, late dividend or another type of nominal problem. Oral complaints alleging mishandling of the customer's account (unauthorized trading, improper investments, etc.) should be brought to the attention of Compliance for review and resolution.

5.4.3 Records of Complaints

Each Office of Supervisory Jurisdiction (“OSJ”) is required to maintain a separate file of all written customer complaints and action taken, if any, or a separate record of complaints and a clear reference to the files containing complaint correspondence. Option complaints must be identified in a separate file for option complaints. Compliance will retain a central file for all complaints received by the Firm. A separate file will be retained for options complaints. Complaint files will include the complaint and a record of action taken. Customer complaints will be retained for at least six years, the first two years in an easily accessible place.

5.4.4 Reporting of Customer Complaints

Compliance is responsible for reporting statistical and summary information regarding written customer complaints to FINRA by the 15th day of the month following the calendar quarter in which customer complaints were received by the

Firm. (FINRA Rule 4530)

5.5 Recorded Phone Solicitations

The Firm does not permit the use of recorded telephone solicitations.

5.6 Calling Restrictions

5.6.1 Do Not Call List

Employees are responsible for reporting to Compliance the names of individuals who do not wish to be called. Compliance maintains a Do Not Call List that is periodically distributed to employees with an explanation of the Firm's telemarketing policy. It is the RR's responsibility to ensure outgoing calls are not made to anyone appearing on the Firm's Do Not Call List.

5.6.2 Time of Day Restriction

Any residence of a person before the hour of 8 a.m. or after 9 p.m. (local time at the called party's location) unless the Firm has an established business relationship with the person, the Firm has received that person's prior express invitation or permission, or the person called is a broker/dealer. (Amended 4/1/12)

FINRA Rule 3230

5.7 Electronic Communications

The use of computer bulletin boards or other electronic communications systems on the Internet for purposes of advertising or soliciting business is subject to the same requirements for approval as other forms of written communications. RRs are not permitted to advertise unless previously approved by Compliance. Compliance will review such communications on an ongoing basis.

5.8 Identification of Sources

When using communications not prepared under the direct supervision of the Firm, it is necessary to identify, on the communication, the person or entity that prepared the material. This includes research reports obtained from outside sources.

5.9 Privacy of Consumer Financial Information

Gramm-Leach-Bliley Act:

On November 12, 1999, the President signed into law the Gramm-Leach-Bliley Act ("GLB") repealing Section 20 of the Banking Act of 1933, commonly known as the Glass-Steagall Act, which had stood for some sixty-six (66) years. Title V of the GLB sets forth privacy requirements for use of nonpublic personal financial information by

banks, securities industry members, insurance companies, and other financial institutions. The GLB required the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision (collectively known as the “federal banking regulators”), the SEC, the National Credit Union Administration (“NCUA”), and the Federal Trade Commission (“FTC”) to coordinate the issuance of regulations governing the collection, use, and safeguarding of nonpublic personal financial information. In addition, the law recommended that the federal regulators work with state insurance commissioners on the regulations. The federal banking regulators, NCUA, and FTC issued proposed regulations in February 2000 and issued final regulations in May 2000. The SEC’s final regulation, Regulation S-P, “Privacy of Consumer Financial Information,” proposed on March 2, 2002 was issued on June 29, 2000 and published in the Federal Register. Regulation S-P went into effect on November 13, 2000 on a voluntary basis and became mandatory on July 1, 2000.

Due to the privacy provisions of GLB and the SEC’s issuance of Regulation S-P, NASD Regulation believes that its proposed rule regarding confidential customer financial information is no longer necessary. On July 26, 2000, the NASD Regulation Board approved a measure to withdraw *Notice to Members 97-12*.

SEC Regulation S-P:

Regulation S-P is built around an “opt-out” policy. This means that as long as certain notices are given to consumers and customers, then financial institutions (broker-dealers) are permitted to share their clients’ financial information with the broker-dealers’ affiliated and non-affiliated third parties unless the consumers and customers opt out of the information sharing arrangement. The SEC defines a “consumer” as an individual who obtains or has obtained a financial product or service from a financial institution. Typically, a consumer has no further contact with the financial institution other than the one-time delivery of products or services. In addition, the SEC defines a “customer” as a consumer who has developed a continuing relationship with a financial institution to provide products or services.

According to the SEC, in the first year a broker-dealer becomes subject to the rule, a broker/dealer must comply with the following requirements:

- (1) prepare notices describing the firm's privacy policies;
- (2) provide an initial privacy notice and opt-out notice to each consumer;
- (3) provide an initial privacy notice to each new customer (who did not receive a notice when he or she was a consumer);
- (4) provide an annual privacy notice to each existing customer, and
- (5) adopt policies and procedures that address the protection of customer information and records.

The SEC also recommends that broker-dealers review their contracts with third parties for administrative services and joint marketing agreements to ensure that the contracts reflect the firms' privacy policies. After the first year, broker-dealers would be required to revise notices only to reflect changes in their privacy policies. Similarly, these firms would have to revise their policies and procedures on safeguarding customer information as appropriate to ensure the protection of the information.

Privacy Notices:

For the privacy notices, the rule requires broker-dealers to disclose details on the broker-dealers' information sharing arrangements. Specifically, the rule requires broker-dealers to disclose:

- the categories of nonpublic personal information that a broker-dealer may collect;
- the categories of nonpublic personal information that a broker-dealer may disclose;
- the categories of affiliates and nonaffiliated third parties to whom a broker-dealer discloses nonpublic personal information other than service providers and third parties that aid in fulfilling the service requested by a consumer;
- the broker-dealer's policies with respect to sharing information about former customers;
- the categories of information that are disclosed under agreements with third party service providers and joint marketers and the categories of third parties providing the services;
- a consumer's right to opt out of the disclosure of nonpublic personal information to nonaffiliated third parties;

- any disclosures regarding affiliate information sharing opt outs a financial institution is providing under the Fair Credit Reporting Act, and
- the institution’s policies and practices with respect to protecting the confidentiality, security, and integrity of nonpublic personal information.

Essentially, consumers and customers must be given notice when information is going to be shared and then be given the opportunity to opt out of that sharing arrangement.

In certain circumstances, Regulation S-P permits broker-dealers to use “short form” initial notices for consumers with whom the broker-dealer does not have a customer relationship. The short-form notice must be accompanied by an opt-out notice and information on where the consumer may obtain additional information on the firm’s privacy policies.

Under Regulation S-P, any information given by consumers or customers to broker-dealers to obtain a product or service will generally be considered to be nonpublic financial information. In addition, any list, description or other grouping of consumers and customers that is derived from this information also may be considered nonpublic information. A broker-dealer may consider the information received to be publicly available (and therefore not subject to the restrictions of Regulation S-P) if the broker-dealer reasonably believes that the information is lawfully available from three sources:

- (1) federal, state or local government records;
- (2) widely distributed media or
- (3) disclosures to the general public that are required to be made by federal, state or local law.

Firm Procedures:

The Firm does not share nonpublic consumer financial information with either affiliated or nonaffiliated third parties except as permitted by law.

Larry Goldsmith or his designee will be responsible for providing notices of its privacy policies and practices annually to all of the Firm’s customers. The annual notice shall be coordinated with the Firm’s clearing firm. Additionally, Mr. Goldsmith or his designee will be responsible for sending out initial notices once a customer relationship has been established. Cynthia DeMarco, the Firm’s Compliance Director, shall be responsible for the content of such notices.

6.0 FINANCIAL AND OPERATIONS PROCEDURES

6.1 Books and Records

6.1.1 Introduction

SEC Rule 17a-3 identifies the types of books and records to be retained by the Firm and 17a-4 identifies the period these records are to be retained. SROs also specify certain record requirements. The Designated Principal, Mr. Arthur Linden, is responsible for retaining required books and records for areas under his supervision maintained for the periods of time as prescribed by SEC Rule 17a-4:

<u>Record</u>	<u>Maintenance Period</u>
1. Statement of Financial Condition	3 years
2. Income Statement	3 years
3. Trial Balance	3 years
4. General Ledger	6 years
5. Net Capital Computation	6 years
6. Cash Receipt and Disbursement Blotter	6 years
7. Purchase and Sales Blotter	6 years
8. Securities Received and Delivered Blotter	6 years
9. Securities Position Record	6 years
10. Order Memoranda	3 years
11. Confirmations	3 years
12. Customer Account Statements	6 years
13. FOCUS II	3 years
14. SIPC 4	3 years
15. Annual FINRA Assessment Report	3 years
16. Annual Report from Independent Auditors	3 years

The Firm introduces its transactions on a fully-disclosed basis to its clearing firm. The Firm will rely on the clearing firm to retain certain records regarding the Firm's accounts and transactions.

6.1.2 Policy of Record Retention

The Firm has established a Schedule of Record Retention that identifies the Firm's required records and period of retention. The Firm will maintain its records in accordance with applicable rules.

6.2 Calculation and Reporting of Net Capital

The calculation and monitoring of net capital is the responsibility of the FINOP who

also is responsible for ensuring the accurate and timely reporting of periodic net capital reports. Some of the FINOP's specific responsibilities include:

- Review and filing of the Firm's financial reports and periodic review of accounting records
- Periodic consideration of whether the Firm's minimum net capital requirements have changed because of changes in the Firm's business
- Supervising additions to, and withdrawals from, the equity capital of the Firm
- Reporting borrowings and subordinated loans for capital purposes
- Establishing procedures for retention of required financial books and records

If the Firm becomes deficient in its net capital position, the FINOP is responsible for making the necessary reports to regulators and communicating any restrictions in business that may result.

Specifically, the firm shall prepare and submit the following:

- (1) **FOCUS IIA** - Shall be completed and submitted to the NASD Washington Office and the NASD District Office not later than the 17th business day following each calendar quarter end.
- (2) **Annual Audit** - The independent annual audit will be filed with the SEC, NASD, and each state(s) in which the Company is registered within 60 calendar days following the Company's fiscal year end.
- (3) **SIPC Reports** - Currently, the Securities Investor Protection Corp. ("SIPC") has discontinued requiring the SIPC 6 and 7 reports in favor of the SIPC 4. Until further notice, the Company will submit the SIPC 4 annually instead of the SIPC 6 and 7 Assessment Reports.
- (4) **FINRA Firm Contact Information Annual Update** - Firm contact information including AML Compliance Officer, Executive Representative, Continuing Education Contact, and BCP Primary and Secondary Contact must be updated and/or affirmed via Web CRD by the 17th business day after the end of each calendar year.
- (5) **Electronic Filing of Regulatory Notices** - As specified in NASD NTM 06-61 and authorized by NASD Rule 3170 beginning January 1, 2007 certain notices must be filed with the NASD electronically. (*Amended 4/23/07*)

6.3 Reconciliations and Bank Records

The FINOP is responsible for establishing procedures for the periodic reconciliation of bank statements, clearing and depository accounts, and other accounting and business records. Records of bank accounts and other reconciled accounts will be maintained in

accordance with regulatory requirements.

6.4 Regulation T and Extension of Credit to Customers

6.4.1 Margin Agreements and Initial Deposit

The customer's signed margin agreement must be received within a reasonable period [five (5) days] from the time the account begins trading on margin.

A new margin account is required to have on deposit at least \$2,000 in cash or securities prior to engaging in margin transactions.

6.4.2 Employee Accounts

Extensions and prepayments are not permitted in employee accounts, except under extraordinary circumstances and with the approval of the branch manager. A pattern of extensions in employee accounts will be brought to the attention of Compliance for review.

6.4.3 Suitability

Margin accounts may involve more risk than cash accounts, depending on a number of factors including leverage used and types of transactions. The RR is responsible for determining the suitability of margin trading in a customer's account including understanding the customer's investment objectives and financial profile.

Each new margin account is examined for the possibility of pattern day trading prior to the opening of that account. Included in this review is the determination that a minimum of \$25,000 can be maintained in the account and that the customer is familiar with the day trading requirements as stated in SEC Rule 431. A written review of these rules will be provided to all potential day trading accounts.

6.4.4 Margin Requirements

Initial and maintenance requirements are available by contacting Operations.

6.4.5 New Issues

Margin on new issues will not be permitted for a period of thirty (30) days from the date on which the Firm completes the distribution.

6.4.6 Credit on Restricted Securities

Extension of credit on margin transactions in securities for corporate insiders requires the prior approval of the Operations Department. If a customer who holds restricted securities wishes to deposit those securities in a margin account, the Operations Department should be notified to determine the marginability of the securities.

6.4.7 Truth-in-Lending Requirements (SEC Rule 10b-16)

Upon opening a margin account, the customer will be provided a written statement explaining the operation of a margin account and the calculation of interest charges on debit balances. It is the FINOP's responsibility to establish procedures for providing the required disclosure.

6.4.8 Equal Credit Opportunity Act Requirements

The Firm will not discriminate in the extension of credit to customers. Where credit is denied, the Firm will provide information to the credit applicant in accordance with the provisions of the Equal Credit Opportunity Act.

6.4.9 Arranging Credit

RRs are not permitted to assist a customer in making credit arrangements to purchase securities outside the Firm, other than on terms consistent with those permitted by Regulation T and other rule requirements.

6.4.10 Employees of Financial Institutions (NYSE)

A margin account may not be opened for employees of investment advisers, banks, trust companies, insurance companies, or firms dealing in securities, commodities, or commercial paper without:

- the written consent of person's employer, and
- instructions from the employer regarding who will receive duplicate confirmations.
- **This section includes a requirement under NYSE Rule 407.**

6.4.11 Fiduciaries

Margin accounts are permitted for an administrator, conservator, custodian, executor, guardian or trustee as follows:

- when such person holds explicit power to engage in margin transactions
- after review of the appointment and applicable document (trust agreement, trust certification, will, etc.) explaining investment powers and approval by Compliance

RRs should submit the appropriate enabling document (trust agreement, etc.) to Compliance prior to engaging in margin transactions.

6.5 Cash, Currency or Physical Stock Certificate Transactions

6.5.1 Background Information

Under the Bank Secrecy Act (“BCA”) and the Currency and Foreign Transactions Reporting Act of 1970 as enforced by the SEC, broker-dealers are required to

comply with the reporting, record keeping, and record retention requirements for currency and foreign transactions. The requirements govern the payment, receipt or transfer of currency into and out of the U.S. and certain foreign financial transactions and accounts. Patterns of currency transactions that are less than the reporting requirement but in the aggregate exceed it may also be subject to filing requirements. The requirements are extensive and there are specific definitions for currency and monetary instruments.

6.5.2 Cash or Currency Transactions Not Permitted

Confirmations of trades shall specify that all customer checks are to be made payable to the clearing firm. When a customer check is sent directly to Triad, such check is forwarded to the Operations Manager who logs its receipt. After photocopying the item, the Operations Manager shall deliver the check to the clearing firm promptly, but no later than noon on the first business day following the day that it was received by Triad. The copy is attached to the daily check log. Triad has instituted a policy whereby the above procedure is reviewed by the Director of Operations for compliance. *(Amended 6/22/10)*

6.5.3 Transfers of Funds

The Firm will maintain required information for wire transfers of \$3,000 or more. Such records will be retained for at least five (5) years as required under the BSA.

In order to safeguard customer assets, the Firm has procedures in place to review and monitor the transmittal of funds or securities from customer accounts. Any perceived attempts by a third party or customer to circumvent these procedures will be reported by Firm employees to their supervisor or Compliance.

A request from a customer for the transmittal of funds to a third party account or outside entity (e.g. a bank or investment company) must be in writing and signed by an authorized party for the account. The authority of any third party purporting to act on behalf of a customer will be verified prior to honoring the request by examining the account paperwork for proper written authorization. The request must be approved by a manager of the Firm's operations department in writing before the instructions are submitted electronically to the clearing firm by an authorized margin department representative. Final review, approval and execution of the request are done by the clearing firm. The customer is sent written notification of the transaction by the clearing firm to the address of record for the account. In addition, this activity will be documented for the customer's review on the customer's monthly statement.

Requests by a customer to have funds sent via check to an alternate address must be in writing and signed by an authorized party for the account. These check distributions will be followed up by written notification from the clearing firm to

the address of record for the account.

Unless pre-approved under special circumstances by the Firm's Director of Operations, no transmittal of securities from a customer account to a third-party is permitted.

The Firm does not allow customer assets to be distributed between customers and registered representatives, including the hand-delivery of checks. Additional supervisory procedures for such activities must be in place before the Firm will engage in these activities. (*Amended 4/1/2010*)

6.5.4 Physical Stock Certificate Transactions

In the event a customer sends a physical stock certificate directly to Triad, the following procedures are followed:

- The security is forwarded to the Administrator (Josephine Cincotta) who photocopies the certificate and logs its receipt.
- Certificates issued in penny stocks must be accompanied by documentation attesting to the circumstances of the stock's purchase and an appropriate opinion of counsel.
- Any certificates without proper accompanying documentation will be immediately returned to the customer.
- The Administrator shall forward such item to DTCC [Merrill Lynch Processing Center, c/o DTCC BDS 2SL, 55 Water Street, NY, NY 10041] via Federal Express overnight mail service on the same day that it was received by Triad.
- If it is determined that the security does not have an assigned cusip, an email is sent to the clearing firm requesting the assignment of a cusip. The certificates are photocopied, then returned to the customer via Federal Express overnight mail. When the cusip has been assigned, the customer is contacted and advised that they may re-send the certificates to be deposited.
- The above procedures are supervised by the Director of Operations for compliance and evidenced by his initials on the completed log. (*Amended 10/15/12*)

6.6. Customer Payments for Purchases

When an order to purchase securities is accepted from a customer, payment from the customer's bank account or other depository must be authorized in writing by the customer. Payment is not acceptable based only on the customer's oral authorization to withdraw funds. Examples of acceptable payment include:

- a check signed by the customer
- written authorization by the customer to draft funds from the customer's bank

checking or savings account

Questions regarding proper payments should be referred to Operations or Compliance.

6.7 Prepayments and Extensions

Prepayments (customer requests payment prior to settlement date on a sale) or extensions of time to make payment must be approved by the designated supervisor.

6.8 Hold Mail Instructions

Any requests received from customers to hold their mail should be referred to Compliance for review. Such requests should be in writing. Customers should be encouraged to make alternative arrangements for mail to be forwarded to a third party on their behalf. All mail held by the Firm will be held by Compliance.

Any long term hold mail arrangement on behalf of a foreign customer requires the approval of Compliance and will include the following procedures:

- Written authorization from the customer who will be requested to periodically (at least annually) reaffirm these instructions. The written authorization will include a statement from the customer that it is not feasible to make alternative arrangements for the regular receipt of mail
- Duplicate confirmations and statements will be forwarded to Compliance for review
- Mail will be held by Compliance; RRs are not permitted to hold mail
- A record will be retained by Compliance regarding when the held mail is delivered or provided to the customer

6.9 Transfer of Accounts

The FINOP will establish procedures for the timely transfer of customer accounts to another broker-dealer.

6.10 Sanctioned Securities and Individuals

6.10.1 Introduction

The Firm cannot deal in securities issued by certain sanctioned countries and governments and is required to block or freeze accounts, assets, and obligations of blocked entities and individuals in the Firm's possession and control. The Office of Foreign Assets Control ("OFAC") maintains lists of sanctioned securities and individuals.

6.10.2 Monitor of Accounts and Securities

The Firm has established procedures for identifying and monitoring accounts and

securities included on OFAC's list, as follows:

- Operations is responsible for input of names of securities and individuals included on the list for ongoing review against accounts and security positions
- When a sanctioned security or individual is identified, the account will be immediately frozen and no funds or securities will be released from the account (credits are permitted)
- The freeze includes restrictions against endorsement or guarantee of assets in the account
- Operations will notify OFAC by fax within ten (10) days of blocking

7.0 INSIDER TRADING

7.1 Insider Trading Policies and Procedures

Broker-dealers are required to establish, maintain, and enforce policies and procedures to prevent the misuse of material non-public information ("inside information"). These requirements are included in the Insider Trading and Securities Fraud Enforcement Act of 1988 ("ITSFEA"). The Firm has established policies and procedures reasonably designed to prevent the misuse of inside information considering the Firm's business, structure, size, and other relevant factors.

7.2 Prohibition against Acting on or Disclosing Inside Information

Firm policy prohibits employees and associated persons from effecting securities transactions while in the possession of material, non-public information. Employees are also prohibited from disclosing such information to others. The prohibition against insider trading applies not only to the security to which the inside information directly relates, but also to related securities, such as options or convertible securities.

If employees receive inside information, they are prohibited from trading on that information, whether for the account of the Firm or any customer or their own account, any accounts in which they have a direct or indirect beneficial interest (including accounts for family members) or any other account over which they have control, discretionary authority or power of attorney.

7.3 Annual Certification

Employees and associated persons are required to annually certify their knowledge of and compliance with the Firm's insider trading policy. This certification is included in the Annual Certification form.

7.4 Firm Policy Memorandum Regarding Insider Trading

This policy memorandum is intended to provide information and guidance concerning the restrictions on insider trading, which is an enforcement priority of the Securities and

Exchange Commission and the Department of Justice. It also explains policies adopted by the Firm to prevent fraudulent or deceptive practices relating to trading on material, non-public information (“insider trading”). Trading in securities on the basis of material, non-public information (“inside information”) is prohibited and contrary to Firm policy. The penalties for insider trading can be considerable, including loss of profits plus treble damages, criminal sanctions including incarceration, loss of employment and permanent bar from the securities industry. This policy applies to all associates of the Firm. Specific departments of the Firm may have insider trading policies that supplement this policy.

READ THIS MEMORANDUM VERY CAREFULLY. You will be asked to sign a statement affirming that you have read and understand the policies set forth herein and that you will abide by them.

THE PROHIBITION.

The prohibition against insider trading includes the following: if you are in possession of material non-public information about a company or the market for a company's securities, you must either publicly disclose the information to the marketplace or refrain from trading. Generally, disclosure is not an option and the effect is to require an individual to refrain from trading. You also may not communicate inside information to a second person who has no official need to know the information.

Information is considered material if there is a substantial likelihood that a reasonable investor would consider it important in deciding to buy or sell a security. In addition, information that, when disclosed, is likely to have a direct effect on a security's price should be treated as material. Examples include information concerning impending tender offers, leveraged buy-outs, mergers, sales of subsidiaries, significant earnings changes, and other major corporate events.

Information is non-public when it has not been disseminated in a manner making it available to investors generally. Information is public once it has been publicly disseminated, such as when it is reported on the Dow Jones or other news services or in widely disseminated publications, and investors have had a reasonable time to react to the information. Once the information has become public or stale (i.e., no longer material), it may be traded on or disclosed freely.

Generally, a person violates the insider trading prohibition when that person violates a duty owed either to the person on the other side of the transaction or to a third party (such as a customer or employer) by trading on or disclosing the information. The insider trading prohibition applies to an issuer's directors, officers and employees, investment bankers, underwriters, accountants, lawyers and consultants, as well as other persons who have entered into special relationships of confidence with an issuer of securities.

Virtually anyone can become subject to the insider trading prohibition merely by obtaining material non-public information by unlawful means or by lawfully obtaining

such information and improperly using it. This is known as misappropriation. If you receive material, non-public information as part of your legitimate business dealings on behalf of the Firm or its customers and you use that information to trade in securities or if you transmit that information to another person for purposes of trading in securities (so-called “tipping”), you would likely be guilty of insider trading. Insider trading liability may also be derivative. A person who has obtained inside information (so-called “tippee”) from a person who has breached a duty or who has misappropriated information may also be held liable.

The foregoing is just a synopsis of the insider trading prohibition. Because the law in this area is complex, the Firm has adopted the following guidelines which are designed to prevent violations of the insider trading rules.

WHEN THE FIRM IS AN INSIDER.

The Firm may be deemed an insider when it comes into possession of inside information through its various activities such as investment banking and research. Research analysts may become insiders (or tippees) upon receiving inside information from a company officer, director or employee. In addition, the intention to update or downgrade a research recommendation might be material information and should not be disclosed, prior to public dissemination, to anyone outside the Research Department (and in some instances to some within the Research Department) unless there is a need to know the information.

The Firm will remain an insider as long as it has inside information, regardless of whether the prospective banking client decides to engage another investment banking firm or whether the Firm declines to accept the proposed engagement.

GUIDELINES:

TREATMENT OF CUSTOMER INFORMATION. The Firm considers confidential all information concerning its customers including, by way of example, their financial condition, prospects, plans and proposals. The fact that we have been engaged by a company as well as the details of that engagement are also confidential. The Firm's reputation is one of its most important assets. The misuse of customer information can damage that reputation as well as customer relationships.

WHAT TO DO IF YOU LEARN INSIDE INFORMATION. It is not illegal to learn inside information. The Firm learns material non-public information from its customers and is permitted to use that information in a lawful manner to advise and assist them. It is, however, illegal for you to trade on such information or to pass it on to others who have no legitimate business reason for receiving such information.

If you believe you have learned inside information, other than in the ordinary course of business (such as investment bankers who learn inside information when working on an engagement), contact Compliance immediately so that we may address the insider trading issues and preserve the integrity of the Firm's activities. Do not trade on the information or discuss the possible inside information with any other person at the Firm.

If you become aware of a breach of these policies or of a leak of inside information, advise Compliance immediately.

INVESTIGATIONS OF TRADING ACTIVITIES. From time to time, the Exchanges, the NASD and the SEC request information from the Firm concerning trading in specific securities. Requests for information should be referred directly to Compliance. You may be asked to sign a sworn affidavit that, at the time of such trading, you did not have any inside information about the securities in question. Your employment may be terminated if you refuse to sign such an affidavit. The Firm may submit these affidavits to the Exchanges, NASD or SEC.

STEPS YOU CAN TAKE TO PRESERVE THE CONFIDENTIALITY OF MATERIAL NON-PUBLIC INFORMATION.

If you are in a position within the Firm to access inside information, the following are steps you must take to preserve the confidentiality of inside information:

- (1) Material inside information should be communicated only when there exists a justifiable reason to do so on a “need to know” basis inside or outside the Firm. Before such information is communicated to persons within the Firm, your department or another person you believe needs to know, contact your department manager or Compliance.
- (2) Do not discuss confidential matters in elevators, hallways, restaurants, airplanes, taxicabs or any place where you can be overheard.
- (3) Do not leave sensitive memoranda on your desk or in other places where they can be read by others. Do not leave a computer terminal without exiting the file in which you were working.
- (4) Do not read confidential documents in public places or discard them where they can be retrieved by others. Do not carry confidential documents in an exposed manner.
- (5) On drafts of sensitive documents use code names or delete names to avoid identification of participants.
- (6) Do not discuss confidential business information with spouses, other relatives or friends.
- (7) Avoid even the appearance of impropriety. Serious repercussions may follow from insider trading and the law proscribing insider trading can change. Since it is often difficult to determine what constitutes insider trading, you should consult with Compliance whenever you have questions about this subject.

YOUR OWN SECURITIES TRADING. The Firm policy is to require all employees to maintain their securities accounts at the Firm except with the approval of Compliance. If you have an account outside of the Firm and have not already done so, please advise Compliance immediately. This includes outside accounts in which you have a financial interest or direct the trading.

CONCLUSION:

The Firm has a vital interest in its reputation, the reputation of its associates, and in the integrity of the securities markets. Insider trading destroys that reputation and integrity. The Firm is committed to preventing insider trading and to punishing any employee who engages in this practice or fails to comply with the above steps designed to preserve confidentiality of inside information. These procedures are a vital part of the Firm's compliance efforts and must be adhered to.

7.5 Chinese Wall Procedures

7.5.1 Introduction

Chinese walls are established within broker-dealers to create information barriers that prevent the flow of material, non-public information. The Firm may obtain material, non-public information while engaging in investment banking activities. Effective Chinese Wall procedures permit the Firm to continue conducting research, trading, and other business activities while another department has knowledge of inside information affecting an issuer of securities. The Firm has established procedures to isolate departments and/or employees with inside information and permit the conduct of business in other areas.

7.5.2 Departments Subject to Chinese Wall Confidentiality Procedures

The following department(s) is (are) subject to the Firm's Chinese Wall confidentiality procedures:

- Corporate Finance Department
- Municipal Finance Department

7.5.3 Confidentiality Procedures

The designated supervisors of departments subject to the Firm's confidentiality procedures are responsible for implementing and enforcing the Firm's procedures to protect the confidentiality of actual or potential inside information. Many of these departments' activities are considered confidential and may only be shared with those outside the department on a need-to-know basis (see "Bringing An Employee *Over the Wall*" in this section). Some procedures for maintaining confidentiality include:

- Maintain all paper files in a locked and secured area.
- Limit access to computer files to only authorized persons with passwords to control access to the files.
- Employees of affected departments must refrain from discussing in public areas or with others outside the department (including family members, friends, etc.) any activities that are not publicly known.

- Use code names or delete names on sensitive drafts that identify projects or banking clients.
- Physical separation of employees of departments with access to inside information.

7.5.4 Access to Confidential Information Limited to Certain Employees

Access to actual or potential inside information obtained in the normal course of the Firm's banking activities is limited to the following employees:

- 1) Employees within the banking area who need to know
- 2) The Firm's Chief Compliance Officer
- 3) The Firm's General Counsel
- 4) The Chief Executive Officer
- 5) Other employees brought “over the wall” in accordance with the procedure outlined in the next section

7.5.5 Bringing an Employee “Over the Wall”

There may be occasions when investment banking employees require information from an employee in research, sales, trading or other business areas of the Firm. Bringing an employee not employed in the investment banking department into confidential discussions is often termed bringing the employee “over the wall”. Doing so may result in restrictions on research, trading or other business of the Firm because the employee is now in possession of material, non-public information and cannot continue to conduct his or her normal responsibilities. Because it is important to both maintain the confidentiality of inside information and consider carefully any action that might restrict the Firm's ability to conduct its business, the manager (or manager’s designee) of the investment banking department is required to contact Compliance before bringing another employee over the wall. Compliance will maintain a written record of the:

- Date of the action
- Name and department of the employee brought over the wall
- The name of the companies which are the subject of the investment banking activity that resulted in bringing the employee over the wall
- Name of the person requesting access to the employee

Compliance will also make a determination whether further restrictions on research, trading, or other Firm activities are appropriate because of the action of bringing an employee over the wall.

7.5.6 Notification to Compliance

When the Firm is engaged to provide investment banking services to an issuer, and that engagement may result in obtaining inside information, the designated supervisor is responsible for notifying Compliance of the engagement so that the issuer may be included on the Firm's Watch or Restricted Lists, if appropriate. This includes notification of any "target" companies that may become part of the investment banking transaction. Refer to the section titled "Corporate Finance" for more information about activities affecting investment banking activities.

When the Firm is engaged to provide municipal finance services to a municipal issuer regarding an advanced refunding, the designated supervisor is responsible for notifying Compliance so the issue may be included on the Firm's Watch List.

7.5.7 Monitoring the Chinese Wall

Compliance monitors trading activities in issues where the Firm may be in possession of material, non-public information through the use of the Firm's Watch or Restricted Lists. The sections titled "Restricted List" and "Watch List" further explain those procedures.

7.5.8 Certification by Affected Employees

Employees in departments subject to the Firm's Chinese Wall confidentiality procedures will be requested to certify, on an annual basis, that they have read and agree to abide by the Firm's Chinese Wall Procedures and Policy Regarding Insider Trading. A sample certification form follows this section. The certifications will be maintained by the designated supervisor of the affected department.

7.5.9 Form for Certification

NAME (printed):

DEPARTMENT:

I certify that I have received and read a copy of the Firm's Policy Regarding Insider Trading and agree to abide by all of the requirements.

In particular, I understand that information obtained by the department is deemed confidential and may not be shared with others outside the department unless specifically permitted or unless I am authorized to do so by the designated supervisor of my department.

Failure to maintain the confidentiality of material, non-public information may result in termination from the Firm and severe sanctions by governmental or regulatory agencies.

Date:

Signature:

7.6 Restricted List

Compliance will maintain a Restricted List, when necessary, and publish the Restricted List to employees of the Firm. The Restricted List may include the following:

- Underwritings where the securities are subject to restrictions under rules of the '34 Act including Regulation M (trading during a distribution)
- Issues where the Firm has material, non-public information and the Firm's investment banking involvement is publicly known and a restriction is appropriate
- Other restrictions determined by Compliance

Compliance will record the date and time when an issue is added to and removed from the Restricted List.

The type of restriction (i.e. unsolicited orders only, cash transactions only, etc.) will be included on the Restricted List. Restrictions will generally include the following classes of securities of the issuer: common stock, preferred stock, options, and any security convertible into the common stock of the issuer. Debt issues will be included where appropriate.

Compliance will monitor daily trading to identify transactions in securities of issuers on the Restricted List and take action as necessary which may include inquiring as to the solicited or unsolicited nature of transactions, canceling transactions or taking other appropriate action.

7.7 Watch List

Compliance will maintain a confidential Watch List which will include issues where the Firm may be in possession of material, non-public information. The Watch List is available only to specified Firm personnel. Compliance will monitor daily trading to identify transactions in securities on the Watch List and take action as necessary. Compliance will also record the date and time when an issue is added to and removed from the Watch List.

8.0 ACCOUNTS

8.1 New Accounts

8.1.1 Approval

A completed new account form, signed by the RR, is required for each new account opened. The designated supervisor is responsible for reviewing the new account form for the necessary information and will promptly approve each new account.

8.1.2 Account Documents

Additional account documents may be required depending on the type of account opened. The designated supervisor is responsible for establishing procedures outlining the necessary account documents and follow-up regarding missing documents. A list of the required documents is included with this chapter. Effective 10/1/03 verification of a customer's identity is required under Section 326 of the USA PATRIOT Act. These procedures are outlined in Triad's Customer Identification Program (CIP). *See Appendix G.*

8.1.3 New Account Documents List

NEW ACCOUNT DOCUMENTS

Type of Account

Document(s) Required:

Corporation-

New Account Form, Cash Account Agreement, Corporate Resolution signed by the Secretary, W9 (if non-DVP and not exempt)

Custodian-

New Account Form, Cash Account Agreement, W9

Discretionary—NOT PERMITTED UNLESS APPROVED BY ARTHUR LINDEN

New Account Form, Cash Account Agreement, W9, Discretionary Account Agreement

Estate-

New Account Form, Cash Account Agreement, Estate Papers (Letters Testamentary, Certificate of Domicile, Copy of the Will, Death Certificate), W9

Financial Institution (banks, trust companies, insurance companies, etc.)-

New Account Form, Cash Account Agreement, Corporate Trading Authorization

Guardian/Conservatorship-

New Account Form, Cash Account Agreement, W9, Guardianship Papers

Individual-

New Account Form, Cash Account Agreement, W9

Institution-

New Account Form, Instructions from bona fide institution with notation from authorized trader COD account needs DVP instructions

Investment Adviser-

New Account Form, Cash Account Agreement, Adviser's Agreement With Client Or Adviser Blanket Letter, W9

Investment Club-

New Account Form, Cash Account Agreement, W9, Investment Club Agreement signed

by all Investors Or Other Document Indicating Who Is Authorized To Place Orders

IRA-

New Account Form, Cash Account Agreement, Adoption Agreement

Joint Account-

New Account Form, Cash Account Agreement, W9, Joint Account Agreement

Margin Account-

New Account Form, Margin Agreement, W9, Margin Disclosure Statement, Truth in Lending Disclosure document

Partnership-

New Account Form, Cash Account Agreement, Partnership Agreement signed by all of the partners

Pension or Profit Sharing Plan-

New Account Form, Cash Account agreement Trust agreement or trustee certification

Prime Brokerage –

New Account Form, Margin Agreement, W9, Margin Disclosure Statement, Truth in Lending Disclosure document, Prime Brokerage Agreement

Public Funds (*government agencies, i.e., cities, counties, hospitals, universities/colleges, etc.*)-

New Account Form, Cash Account Agreement, Investment Policy Trading Authorization

Sole Proprietorship-

New Account Form, Cash Account Agreement, Sole Proprietorship Agreement, W9

Third Party Directed Account-

New Account Form, Cash Account Agreement, Full Or Limited Trading Authorization, W9 (if applicable)

Trust-

New Account Form, Cash Account Agreement, Trust Agreement Or Trust Certification, W9

In addition, all accounts will be provided with a Privacy Policy Statement.

8.1.4 Copies of Agreements to Customers

Customers will be provided with copies of any signed agreements that include a Pre-dispute Arbitration Agreement; the customer will acknowledge receipt on the agreement or on a separate document.

8.1.5 Revisions to Customer Agreements

Firm policy does not permit revisions to pre-printed language on customer agreements. Requests for changes should be referred to Compliance for review.

8.1.6 Accounts Requiring Prior Written Consent

Prior to executing an order for a person employed by another broker-dealer, the RR must obtain the written approval of the person's employer. The Firm will provide

duplicate confirmations, statements or other information requested by the employing broker–dealer.

The written consent of the employer must be obtained prior to executing an order for an employee of a securities or commodities exchange or employees of an SRO. Duplicate confirmations, statements or other information will be provided upon request of the individual's employer.

8.1.7 Post Office Addresses

If the customer opens an account using a post office address, the street address must also be provided on the new account form. The only exception is for customers who reside in rural areas where the post office address is the only address, which should be noted on the new account form.

8.1.8 Change of Address Requests/Returned Mail

All requests for change of addresses on customer accounts should be provided by the customer in writing. Such requests are documented by the clearing firm, verified by correspondence from the clearing firm to the customer's old and new addresses, then reviewed and approved by the Firm's compliance officer. Change of address to a third party also requires the review and approval of the designated supervisor. The Firm will not accept mail on a customer's behalf.

Undeliverable customer mail is returned to the Clearing Firm and then forwarded to Triad. A New Accounts department employee will immediately contact the customer by telephone. The RR on the account is notified and no further activity will be allowed until an explanation is obtained from the customer. (*Amended 1/9/09*)

8.1.9 Initial Deposits

If the initial transaction in a new account is a purchase order, a minimum deposit of 50% of the value of the transaction is required. Customer checks drawn on out-of-state or foreign banks should be discussed with the branch manager before the initial order is accepted.

If the initial transaction is a sell order, receipt of the securities prior to entering the order is recommended, particularly where the RR is unfamiliar with the new account. Potential items of concern include certificates not registered in the seller's name, restricted or legend stock, expired warrants or rights, and other securities that would not constitute "good delivery".

8.1.10 Unacceptable Accounts

The following are examples of accounts that are unacceptable. Questions regarding whether new accounts may be opened should be referred to Compliance.

Unacceptable accounts include:

- Fictitious accounts in a name other than the name of the legal owner
- Accounts in the name of a minor
- Margin accounts for minors

8.1.11 Sanctioned Securities and Individuals

The RRs cannot deal in securities issued by certain sanctioned countries and governments and are required to block or freeze accounts, assets, and obligations of blocked entities and individuals in the Firm's possession and control. The Firm will notify RRs of any sanctioned securities or customers.

8.1.12 Verification of Account Information

In accordance with SEC Rule 17a-3(a)(17) the Firm will provide the account record information to the customer upon the occurrence of the following events: (1) The opening of a new account (within 30 days), (2) A change in the account's investment objectives (within 30 days), and (3) within 36 months of the opening of the account and every 36 month period thereafter. *(Added 9/1/06)*

8.1.13 Disposal of Customer Records

Records that contain personal information regarding customers and their accounts will be destroyed by shredding prior to their disposal.

8.2 Discretionary Accounts

8.2.1 General Requirements

For a discretionary account, an RR is granted written authority to enter orders on behalf of a customer without contacting the customer prior to each transaction. The key elements of discretionary account requirements include:

- Discretionary accounts require specific written authorization from the customer on a designated form.
- A designated supervisor must approve the account as discretionary prior to effecting discretionary transactions.
- Discretionary authority is NOT effective until the customer has signed the discretionary agreement AND the account has been approved for discretion.
- Option discretionary accounts also require the approval of the SROP. (Refer to the section "Options" for specific requirements regarding discretionary option accounts.)

- Every discretionary order must be approved promptly, in writing, by the designated supervisor.

8.2.2 Approval

At the time a discretionary account is established, the designated supervisor shall approve or disapprove the discretionary status of the account. A record of the approval will be included in the account file for the customer's account.

8.2.3 Limited Authority Only Permitted

Discretionary authority is permitted only on a limited basis, i.e., RRs may have authority to purchase and sell securities only. Full authority, which also authorizes the withdrawal of money or securities, is not permitted except for accounts of family members of the RR. Exceptions require the approval of Compliance.

8.2.4 Indication of Discretion Exercised or Not Exercised

Orders in discretionary accounts should indicate whether discretion is exercised or not exercised on each order. Such indication is made by marking “DE” for discretion exercised or “DNE” for discretion not exercised. Discretion not exercised means the RR discussed the order with the customer BEFORE entering it.

8.2.5 Trusts and Other Fiduciary Accounts

Some trusts or other accounts governed by a legal instrument such as a trust agreement may not allow the trustee to reassign authority to a third party. A copy of the trust agreement or other legal document should be provided to Compliance for review prior to approval of a trust or similar account as a discretionary account.

8.2.6 Approval of Orders and Monthly Review of Transactions

All discretionary orders require prompt approval by the designated supervisor. Discretionary option orders require approval on the day entered by a Registered Options Principal (“ROP”) or the Senior Registered Options Principal (“SROP”). Approval will be recorded by initialing the record of each order. In addition, the designated supervisor is responsible for reviewing the monthly statements for all discretionary accounts and retaining a copy of the statements (with initials denoting the review) in a file for the customer's account.

8.2.7 Principal Transactions Not Permitted

Principal transactions are not permitted when discretion is exercised in a discretionary account. Specific approval for the order should be obtained from the customer and the order marked “discretion not exercised” to execute on a principal basis or the order should be executed on an agency basis if discretion is exercised. This includes syndicate transactions which should be approved by the customer prior to execution and the order marked “DNE”.

8.2.8 Annual Confirmation

On an annual basis, Compliance will confirm the customer's desire to continue discretionary handling of the customer's account. A negative response letter will be sent to each discretionary account customer asking the customer to contact Compliance if discretion is to be discontinued.

8.2.9 Cancellation of Discretionary Authority

Customers should provide instructions to cancel discretionary authority in writing. All open orders will be cancelled, unless the customer specifically requests they remain open.

8.3 Active Accounts

Compliance will, on a quarterly basis, review accounts that are identified as “active”. Items to be reviewed include, depending on the type of account and type of trading activity:

- Review of new account documentation to determine necessary documents are on file and to identify the customer's investment objectives and financial profile
- Review of trading activity in the account including types and size of trades and frequency of trades
- Contact with the RR and designated supervisor to determine additional information regarding the customer and trading activity

Additional reviews that may be conducted include:

- Profit and loss or change of equity calculation
- Turnover calculation
- Contact with the customer (written or oral)

Reviews of active accounts may include these items or other items at the discretion of Compliance. Compliance will establish the criteria and procedures for conducting the active account review.

Compliance, in conjunction with the designated supervisor of the department or branch handling the account, will determine whether contact will be made with the customer and whether that contact will be in the form of a letter, telephone call, or face-to-face contact to confirm investment objectives and the customer's knowledge regarding the trading activity in the account. All records of customer contact in conjunction with active account reviews (including telephone conversations and face-to-face meetings) are to be maintained in a file for the customer or an active accounts file.

8.4 Accounts for Minors

There are a number of requirements and restrictions that affect minors' accounts:

- A custodian must be named in and handle the account
- Only one custodian is permitted for each account
- Custodians generally may not delegate authority to another person
- Only one minor may be named in each account
- Margin transactions are not permitted
- Gifts to minors are irrevocable, i.e., the custodian may not direct distribution of assets from the account except for the benefit of the minor
- The minor's social security number must be used when opening the account
- Minors may not be a party to a joint account, investment club or partnership

8.5 Incompetent Persons

Accounts for incompetent persons may only be opened with the appropriate authority from a court-appointed guardian. If a RR becomes aware that a customer becomes incompetent, the RR should contact the branch manager or Compliance for further guidance.

If a customer becomes incompetent and has a third party trading authorization in effect for his or her account, the authority generally is considered invalid and requires a court order for reinstatement. "Durable" powers of attorney, recognized by some states, remain in effect after a person is declared incompetent. Questions should be referred to Compliance.

8.6 Trust Accounts

New accounts for trusts require a copy of the trust agreement or a trust certification signed by the authorized trustee. The following activities in trust accounts require prior approval as follows:

- Margin trading requires approval by Compliance
- Option trading requires approval by the CROP
- Discretionary accounts require approval by Compliance

Fiduciaries (executors, trustees, guardians, administrators, conservators, etc.) may not be able to delegate their duties to a third party (whether the RR or an outside person) to manage the account unless the trust or other authorizing instrument specifically permits delegation. Some states require the fiduciary to obtain a court order to delegate authority to a third party.

8.7 Collateral/Escrow Accounts

The Firm will not maintain accounts for customers where the assets in the account are

pledged to a third party and the Firm is asked to acknowledge it is responsible for holding the assets pending instructions from the third party.

8.8 Account Records

RRs are required to maintain the following records regarding customer accounts:

- Portfolio record of customers' holdings, by customer
- Cross reference of securities held by customers, by security

These records are the property of the Firm and must be left with the Firm if the RR terminates employment.

9.0 ORDERS

9.1 Solicited and Unsolicited Orders

9.1.1 Definition of Solicited Order

When a transaction is recommended to a customer and the customer enters an order as a result of that recommendation, the resulting order is considered to be solicited. Other actions that may result in an order being deemed solicited include the mailing of a research report or other written communication for the purpose of encouraging the customer to act on the information provided or sending a prospectus on a new issue.

9.1.2 Solicited Orders Should Be Indicated

Customer orders that are solicited should be so marked on the order ticket for the transaction.

9.1.3 Prohibited Solicitations

RRs may NOT solicit transactions listed below:

- Securities included on the Firm's Restricted List
- When securities are being sold under Rule 144, purchasers may not be solicited

9.2 Suitability of Recommendations

9.2.1 General Requirements

RRs are required to obtain information from customers to assist in the evaluation of suitability of recommendations.

The designated supervisor is responsible for reviewing customer transactions for suitability, where appropriate. There are a number of considerations that may assist the designated supervisor when reviewing the suitability of recommendations or determining suitability requirements. One or more of the following may be

appropriate:

- Information included on customer new account forms
- Other securities held in the customer's account
- The RR's record of the customer's transactions
- Other information regarding the account such as whether the account is managed by an investment adviser or uses other advisers or consultants in making investment decisions
- Transaction information from daily transaction reports and monthly statements
- Information obtained from the RR
- Information obtained by contacting the customer

9.2.2 Institutional Accounts

In addition, factors to consider when determining the scope of the Firm's suitability obligation when making recommendations to institutional customers include: 1) the customer's capability to evaluate investment risk independently, and (2) the extent to which the customer intends to exercise independent judgment in evaluating the recommendation. The following may be relevant in determining the customer's capability to evaluate risk:

- The use of one or more consultants, investment advisers or bank trust departments
- The general level of experience of the institutional customer in financial markets and specific experience with the type of instruments under consideration
- The customer's ability to understand the economic features of the security involved
- The customer's ability to independently evaluate how market developments would affect the security
- The complexity of the security or securities involved

In determining whether the customer is making an independent investment decision, the following may be relevant:

- Any written or oral understanding that exists between the Firm and the customer and the services to be rendered by the Firm
- The presence or absence of a pattern of acceptance of the Firm's recommendations
- The use by the customer of ideas, suggestions, market views and information obtained from other broker-dealers or market professionals,

particularly those relating to the same type of securities

- The extent to which the member has received from the customer current comprehensive portfolio information in connection with discussing recommended transactions or has not been provided important information regarding its portfolio or investment objectives

9.3 Terms and Conditions

Orders, when entered, are required to include the “terms and conditions” of the orders. While there may be some exceptions, most orders will generally include the following:

- Buy or sell
- If sell, equity securities must be marked “long”, “short” or “short exempt”
- If a short sale, an indication the security can be borrowed
- If sell, an indication that the seller will deliver the security
- If an option, put or call and open or close
- Name of security
- Quantity
- Price (if a limit order)
- Day or GTC (if not a market order)
- Other terms of the order (fill or kill, stop limit, etc.)
- If the customer's order is granted a “stop” (i.e., price protection on an order as negotiated by the Firm and the customer), the stop is to be noted on the order

Canceled or unexecuted orders will also be retained in the Firm's records of orders.

NASD Rule 3110(b) and NASD Notice to Members 96–66 specifically exempt debt securities from marking order tickets long or short.

9.4 Conflicts of Interest

9.4.1 Adverse Interest

When an RR is on the opposite side of a transaction from a customer (customer sells a security and the RR is the purchaser, or customer buys a security and the RR is the seller), the RR may be considered to have an “adverse interest” in the transaction. The branch manager or other designated supervisor should require a disclosure on the customer's confirmation or a letter to the customer disclosing that an employee was on the opposite side of the transaction.

9.4.2 Precedence of Customer Orders

The customer's interest has precedence over any employee's personal interest. While

there is no standard that applies in every case, in general, RRs will solicit customer orders before entering orders for personal accounts in the same security. When an RR receives a better price in a security the same day the RR's customer executes an order in the same security on the same side of the market (buy or sell), the customer will generally receive the better price unless there are circumstances that justify the RR's better price (time of order entry, inability to reach customer, etc.). Compliance will determine when a price adjustment is required.

9.5 Review of Transactions

9.5.1 Review of Daily Transactions

On a daily basis, designated supervisors, Darren Mattos and Arthur Linden, will review order tickets of transactions under their supervision. The supervisor will record the review by initialing the daily blotter.

9.5.2 Review of Account Activity by Designated Supervisors.

Designated supervisor, Darren Mattos, reviews customer account activity monthly. This is accomplished by reviewing a selected sampling of monthly statements. The sampling is done on a rotating basis so that each account is reviewed at least annually.

9.5.3 Review of Account Activity by Compliance

On a monthly basis, accounts will be selected for a review of activity at random. The Compliance Officer, will review accounts for unusual activity monthly and for completeness of documentation periodically. (*Amended 12/31/04*)

9.6 Sell-Outs and Buy-Ins

9.6.1 Sell-Outs

Customers who fail to pay for transactions will be subject to sellouts to close out the unpaid security position. RRs will be charged for any unpaid balance remaining after the sellout.

A pattern of sell-outs may indicate problems with customers or potential unauthorized transactions. The designated supervisor is responsible for directly contacting customers when there is a pattern of sellouts to determine the cause of the sellout and whether the customer authorized the transaction. If unauthorized transactions or other wrongdoing is identified, it is the designated supervisor's responsibility to take corrective action including disciplinary action against the RR. Compliance should be contacted for guidance regarding corrective action.

9.6.2 Buy-Ins

Triad Securities Corp's clearing broker notifies Triad Operations Department (Josephine Tecla) of the impending buy-in. Triad Operations internally identifies the

account that should be bought in. If shares are short in more than one account, the oldest trade date will be assigned the buy-in. Operations prepares an order ticket clearly marked “buy-in” and gives it to the Triad execution desk who then executes the buy-in. Buy-in orders are executed after 3:00 p.m., affording the customer the opportunity to deliver the shares in that day. Triad will notify the client(s) directly prior to processing the buy-in.

9.7 Prohibited Transactions

9.7.1 Introduction

Generally, the designated supervisor responsible for reviewing transactions should review transactions in an effort to identify these types of prohibited transactions. Specific reviews by Compliance or areas other than the designated supervisor are indicated in the appropriate sections.

9.7.2 Prearranged Trading

An offer to sell coupled with an offer to buy back at the same or a higher price, or the reverse, is a prearranged trade and is prohibited. Options or written agreements such as repurchase agreements are not included in this prohibition.

9.7.3 Adjusted Trading

Adjusted trading is a prohibited practice that involves the sale by a customer of a security to a broker–dealer at a price above the prevailing market price and the simultaneous purchase of a different security at a price greater than its market value. This may be requested in instances where a bank or other fiduciary does not want to realize a loss on their books and engages in a scheme to avoid, disguise or postpone losses. Federal banking regulators have stated that adjusted trading by federal financial institutions is an unacceptable and unsuitable investment practice.

9.7.4 Overtrading or Undertrading

These are transactions at prices in excess of or below the prevailing market. Customer transactions must be executed at a price reasonably related to the market; overtrading and undertrading is not permitted.

9.7.5 Wash Transactions

Transactions between two accounts with no market risk and where there is no beneficial change in ownership may be considered a “wash sale”. Customers sometimes request cross transactions for tax purposes between accounts with the same owner. Such transactions may violate rules and tax losses may be disallowed by the IRS.

There should be no pre–arrangement or guarantee of execution price for both sides of the transaction where there is no change in beneficial ownership. All such

transactions should be executed at the risk of the market.

9.7.6 Cross Transactions

Firms and their employees may not engage in a practice of effecting cross transactions for the purpose of supporting or maintaining the market price of a security. Compliance will review daily transactions to identify patterns of cross transactions that may represent rule violations.

9.7.7 Orders at the Opening or Close

Orders entered at the opening or close of the market for purposes of influencing the price of a security are prohibited. Each RR must be ever mindful of the presence of a pattern of orders/transactions that could constitute Marking the Opening/Marking the Close. Such practices fall within the proscription “any manipulative, deceptive or other fraudulent device or contrivance”, violative of the FINRA’s Rules of Business Conduct. Any such suspicious pattern(s) should be brought to the attention of Compliance.

9.7.8 Parking Securities

“Parking” is a prohibited practice where a trade or series of trades are affected for a person or entity and held in another person's or entity's account to disguise the investment activities of the original person or entity.

9.7.9 Churning

Churning of a customer's account is prohibited. The term “churning” has a number of elements including:

- Control of the account by the RR
- Excessive transactions
- Intent to defraud which may be defined as the RR acting in the RR's own interest contrary to the customer's interest

An account that is “active” does not necessarily denote churning. An account's activity must be reviewed individually when reviewing for churning including the customer's objectives and the customer's control of the account.

9.7.10 Prohibition against Acting on Knowledge of Other Orders

The Firm and its employees may not enter orders for their own account to benefit from their knowledge of customers' orders in a particular security (“front running”). This includes orders in securities that are derivatives (options, warrants, etc.) of the security being purchased or sold by the customer.

9.7.11 Unbundling

The unbundling of round lot orders in order achieve order size compatibility with

electronic order execution is strictly prohibited. The Trading Desk will be alert to and monitor any such activity by reviewing the end of the day Trade Report. The presence of odd lot orders will be closely monitored and evaluated by the Trading Desk.

9.7.12 Simultaneous Buy and Sell Orders

Customers are prohibited from placing simultaneous or near simultaneous buy and sell orders in contravention of Exchange Rules. Any such activity is inconsistent with an orderly market and therefore must be closely monitored by the Trading Desk. Any activity violative of an orderly market must be brought to the immediate attention of the head of the Trading Desk and Compliance. Traders will be advised that when entering virtually simultaneous buy and sell orders in the same security or option series, one of the orders must be canceled unless one of the orders is executed before entry of the other. Such policy is designed to prevent any appearance of a 2-sided market which may only be maintained by a market maker.

9.7.13 Cancel and Rebill

Cancels and rebills are monitored by the Trade Desk. Arthur Linden or his designee will make any corrections to an order involving name or account change. The correction will be noted on a cancel and rebill request report. The report must be initialed by Arthur Linden or a principal on the Trade Desk and retained for 3 years, the first two years in an easily accessible place.. **See Section 16.3.7 for Municipal Transactions. (Amended 1/6/06)**

9.8 Blue-Sky of Securities

9.8.1 Secondary Market Transactions

Compliance is responsible for establishing procedures for identifying transactions in securities that are not blue-skied in the purchaser's state of domicile. Unsolicited orders are permitted under some states' blue-sky laws; in such cases the order should be marked "unsolicited" and a non-solicitation letter obtained from the customer.

9.8.2 Research

Prior to initiating a research report in a corporate security, research should contact Compliance to determine the blue-sky status of the subject issuer's securities. If the security is not blue-skied in certain states where distribution of the report is anticipated, a footnote may be added disclosing that the security may not be blue-skied for certain purchasers. Compliance may limit distribution of the research report to certain states and/or to potential purchasers that qualify for a transaction exemption under state blue-sky laws.

9.9 Sale of Control or Restricted Stock

9.9.1 Introduction

SEC Rule 144 provides a method for the resale of restricted or control securities. Rule 144 provides a safe harbor for the resale of restricted and control securities. It includes conditions which, if satisfied, permit holders of such securities to sell them publicly without registration and without being deemed underwriters. Rule 145 governs the offer or sale of securities received in connection with reclassifications, mergers, consolidations and asset transfers. Sellers under Rule 145 are afforded similar safe harbor to Rule 144 sellers.

Compliance should be consulted directly for assistance regarding the processing of Rule 144 and Rule 145 sales. This section is provided for quick reference only.

9.9.2 Restricted Securities Defined

Restricted securities generally are securities which were:

- 1) Acquired directly or indirectly from the issuer or from an affiliate of the issuer (as defined below) in a transaction or series of transactions not involving a public offering
- 2) Acquired from the issuer and are subject to the resale limitations of Regulation D under the Securities Act of 1933 or acquired in a transaction or series of transactions not involving a public offering subject to the resale limitations of Regulation D

9.9.3 Affiliate Defined

An “affiliate” of an issuer is a person who directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, such issuer. An affiliate can be an individual, certain relatives, trusts, estates, corporations or other entities in which the seller is a 10% beneficial owner, trustee, executor or one in a similar capacity.

9.9.4 Control Person and Control Securities

A “control” person is regarded as one who has the power to direct or cause the direction of the management and policies of an issuer of securities through significant stock ownership (generally 10% or more) or by virtue of holding a board or management position with that issuer.

Whether or not a customer has a control relationship with the issuer or is a “statutory underwriter” or holds “restricted securities” are legal questions.

“Control Securities” are those owned by an affiliate of an issuer of the securities.

9.9.5 Holding Period (Rule amended effective 2/15/08)

Under Rule 144, the seller of restricted securities is subject to a six month holding period prior to sale. In addition, if the securities were purchased, they cannot be sold until the full purchase price has been paid. If restricted securities are acquired as a gift, the six month holding period is assumed to begin the date the donor acquired the shares. The donee's sales are subject to aggregation with sales made by the donor, for purposes of calculating limitations on amount sold.

9.9.6 Limitations on Amount Sold

Rule 144 limits the amount of restricted securities that may be sold during any three (3) month period. The seller's sales are also subject to aggregation with sales of restricted stock by others connected with the seller. The limitations relate to a percentage of the outstanding shares and the average trading volume in the security. Non-affiliates of the issuer may make unlimited resales of restricted securities after a holding period of one (1) year.

9.9.7 Filing Requirements

The seller is required to file Form 144 concurrent with placing the order or executing the transaction. Compliance should be consulted regarding the necessary filing requirements.

9.9.8 Lending and Option Writing on Control and Restricted Securities

The lending of money, extension of loan value or use as collateral of restricted securities are subject to specific limitations. Compliance should be contacted prior to any such arrangement.

Covered listed options may be written on underlying control or restricted stock if the stock is saleable when the option is written. Compliance should be contacted to determine the saleability of the underlying securities prior to writing covered options.

9.10 SEC Regulation NMS

9.10.1 The Order Protection Rule

Triad order desk policy is to route orders to a major market center or a broker-dealer for execution. These major market centers, NYSE, ARCA, AMEX, NASDAQ, are required to comply with all aspects of Reg NMS and to conduct regular surveillance and testing to ensure compliance and ascertain the effectiveness of the trade-through rule. These same routes are the only options available on the Triad Trader Pro Trading platform.

10.0 SUPERVISION

10.1 General Requirements

NASD rules specify that members are required to designate one or more principals to review the supervisory systems, procedures, and inspections implemented by the member and “take or recommend to senior management appropriate action reasonably designed to achieve the member's compliance with applicable securities laws and regulations, and with the rules of this Association.” Per NASD rules, members are also required to conduct reviews of:

- The businesses in which it engages (annually)
- Each office, including periodic examination of customer accounts
- Each Office of Supervisory Jurisdiction (“OSJ”) (annually)
- Each branch office in accordance with an established cycle and inspection procedures

A written record of the dates upon which each review is conducted is required.

10.2 Annual Certification of Compliance and Supervisory Processes

On an annual basis the chief executive officer (or President) will certify that Triad Securities Corp has in place processes to establish, maintain, review, test and modify written compliance procedures and written supervisory procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations.

10.3 Annual Review of Firm's Areas of Business

The designated supervisor is responsible for identifying those areas for review and directing or delegating the conduct of those reviews, and making a record of when reviews are conducted.

11.0 BRANCH OFFICES

11.1 Designation of Offices

Compliance will be responsible for designating the Firm's offices as OSJ, branch office, or non-branch location and identifying which offices report to OSJs.

11.2 Offices of Supervisory Jurisdiction

Certain offices that meet the OSJ requirements will be established as such. A designated principal will be assigned to each OSJ.

A designated principal is responsible for supervising OSJ supervisors who are engaged in sales activities. Supervision includes reviewing customer correspondence and daily transactions. The OSJ supervisor will forward copies of his or her customers' correspondence for review on the day sent or received.

11.3 Branch Offices Assigned to OSJs

Each branch office that is not an OSJ will be assigned to the supervision of an OSJ. The designated supervisor is required to visit non-OSJ branch offices on a periodic basis and record the visit in a memorandum or other record to be retained by the designated supervisor for the branch location. All business transacted by non-OSJ branch offices must be processed through the supervising OSJ. The designated supervisor is responsible for supervision of the branch office's activities and maintaining files for complaints, correspondence, new accounts, option accounts, advertising, and transactions originating from the branch office.

11.4 Non-Branch Business Locations

Locations used occasionally and exclusively for appointments from time to time between RRs and customers and where the Firm has no other tangible presence are not deemed "branch offices". This includes a bank location where the Firm conducts no securities activities but RRs meet periodically with bank customers. RRs conducting business at such locations are required to provide each customer with the address and telephone number of the branch office or office of supervisory jurisdiction that supervises the RR.

Each non-branch business location will be assigned to a branch office or OSJ for supervision. This includes RRs who are assigned to a branch office but transact business at a separate location. These RRs are referred to as off-site RRs. The designated principal is required to visit non-branch business locations and off-site RRs on a periodic basis and record the visit in a memorandum or other record to be retained by the designated supervisor in a file for the location. Off-site RRs are required to process all business through the assigned branch office or OSJ. The designated supervisor is responsible for supervision of the non-branch office's activities and maintaining files for complaints, correspondence, new accounts, option accounts, advertising, and transactions originating from the office.

11.5 Use of Office Space by Outsiders

Persons not affiliated with the Firm are not permitted to conduct business or maintain offices on Firm premises. Office-sharing arrangements require the prior approval of Compliance.

11.6 Changes in Branch Offices

Compliance is responsible for updating the Firm's Form BD when there are changes in the Firm's branch offices. Compliance will also notify the FINRA District Office when the Firm intends to open a new branch office.

11.7 Office Inspections: See *Appendix C*.

The Firm's guidelines for office inspections include the following:

- OSJs will be inspected annually by Compliance
- Non-OSJ branch offices will be inspected according to a schedule established by Compliance
- Other business locations will be inspected in accordance with a schedule established by Compliance
- Compliance will establish the scope of the inspection program and will retain records associated with each inspection including the date and location of each inspection

12.0 OTC EQUITY TRADING

12.1 Best Execution: Review of Order Handling Procedures

In order to confirm that the Firm is achieving the best execution for its customers, the Firm requests written affirmation from its clearing firm regarding its procedures for evaluating the routing of customer orders and providing best execution. This affirmation is reviewed and maintained by Compliance.

Firm obligation to provide statistical information about order routing under Rule 606 of SEC Reg NMS

Rule 606 requires all broker-dealers that route customer orders in equity and option securities to make publicly available quarterly reports about the routing of customer orders. More specifically, the Rule requires quarterly disclosure of the percentage of customer orders that were non-directed; the identity of the 10 venues to which the largest number of non-directed orders were routed for execution; the identity of any other venues to which at least five percent of non-directed orders were routed for execution; and disclosure of payment for order flow or other material arrangements between broker-dealers and those venues. The Rule further requires broker-dealers to disclose to customers, upon request, the venue to which the customer's orders were routed for the previous six months and certain other data about those customer orders.

All customer orders are considered to be non-directed in the absence of specific customer instructions on where they are to be routed.

The Rule requires that the quarterly reports be divided into four sections, each section to address a different category of covered securities: (1) equity securities listed on the New York Stock Exchange; (2) equity securities qualified for inclusion on Nasdaq; (3) equity securities listed on the American Stock Exchange LLC or another national securities exchange, and (4) options. Each of these sections must contain the quantitative information identified above concerning the percentage of non-directed orders and the venues to which those orders were routed. Additionally, each section must discuss the broker-dealer's relationship, if any, with those venues, including payment for order flow or profit sharing arrangements.

Broker-dealers must "make publicly available" the quarterly reports within one month after the end of the quarter addressed in the report. The Rule defines "make publicly available" to require broker-dealers to (1) post the report on a free Internet Web site; (2) furnish a written copy of the report on request, and (3) notify customers annually that a copy of the reports will be furnished on request.

Firm Procedures

Russell Campbell, or his designee, will be responsible for ensuring that these reports are properly prepared and posted to the firm's WEB site.

As part of the firm's new account documentation, each customer will be provided with Triad's WEB site address.

The Firm will furnish a written copy of the report upon request and notify customers in writing at least annually that a copy of the reports will be furnished upon request.

(a) Definitions—For purposes of this section:

(1) The term covered security shall mean:

(i) Any national market system security and any other security for which a transaction report, last sale data or quotation information is disseminated through an automated quotation system as defined in Section 3(a)(51)(A)(ii) of the Act (15 U.S.C. 78c(a)(51)(A)(ii)), and

(ii) Any option contract traded on a national securities exchange for which last sale reports and quotation information are made available pursuant to an effective national

market system plan.

(2) The term customer order shall mean an order to buy or sell a covered security that is not for the account of a broker or dealer, but shall not include any order for a quantity of a security having a market value of at least \$50,000 for a covered security that is an option contract and a market value of at least \$200,000 for any other covered security.

(3) The term directed order shall mean a customer order that the customer specifically instructed the broker or dealer to route to a particular venue for execution.

(4) The term make publicly available shall mean posting on an Internet web site that is free and readily accessible to the public, furnishing a written copy to customers on request without charge, and notifying customers at least annually in writing that a written copy will be furnished on request.

(5) The term non-directed order shall mean any customer order other than a directed order.

(6) The term effective national market system plan shall have the meaning provided in §240.11Aa3-2(a)(2).

(7) The term national market system security shall have the meaning provided in §240.11Aa2-1.

(8) The term payment for order flow shall have the meaning provided in §240.10b-10(d)(9).

(9) The term profit-sharing relationship shall mean any ownership or other type of affiliation under which the broker or dealer, directly or indirectly, may share in any profits that may be derived from the execution of non-directed orders.

(10) The term time of the transaction shall have the meaning provided in §240.10b-10(d)(3).

(b) Quarterly report on order routing.

(1) Every broker or dealer shall make publicly available for each calendar quarter a report on its routing of non-directed orders in covered securities during that quarter. For covered securities other than option contracts, such report shall be divided into three separate sections for securities that are listed on the New York Stock Exchange, Inc., securities that are qualified for inclusion in the Nasdaq Stock Market, Inc., and securities that are listed on the American Stock Exchange LLC or any other national securities exchange. Such report also shall include a separate section for covered securities that are option contracts. Each of the four sections in a report shall include the following information:

(i) The percentage of total customer orders for the section that were non-directed orders, and the percentages of total non-directed orders for the section that were market orders, limit orders, and other orders; (ii) The identity of the ten venues to which the largest number of total non-directed orders for the section were routed for execution and of any venue to which five percent or more of non-directed orders were routed for execution, the percentage of total non-directed orders for the section routed to the venue, and the percentages of total non-directed market orders, total non-directed limit orders, and total non-directed other orders for the section that were routed to the venue, and (iii) A discussion of the material aspects of the broker's or dealer's relationship with each venue identified pursuant to paragraph (b)(1)(ii) of this section, including a description of any arrangement for payment for order flow and any profit-sharing relationship.

(2) A broker or dealer shall make the report required by paragraph (b)(1) of this section publicly available within one month after the end of the quarter addressed in the report.

(c) Customer requests for information on order routing.

(1) Every broker or dealer shall, on request of a customer, disclose to its customer the identity of the venue to which the customer's orders were routed for execution in the six months prior to the request, whether the orders were directed orders or non-directed orders, and the time of the transactions, if any, that resulted from such orders. (2) A broker or dealer shall notify customers in writing at least annually of the availability on request of the information specified in paragraph (c)(1) of this section.

(d) Exemptions.

The Commission may, by order upon application, conditionally or unconditionally exempt any person, security or transaction or any class or classes of persons, securities or transactions from any provision or provisions of this section, if the Commission determines that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors.

12.2 Fair Prices: Best Execution

Trades will be executed under the following NASD requirements for “best execution”.

BEST EXECUTION OF CUSTOMER ORDERS: In any transaction for or with a customer, the Firm must:

- Use “reasonable diligence” to ascertain the best inter-dealer market for the security, and
- buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.

OBTAINING THREE (3) QUOTATIONS FOR NON-NASDAQ SECURITIES TO

DETERMINE BEST MARKET: Prior to executing a transaction for a customer in a non-Nasdaq security, the Firm must:

- Contact and obtain quotations from a minimum of three (3) dealers (or all dealers if less than three (3) exist), and
- Note on the customer's order ticket or other comparable record the identities of the dealers contacted and the quotations received to determine the best inter-dealer market.

The designated supervisor is responsible for establishing procedures to ensure best execution of customer orders and notation of other quotations for non-Nasdaq transactions.

12.3 Fair Prices: Mark-Ups and Mark-Downs

The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. The FINRA guideline for equity securities is 5%; however, a pattern of charging 5% may be deemed inappropriate. When determining fair and equitable mark-ups or mark-downs, the designated supervisor may consider:

- Prevailing market conditions and risk
- In the absence of a prevailing inter-dealer market, the Firm's cost is the best indication of the market price of the security
- Size and frequency of trading in the issue
- Availability of the security in the market
- Any other pertinent facts at time of execution

Compliance will review mark-ups and mark-downs on at least a spot-check basis. Transactions deemed excessive will be canceled and rebilled to reflect an acceptable mark-up or mark-down.

12.4 Regular and Rigorous Review for Best Execution

Summary:

The obligation of best execution also is codified in NASD Rule 2320, which provides that in any transaction for or with a customer, a member and persons associated with a member shall use reasonable diligence to ascertain the best inter-dealer market for a security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. The factors articulated in NASD Rule 2320(a) to be used when applying the principle of "reasonable diligence" in this area are:

1. the character of the market for the security, *e.g.*, price, volatility, relative liquidity, and pressure on available communications;
2. the size and type of transaction;
3. the number of primary markets checked, and
4. the location and accessibility to the customer's broker/dealer of primary markets and quotation sources.

As illustrated by the language of [NASD Rule 2320](#), the determination as to whether a member exercised reasonable diligence to ascertain the best inter-dealer market for the security and bought or sold in that market so that the resultant price to the customer was as favorable as possible necessarily involves a "facts and circumstances" analysis. Depending upon the particular set of facts and circumstances surrounding an execution, actions that in one instance may meet a firm's best execution obligation may not satisfy that obligation under another set of circumstances.

The Evolving Nature of Best Execution:

Members should be aware that technological developments and changes to market structure are significant factors that must be considered when assessing reasonable diligence and best execution in general. In this regard, the SEC has stated that "the scope of this duty of best execution must evolve as changes occur in the market that give rise to improved executions for customer orders, including opportunities to trade at more advantageous prices." As these changes in the market occur, broker-dealers must analyze and modify their order execution procedures to consider price opportunities that become "reasonably available." The courts also have recognized a duty on the part of broker-dealers periodically to examine their practices in light of market and technology changes and to modify those practices, if necessary, to enable their clients to obtain the best reasonably available prices. However, it is clear that the entry or routing of an order to a specific system or market is not a guarantee that a member has obtained best execution for a customer order nor is the failure to route an order to a specific system or market necessarily a violation of best execution.

The focus of the analysis is to determine whether any "material" differences in execution quality exist and, if so, to modify the firm's routing arrangements or justify why it is not modifying its routing arrangements. This analysis must compare the quality of the executions the firm is obtaining via current order routing and execution arrangements (including the internalization of order flow) to the quality of the executions that the firm could obtain from competing markets and market centers. Accordingly, a broker-dealer must evaluate whether opportunities exist for obtaining improved executions of customer orders.

The review should be performed by any member that routes customer order flow to another broker-dealer for execution on an automated, non-discretionary basis, as well as by firms that internalize customer order flow.

NASD Regulation, Inc. (“NASDR”) realizes that many member firms do not execute customer orders on a principal or agency basis, but rather route all customer order flow that they receive to an executing broker-dealer. This executing broker-dealer is, in many instances, the introducing broker-dealer's clearing firm and handles the introducing broker-dealer's customers' securities accounts on a fully-disclosed basis. The executing broker-dealer, depending upon the particular transaction, may act as principal, riskless principal or agent with respect to customer orders that it receives from its introducing broker. In other instances, an introducing broker-dealer may route customer order flow to another broker-dealer which pays the introducing broker-dealer for customer order flow.

Despite the fact that an introducing broker-dealer may never execute customer orders, it nonetheless has an obligation to ensure that its customer orders are executed in a manner consistent with the duty of best execution. No NASD member can transfer to another entity its obligation to provide best execution to its customers' orders. Therefore, an introducing firm has an obligation to conduct an independent review for execution quality. NASDR understands, however, that executing broker-dealers usually are better positioned than introducing broker-dealers to evaluate the quality of executions that an introducing broker-dealer's customers receive, especially where such customer order flow is routed on a routine or automated basis to the executing broker-dealer. Therefore, NASDR believes that an introducing broker-dealer must take reasonable steps to ensure that the introducing broker-dealer and its executing broker-dealer are complying with the duty of best execution. An introducing firm that routes its order flow to its clearing firm or other executing broker-dealer can rely on the clearing or executing firm's regular and rigorous review as long as the statistical results and rationale of the review are fully disclosed to the introducing firm and the introducing firm periodically reviews how the clearing or executing firm is conducting that review, as well as the results of that review. In cases where the introducing broker-dealer is relying on the review conducted by its clearing firm or other executing broker-dealer, the introducing firm must ensure that such analysis is thorough, considers the execution quality of a broad range of market centers, measures the execution quality provided by the clearing or executing firm for the introducing firm's own orders, and considers market centers to which the clearing or executing firm currently routes its order flow as well as market centers other than those to which the clearing or executing firm currently routes its order flow. Subsequent to its review of this information, the introducing firm should exercise its independent judgment and decide whether to retain its current order routing algorithm or modify it in some manner.

The firm will consider the following factors in reviewing and comparing the execution quality of its current order routing and execution arrangements to the execution quality of other markets and market centers:

- A. Material differences in execution quality, including price improvement opportunities. The SEC has defined price improvement as the difference between the execution price and the best quotes prevailing in the market at the time the order arrived at the market or market maker;
- B. Material differences in price dis-improvement (situations in which a customer receives a worse price at execution than the best quotes prevailing in the market at the time the order arrived at the market or market maker);
- C. The likelihood of execution of limit orders;
- D. Other material differences in execution quality such as the speed of execution, size of execution, and transaction cost;
- E. Customer needs and expectations, and
- F. The existence of internalization or payment for order flow arrangements (which must not interfere with a firm's best execution obligation).

Firm Procedures:

The Firm's clientele consists primarily of institutional accounts. Prior to execution of any customer transaction, the firm has a system designed to ascertain the best inter-dealer market. The firm then routes the order to the appropriate market center for execution.

Arthur Linden or his designee will be responsible for conducting a regular and rigorous review for best execution. Based upon the Firm's current business mix, level of sales and trading activity, it has been determined that at a minimum, a review will be conducted on a quarterly basis and entail a random sample of the transactions for that period. If necessary, the Firm may increase frequency of review. Again, this depends upon business mix and level of sales.

So that the firm can assess the quality of executions of its customer orders, the following has been implemented:

We will request a copy of the monthly compliance report card to assist us in determining whether the firm has executed trades at prices inferior to the NBBO.

If the firm feels that further investigation is needed to determine quality execution, compliance will review the reports produced pursuant to SEC Rule 17Ac1-5.

12.5 Fair Prices: Agency Transactions

Like mark-ups or mark-downs on principal transactions, commissions on agency transactions must be reasonable. Commissions on agency transactions will be charged in accordance with the schedule established by the Firm.

Compliance is responsible for reviewing the Firm's agency commission schedule to affirm charges are consistent with Firm policy and regulatory guidelines.

12.6 Disclosure of Mark-Ups

In accordance with Rule 10b-10, the following disclosures must be included on customer confirmations:

- If the Firm is NOT a market maker and executes a riskless principal transaction, the amount of the mark-up or mark-down must be disclosed.
- For any OTHER transaction in a reported security, disclose: the trade price reported; the customer's price; and the difference, if any, between the reported trade price and the customer's price.
- If the trade is for a security where the Firm is a market maker, a notation that the Firm acts as a market maker.

12.7 Orders for Customer Accounts

12.7.1 Phone Orders

A trader may accept a phone order for execution; however, phone orders must identify each customer by account number at the time the order is phoned in. The only exception is where accounts are under common control (investment adviser directed orders, orders from an individual with authority over multiple accounts); for such orders, account numbers may be provided after execution.

12.7.2 Orders Received Electronically

In certain circumstances, a trader may accept an order transmitted via e-mail or instant message from a customer. The account must be informed that an order is not considered valid until a confirming response is sent by the trader. *(Added 4/17/06)*

12.8 Short-Sales

12.8.1 Guidelines

The following guidelines apply to customer orders for short-sales of OTC stocks:

- Execute short-sales in compliance with SEC Rule 105 of Reg M which prohibits purchases from a public offering to cover short-sales executed

after the filing of the registration statement for the offering.

- Identify any short-sale as “short” on the order ticket.
- Before accepting a short-sale order from a customer, the RR is responsible for making an affirmative determination that the security can be borrowed on behalf of the customer by settlement date.

The short-sale rule applies to Nasdaq National Market (“NNM”) securities as follows:

- Traders are required to include a designator to Automated Confirmation Transaction (“ACT”) reports denoting whether sale transactions are long sales, short-sales, or exempt short-sales (see exemptions included below)
- Price is based on the inside bid as displayed in Nasdaq
- Provides for exemptions in certain situations that follow those in SEC Rule 10a-1 for short- sales in exchange-listed securities
- Exempts primary market makers from short-sale rule requirements in connection with bona fide market making activity (reports to ACT should include a designator on short-sales where the exemption applies)
- Prohibits market makers from using their exemption to bypass the rule or to indirectly circumvent it
- Is effective during normal, domestic market hours

12.8.2 Exempt Short-Sales – Reporting Requirements

Traders are responsible for marking their ACT reports to indicate when they have relied on the short exempt provisions of Reg. SHO where appropriate.

12.8.3 Affirmative Determination

Traders are NOT required to make an affirmative determination that securities can be borrowed when they effect short-sales in the following situations:

- when the Firm is effecting trades as a Nasdaq market maker
- bona fide market making transactions in non-Nasdaq securities where the Firm publishes a two-sided quotation in an independent quotation medium
- transactions which result in fully hedged or arbitrated positions
- transactions in corporate debt securities

For short-sales that do not meet any of the above criteria, traders are responsible for making an affirmative determination at the time of receipt of an order. **SEC Reg SHO** deals with the requirement of an “affirmative determination” for **(a) Long Sales** whereby a determination is made as to the location of the securities, the fact that they are in good deliverable form, and that they can be delivered within three (3) business days and **(b) Short Sales** which repeats the determination made in **(a)** or, in the alternative, that the securities can be borrowed which fact

must be indicated on the trade ticket or other order record. In the case of our clearing firm, either the locate number, the securities appearance on the Easy-To-Borrow (“ETB”) List or the name of the clearing firm representative confirming the stock loan shall be noted on the order ticket. Such notation is verified by a Trade Desk Principal. **ALL** trades are monitored by the three principals located on the Trade Desk. The Firm’s Trade Blotter is reviewed daily, at the end of the trading day, and is initialed by one of the principals on the Trading Desk.

The person responsible for supervision of the short sale rule is Arthur Linden or, in his absence, Darren Mattos. Mr. Linden reviews all short sale tickets on a daily basis to determine that there is an indication that a locate has been done. Mr. Linden will indicate on the daily tickets evidence of his review. He will also review a short sale blotter reflecting all reported short sales to determine consistency with the daily trades.

SEC Reg. SHO includes the requirements for obtaining affirmative determination when engaging in proprietary short-sales.

12.8.4 Mandatory Close-Out for Short Sales

Securities identified as “threshold securities” in accordance with SEC Rule 203(c)(6) must be closed out by purchasing securities of a like kind and quantity if a fail remains open ten days after settlement date, i.e., for thirteen consecutive settlement days. This function is initiated and affected through the clearing firm.

12.8.5 Procedures for Selling Short “Hard to Borrow” Stocks through Triad Trader Pro

The following guidelines apply to customer orders for short-sales in “hard to borrow” stocks through Triad Trader Pro electronic trading system:

- Triad Trader Pro user will telephone Triad Securities Corp.’s operations department to request a locate on a stock that is not on the Easy to Borrow list.
- Once it is determined that the stock can be borrowed, the customer is given the unique **request ID number**
- The customer then inputs this number into the Triad Trader Pro trade window in the short sale field. The order may be executed at this point.
- The customer is reminded that the request ID number is specific for the stock, amount and date requested.
- On the following day, Arthur Linden or his designee will review the Hard to Borrow Short Sale Trades Report for compliance verification.

12.9 Limit Orders

12.9.1 Limit Order Protection

An interpretation to NASD rules prohibits the Firm from trading for its own account at prices equal to or better than a customer's or other dealer's limit order without executing the customer's or other dealer's limit order. Limit orders will be identified as such. The designated supervisor is responsible for establishing procedures to ensure limit orders are executed in accordance with NASD rules.

The Firm may negotiate, on a trade-by-trade basis, specific terms for the execution of a customer limit order on behalf of an institutional customer (as defined in the NASD interpretation on limit orders) or for any customer that places a limit order for at least 10,000 shares, the value of which is at least \$100,000.

12.9.2 Limit Order Display Rule

In compliance with the Limit Order Display Rule (SEC Rule 11Ac1-4), the Firm is subject to certain requirements to display customer limit orders unless the limit order is executed immediately upon receipt. The display requirements must be met within 30 seconds of receipt of the limit order under normal market conditions. ONE of the following is required if the order is not executed immediately:

(1) The Firm displays the limit order:

For customer limit orders at a price better than the Firm's quote, display the price and full size of a customer's limit order,

For customer limit orders at a price equal to the Firm's bid or ask when the Firm's quote is the best market-wide price, display the full size of a limit order;

(2) Deliver the limit order to a market display system sponsored by an exchange or the NASD that complies with the requirements of the Rule;

(3) Place the limit order in a qualifying electronic system ("ECN") that meets the Rule requirements or

(4) Send the limit order to another market maker that complies with the Rule requirements.

These requirements apply to customer limit orders for exchange-traded securities and Nasdaq NMS and Small Cap securities. "Customer limit order" does not include a limit order for the account of a broker or dealer but does include a limit order transmitted by a broker or dealer on behalf of a customer.

Limit orders that are **NOT** subject to the above display requirements include the following:

- Those where the customer requests that limit orders not be displayed or be displayed only in part or at the discretion of the Firm. Such requests will be documented by written request from the customer and will apply to all limit orders entered on behalf of the customer, unless specified otherwise. Written requests will be submitted to Compliance who will notify the appropriate traders and retain the request in the Firm's records

- Odd-lot orders
- All-or-none orders
- Block orders (10,000 or more shares or market value of \$200,000 or more, unless the customer requests that it be displayed)
- Customer limit orders that are considered de minimis, representing 10% or less of the Firm's displayed size (multiple limit orders at the same price must be aggregated to determine whether the de minimis exemption applies)

12.9.3 Priority of Limit Orders

When the Firm holds multiple limit orders in the same security, the orders, if triggered, will receive executions considering the following priority:

1. Best-priced order (buy side: highest price, sell side: lowest price)
2. Time
3. Size

12.9.4 Limit Orders to be Entered into Firm's Order System

Traders are responsible for entering limit orders into the Firm's order entry system to ensure limit orders are triggered when a triggering transaction is executed by the Firm. Entry to the Firm's order system provides notice to traders when a limit order is triggered and should be executed.

12.10 Trade Reporting

Triad does not make markets nor does it trade for its own account.

Trades must be reported in accordance with requirements specified in FINRA rules. For trade reporting, an OTC market maker is defined as a FINRA member that holds itself out as a market maker by entering proprietary quotations or indications of interest for an OTC equity security in any inter-dealer quotation system. Trade reporting requirements vary depending on the security. Following is a summary of requirements for reporting NMS and Small Cap Securities. The FINRA rules governing trade reporting should be consulted for details of the requirements.

- Trades are to be reported within 30 seconds after execution through *ACT*.
- Trades not reported within 30 seconds after execution will be designated late and must include the time of execution.
- Trades executed before or after normal, domestic market hours must be designated as "T" to indicate execution outside normal market hours.
- Trades must include an indication of time of execution.
- For trades between two Registered Reporting Market Makers ("RRMM"), the

sell side only reports.

- For trades between a RRMM and a non-registered reporting member, only the RRMM reports.
- For trades between two non-registered reporting members, the sell side reports.
- In transactions between a member and a customer, the member reports.

Information to be reported includes:

- Nasdaq symbol
- Number of shares (excluding odd lots)
- Price of trade
- Indication of buy, sell or cross
- Time of execution, if reported more than 90 seconds after execution
- Prices reported exclude any commission charged on an agency transaction or mark-up or mark-down for a principal transaction

The Designated Principal will review the late trade reports provided by the NASD and follow-up with traders if late reports appear unreasonable considering the types of orders and business handled by the traders.

TRADE REPORTING AND COMPLIANCE ENGINE PROCEDURES

The Trade Reporting and Compliance Engine ("TRACE") is FINRA's automated system for reporting and disseminating transaction reports for secondary market transactions in TRACE-eligible securities. The term "TRACE-eligible securities" is defined in FINRA Rule 6710(a) to mean all United States dollar denominated debt securities that are depository eligible; investment grade or non-investment grade; issued by United States and/or foreign private issuers; and, if a "restricted security" as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A.

The Firm, as a FINRA member firm, is required to report secondary market transactions in TRACE-eligible securities to TRACE.

Transaction Reporting

The following provides a summary of the transaction reporting time requirements pursuant to the TRACE rules. The Firm must transmit the report to TRACE during the hours the TRACE system is open, which are 8:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time. Specific trade reporting obligations during a 24-hour cycle are set forth below.

Time of Execution	Requirement
8 a.m. but before 6:30 p.m., Eastern Time	Within 15 minutes after time of execution
6:15 p.m., but before 6:30 p.m., Eastern Time	Either report the same business day or on the next business day 15 minutes after the TRACE system opens on an "as/of" basis (reflecting the previous business day as the execution date)
At or after 6:30 p.m., but before 12 a.m., Eastern Time	Report the next business day within 15 minutes after the TRACE system opens; reporting must indicate "as/of" and provide the actual transaction date
At or after 12 a.m., but before 8:00 a.m., Eastern Time	Report on the same day within 15 minutes after the TRACE system opens
Saturday, Sunday, or a federal or religious holiday on which the TRACE System is closed	Report the next business day within 15 minutes after the TRACE system opens

For purposes of the reporting times above, FINRA Rule 6710(a) generally defines the term "time of execution" for a transaction in a TRACE-eligible security to be the time when the parties to the transaction agree to all of the terms of the transaction that are sufficient to calculate the dollar price of the trade.

In transactions between the Firm and another member firm, both the Firm and the member firm shall submit a trade report to TRACE. In transactions involving the Firm and a non-member, including a customer, the Firm is required to submit a trade report to TRACE.

Each TRACE Report must contain the following information:

- **CUSIP number or FINRA symbol;**
- **Number of bonds;**
- **Price of the transaction;**
- **Whether the transaction is a buy or sell;**
- **Date of trade execution (as/of trades only);**
- **Contra-party's identifier;**
- **Capacity - whether principal or agent;**
- **Time of trade execution;**
- **Reporting side executing broker as "give up" (if any);**

- **Contra side Introducing Broker in case of "give-up" trade;**
- **Stated commission; and**
- **Such trade modifiers as required by TRACE rules or guidelines.**

Transactions Not Required to be Reported to TRACE

Pursuant to FINRA Rule 6730(e), the following transactions should not be reported to TRACE.

- Transactions that are part of a primary distribution by an issuer. *(Note: exception to be deleted 3/1/10)*
- Transactions in TRACE-eligible securities that are listed on a national securities exchange, when such transactions are executed on and reported to the exchange and the transaction information is disseminated publicly.
- Transactions where the buyer and the seller have agreed to trade at a price substantially unrelated to the current market for the TRACE-eligible security (e.g., to allow the seller to make a gift).
- Provided that a data sharing agreement between FINRA and NYSE related to transactions covered by this Rule remains in effect, for a pilot program expiring on January 7, 2011, transactions in TRACE-eligible securities that are executed on a facility of NYSE in accordance with NYSE Rules 1400, 1401 and 86 and reported to NYSE in accordance with NYSE's applicable trade reporting rules and disseminated publicly by NYSE.
- Transactions resulting from the exercise or settlement of an option or a similar instrument, or the termination or settlement of a credit default swap, other type of swap, or a similar instrument.
- Transfers of securities made pursuant to an asset purchase agreement (APA) that is subject to the jurisdiction and approval of a court of competent jurisdiction in insolvency matters, provided that the purchase price under the APA is not based on, and cannot be adjusted to reflect, the current market prices of the securities on or following the effective date of the APA.

Procedures for TRACE Reporting

As noted above, the Firm is required to report secondary market transactions in TRACE-eligible securities within 15 minutes of execution. For this purpose, the Firm shall use the list of TRACE-eligible securities maintained by FINRA to determine securities that meet this definition. For purposes of these procedures, this list is defined as the "FINRA Daily List."

1. On a daily basis, prior to 8 am, the Execution Desk Supervisor will download the FINRA Daily List from FINRA's secure TRACE website.
2. The Execution Desk Supervisor will review and check the FINRA Daily List for securities that FINRA has included on the list as new TRACE eligible securities.

3. To the extent the Firm's traders may trade in the new TRACE-eligible securities identified on the FINRA Daily List, the Chief Compliance Officer will orally inform trade desk personnel accordingly. In this regard, the Chief Compliance Officer will inform the traders that to the extent any trades are executed on any new securities listed on the FINRA Daily List, the trader will have to provide the trade ticket information to the Execution Desk Clerk for TRACE reporting.
4. Upon execution of a trade in a TRACE-eligible security, the trader will manually provide the order ticket to the Execution Desk Clerk to report such trade to TRACE.
5. The Execution Desk Clerk will TRACE report(s) the information provided by the traders, as appropriate, by means of a public Internet connection with FINRA's TRACE website.
6. On a daily basis, the Execution Desk Clerk will provide Compliance with a report of trades that were TRACE reported for that day. This report will be generated from FINRA's TRACE website. Each report should include the following data: buy/sell, quantity, security symbol or CUSIP, price, yield, commission, contra MPID, execution time, and whether the Firm acted in the capacity of principal or agent on the trade.
7. On a daily basis, this report will be reviewed by the Execution Desk Supervisor and initialed as evidence of such review. The Execution Desk Supervisor will escalate any matters, as appropriate, to the Chief Compliance Officer. In addition, the Chief Compliance Officer (or designee), will review such report(s) on a daily basis.
8. If a transaction was reported late, the report will state the reason why. In addition, a monthly "TRACE report card" will be obtained through the FINRA Report Center. This report card will be reviewed and signed by the Execution Desk Supervisor, and retained as part of the Firm's books and records.

In the Execution Desk Clerk's absence, the foregoing procedures will be handled by the Execution Desk Supervisor. In the Execution Desk Supervisor's absence, the foregoing procedures will be handled by the Chief Compliance Officer.

12.11 Audit Order Trail System ("OATS")

The objective of Rules 6950 through 6957 is to develop the means to electronically capture and report daily transaction information to the Order Audit Trail System ("OATS").

Designation of Principal Responsibilities for Purposes of OATS Reporting:

Name of Supervisor	Arthur Linden or his designee(s)
Title:	Trading Desk Supervisor
Designee	Darren Mattos
Titles:	Administration
Frequency of Review:	Daily by Darren Mattos/Monthly by Arthur Linden.
How Conducted:	Review of FINRA Website
How Documented:	Initialing of OATS Trade Blotter daily
3010 Checklist:	Code of Conduct 2320

Darren Mattos accesses the FINRA OATS website daily and reviews the data to ensure proper file submission, whether rejections have occurred, the reason for the rejections and the corrections made. Mr. Mattos also initiates frequent contact with the parties responsible for OATS submission at Triad's "transmitting firms" to ensure compliance with both rule and technical updates. Arthur Linden supervises this review process.

In General:

FINRA has implemented an Order Audit Trail System ("OATS") to record (a) orders and (b) changes in orders received in all NASDAQ (NMS and Small Cap) equity securities (including convertible bonds). FINRA combines this information with the Automated Confirmation Transaction System ("ACT") with quotations provided by members in order to provide an integrated audit trail of quotation, transaction, and order data.

The OATS Rules require that all electronic orders for NASDAQ securities, including Small Cap and NASDAQ NMS securities and convertible bonds received at the Trade Desk by market makers and Electronic Communications Networks ("ECNs") be reported to OATS by March 1, 2000 (Phase 1); all electronic orders for NASDAQ securities be reported to OATS by August 1, 2000 (Phase 2); and finally all reporting of non-electronic or manual orders for NASDAQ securities received by member firms to OATS as extended (Phase 3).

The OATS Rules require that all electronic orders for NASDAQ securities, including Small Cap and NASDAQ NMS securities and convertible bonds received at the Trade Desk by market makers and Electronic Communications Networks ("ECNs") be reported to OATS.

RRs of the Firm who are involved in the origination and processing of orders covered by the OATS systems are expected to be knowledgeable about the practices and procedures followed by the Company. In particular, each representative should be familiar with the Company's Manual.

Clocks:

Triad and all other FINRA members receiving instructions to effect transactions in covered securities shall synchronize all clocks used to record the time of receiving orders/changes

("OATS Clocks"). Synchronization shall be within three (3) seconds of the National Institute of Standards and Technology's ("NISAT") atomic clock. ALL TIME WILL BE EXPRESSED AS EASTERN STANDARD TIME ("EST"). During use in the OATS system, all OATS clocks shall be synchronized each day before market opening and at regular intervals throughout the day. Computer system clocks must be in seconds and be maintained on a daily basis. Mechanical time stamping clocks must be reviewed daily.

Registration:

All market makers and ECN operators must register with FINRA as OATS Reporting Members not less than one hundred and twenty (120) days before the reporting date on a Subscriber Initiation and Registration Form. Non-registering firms will be unable to report. Failure to report is a violation of FINRA rules. Firms not reporting directly are asked to identify the third party reporting mechanism.

OATS Principal:

Please refer to individual listed under "Designation of Principal Responsibilities for Purposes of OATS Reporting".

Reports:

Pursuant to the OATS' system, the Firm and/or its agents will furnish one or more reports (or change in an order) on a Reportable Order Event Record ("ROE"). All orders must be reported, including open orders, modified orders, partially executed orders, and canceled orders. Orders to effect a proprietary transaction originated by the Trade Desk in the ordinary course of the Company's market making activities, if applicable, need not be reported. Orders received from a market maker are not required to be reported.

The Firm will review on a daily basis the OATS reporting by the Firm which will be accessed through Triad's User I.D. and Password. This information is retrievable at the following website: <https://oats.finra.org>. The Trade Desk Manager will initial the OATS Trade Blotter, ***Appendix D***, in order to ensure the timely and accurate reporting of trades.

Procedures:

All orders that are not market maker orders or proprietary transactions will be reported through e-mail messages *{through File Transfer Protocol ("FTP") transmissions or through the FINRA Website interface}* to the FINRA designated address. The Designated Principal or his designee will review the feedback to correct any rejections. Copies of all feedback will be maintained in a designated file.

Review:

Daily review:

- (1) Ensure all Firm Order Report ("FORE") files are accepted.

- (2) Identify and repair rejected Reportable Order Events (“ROEs”), ensuring repaired ROEs are resubmitted with the appropriate resubmit flag.
- (3) ROEs are submitted in the correct time sequence (e.g., executions are not time-stamped prior to the receipt of a new order).
- (4) Data fields contain accurate information.
- (5) Identify any ACT Matching deficiencies.
- (6) Routed Order IDs are passed properly to the Routing Firm from the Receiving Firm.
- (7) Data is properly reported under the member’s Market Participant ID (“MPID”).
- (8) Receive communications from FINRA regarding OATS availability, announcements, software releases, etc. Triad Securities Corp. and the supervisors e-mail addresses will be added to Firm Administration page on the OATS Web Site.
- (9) Update and maintain firm contact information.

Monthly review of accepted OATS data to ensure:

- (1) All reportable events are submitted to OATS.
- (2) Identify Late Reports through the Monthly Compliance Report Card

DEFINITIONS

Order Sending Organization - (“OSO”) An FINRA member or non-member authorized to send order data to OATS.

Reportable Order Event Record - (“ROE” Record) A record of the life cycle of an order - [receipt, cancellation, execution, modification, routing].

Firm Order Report File - (“FORF”) A file containing one or more reportable order events sent by an OSO.

Technical Requirements

Firm Order Reports (“FOREs”) must be submitted by:

- (1) FTP [Net Technology may be used]
- (2) E-mail Message [E-mail Internet Simple Mail Transfer Protocol (“SMTP”)]
- (3) Web interface

The Firm will also retain the data.

- (A) OSO generates ROE records and packages them in FORFs.
- (B) OSO transmits FOREs to NASD by FTP, e-mail, or web interface.
- (C) NASD validates FOREs and sends feedback to OSO. Feedback includes FORE status, ROE rejections and reporting statistics.
- (D) OSO corrects any errors and repackages them in FOREs and submits new files.

12.12 OTC Transactions in Listed Securities

12.12.1 Requirement to Report Transactions

FINRA rules require reporting of OTC transactions in listed securities. This requirement applies to listed securities (“eligible securities”) as identified under SEC Rule 11Aa3-1. Reporting requirements include reports to the Consolidated Quotation Service (“CQS”) within 90 seconds of execution. Traders should refer to the specific requirements under FINRA rules and are responsible for complying with the reporting requirements.

12.13 Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account

12.14 Transactions in Penny Stocks

A minimal percentage of the Firm’s commission business (under 5%) is received from transactions in penny stocks. Unless this percentage increases, the firm is exempt from the risk disclosure document requirement in accordance with SEC Rule 15g-1. (***added 3/1/06***)

13.0 CORPORATE FIXED INCOME TRADING

13.1 Fair Prices

Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

13.2 Mark-Ups and Mark-Downs

The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:

- The best judgment of the Firm as to the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction
- The expense involved in effecting the transaction
- Total dollar amount of the transaction
- Availability of the security
- The price or yield of the security
- The maturity of the security
- Resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market
- The nature of the Firm's business
- Any other relevant facts at time of execution

13.3 Commissions on Agency Transactions

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- the expense of executing and filling the customer's order
- the value of the services rendered by the Firm
- the amount of any other compensation received by the Firm in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

13.4 Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account.

14.0 MUTUAL FUNDS

14.1 Introduction

Mutual funds, for purposes of these policies and procedures, refer to open-end

investment companies. RRs are responsible for recommending mutual fund transactions in compliance with these policies.

The designated supervisor is responsible for reviewing mutual fund transactions on a daily basis, taking the following areas into consideration.

14.2 Breakpoints

For some mutual funds, front-end sales charges decrease as the dollar amount invested increases. These thresholds for reduced sales charges are called breakpoints. Breakpoint sales is a term that denotes selling mutual funds to maximize commissions earned, i.e., selling an amount close to but below a breakpoint. The customer will, therefore, pay a higher sales charge. This practice is prohibited.

Recommending diversification among several funds with similar investment objectives, particularly if sales occur in amounts just below the breakpoints of one or more funds sold, may not be in the best interests of the customer. If multiple purchases of different mutual funds is appropriate but will preclude the customer from qualifying for a breakpoint, the customer should sign a letter acknowledging his or her understanding that a breakpoint is being given up by purchasing multiple funds.

14.3 Letters of Intent

A letter of intent is an investor's written statement of intent to purchase a specified dollar amount of a single mutual fund or funds within a single fund group over a specific period of time. The aggregate investment over time may qualify for a breakpoint and a lower percentage sales charge.

The mutual fund purchase should indicate if the customer will execute a letter of intent so the lower sales charge will apply.

14.4 Rights of Accumulation

Aggregating purchases of a particular fund or family of funds by one investor (and sometimes family-related purchases) may qualify for rights of accumulation. A lower sales charge may apply based upon the total dollar amount invested.

The mutual fund purchase should indicate rights of accumulation if available and the customer's desire to aggregate purchases to qualify for a lower sales charge.

14.5 Switching

Switching is the selling or redemption of one mutual fund with a sales charge to buy another mutual fund with a sales charge. Recommended switches may not be based upon the compensation to be received by the RR or the Firm as a result of effecting the switch. As for all recommendations, the RR must have a reasonable basis for believing the switch is suitable for the customer.

The customer may incur multiple sales charges by changing from one fund to another and there may also be tax consequences because of the switch. The concern is whether

the switch is justified and whether the customer understands the consequences of the switch.

Switches between mutual funds that result in potential additional sales charges for the customer (whether front–end or back–end load) require that a letter be obtained from the customer acknowledging an understanding of the consequences of the switch. A sample letter is included in the following section. It is the designated supervisor's responsibility to ensure switch letters are obtained for switch transactions. The letter will be retained with the record of the order and/or in a branch file for the customer or for switch letters.

14.6 Sample Switching Letter

(Date)

(Firm name)

(Firm address)

Gentlemen:

This will confirm that I understand that my purchase of (quantity and name of fund to be purchased) will result in my incurring a sales charge and there may be tax consequences resulting from my sale of one mutual fund to purchase a different fund.

This purchase is consistent with my investment objectives.

Sincerely,

(Name of Customer)

14.7 Market Timing Transactions

The NASD has stated that recommendations to fund investors to engage in market timing transactions should be made within a single family of funds or where there are no transaction costs associated with the trades.

14.8 Selling Dividends

Selling dividends is a practice of recommending the purchase of a mutual fund based upon an imminent dividend distribution.

Since the price of a mutual fund is reduced by the amount of the dividend, there is no benefit to the customer unless there are specific tax or other advantages to the customer. In fact, there may be increased tax liability for the investor. A related concern is representing that distributions of long term capital gains by the mutual fund are or could be viewed as part of the income yield from the mutual fund.

14.9 Misrepresenting “No–Load” Funds

Certain funds impose a sales charge when the customer redeems or liquidates an investment (“back–end load” or contingent deferred sales charge). These charges are

generally on a decreasing basis the longer the mutual fund is held. For example, a mutual fund may charge 5% if the shares are sold prior to being held 5 years, 4% if after 5 but before 6 years, etc. Other funds have a combined asset-based sales charge and/or service fee exceeding .25 of 1% of average annual assets.

Mutual funds with back-end loads or asset-based sales or service fees exceeding .25 of 1% may not be sold as “no-load” funds.

14.10 Suitability

In the recommendation of mutual funds, the RR should match the customer's objectives with the stated objective and investment strategy of the recommended fund.

14.11 Correspondence

When reviewing correspondence regarding mutual funds, the designated supervisor should watch for the following in addition to the usual considerations when reviewing correspondence:

- Selling dividends (not permitted)
- Representing a back-end load fund as “no-load” (not permitted)
- Representing a fund with an asset-based sales or service fee exceeding .25 of 1% as “no-load” (not permitted)
- Representations regarding yield (there are specific requirements regarding quotation of yields; RRs should use materials provided by the fund or pre-approved by the Firm)
- Recommendations that include switching or appear to recommend unsuitable diversification among funds
- Letters that include excerpts from the prospectus that would be misleading when taken out of context
- Disclosures, as applicable (see explanation in the section titled “Disclosure of Material Facts”)
- Performance is represented accurately and consistent with rule requirements regarding yield and return

RRs should use letters pre-approved by the Firm and include a prospectus. Where a prospectus will not be included, Compliance should review the letter prior to mailing.

14.12 Disclosure of Material Facts

The NASD has stated that there are material facts that should be disclosed to a customer when recommending a mutual fund. Items to be disclosed, if applicable or appropriate, include:

- The fund's investment objective

- The fund's portfolio
- Historical income or capital appreciation
- The fund's expense ratio and sales charges
- Risks of investing in the fund relative to other investments
- The fund's hedging or risk management strategy
- Information regarding the structure of multi-class and master-feeder funds sufficient so that the customer may understand and evaluate the structure
- Potential tax consequences including tax on distributions and capital gains subject to tax
- Potential risks if a fund invests in financial derivatives
- If an expense ratio is represented as an advantage of a particular fund, it is explained in the context of and compared with other mutual fund expense ratios

The mutual fund's prospectus and other sales literature generally include many if not most of these disclosures.

14.13 Performance Information

When presenting performance information, an explanation of total return should explain that total return measures overall performance while current yield represents only the interest or dividend paid by the fund. Where appropriate, RRs should explain the difference between return of principal and return on principal. When providing information regarding distribution rates, the RR is responsible for explaining the difference between distribution rate and current yield.

14.14 Confirmation Disclosures

For purchases of shares of an investment company that charges a deferred sales charge upon redemption, NASD rules prescribe that the confirmation is required to include a statement that states the following: "On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus." The rule states that the legend must appear in at least 8-point type. The FINOP is responsible for establishing procedures to ensure confirmations include the required legend.

14.15 Prospectuses

R Rs should provide a copy of the prospectus when recommending a mutual fund purchase to a customer.

A copy of the fund prospectus will be sent to each purchaser of a mutual fund. The designated supervisor is responsible for establishing procedures to ensure a prospectus is provided to each mutual fund purchaser.

14.16 Advertising and Sales Literature

There are specific requirements for advertising and sales literature regarding mutual funds. Advertising must be filed with the NASD within prescribed periods (see the chapter titled “Communications with the Public” and the section titled “Advertising And Sales Literature” for details). There also are mandated guidelines on representations regarding performance and yield. RRs may use materials provided by the fund or Firm–approved materials. Any other advertising or sales literature must be approved by Compliance prior to use.

14.17 Dealer–Use–Only Material

Materials provided by fund distributors for dealer–use only may not be provided to customers and must not be displayed in a public area such as a reception area where customers obtain written information regarding investments. Dealer–use–only material is often provided as educational material for dealers and their RRs. There is no requirement to file this material with the NASD because it is for internal use only.

All dealer–use–only material will be marked as such with limited distribution.

15.0 OPTIONS

15.1 Supervisory Responsibilities

Arthur Linden, CROP, has the following supervisory responsibilities:

- Supervision of all customer options transactions
- Review and approval of option accounts
- Review of daily options transactions
- Assist branch supervisors in supervising customers' options accounts
- Assist in the preparation of options advertising and sales literature
- Approval of discretionary option accounts
- Review of trades in discretionary option accounts
- Supervise the preparation of option–related forms including account approval forms and agreements, standard options worksheets, and periodic account statements
- Review the Firm's method of allocation of exercise notices
- Review and approval of any option programs involving the systematic use of one or more option strategies
- Review of selected option accounts on a periodic basis
- Review and approval of option advertising and sales literature
- Review and propose appropriate action for the Firm's compliance with

securities laws and regulations with respect to the Firm's option business

- Furnish reports directly to the Firm's compliance officer and to other senior management of the Firm
- Establish recordkeeping requirements for required records of options accounts and transactions including approval of accounts and customers' verification of background and financial information
- Review of accounts without required approval and placing restrictions on accounts until deficiencies are cleared (missing option agreements or trading outside approved levels)
- Maintain the Firm's central option complaint file
- Establish procedures to ensure only qualified Registered Options and Securities Futures Principals are permitted to solicit or sell options
- Review trusts, pension plans, and other types of fiduciary accounts for authority to engage in options transactions

In Mr. Linden's absence, Richard Schultz will be the designated supervisor of these functions.

15.2 Registered Options Representatives

Only persons who are qualified to engage in the solicitation and/or sale of options contracts are permitted to do so. Generally, anyone who has successfully completed the Series 7 General Securities Representative examination is qualified to solicit and sell options. Questions regarding qualification should be referred to Compliance.

15.3 Approval of Option Accounts

Prior to the first option trade, a completed option agreement must be approved by the CROP. In branches where no CROP resides, the designated Branch Manager may approve the option account; however, a CROP must approve the account within ten (10) days of Branch Manager approval.

RRs are responsible for obtaining the required information on the Firm's customer option agreement. The customer must sign the option agreement confirming the information included on the form and agreeing to abide by the requirements included on the Firm's agreement.

The customer's signed option agreement must be submitted to the Firm within fifteen (15) days of approval. Failure to receive the customer's signed option agreement within fifteen (15) days will result in restricting the customer's account to closing option transactions until the agreement is received.

The following **minimum** requirements apply to all option accounts: (*Added 9/1/06*) \$2000 equity, \$10,000 net worth, one year investment experience, and investment objectives consistent with the inherent risks involved with trading options.

Additionally, each option account is reviewed on an individual basis and approved for different option levels based on the account's profile.

15.4 Approved Levels of Option Trading

- (1) *Custodian Accounts*— Only covered call writing is permitted.
- (2) *Trust Accounts*—Upon receipt of a trust agreement, trust accounts may be permitted to write covered call options only after written approval by the ROP. Should a trust wish to purchase calls or enter into a spread transaction, the trust document must specifically include options language and margin authorization to that effect; otherwise, an amendment to the trust document must be furnished prior to this type of trading. Spreading also requires the trust document to state specifically that trading on margin is allowed. Trusts **WILL NOT** be permitted to write uncovered calls or puts.
- (3) *Investment Clubs*—Upon receipt of the Investment Club Agreement, investment clubs may be permitted to purchase calls and write covered call options only. Investment clubs are not permitted to do spreads or uncovered writing.
- (4) *Corporations*—All corporate option accounts require a copy of the Corporate Charter or Articles of Incorporation. The extent to which the corporation may trade options will depend upon the specific authorizations stated in the charter or amendment thereto. If no specific language regarding options appears, only covered call writing may be permitted **AFTER** a corporate resolution has been received.
- (5) *Partnerships*—Upon receipt of the Partnership Agreement, partnerships will be permitted to purchase calls and write covered call options only. Partnerships will not be permitted to do spreads or uncovered writing.
- (6) *Estates*—Estate accounts are permitted to write covered call options only. They will not be permitted to do spreads or uncovered writing. If a Will establishes a Trust, refer to the rules for Trust Accounts. If the person establishing the Trust is deceased, amendments to the instrument are impossible.
- (7) *IRA Accounts*—Covered call writing only will be permitted.
- (8) *Employee Benefit Plans*—Pensions, profit sharing, and like accounts are permitted to write covered call options only.
- (9) *Discretionary Accounts*—Arthur Linden will be responsible for accepting discretionary accounts for option trading. Cynthia DeMarco, CCO, will review the acceptance of each discretionary account to determine that Mr. Linden had a reasonable basis for believing that the customer was able to

understand and bear the risks of the strategies or transactions proposed. A record of such determination will be maintained.

- **UNCOVERED CALL OPTIONS ARE NOT PERMITTED FOR AN ACCOUNT WITHOUT PRIOR APPROVAL BY THE CROP**
- **SPREADS, STRADDLES, AND COMBINATIONS MUST BE APPROVED BY A CROP**

15.5 Requalification of Accounts

When a previously-approved option account is to be approved for a higher level of option, an amended option agreement is required. The amendment is to be approved by Arthur Linden or his designee.

15.6 Option Disclosure Document

All customers will be provided the required disclosure document either before or at the time the account is approved for option transactions. Prior to the first option transaction, the RR is responsible for providing the customer with a copy of the disclosure document.

In addition, whenever the disclosure document is revised, a new copy will be sent to all approved option accounts in existence at the time of the revision.

15.7 Uncovered Short Options

In addition to the above-referenced limitations on specific accounts, there are additional requirements for the approval and supervision of accounts engaging in uncovered short option transactions as follows:

At this time, only Arthur Linden, or his designee, is permitted to approve any uncovered short option transaction. Prior to approving an account to write uncovered short option transactions, the account must be closely reviewed by Arthur Linden and certain requirements must be met.

The account must have at least five (5) years of option experience. In addition, a minimum liquid net worth of at least \$100,000 is required and the account must have a minimum net worth, exclusive of residence, of \$250,000. These minimums must be maintained in order to continue to be approved for uncovered short option transactions.

Also, every customer approved for writing uncovered short option transactions must be provided with a special statement for uncovered option writers approved by FINRA that describes the risks inherent in writing uncovered short option transactions, at, or prior to,

the initial writing of an uncovered short option transaction. (See Appendix G)

All accounts approved for writing uncovered short options transactions will be reviewed by a CROP on a monthly basis by way of account confirmations and statements. A review with the registered representative responsible for the account will be required if deemed necessary by the CROP.

15.8 Complaints

All written option complaints are to be forwarded to Arthur Linden immediately upon receipt. A copy is to be retained in the branch's option complaint file, which is to be maintained separately from other branch complaints. For branch offices subject to the supervision of an OSJ in another location, the OSJ will retain copies of complaints for branch offices under its supervision.

The Firm's central option complaint file will include the following:

- Identification of complainant
- Date complaint received
- Identification of RR servicing the account
- General description of the matter complained of
- A record of what action, if any, was taken with respect to the complaint

15.9 Statements of Accounts

For all accounts trading options, each branch office servicing the account and the principal supervisory office having jurisdiction over the branch office will retain copies of customer statements for the prior six (6) months.

15.10 Option Orders

- All option orders will include the following:
 - description of option
 - put or call
 - open or close
 - covered or uncovered
 - spread, straddle, or combination, if applicable

15.11 Fiduciary Accounts

Arthur Linden will review trusts, pension plans, and other fiduciary accounts to determine whether options transactions are permitted in the document (trust agreement, etc.) governing the account.

15.12 Prohibited Transactions

The following transaction(s) is/are not permitted:

- Option rules prohibit the entering of a transaction for the sale (writing) of a call option contract for the account of any corporation which is the issuer of the underlying security.
- An opening covered short position in a call option contract may not be established if the underlying stock is restricted and not free to sell.

15.13 Options Advertising/Sales Literature/Educational Material

It is the general policy of Triad not to advertise the use of options. However, if option advertising were to occur the following procedures would be followed:

Arthur Linden shall, prior to use or publication, approve all options related advertising material, sales literature, or educational materials. He shall review options related advertising to, among other things:

- Ensure that the advertising meets the requirements of Rule 1.34 of the Securities Act of 1933 (i.e., the advertising is limited to a general description of the security offered and a general description of the issuer);
- Verify that the advertisements include the name and address where a customer can request a copy of the current options disclosure document;
- Ensure that it does not include a recommendation, a description of past or projected performance, or include an annualized rate of return;
- Ensure that the advertisement does not identify a specific security; and
- Ensure that a legend is included stating that options are not a suitable investment for all investors.

Arthur Linden will maintain a central file of approved options related advertising material, sales literature, and educational material. Such file shall include:

- The name of the person who prepared the advertising material, sales literature or education material;
- The name of the person who approved such literature or material; and
- Evidence of the supervisor's review and approval of the advertising material, sales literature, or educational material.

15.14 Approval of Advertising and Educational Material

Arthur Linden shall submit to FINRA for approval, at least 10 days prior to use, all option advertising and educational material. He shall maintain a record of all material submitted to FINRA for review.

15.15 Communications with the Public Regarding Options

15.15.1 Correspondence with the Public

All communications with the public will be reviewed by the Arthur Linden prior to its being sent to the public.

15.15.2 Public Speaking

Triad does not as a matter of policy permit public speaking engagements. However, if policy were to change, Arthur Linden or his designee is responsible for reviewing and approving the text material for all public speaking engagements involving discussions on options.

15.16 Position and Exercise Limits

15.16.1 Daily Review of Position and Exercise Limits

Triad's clearing firm identifies the accounts in which Triad has an interest, each account of a partner, officer, director or employee of Triad, and each customer account that has established an aggregate position of 200 or more option contracts (whether long or short) of the put class and the call class on the same side of the market covering the same underlying security or index.

Arthur Linden reviews the daily trading activity to ensure that all accounts with reportable positions in accordance with NASD Rule 2860(b)(5) have been identified.

15.16.2 Reporting of Large Positions

In accordance with the NASD Conduct Rule 2860(b)(5) – All accounts or accounts “acting in concert” that reach a level of 200 or more option contracts of the same class on the same side of the market covering the same underlying security or index must be reported to FINRA.

Triad's clearing firms are responsible for generating a report, in accordance with FINRA rule 2860(b)(5), that identifies each account (including accounts acting in concert) that have established an aggregate position of 200 or more option contracts whether long or short of the put class and the call class on the same side of the market covering the same security or index.

15.16.3 Procedures for Option Allocations/Assignments

Triad uses the option allocation procedures of its clearing firm. A copy of the clearing firm's allocation procedures will be retained by Triad's Compliance Department.

Triad receives a list of randomly selected customer and firm assignments from its clearing firm. All customers affected will be contacted and the appropriate market action will be commenced. A list of all assignments will be retained by the Triad Securities Corp.

A monthly option supervision meeting will be held on option expiration Friday. Arthur Linden, the Compliance Officer and other trade desk supervisors will meet to review customer accounts with option positions and the potential for exercises and assignments. Evaluation will include the current price of the stock, the stock's volatility and the customer's equity. A record of this review will be initialed and retained by the Compliance Officer. (*Amended 5/10/07*)

16.0 MUNICIPAL SECURITIES

16.1 Administration and Operations

16.1.1 Fees and Assessments

The designated supervisor is responsible for reporting required information and paying assessment fees to the Municipal Securities Rulemaking Board ("MSRB") regarding new issues. The designated supervisor is also responsible for paying the annual fee to the MSRB.

16.1.2 Municipal Securities Representatives

All RRs who solicit orders or sell municipal securities will be qualified as municipal securities representatives. Generally, individuals who successfully complete the Series 7 General Securities Sales examination will satisfy this requirement.

16.1.3 Apprentices

Individuals who have not previously qualified as municipal securities representatives are required to complete a 90-day "apprenticeship" period during which the individual is prohibited from soliciting or transacting business with the public. This includes a prohibition against soliciting new accounts on behalf of the Firm. In addition, apprentices may not be compensated from transactions in municipal securities.

The designated supervisor to whom the apprentice reports is responsible for ensuring apprentices do not solicit or transact business with the public. Compensation to the apprentice will not include remuneration from transactions in municipal securities.

16.1.4 Municipal Securities Sales Supervisors

Municipal securities sales supervisors are permitted to supervise customers' transactions in municipal securities. Individuals who complete the Series 8 General

Securities Sales Supervisor examination are qualified as municipal securities sales supervisors. Supervision is limited to sales of municipal securities to customers.

16.1.5 Municipal Securities Principals

The Series 53 examination qualifies individuals for the registration status of municipal securities principal which permits the individual to supervise all aspects of the Firm's municipal business. The qualified municipal principal will be designated to supervise the areas of underwriting, trading, pricing of inventories, and comparison and settlement of municipal securities transactions executed in prime broker customer accounts.

16.1.6 Non-registered Employees

Employees who are not registered are limited to clerical and ministerial functions when talking to public customers including:

- The recording and transmission of orders through normal channels;
- The reading of approved quotations, and
- The giving of reports of transactions.

Non-registered employees, including apprentices, are not permitted to solicit new accounts on behalf of the Firm. The designated supervisor to whom the non-registered employee reports is responsible for reasonably ensuring the employee does not exceed the limitations listed above.

16.1.7 Confirmations

The FINOP is responsible for establishing procedures regarding the preparation and transmission of customer confirmations, including information required under MSRB Rule G-15.

16.1.8 Disclosure of Interest in Distribution

SEC Rule 15c1-6 specifies requirements for disclosures when the Firm is involved in a primary or secondary distribution of municipal securities. The Firm will provide the required disclosure on or with the customer's confirmation of a transaction in the subject securities.

16.1.9 Reciprocal Dealings

The Firm and its employees are prohibited from soliciting municipal transactions from accounts for investment companies in return for sales of shares in the investment company.

16.2 Sales of Municipal Securities

16.2.1 Conduct of Municipal Securities Business

It is the Firm's policy to deal fairly with all persons. Deceptive, dishonest or unfair practices are prohibited.

16.2.2 Suitability

RRs are required to obtain pertinent information about customers (depending upon the type of customer) regarding financial background, tax status, investment objectives, and other information to assist in the evaluation of suitability of recommendations. If the customer refuses to provide the requested information, the new account form should be so marked.

RRs are required to have a reasonable basis to believe recommendations are suitable.

16.2.3 Customer Accounts

Refer to the section titled "Accounts" for details of the Firm's policies regarding supervision of accounts.

16.2.4 Complaints

The handling of customer complaints is described in the section "Complaints" in this Manual.

Upon receipt of a complaint involving a municipal security, Compliance will send to the customer a copy of the investor brochure designated by the MSRB, and will record the date when the investor brochure was provided.

16.2.5 MSRB Rules

The Firm will maintain a copy of the MSRB rules in each branch office where municipal securities business is conducted.

16.2.6 Issuer Disclosures

Rule 15c2-12 of the '34 Act imposes certain requirements on municipal underwriters and issuers to disclose "material events" and financial information regarding the municipality. This information is available through data providers called Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"). The Firm subscribes to at least one NRMSIR which is available to RRs to access information about municipal issues prior to recommendation.

If a RR becomes aware of a considered change by a rating agency in the issuer's rating or a material event as would be reported to a NRMSIR, the RR should include consideration of this information in any anticipated recommendation and advise the customer, where appropriate.

16.3 Trading

16.3.1 Fair Prices

Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

16.3.2 Records of Orders

The trading department will maintain a record of orders in municipal securities consistent with the requirements of MSRB Rule G-8. The designated supervisor is responsible for daily review of transactions in municipal securities.

16.3.3 Mark-Ups and Mark-Downs

The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:

- The best judgment of the Firm as to the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction
- The expense involved in effecting the transaction
- Total dollar amount of the transaction
- Availability of the security
- The price or yield of the security
- The maturity of the security
- Resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market
- The nature of the Firm's business
- Any other relevant facts at time of execution

MSRB Rule G-30 also includes the factor that the Firm is entitled to a profit on the transaction.

Compliance will review mark-ups and mark-downs on at least a spot-check basis. Transactions deemed excessive will be canceled and rebilled to reflect an acceptable mark-up or mark-down.

16.3.4 Commissions on Agency Transactions

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- the expense of executing and filling the customer's order
- the value of the services rendered by the Firm
- the amount of any other compensation received by the Firm in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

16.3.5 Reports of Sales or Purchases

Reports of purchases or sales of municipal securities are to be made only if the trader knows or has reason to believe the transaction actually occurred.

If reports of purchases or sales are distributed outside the Firm in writing (other than to customers for whom orders are executed), the designated supervisor will retain a record of the reports including a copy of the reports, date of the report, and the persons giving and receiving the report. If reports of transactions are included in Firm advertising, records will be retained in accordance with the Firm's advertising policy.

The municipal trading department is also responsible for reporting transactions to the MSRB or its designee per MSRB Rule G-14.

16.3.6 Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account. Errors in customer accounts are documented on an internally generated Cancel & Rebill/Error Report form which requires a designated principal's approval.

16.3.7 Cancels and Rebills

Cancellations and rebills in customer accounts are documented on the Cancel & Rebill/Error Report form which requires a designated supervisor's initials.

16.3.8 Traders' Personal Accounts

Traders are required to maintain their personal securities accounts with the Firm. Traders may not effect personal transactions in municipal securities from Firm inventory. Purchases or sales must be made on an agency basis with other dealers. Exceptions require the approval of the designated supervisor.

16.4 Gifts

16.4.1 Introduction

MSRB rules require that the Firm and its municipal securities professionals maintain a record of any gift or gratuity which includes anything of value in excess

of \$100 in relation to municipal securities activities. This does not include occasional gifts of meals or tickets to theatrical, sporting, and other entertainments, reminder advertising, and the sponsoring of legitimate business functions. Gifts cannot be so frequent or so expensive that unethical conduct may become an issue.

Employees are required to notify Compliance of any gifts in excess of \$100. Compliance is responsible for maintaining the Firm's Gift Record Keeping Log which may be reviewed periodically by regulators.

16.4.2 Gift Record Keeping Log

(FIRM NAME)

GIFT RECORD KEEPING LOG

Municipal Securities Professional
Customer/ Prospect (Acct# if applicable)
Gift Given Amount/Type
Date Gift Given
Reason:

16.5 Political Contributions

16.5.1 Introduction

MSRB Rule G-37 specifies restrictions and requirements regarding political contributions to individuals who may influence the placement of municipal securities business as defined in the rule. The purpose of the rule is to sever any connection between political contributions and the awarding of municipal business. The rule does not prohibit political contributions; it does, however, prohibit the Firm from engaging in municipal business for two (2) years with any issuer where contributions subject to this rule are made. In that the Firm does not want to be subject to a two (2) year restriction on its municipal business, employees are required to adhere to the requirements of the rule. Rule G-38 requires the disclosure of consultants retained by the Firm to obtain municipal securities business.

Because the rules are extensive and there may be different interpretations depending upon the circumstances, it is important to consult with Compliance regarding any questions about the effect of the rule.

16.5.2 Summary of Key Requirements

- The types of public finance business included in this rule are acting as a negotiated underwriter (as manager or syndicate member), financial advisor or consultant, placement agent, and negotiated remarketing agent.
- The rule applies to contributions made by the Firm, any PAC controlled by

the Firm, public finance professionals, municipal traders and professionals, the Firm's executive committee, salespersons whose primary income (more than 50%) is derived from selling municipal securities, and anyone who solicits public finance business on behalf of the Firm.

- Political contributions by the Firm or affected employees must be cleared through Compliance prior to making the contribution.
- “Contributions” are defined by rule and the recipient of contributions (“official of the issuer”) is also defined. Some minimal contributions (\$250 or less) by affected employees who are contributing to officials for whom they may vote are excluded from the rule.
- The Firm and its employees are prohibited from soliciting others to make contributions to an official of an issuer.
- The Firm will be required to maintain internal records of affected employees and their contributions and report quarterly to the MSRB.
- The Firm is required to have written agreements with consultants and disclose consulting arrangements directly to issuers and to the MSRB for public disclosure.

Some of the key requirements are summarized below.

16.5.3 Definition of Municipal Securities Business

The types of business subject to the rule include acting as a negotiated underwriter (as manager or syndicate member), financial advisor or consultant (on a negotiated underwriting), placement agent, and negotiated remarketing agent. The rule does NOT apply to acting as a competitive underwriter or competitive remarketing agent. Note that if the Firm engages a consultant to secure municipal business, the consultant's contributions will affect the Firm's ability to handle municipal business on behalf of the issuer. “Seeking to engage in municipal securities business” is also included under the rule and includes responding to Requests for Proposals, making presentations of public finance capabilities, and other solicitation business with issuer officials.

16.5.4 Definition of Municipal Finance Professional

Municipal finance professional (“MFP”) is defined as an employee primarily engaged in municipal underwriting, trading or sales of municipal securities, financial advisory or consultant services for issuers in connection with the issuance of municipal securities, and research or investment advice with respect to municipal securities. It also includes anyone else primarily engaged in any other activities which involve communication, directly or indirectly, with public investors in municipal securities.

The definition also includes direct supervisors of municipal finance professionals

including branch managers; the CEO or similarly situated official, and members of the executive or management committee or similarly situated official.

16.5.5 Consultants

The Firm will maintain written agreements with any consultants engaged on behalf of the Firm as required by Rule G-38. Consultants include a person used by the Firm to obtain or retain municipal securities business through direct or indirect communication by the person with an issuer on behalf of the dealer where communication is undertaken by the person in exchange for or with the understanding of receiving, payment from the Firm or any other person on behalf of the Firm.

The Firm will also retain records regarding consultants as required by Rules G-38 and G-9. The Firm will disclose to the issuer (in writing) the retention of consultant(s) engaged to obtain the issuer's business. This disclosure will be made prior to the Firm being selected to provide services on behalf of the issuer and will include the name, company, role, and compensation arrangement with the consultant(s). In addition, consultants will be disclosed, as required, on the Firm's quarterly filing of Form G-37/G-38.

16.5.6 Types of Contributions Included

The following types of contributions made by the Firm or affected employees are subject to the Rule. Those excluded are also explained below.

- (a) "Contributions" include any gift, subscription, loan, advance or deposit of money or anything of value made: (i) for the purpose of influencing any election for federal, state or local office; (ii) for payment or reduction of debt incurred in connection with any such election; or (iii) for transition or inaugural expenses incurred by the successful candidate for state or local office. "State" includes any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands or any other possession of the United States.
- (b) Contributions to an "official of an issuer" are subject to the rule. An "official of an issuer" is defined as any incumbent, candidate or successful candidate for elective office of the issuer, which office is directly or indirectly responsible for or can influence the outcome of the hiring of a dealer for municipal securities business. This includes any issuer official or candidate (or successful candidate) who has influence over the awarding of municipal securities business so that contributions to certain state-wide executive or legislative officials (including governors) would be included within the rule.
- (c) Indirect contributions by affected employees are also subject to the rule, including contributions to a local political party who is soliciting

contributions to specifically support an issuer official.

- (d) Specifically excluded from this requirement are contributions by municipal finance professionals that do not exceed, in total, \$250 to each official, per election, but only if the MFP is entitled to vote for such official. The MSRB has defined “entitled to vote” to mean the municipal finance professional's principal residence is in the locality in which the issuer official seeks election.
- (e) The definition of “contribution” does not restrict the personal volunteer work of MFPs in political campaigns other than soliciting or coordinating contributions. However, if the resources of the Firm are used (a political position paper is prepared by Firm personnel, Firm supplies or facilities are used, etc.) or expenses are incurred by a MFP in the course of the volunteer work, the value of the resources or expenses would be considered a contribution and could trigger the restriction on business.

16.5.7 Whose Contributions are Affected

Covered contributions include those by the Firm, any Political Action Committee (“PAC”) controlled by the Firm, MFPs, the management of the Firm, and anyone who solicits public finance business for the Firm. The rule does NOT apply to other employees, provided that contributions are not made for the purpose of inducing or influencing the obtaining or retaining of public finance business from an issuer.

At the Firm, the following are subject to the restrictions under Rule G-37:

- The Firm itself
- All public finance professionals (clerical staff is excluded)
- The Firm's Executive or Management Committee
- Municipal trading personnel including:
 - Municipal traders
 - Other municipal trading professionals (clerical staff is excluded)
- Supervisors of MFPs
- Managers of principal business units of the Firm
- Salespersons whose primary (more than 50%) income is derived from the sale of municipal securities
- Anyone else who solicits public finance business for the Firm

Note that contributions made by affected individuals PRIOR TO joining the Firm could affect the Firm's ability to conduct business with issuers. New employees do not join with a clean slate; contributions by the new employee during the prior two (2) years are also considered.

16.5.8 Approval

Political contributions to officials of issuers must be cleared through Compliance prior to making the contribution. In addition, any political activities (volunteer work, etc.) on behalf of an official of an issuer must be cleared through Compliance prior to participation.

16.5.9 Prohibitions

A dealer or any MFP may not solicit others, including employees, family members, PACs, and any others outside the Firm, to make contributions to an official of an issuer with which the dealer engages or is seeking to engage in municipal securities business or to coordinate such contributions. The Firm and MFPs may not engage in fund raising activities for officials of issuers.

16.5.10 G-37 Records to be Maintained by the Firm

The Firm is required to maintain information in its files identifying affected employees and the states in which the dealer is engaged or is seeking to engage in public finance business; issuers with whom the Firm is doing and has done business for the past two (2) years, consultants engaged to obtain business, and all contributions made to issuer officials subject to Rule G-37, including contributions of affected employees, the Firm, and any PAC controlled by the Firm. This does not include the minimal \$250 contributions allowed under the rule. This will be an internal record subject to scrutiny by regulatory authorities. Records are also not required for affiliate companies and their employees, spouses of covered employees or any other person or entity unless the contributions were directed by persons or entities subject to Rule G-37. These records will be retained for six (6) years per MSRB Rules G-8 and G-9.

16.5.11 Quarterly Report

Rules G-37 and G-38 require the filing of a quarterly report with the MSRB within thirty (30) days of the end of each calendar quarter. As required by the MSRB, the Firm will send the report via registered or certified mail or by some other means that provides a record of sending. This information will be available to the public from the MSRB.

Compliance is responsible for making the quarterly Form G-37/G-38 filing and retaining copies of filed reports. Affected employees will be requested to submit a quarterly certification regarding their political contributions.

16.5.12 Employee Certification: See Appendix A.

TO: [Distribution List]

DATE:

RE: Quarterly G-37/G-38 Political Contribution Certification

The following is a record of my political contributions during the past calendar quarter.

_____ I have made no political contributions during the past calendar quarter nor have I requested anyone else to make political contributions.

_____ I have made the following political contributions during the past calendar quarter or someone else has made political contributions at my request:

Return this form to Compliance.

Date:

Signature:

17.0 GOVERNMENT SECURITIES

17.1 Sales

The general sales practice procedures included in the sections titled “Accounts” and “Orders” apply to the sales of government securities.

17.2 Government Sponsored Enterprise (“GSE”) Distributions

17.2.1 Trading Tickets

A ticket will be completed by the government securities trader for each order entered. Tickets will include the date and time the order was entered and when the order was executed.

17.3 Trading

17.3.1 Fair Prices

Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

17.3.2 Mark-Ups and Mark-Downs

The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:

- The best judgment of the Firm as to the fair market value of the securities

at the time of the transaction and of any securities exchanged or traded in connection with the transaction

- The expense involved in effecting the transaction
- Total dollar amount of the transaction
- Availability of the security
- The price or yield of the security
- The maturity of the security
- Resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market
- The nature of the Firm's business
- Any other relevant facts at time of execution

17.3.3 Commissions on Agency Transactions

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- The expense of executing and filling the customer's order
- The value of the services rendered by the Firm
- The amount of any other compensation received by the Firm in connection with the transaction
- Factors considered in principal transactions
- Any other relevant factors at the time of execution

17.3.4 Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account.

17.3.5 Traders' Personal Accounts

Traders are required to maintain their personal securities accounts with the Firm. Traders may not effect personal transactions in government securities from Firm inventory. Purchases or sales must be made on an agency basis with other dealers. Exceptions require the approval of the designated supervisor.

17.3.6 Review of Transactions

The designated supervisor is responsible for daily review of transactions executed in government securities trading area(s).

18.0 ANTI-MONEY LAUNDERING PROCEDURES (Amended 10/1/10)

1. Firm Policy

It is the policy of the firm to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities by complying with all applicable requirements under the Bank Secrecy Act (BSA) and its implementing regulations. Triad's procedures include:

- (1) Designation of a compliance officer;
- (2) Development of internal policies, procedures, and controls;
- (3) Establishment of an ongoing employee training program, and
- (4) Arrangement of an independent audit function to ensure compliance.

Triad Securities Corp. ("Triad") clearly prohibits money laundering and any activity which facilitates money laundering or the funding of terrorist or criminal activity. Triad will comply with all laws and regulations designed to combat money laundering activity, including those rules and regulations that require the reporting of transactions involving currency, certain monetary instruments, and suspicious activity.

Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the proceeds appear to have derived from legitimate origins or constitute legitimate assets. Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses.

Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal either the origin of the funds or their intended use, which could be for criminal purposes. Legitimate sources of funds are a key difference between terrorist financiers and traditional criminal organizations. In addition to charitable donations, legitimate sources include foreign government sponsors, business ownership and personal employment. Although the motivation differs between traditional money launderers and terrorist financiers, the actual methods used to fund terrorist operations can be the same as or similar to methods used by other criminals to launder funds. Funding for terrorist attacks does not always require large sums of money and the associated transactions may not be complex.

Our AML policies, procedures and internal controls are designed to ensure compliance with all applicable BSA regulations and FINRA rules and will be reviewed and updated on a regular basis to ensure appropriate policies, procedures and internal controls are in place to account for both changes in regulations and changes in our business.

2. AML Compliance Person Designation and Duties

The firm has designated Larry Goldsmith as its Anti-Money Laundering Program Compliance Person (AML Compliance Person), with full responsibility for the firm's AML program. Mr. Goldsmith has a working knowledge of the BSA and its implementing regulations and is qualified by experience, knowledge and training, including an extensive background in operations and a General Securities Principal license. The duties of the AML Compliance Person will include monitoring the firm's compliance with AML obligations, overseeing communication and training for employees, monitoring new rules and industry updates related to

AML procedures on an ongoing basis including the review of FINRA Notices to Members, clearing firm updates, 311 change emails from FinCEN, and SIFMA industry updates. The AML Compliance Person will also ensure that the firm keeps and maintains all of the required AML records and will ensure that Suspicious Activity Reports (SAR-SFs) are filed with the Financial Crimes Enforcement Network (FinCEN) when appropriate. The AML Compliance Person is vested with full responsibility and authority to enforce the firm's AML program.

The firm will provide FINRA with contact information for the AML Compliance Person, including: (1) name; (2) title; (3) mailing address; (4) email address; (5) telephone number; and (6) facsimile number through the FINRA Contact System (FCS). The firm will promptly notify FINRA of any change in this information through FCS and will review, and if necessary update, this information within 17 business days after the end of each calendar year. The annual review of FCS information will be conducted by William Vohrer and will be completed with all necessary updates being provided no later than 17 business days following the end of each calendar year. In addition, if there is any change to the information, William Vohrer will update the information promptly, but in any event not later than 30 days following the change.

3. Giving AML Information to Federal Law Enforcement Agencies and Other Financial Institutions

a. FinCEN Requests Under USA PATRIOT Act Section 314(a)

We will respond to a Financial Crimes Enforcement Network (FinCEN) request concerning accounts and transactions (a 314(a) Request) by immediately searching our records to determine whether we maintain or have maintained any account for, or have engaged in any transaction with, each individual, entity or organization named in the 314(a) Request as outlined in the Frequently Asked Questions (FAQ) located on FinCEN's secure Web site. We understand that we have 14 days (unless otherwise specified by FinCEN) from the transmission date of the request to respond to a 314(a) Request. We will designate through the FINRA Contact System (FCS) one or more persons to be the point of contact (POC) for 314(a) Requests and will promptly update the POC information following any change in such information. (*See also* Section 2 above regarding updating of contact information for the AML Compliance Person.) Unless otherwise stated in the 314(a) Request or specified by FinCEN, we are required to search those documents outlined in FinCEN's FAQ. If we find a match, Mr. Goldsmith will report it to FinCEN via FinCEN's Web-based 314(a) Secure Information Sharing System within 14 days or within the time requested by FinCEN in the request. If the search parameters differ from those mentioned above (for example, if FinCEN limits the search to a geographic location), Mr. Goldsmith will structure our search accordingly.

If Mr. Goldsmith searches our records and does not find a matching account or transaction, then he will not reply to the 314(a) Request. We will maintain documentation that we have performed the required search by printing, signing and dating a search document from FinCEN's 314(a) Secure Information Sharing System confirming that your firm has searched the 314(a) subject information against our records.

We will not disclose the fact that FinCEN has requested or obtained information from us, except to the extent necessary to comply with the information request. Mr. Goldsmith will review, maintain and implement procedures to protect the security and confidentiality of requests from FinCEN similar to those procedures established to satisfy the requirements of Section 501 of the Gramm-Leach-Bliley Act with regard to the protection of customers' nonpublic information.

We will direct any questions we have about the 314(a) Request to the requesting federal law enforcement agency as designated in the request.

Unless otherwise stated in the 314(a) Request, we will not be required to treat the information request as continuing in nature, and we will not be required to treat the periodic 314(a) Requests as a government provided list of suspected terrorists for purposes of the customer identification and verification requirements.

b. National Security Letters

National Security Letters (NSLs) are written investigative demands that may be issued by the local Federal Bureau of Investigation and other federal government authorities conducting counterintelligence and counterterrorism investigations to obtain, among other things, financial records of broker-dealers. NSLs are highly confidential. No broker-dealer, officer, employee or agent of the broker-dealer can disclose to any person that a government authority or the FBI has sought or obtained access to records. If the firm receives an NSL, confidentiality must be maintained. If the firm files a Suspicious Activity Report (SAR-SF) after receiving a NSL, the SAR-SF will not contain any reference to the receipt or existence of the NSL.

c. Grand Jury Subpoenas.

We understand that the receipt of a grand jury subpoena concerning a customer does not in itself require that we file a Suspicious Activity Report (SAR-SF). When we receive a grand jury subpoena, we will conduct a risk assessment of the customer subject to the subpoena as well as review the customer's account activity. If we uncover suspicious activity during our risk assessment and review, we will elevate that customer's risk assessment and file a SAR-SF in accordance with the SAR-SF filing requirements. We understand that none of our officers, employees or agents may directly or indirectly disclose to the person who is the subject of the subpoena its existence, its contents or the information we used to respond to it. To maintain the confidentiality of any grand jury subpoena we receive, we will process and maintain the subpoena by confidential discussion between the AML officer and the Chief Compliance Officer. If we file a SAR-SF after receiving a grand jury subpoena, the SAR-SF will not contain any reference to the receipt or existence of the subpoena. The SAR-SF will only contain detailed information about the facts and circumstances of the detected suspicious activity.

d. Voluntary Information Sharing With Other Financial Institutions Under USA PATRIOT Act Section 314(b)

We will share information with other financial institutions regarding individuals, entities, organizations and countries for purposes of identifying and, where appropriate, reporting activities that we suspect may involve possible terrorist activity or money laundering. Larry Goldsmith will ensure that the firm files with FinCEN an initial notice before any sharing occurs and annual notices thereafter. We will use the notice form found at [FinCEN's Web site](#). Before we share information with another financial institution, we will take reasonable steps to verify that the other financial institution has submitted the requisite notice to FinCEN, either by obtaining confirmation from the financial institution or by consulting a list of such financial institutions that FinCEN will make available. We understand that this requirement applies even to financial institutions *with which we are affiliated*, and that we will obtain the requisite notices from affiliates and follow all required procedures.

We will employ strict procedures both to ensure that only relevant information is shared and to protect the security and confidentiality of this information, for example, by segregating it from the firm's other books and records.

We also will employ procedures to ensure that any information received from another financial institution shall not be used for any purpose other than:

- identifying and, where appropriate, reporting on money laundering or terrorist activities;
- determining whether to establish or maintain an account, or to engage in a transaction; or
- assisting the financial institution in complying with performing such activities.

e. Joint Filing of SARs by Broker-Dealers and Other Financial Institutions

We will share information about particular suspicious transactions with our clearing broker for purposes of determining whether we and our clearing broker will file jointly a SAR-SF. In cases in which we file a joint

SAR-SF for a transaction that has been handled both by us and by the clearing broker, we may share with the clearing broker a copy of the filed SAR-SF.

If we determine it is appropriate to jointly file a SAR-SF, we understand that we cannot disclose that we have filed a SAR-SF to any financial institution except the financial institution that is filing jointly. If we determine it is not appropriate to file jointly (*e.g.*, because the SAR-SF concerns the other broker-dealer or one of its employees), we understand that we cannot disclose that we have filed a SAR-SF to any other financial institution or insurance company.

f. Sharing SAR-SFs With Parent Companies.

Triad Securities Corp. is not a subsidiary of any parent entity.

4. Checking the Office of Foreign Assets Control Listings

TEXT EXAMPLE: Before opening an account, and on an ongoing basis, Larry Goldsmith will check to ensure that a customer does not appear on the SDN list or is not engaging in transactions that are prohibited by the economic sanctions and embargoes administered and enforced by OFAC. (*See* the [OFAC Web site](http://www.treas.gov/ofac/t11sdn.pdf) for the SDN list and listings of current sanctions and embargoes. <http://www.treas.gov/ofac/t11sdn.pdf>). Because the SDN list and listings of economic sanctions and embargoes are updated frequently, we will consult them on a regular basis and subscribe to receive any available updates when they occur. With respect to the SDN list, we may also access that list through various software programs to ensure speed and accuracy. *See also* [FINRA's OFAC Search Tool](#) that screens names against the SDN list. Larry Goldsmith will also review existing accounts against the SDN list and listings of current sanctions and embargoes when they are updated and he will document the review.

If we determine that a customer is on the SDN list or is engaging in transactions that are prohibited by the economic sanctions and embargoes administered and enforced by OFAC, we will reject the transaction and/or block the customer's assets and file a blocked assets and/or rejected transaction form with OFAC within 10 days. We will also call the OFAC Hotline at (800) 540-6322 immediately.

Our review will include customer accounts, transactions involving customers (including activity that passes through the firm such as wires) and the review of customer transactions that involve physical security certificates or application-based investments (*e.g.*, mutual funds).

5. Customer Identification Program

Firms are required to have and follow reasonable procedures to document and verify the identity of their customers who open new accounts. Triad's Customer Identification Program (CIP) includes:

- Identity verification
- Recordkeeping
- Comparison with Government lists
- Notification to customers

In addition to the information we must collect under FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade), NASD Rules 2310 (Recommendations to Customers - Suitability) and 3110 (Books and Records) and Securities Exchange Act of 1934 (Exchange Act) Rules 17a-3(a)(9) (Beneficial Ownership regarding Cash and Margin Accounts) and 17a-3(a)(17) (Customer Accounts), we have established, documented and maintained a written Customer Identification Program (CIP). We will collect certain minimum customer identification information from each customer who opens an account; utilize risk-based

measures to verify the identity of each customer who opens an account; record customer identification information and the verification methods and results; provide the required adequate CIP notice to customers that we will seek identification information to verify their identities; and compare customer identification information with government-provided lists of suspected terrorists, once such lists have been issued by the government. See Section 5.g. (Notice to Customers) for additional information.

a. Required Customer Information

New Customers:

Prior to opening an account, we will collect the following information for all accounts, if applicable, for any person, entity or organization that is opening a new account:

- Name
- Address (Residential and business)-P.O. boxes are not acceptable
- U.S. person -Tax ID or Social Security Number
- Non-U.S. person-TIN, passport number & country of issuance, alien identification card, number and country of issuance of official government document with photo
- DOB (Individuals only)
- List of principals/beneficial owners/authorized parties (if applicable)
- Organizational Records such as certified articles of incorporation, a government issued business license, a partnership agreement, or a trust instrument.
- Valid Government issued ID for beneficial owners/principals/authorized parties. (Legible photo ID required-drivers license, passport)
- Trading authorizations for third parties

Exempted Customers:

According to Section 326 of the USA Patriot Act, the following entities are excluded from the definition of “customer”:

- A financial institution regulated by a Federal functional regulator (e.g. an insured bank, a commercial bank or trust company, a private banker, an agency or branch of a foreign bank in the United States, and insured institution, a thrift institution, a broker or dealer registered with the SEC, a broker or dealer in securities or commodities, an investment banker or investment company)
- Banks regulated by a state bank regulator
- A department or agency of the United States, of any State that exercises governmental authority on behalf of the United States or any such state

Any entity, other than a bank, whose common stock is listed on the New York Stock Exchange, the American Stock Exchange or the Nasdaq stock exchange.

When opening an account for a foreign business or enterprise that does not have an identification number, we will request alternative government-issued documentation certifying the existence of the business or enterprise.

Existing Customers:

It is **not** necessary to re-verify information in instances where an existing customer is opening an additional account, as long as we have a reasonable belief that we know the true identity of the customer.

b. Customers Who Refuse to Provide Information

If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, our firm will not open a new account and, after considering the risks involved, consider closing any existing account. In either case, our AML Compliance Person will be notified so that we can determine whether we should report the situation to FinCEN on a SAR-SF.

c. Verifying Information

Verifying Information

This required identity information outlined above is to be collected on our standard account opening forms, as well as our newly created Customer Profile form (attachment A). All account opening forms and information should be forwarded to our New Accounts area (Josephine Tecla) who along with our AML compliance officer will be responsible for verifying this information. All information will be verified against public databases such as (CDC/MIS/OFAC/Equifax).

Based on the risk, and to the extent practical, we will ensure that we have a reasonable belief that we know the true identity of our customers by using risk-based procedures to verify and document the accuracy of the information we get about our customers. In verifying customer identity, we will analyze any logical inconsistencies in the information we obtain.

We will verify customer identity through documentary evidence, non-documentary evidence, or both. We will use documents to verify customer identity when appropriate documents are available. In light of the increased instances of identity fraud, we will supplement the use of documentary evidence by using the non-documentary means described below whenever possible. We may also use such non-documentary means, after using documentary evidence, if we are still uncertain about whether we know the true identity of the customer. In analyzing the verification information, we will consider whether there is a logical consistency among the identifying information provided, such as the customer's name, street address, zip code, telephone number (if provided), date of birth, and social security number.

Appropriate documents for verifying the identity of customers include, but are not limited to, the following:

- For an individual, an unexpired government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver's license or passport; and
- For a person other than an individual, documents showing the existence of the entity, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument.

We understand that we are not required to take steps to determine whether the document that the customer has provided to us for identity verification has been validly issued and that we may rely on a government-issued identification as verification of a customer's identity. If, however, we note that the document shows some obvious form of fraud, we must consider that factor in determining whether we can form a reasonable belief that we know the customer's true identity. Any instances of suspected fraud should be brought to the attention of the AML Compliance officer immediately.

We will use the following non-documentary methods of verifying identity:

- Contacting a customer;
- Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source; (CDC/MIS/OFAC lists)
- Checking references with other financial institutions; or
- Obtaining a financial statement.

We will use non-documentary methods of verification in the following situations: (1) when the customer is unable to present an unexpired government-issued identification document with a photograph or other similar safeguard; (2) when the firm is unfamiliar with the documents the customer presents for identification verification; (3) when the customer and firm do not have face-to-face contact; and (4) when there are other circumstances that increase the risk that the firm will be unable to verify the true identity of the customer through documentary means.

We will verify the information before the account is opened. Depending on the nature of the account and requested transactions, we may refuse to complete a transaction before we have verified the information, or in some instances when we need more time, we may, pending verification, restrict the types of transactions or dollar amount of transactions. If we find suspicious information that indicates possible money laundering or terrorist financing activity, we will, after internal consultation with the firm's AML compliance officer, file a SAR-SF in accordance with applicable law and regulation.

Additional verification for certain customers

Certain offshore entities such as personal investment companies or personal holding companies and offshore trusts often present special considerations not usually associated with traditional domestic accounts or foreign operating commercial entities. Therefore, in addition to obtaining and reviewing the appropriate documentation discussed above, it is imperative that we conduct additional due diligence when opening foreign accounts. Additional efforts may also be warranted depending on various other factors, including the location of the offshore entity and the location of the beneficial owner(s).

d. Lack of Verification

When we cannot form a reasonable belief that we know the true identity of a customer, we will do the following: (A) not open an account; (B) impose terms under which a customer may conduct transactions while we attempt to verify the customer's identity; (C) close an account after attempts to verify customer's identity fail; and (D) file a SAR-SF in accordance with applicable law and regulation.

e. Recordkeeping

We have created a CIP on our website (www.triadsecurities.com), in order to assist us in our recordkeeping efforts. We will document on our website our verification, including all identifying information provided by a customer, the methods used and results of verification, and the resolution of any discrepancy in the identifying information. We will keep records containing a description of any document that we relied on to verify a customer's identity, noting the type of document, any identification number contained in the document, the place of issuance, and if any, the date of issuance and expiration date. With respect to non-documentary verification, we will retain documents that describe the methods and the results of any measures we took to verify the identity of a customer. We will maintain records of all identification information for five years after the account has been closed.

f. Comparison with Government-Provided Lists of Terrorists

From time to time, we may receive notice that a Federal government agency has issued a list of known or suspected terrorists (FinCEN request). We will follow all Federal directives issued in connection with such notices. These notices will be directed to our AML Compliance officer. The AML officer and the New Accounts department will determine whether a customer appears on any such list of known or suspected terrorists or terrorist organizations issued by any Federal government agency and designated as such by Treasury in consultation with the Federal functional regulators. Please note that we have added a "Customer Search" feature on our website in order to assist us in this process. Utilizing the search feature greatly enhances our ability to conduct a thorough, comprehensive search of our entire list of accounts, in a very timely and efficient manner.

We will continue to comply with Treasury's Office of Foreign Asset Control rules prohibiting transactions with certain foreign countries or their nationals.

g. Notice to Customers

We will provide notice to customers that the firm is requesting information from them to verify their identities, as required by Federal law. Notification to customers will be made verbally or in writing.

Additionally, all new account documents forwarded to prospective customers will include an insert regarding the PATRIOT Act, money laundering, as well as identification requirements.

A notice will be prominently displayed on our website which will say the following:

“Triad Securities Corp is committed to complying with U.S. statutory and regulatory requirements designed to combat money laundering and terrorist financing. The USA PATRIOT Act requires that all financial institutions obtain certain identification documents or other information in order to comply with their customer identification procedures.

What this means for you: When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver’s license or other identifying documents. Until you provide the required information or documents, we may not be able to open an account or effect any transactions for you.”

h. Reliance on Another Financial Institution for Identity Verification

When opening a COD account for a customer whose account is domiciled at another financial institution we will rely on the CIP of the customer’s principal financial institution. In all such instances:

- such reliance must be reasonable under the circumstances
- the other financial institution must be subject to a rule requiring implementation of an AML compliance program and be regulated by a federal regulator and
- the other financial institution must enter into a contract with Triad requiring it to certify annually to us that it has implemented its AML program, and that it will perform the necessary CIP requirements

Annually, Lawrence Goldsmith, Triad’s AML Compliance officer, or his designee will conduct a review to insure that suitable contracts are in place between Triad and those other financial institutions upon which Triad relies for CIP compliance.

6. General Customer Due Diligence

It is important to our AML and SAR-SF reporting program that we obtain sufficient information about each customer to allow us to evaluate the risk presented by that customer and to detect and report suspicious activity. When we open an account for a customer, the due diligence we perform may be in addition to customer information obtained for purposes of our CIP.

For all accounts, we will take steps to obtain sufficient customer information to comply with our suspicious activity reporting requirements. Such information should include:

- the customer’s business;
- the customer’s anticipated account activity (both volume and type);
- the source of the customer’s funds.
- the purpose of the account;
- the source of funds and wealth;
- the beneficial owners of the accounts;
- the customer’s (or beneficial owner’s) occupation or type of business;
- financial statements;
- banking references;
- domicile (where the customer’s business is organized);
- description of customer’s primary trade area and whether international transactions are expected to be routine;
- description of the business operations and anticipated volume of trading;
- explanations for any changes in account activity.

7. Correspondent Accounts for Foreign Shell Banks

It should be mentioned that Triad, historically, has not conducted business with foreign correspondent accounts, foreign shell banks, private banking accounts, or accounts for senior foreign officials. However, Triad acknowledges the importance of enhanced scrutiny and supervision in regards to these specific "red flag" accounts. In that regard, we have implemented the following safeguards:

a. Detecting and Closing Correspondent Accounts of Foreign Shell Banks

Broker/dealers are prohibited from establishing, maintaining, administering, or managing correspondent accounts for unregulated foreign shell banks. Foreign shell banks are foreign banks without a physical presence in any country. A "foreign bank" is any bank organized under foreign law or an agency, branch or office of a bank located outside the U.S. The term does not include an agent, agency, branch or office within the U.S. of a bank organized under foreign law. A "regulated affiliate" of a foreign bank is a foreign bank that (1) is an affiliate of a depository institution, credit union, or foreign bank that maintains a physical presence in the U.S. or a foreign country **and** (2) is subject to supervision by a banking authority in the country regulating such affiliated depository institution, credit union, or foreign bank.

The prohibition does not include foreign shell banks that are affiliates of a depository institution, credit union, or foreign bank that maintains a physical presence in the U.S. or a foreign country, and are subject to supervision by a banking authority in the country regulating that affiliated depository institution, credit union or foreign bank. Foreign branches of a U.S. broker/dealer are not subject to this requirement, and "correspondent accounts" of foreign banks that are clearly established, maintained, administered or managed only at foreign branches are not subject to this regulation.

We will detect correspondent accounts (any account that permits the foreign financial institution to engage in securities or futures transactions, funds transfers, or other types of financial transactions) for unregulated foreign shell banks by conducting annual searches of our customer account database. Specifically, we will look to identify any foreign bank account through name, address and clearing broker information. Upon finding or suspecting such accounts, firm employees will notify the AML Compliance Officer, who will terminate any verified correspondent account in the United States for an unregulated foreign shell bank. We will also terminate any correspondent account that we have determined is not maintained by an unregulated foreign shell bank but is being used to provide services to such a shell bank. We will exercise caution regarding liquidating positions in such accounts and take reasonable steps to ensure that no new positions are established in these accounts during the termination period. We will terminate any correspondent account for which we have not obtained the information described in Appendix A of the regulations regarding shell banks within the time periods specified in those regulations.

b. Certifications

We will require our foreign bank account holders to complete model certifications issued by the Treasury. We will send the certification forms to our foreign bank account holders for completion, which requires them to certify that they are not shell banks and to provide ownership and agent information. We will re-certify when we believe that the information is no longer accurate and at least once every two years.

c. Recordkeeping for Correspondent Accounts for Foreign Banks

We will keep records identifying the owners of foreign banks with U.S. correspondent accounts and the name and address of the U.S. agent for service of legal process for those banks.

d. Summons or Subpoena of Foreign Bank Records; Termination of Correspondent Relationships with Foreign Bank

When we receive a written request from a federal law enforcement officer for information identifying the non-

publicly traded owners of any foreign bank for which we maintain a correspondent account in the United States and/or the name and address of a person residing in the United States who is an agent to accept service of legal process for a foreign bank's correspondent account, we will provide that information to the requesting officer not later than seven days after receipt of the request. We will close, within 10 days, any correspondent account for a foreign bank that we learn from FinCEN or the Department of Justice has failed to comply with a summons or subpoena issued by the Secretary of the Treasury or the Attorney General of the United States or has failed to contest such a summons or subpoena. We will scrutinize any correspondent account activity during that 10-day period to ensure that any suspicious activity is appropriately reported and to ensure that no new positions are established in these correspondent accounts.

8. Due Diligence and Enhanced Due Diligence Requirements for Correspondent Accounts of Foreign Financial Institutions

a. Due Diligence for Correspondent Accounts of Foreign Financial Institutions:

We have reviewed our accounts and we do not have, nor do we intend to open or maintain, correspondent accounts for foreign financial institutions. If such an account were opened, due diligence procedures will include:

- Determining whether the account is for a foreign bank
- Assessing the money laundering risk presented by such an account, based on a consideration of all relevant factors, which shall include: the nature of the foreign financial institution's business; the type, purpose, and anticipated activity of such correspondent account; and the nature and duration of Triad's relationship with the account
- Consideration of information known about the account's anti-money laundering record
- A periodic review of the account activity sufficient to determine consistency with information obtained about the type, purpose and anticipated activity of the account

b. Enhanced Due Diligence

We will assess any correspondent accounts for foreign financial institutions to determine whether they are correspondent accounts that have been established, maintained, administered or managed for any foreign bank that operates under:

- (1) an offshore banking license;
- (2) a banking license issued by a foreign country that has been designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member and with which designation the U.S. representative to the group or organization concurs; or
- (3) a banking license issued by a foreign country that has been designated by the Secretary of the Treasury as warranting special measures due to money laundering concerns.

If we determine that we have any correspondent accounts for these specified foreign banks, we will perform enhanced due diligence on these correspondent accounts. The enhanced due diligence that we will perform for each correspondent account will include, at a minimum, procedures to take reasonable steps to:

- (1) conduct enhanced scrutiny of the correspondent account to guard against money laundering and to identify and report any suspicious transactions. Such scrutiny will not only reflect the risk assessment that is described in Section 8.a. above, but will also include procedures to, as appropriate:

- (i) obtain (*e.g.*, using a questionnaire) and consider information related to the foreign bank's AML program to assess the extent to which the foreign bank's correspondent account may expose us to any risk of money laundering;
 - (ii) monitor transactions to, from or through the correspondent account in a manner reasonably designed to detect money laundering and suspicious activity (this monitoring may be conducted manually or electronically and may be done on an individual account basis or by product activity); and
 - (iii) obtain information from the foreign bank about the identity of any person with authority to direct transactions through any correspondent account that is a payable-through account (a correspondent account maintained for a foreign bank through which the foreign bank permits its customer to engage, either directly or through a subaccount, in banking activities) and the sources and beneficial owners of funds or other assets in the payable-through account.
- (2) determine whether the foreign bank maintains correspondent accounts for other foreign banks that enable those other foreign banks to gain access to the correspondent account under review and, if so, to take reasonable steps to obtain information to assess and mitigate the money laundering risks associated with such accounts, including, as appropriate, the identity of those other foreign banks; and
 - (3) if the foreign bank's shares are not publicly traded, determine the identity of each owner and the nature and extent of each owner's ownership interest. We understand that for purposes of determining a private foreign bank's ownership, an "owner" is any person who directly or indirectly owns, controls or has the power to vote 10 percent or more of any class of securities of a foreign bank. We also understand that members of the same family shall be considered to be one person.
- c. Special Procedures When Due Diligence or Enhanced Due Diligence Cannot Be Performed**

In the event there are circumstances in which we cannot perform appropriate due diligence with respect to a correspondent account, we will determine, at a minimum, whether to refuse to open the account, suspend transaction activity, file a SAR-SF, close the correspondent account and/or take other appropriate action..

9. Due Diligence and Enhanced Due Diligence Requirements for Private Banking Accounts/Senior Foreign Political Figures

We will review our accounts to determine whether we offer any "private banking" accounts and we will conduct due diligence on such accounts. This due diligence will include, at least, (1) ascertaining the identity of all nominal holders and holders of any beneficial ownership interest in the account (including information on those holders' lines of business and sources of wealth); (2) ascertaining the source of funds deposited into the account; (3) ascertaining whether any such holder may be a senior foreign political figure; and (4) detecting and reporting, in accordance with applicable law and regulation, any known or suspected money laundering and/or use of the proceeds of foreign corruption.

We will review public information, including information available in Internet databases, to determine whether any "private banking" account holders are "senior foreign political figures." If we discover information indicating that a particular "private banking" account holder may be a "senior foreign political figure," and upon taking additional reasonable steps to confirm this information, we determine that the individual is, in fact, a "senior foreign political figure," we will conduct additional enhanced due diligence to detect and report

transactions that may involve money laundering or the proceeds of foreign corruption.

In so doing, we will consider the risks that the funds in the account may be the proceeds of foreign corruption, including the purpose and use of the private banking account, location of the account holder(s), source of funds in the account, type of transactions conducted through the account, and jurisdictions involved in such transactions. The degree of scrutiny we will apply will depend on various risk factors, including, but not limited to, whether the jurisdiction the "senior foreign political figure" is from one in which current or former political figures have been implicated in corruption and the length of time that a former political figure was in office. Our enhanced due diligence might include, depending on the risk factors, probing the account holder's employment history, scrutinizing the account holder's sources of funds, and monitoring transactions to the extent necessary to detect and report proceeds of foreign corruption, and reviewing monies coming from government, government controlled, or government enterprise accounts (beyond salary amounts).

If we do not find information indicating that a "private banking" account holder is a "senior foreign political figure," and the account holder states that he or she is not a "senior foreign political figure," then additional enhanced due diligence is not required.

In either case, if due diligence (or the required enhanced due diligence, if the account holder is a "senior foreign political figure") cannot be performed adequately, we will, after consultation with the firm's AML compliance officer and as appropriate, not open the account, suspend the transaction activity, file a SAR, or close the account

10. Compliance with FinCEN's Issuance of Special Measures Against Foreign Jurisdictions, Financial Institutions or International Transactions of Primary Money Laundering Concern

We do not maintain any accounts (including correspondent accounts) with any foreign jurisdiction or financial institution. However, if FinCEN issues a final rule imposing a special measure against one or more foreign jurisdictions or financial institutions, classes of international transactions or types of accounts deeming them to be of primary money laundering concern, we understand that we must read FinCEN's final rule and follow any prescriptions or prohibitions contained in that rule.

11. Monitoring Accounts for Suspicious Activity

The Firm will follow the philosophy that "knowing one's customer" is not concluded once the initial account opening information has been obtained. Even after the account is established, the Firm will continue to build upon the information initially provided by the customer and update records while "[r]ecognizing that different types of accounts pose different risks and trigger different risks under the rules...."

The establishment of the customer-firm relationship often presents the best opportunity for the Firm to begin to develop its knowledge about the customer and the types of transactions in which the customer is likely to engage. This relationship starts with the "know your customer" requirements mandated by the NYSE (NYSE Rule 405) and FINRA (NASD Conduct Rule 3110). Essentially, we are required to obtain the facts relating to each customer, each cash and margin account, each order, and each person holding a beneficial interest in any account. For non-resident alien accounts, we must ensure that the customer's passport number or a description of the government document used to verify the customer's identity was recorded at the time the account was opened. Consistent with these requirements, the Firm will be able to make a reasonable risk-based determination as to our customers' source of income

and expected activity. In assessing the risks associated with particular customers or transactions, the Firm will first evaluate its business to ascertain those areas in which the likelihood of suspicious or potentially illegal activity exists.

Based upon account type, the Firm will supplement its normal account opening procedures to the extent that the firm deems such additional procedures necessary in order to verify the identity of potential customers or customers or those granted trading authority. In appropriate cases, after account opening procedures have been followed and where an account presents suspicious indicators, the Firm may undertake a variety of efforts to obtain additional information about the customer and/or authenticate the customer's identity. For example, for individual customers, the Firm may elect to screen customer name and address information through various vendor databases for possible anomalies in the customer's social security number, date of birth, and residential address. For institutional accounts, the Firm may elect to use a service provider or software program to screen for inconsistencies between business or corporate documentation and the taxpayer identification number or the location or legitimacy of the stated business address. In terms of new accounts from High Risk and Non-Cooperative Jurisdictions, the Firm will be particularly diligent in reviewing the following websites: Financial Action Task Force ("FATF")—http://www1.oecd.org/fatf/NCCT_en.htm, and FinCEN—http://www.treas.gov/fincen/pub_main.html. In appropriate situations, inquiry will be made into a customer's assets and income in order to determine whether or not money and securities inflows and outflows are consistent with a customer's financial status. Any potential customer or customer who attempts to frustrate the information gathering process will not or will no longer remain a customer of the firm. Where a potential customer either refuses to provide information requested by the firm or provides misleading or inaccurate information, Triad will not open a new account. Documentation dealing with such verification will be retained for five (5) years from the date the account is closed or customer trading authorization has ended. Customers must be informed that the firm is requesting information from them in order to verify their identities.

Triad will verify customer identity through either CDC, McDonalds or Equifax. Verification, if at all possible, will take place at the time an account is opened, but in no event shall such verification extend beyond three (3) business days. Pending verification, certain conditions may be placed upon the account.

We will monitor account activity for unusual size, volume, pattern or type of transactions, taking into account risk factors and red flags that are appropriate to our business. Even after the initial customer relationship is established, regular reviews of customer accounts should occur. By keeping knowledge and understanding of the customer and the customer's business up-to-date, Triad can more readily determine whether the activity in the account is consistent with the type of activity that should be expected. Accordingly, the Firm will monitor the following on a daily basis:

- Whether conducted manually or by use of an automated system, parameters for wire activity could include specific dollar thresholds, volume thresholds, and wires directed toward certain geographic destinations identified as "high-risk";
- Transactions exceeding pre-determined amounts;
- Customer account balances in terms of large increases or decreases.
- Securities Receive and Deliver Blotter activity.
-

Additionally,

- Triad policy does not allow for the handling of any cash deposits;
- In the event the Firm accepts cash or cash equivalents, including cashier's checks, money orders, and traveler's checks, the Firm will have a system in place to monitor such deposits. The Firm will file CMIRs for monetary instruments involving \$10,000 transferred at one time or aggregating such over one or more days if so designed to evade the reporting requirements.

a. Emergency Notification to Law Enforcement by Telephone

In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, we will immediately call an appropriate law enforcement authority. If a customer or company appears on OFAC's SDN list, we will call the OFAC Hotline at (800) 540-6322. Other contact numbers we will use are: FinCEN's Financial Institutions Hotline ((866) 556-3974) (especially to report transactions relating to terrorist activity), local U.S. Attorney's office (212) 416-8000, local FBI office (212) 384-5000 and local SEC office (212) 336-1100 (to voluntarily report such violations to the SEC in addition to contacting the appropriate law enforcement authority). If we notify the appropriate law enforcement authority of any such activity, we must still file a timely SAR-SF.

Although we are not required to, in cases where we have filed a SAR-SF that may require immediate attention by the SEC, we may contact the SEC via the SEC SAR Alert Message Line at (202) 551-SARS (7277) to alert the SEC about the filing. We understand that calling the SEC SAR Alert Message Line does not alleviate our obligations to file a SAR-SF or notify an appropriate law enforcement authority.

b. Red Flags

There is no clear regulatory guidance as to what constitutes "suspicious activity". Suspicious activity can occur either at the outset of the client relationship or long after the relationship has been initiated. Transactions should be viewed in the context of other account activity and a determination of whether the transaction is actually suspicious will necessarily depend on the customer and the particular transaction compared with the customer's normal business activity. Unusual or questionable transactions may include transactions that appear to lack a reasonable economic basis or recognizable strategy based upon what the Firm knows about the particular customer.

Examples of activity that may be indicative of unusual or potentially suspicious activity will be provided to all appropriate personnel through standard distribution channels. The following is a list of some potential indicators of suspicious activity which, if unexplained, may evidence money laundering activity.

Customers - Insufficient or Suspicious Information

- Provides unusual or suspicious identification documents that cannot be readily verified.
- Reluctant to provide complete information about nature and purpose of business, prior banking relationships, anticipated account activity, officers and directors or business location.
- Refuses to identify a legitimate source for funds or information is false, misleading or substantially incorrect.
- Background is questionable or differs from expectations based on business activities.
- Customer with no discernable reason for using the firm's service.

Efforts to Avoid Reporting and Recordkeeping

- Reluctant to provide information needed to file reports or fails to proceed with transaction.
- Tries to persuade an employee not to file required reports or not to maintain required records.
- “Structures” deposits, withdrawals or purchase of monetary instruments below a certain amount to avoid reporting or recordkeeping requirements.
- Unusual concern with the firm’s compliance with government reporting requirements and firm’s AML policies.

Certain Funds Transfer Activities

- Wire transfers to/from financial secrecy havens or high-risk geographic location without an apparent business reason.
- Many small, incoming wire transfers or deposits made using checks and money orders. Almost immediately withdrawn or wired out in manner inconsistent with customer’s business or history. May indicate a Ponzi scheme.
- Wire activity that is unexplained, repetitive, unusually large or shows unusual patterns or with no apparent business purpose.

Certain Deposits or Dispositions of Physical Certificates

- Physical certificate is titled differently than the account.
- Physical certificate does not bear a restrictive legend, but based on history of the stock and/or volume of shares trading, it should have such a legend.
- Customer’s explanation of how he or she acquired the certificate does not make sense or changes.
- Customer deposits the certificate with a request to journal the shares to multiple accounts, or to sell or otherwise transfer ownership of the shares.

Certain Securities Transactions

- Customer engages in prearranged or other non-competitive trading, including wash or cross trades of illiquid securities.
- Two or more accounts trade an illiquid stock suddenly and simultaneously.
- Customer journals securities between unrelated accounts for no apparent business reason.
- Customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason.
- Customer transactions include a pattern of receiving stock in physical form or the incoming transfer of shares, selling the position and wiring out proceeds.
- Customer’s trading patterns suggest that he or she may have inside information.

Transactions Involving Penny Stock Companies

- Company has no business, no revenues and no product.
- Company has experienced frequent or continuous changes in its business structure.
- Officers or insiders of the issuer are associated with multiple penny stock issuers.
- Company undergoes frequent material changes in business strategy or its line of business.
- Officers or insiders of the issuer have a history of securities violations.
- Company has not made disclosures in SEC or other regulatory filings.
- Company has been the subject of a prior trading suspension.

Transactions Involving Insurance Products

- Cancels an insurance contract and directs funds to a third party.

- Structures withdrawals of funds following deposits of insurance annuity checks signaling an effort to avoid BSA reporting requirements.
- Rapidly withdraws funds shortly after a deposit of a large insurance check when the purpose of the fund withdrawal cannot be determined.
- Cancels annuity products within the free look period which, although could be legitimate, may signal a method of laundering funds if accompanied with other suspicious indicia.
- Opens and closes accounts with one insurance company then reopens a new account shortly thereafter with the same insurance company, each time with new ownership information.
- Purchases an insurance product with no concern for investment objective or performance.
- Purchases an insurance product with unknown or unverifiable sources of funds, such as cash, official checks or sequentially numbered money orders.

Activity Inconsistent With Business

- Transactions patterns show a sudden change inconsistent with normal activities.
- Unusual transfers of funds or journal entries among accounts without any apparent business purpose.
- Maintains multiple accounts, or maintains accounts in the names of family members or corporate entities with no apparent business or other purpose.
- Appears to be acting as an agent for an undisclosed principal, but is reluctant to provide information.

Other Suspicious Customer Activity

- Unexplained high level of account activity with very low levels of securities transactions.
- Funds deposits for purchase of a long-term investment followed shortly by a request to liquidate the position and transfer the proceeds out of the account.
- Law enforcement subpoenas.
- Large numbers of securities transactions across a number of jurisdictions.
- Buying and selling securities with no purpose or in unusual circumstances (*e.g.*, churning at customer's request).
- Payment by third-party check or money transfer without an apparent connection to the customer.
- Payments to third-party without apparent connection to customer.
- No concern regarding the cost of transactions or fees (*i.e.*, surrender fees, higher than necessary commissions, etc.).

c. Responding to Red Flags and Suspicious Activity

Any activity deemed to be suspicious shall immediately be reported to a supervisor. Further review by the supervisor and the AML officer will determine what further action is appropriate.

12. Suspicious Transactions and BSA Reporting

a. Filing a SAR-SF

We will file SAR-SFs with FinCEN for any transactions (including deposits and transfers) conducted or attempted by, at or through our firm involving \$5,000 or more of funds or assets (either individually or in the aggregate) where we know, suspect or have reason to suspect:

- (1) the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
- (2) the transaction is designed, whether through structuring or otherwise, to evade any requirements of the BSA regulations;

- (3) the transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and after examining the background, possible purpose of the transaction and other facts, we know of no reasonable explanation for the transaction; or
- (4) the transaction involves the use of the firm to facilitate criminal activity.

We will also file a SAR-SF and notify the appropriate law enforcement authority in situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes. In addition, although we are not required to, we may contact that SEC in cases where a SAR-SF we have filed may require immediate attention by the SEC. See Section 11 for contact numbers. We also understand that, even if we notify a regulator of a violation, unless it is specifically covered by one of the exceptions in the SAR rule, we must file a SAR-SF reporting the violation.

We may file a voluntary SAR-SF for any suspicious transaction that we believe is relevant to the possible violation of any law or regulation but that is not required to be reported by us under the SAR rule. It is our policy that all SAR-SFs will be reported regularly to the Board of Directors and appropriate senior management, with a clear reminder of the need to maintain the confidentiality of the SAR-SF.

We will report suspicious transactions by completing a SAR-SF, and we will collect and maintain supporting documentation as required by the BSA regulations. We will file a SAR-SF no later than 30 calendar days after the date of the initial detection of the facts that constitute a basis for filing a SAR-SF. If no suspect is identified on the date of initial detection, we may delay filing the SAR-SF for an additional 30 calendar days pending identification of a suspect, but in no case will the reporting be delayed more than 60 calendar days after the date of initial detection. The phrase "initial detection" does not mean the moment a transaction is highlighted for review. The 30-day (or 60-day) period begins when an appropriate review is conducted and a determination is made that the transaction under review is "suspicious" within the meaning of the SAR requirements. A review must be initiated promptly upon identification of unusual activity that warrants investigation.

We will retain copies of any SAR-SF filed and the original or business record equivalent of any supporting documentation for five years from the date of filing the SAR-SF. We will identify and maintain supporting documentation and make such information available to FinCEN, any other appropriate law enforcement agencies, federal or state securities regulators or SROs upon request.

We will not notify any person involved in the transaction that the transaction has been reported, except as permitted by the BSA regulations. We understand that anyone who is subpoenaed or required to disclose a SAR-SF or the information contained in the SAR-SF will, except where disclosure is requested by FinCEN, the SEC, or another appropriate law enforcement or regulatory agency, or an SRO registered with the SEC, decline to produce the SAR-SF or to provide any information that would disclose that a SAR-SF was prepared or filed. We will notify FinCEN of any such request and our response.

b. Currency Transaction Reports

Triad prohibits the receipt of currency. It is Firm policy that currency will not be accepted by the Firm. *Any payment or attempted payment in currency shall be immediately reported to the AML Compliance Office who will take such action as deemed appropriate.* If it is determined that currency has been received by the Firm, Form CTR shall be filed for transactions exceeding \$10,000. Multiple transactions that in the aggregate exceed \$10,000 during any one business day shall be treated as a single transaction. Copies of Form CTR may be obtained from the following Web site: <http://www.treas.gov/fincen/f4789-1.pdf>.

c. Currency and Monetary Instrument Transportation Reports

Triad prohibits the receipt of currency and applies the policy as set forth in the italicized portion of the paragraph (Currency Transactions) above. The Firm shall file a Form CMIR with the Commissioner of Customs in the event any of Triad's clients directs the Firm to transport, mail, ship or receive or causes or attempts to direct Triad to transport, mail, ship or receive monetary instruments of more than \$10,000 at one time or in one calendar day or on one or more days *if the purpose of such payments was to evade the reporting requirements*. The Firm shall file a Form CMIR for all such shipments or receipts of monetary instruments, except for currency or monetary instruments shipped or mailed through the postal service or by common carrier. The Firm, however, shall file a Form CMIR for such receipts of currency and monetary instruments and for shipments and deliveries made by the Firm by means other than the postal service or common carrier, even when such shipment or transport is made by the Firm to an affiliate located outside the U.S. Copies of Form CMIR may be obtained from the following Web site: <http://www.treas.gov/fincen/f4790newfillin.pdf>.

d. Foreign Bank and Financial Accounts Reports

While Triad does not hold or have signatory power over any foreign financial accounts in excess of \$10,000, in the event that it does, Triad shall file Form FBAR with FinCEN. Copies of Form FBAR may be obtained from the following Web site: <http://www.treas.gov/fincen/f9022-1.pdf>.

e. Monetary Instrument Purchases

We do not issue bank checks or drafts, cashier's checks, money orders or traveler's checks in the amount of \$3,000 or more.

f. Funds Transmittals of \$3,000 or More Under the Travel Rule

When we are the transmitter's financial institution in funds of \$3,000 or more, we will retain either the original or a copy (*e.g.*, microfilm, electronic record) of the transmittal order. We will also record on the transmittal order the following information: (1) the name and address of the transmitter; (2) if the payment is ordered from an account, the account number; (3) the amount of the transmittal order; (4) the execution date of the transmittal order; and (5) the identity of the recipient's financial institution. In addition, we will include on the transmittal order as many of the following items of information as are received with the transmittal order: (1) the name and address of the recipient; (2) the account number of the recipient; (3) any other specific identifier of the recipient; and (4) any form relating to the transmittal of funds that is completed or signed by the person placing the transmittal order.

We will also verify the identity of the person placing the transmittal order (if we are the transmitting firm), provided the transmittal order is placed in person and the transmitter is not an established customer of the firm (*i.e.*, a customer of the firm who has not previously maintained an account with us or for whom we have not obtained and maintained a file with the customer's name, address, taxpayer identification number, or, if none, alien identification number or passport number and country of issuance). If a transmitter or recipient is conducting business in person, we will obtain: (1) the person's name and address; (2) the type of identification reviewed and the number of the identification document (*e.g.*, driver's license); and (3) the person's taxpayer identification number (*e.g.*, Social Security or employer identification number) or, if none, alien identification number or passport number and country of issuance, or a notation in the record the lack thereof. If a transmitter or recipient is not conducting business in person, we shall obtain the person's name, address, and

a copy or record of the method of payment (*e.g.*, check or credit card transaction). In the case of transmitters only, we shall also obtain the transmitter's taxpayer identification number (*e.g.*, Social Security or employer identification number) or, if none, alien identification number or passport number and country of issuance, or a notation in the record of the lack thereof. In the case of recipients only, we shall obtain the name and address of the person to which the transmittal was sent.

13. AML Recordkeeping

a. Responsibility for Required AML Records and SAR-SF Filing

Our AML Compliance Person will be responsible for ensuring that AML records are maintained properly and that SAR-SFs are filed as required.

In addition, as part of our AML program, our firm will create and maintain SAR-SFs, CTRs, CMIRs, FBARs, and relevant documentation on customer identity and verification (*See* Section 5 above) and funds transmittals. We will maintain SAR-SFs and their accompanying documentation for at least five years. We will keep other documents according to existing BSA and other recordkeeping requirements, including certain SEC rules that require six-year retention periods (*e.g.*, Exchange Act Rule 17a-4(a) requiring firms to preserve for a period of not less than six years, all records required to be retained by Exchange Act Rule 17a-3(a)(1)-(3), (a)(5), and (a)(21)-(22) and Exchange Act Rule 17a-4(e)(5) requiring firms to retain for six years account record information required pursuant to Exchange Act Rule 17a-3(a)(17)).

b. SAR-SF Maintenance and Confidentiality

We will hold SAR-SFs and any supporting documentation confidential. We will not inform anyone outside of FinCEN, the SEC, an SRO registered with the SEC or other appropriate law enforcement or regulatory agency about a SAR-SF. We will refuse any subpoena requests for SAR-SFs or for information that would disclose that a SAR-SF has been prepared or filed and immediately notify FinCEN of any such subpoena requests that we receive. *See* Section 11 for contact numbers. We will segregate SAR-SF filings and copies of supporting documentation from other firm books and records to avoid disclosing SAR-SF filings. Our AML Compliance Person will handle all subpoenas or other requests for SAR-SFs. We may share information with another financial institution about suspicious transactions in order to determine whether we will jointly file a SAR according to the provisions of Section 3.d. In cases in which we file a joint SAR for a transaction that has been handled both by us and another financial institution, both financial institutions will maintain a copy of the filed SAR.

c. Additional Records

We shall retain either the original or a microfilm or other copy or reproduction of each of the following:

- A record of each extension of credit in an amount in excess of \$10,000, except an extension of credit secured by an interest in real property. The record shall contain the name and address of the person to whom the extension of credit is made, the amount thereof, the nature or purpose thereof and the date thereof;
- A record of each advice, request or instruction received or given regarding any transaction resulting (or intended to result and later canceled if such a record is normally made) in the transfer of currency or other monetary instruments, funds, checks, investment securities or credit, of more than \$10,000 to or from any person, account or place outside the U.S.;
- A record of each advice, request or instruction given to another financial institution (which includes broker-dealers) or other person located within or without the U.S., regarding a transaction intended to result in the transfer of funds, or of currency, other monetary instruments, checks, investment securities or credit, of more than \$10,000 to a person, account or place outside the U.S.;
- Each document granting signature or trading authority over each customer's account;

- Each record described in Exchange Act Rule 17a-3(a): (1) (blotters), (2) (ledgers for assets and liabilities, income, and expense and capital accounts), (3) (ledgers for cash and margin accounts), (4) (securities log), (5) (ledgers for securities in transfer, dividends and interest received, and securities borrowed and loaned), (6) (order tickets), (7) (purchase and sale tickets), (8) (confirms), and (9) (identity of owners of cash and margin accounts);
- A record of each remittance or transfer of funds, or of currency, checks, other monetary instruments, investment securities or credit, of more than \$10,000 to a person, account or place, outside the U.S.; and
- A record of each receipt of currency, other monetary instruments, checks or investment securities and of each transfer of funds or credit, of more than \$10,000 received on any one occasion directly and not through a domestic financial institution, from any person, account or place outside the U.S.

14. Clearing/Introducing Firm Relationships

We will work closely with our clearing firm to detect money laundering. We will exchange information, records, data and exception reports as necessary to comply [with our contractual obligations and] with AML laws. Both our firm and our clearing firm have filed (and kept updated) the necessary annual certifications for such information sharing, which can be found on [FinCEN's Web site](#). As a general matter, we will obtain and use exception reports offered by our clearing firm in order to monitor customer activity and we will provide our clearing firm with proper customer identification and due diligence information as required to successfully monitor customer transactions. We have discussed how each firm will apportion customer and transaction functions and how we will share information and set forth our understanding in a written document. We understand that the apportionment of functions will not relieve either of us from our independent obligation to comply with AML laws, except as specifically allowed under the BSA and its implementing regulations.

15. Training Programs

Triad Securities Corp. will develop ongoing employee training under the leadership of Larry Goldsmith, the AML Compliance Officer and senior management. Our training will occur on at least an annual basis and be tailored to our customer business.

The Firm's anti-money laundering policy will be made available to all employees at time of hire. Written acknowledgement indicating that each employee has read and is aware of such policy will be maintained in each employee file. Annually, Larry Goldsmith or his designee will review the training needs of all employees to assess if specific training relating to the prevention of money laundering is required. We will maintain records to show the persons trained, the dates of training and the subject matter of their training.

We will develop ongoing employee training under the leadership of the AML Compliance Officer, Larry Goldsmith, and senior management. Our training will include, at a minimum: how to identify red flags and signs of money laundering that arise during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in the firm's compliance efforts and how to perform them; the firm's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PATRIOT Act.

We will review our operations to see if certain employees, such as those in compliance, margin and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes.

In addition, a discussion of the Firm's anti-money laundering policy will be addressed at the firm's Annual Compliance Meeting. All changes in federal rules, regulations, and reporting requirements will be addressed at that time. The Firm will maintain a written listing of all attendees at the Annual Compliance Meeting and details of such matters will be discussed.

16. Program to Independently Test AML Program

The testing of the Firm's anti-money laundering program will be performed by William Vohrer, the Controller of the Firm, or his designee in the Finance Department. His qualifications include many years of experience in broker-dealer accounting functions and securities industry Series 7, 63, 24 and 27 registrations. The purpose of his audit will be to review and evaluate the Firm's policies and procedures designed to detect and prevent money laundering activity. Mr. Vohrer will remain independent since he has no functional responsibilities for the day-to-day operations of the Firm, relating to customer activity, and his functions are separate from other AML matters.

Testing will include a random sampling of:

- Account documentation
- Account activity (e.g. wire transfers, journal entries)
- Incoming and outgoing customer correspondence, including e-mail
- Employee training

AML testing will be completed at least annually. After Mr. Vohrer has completed the testing, he will report his findings to senior management. Management will then address each of the resulting recommendations.

17. Monitoring Employee Conduct and Accounts

We will subject employee accounts to the same AML procedures as customer accounts, under the supervision of the AML Compliance Person. We will also review the AML performance of supervisors, as part of their annual performance review. The AML Compliance Person's accounts will be reviewed by Sis DeMarco, Chief Compliance Officer.

18. Confidential Reporting of AML Non-Compliance

Employees will promptly report any potential violations of the firm's AML compliance program to the AML Compliance Person, unless the violations implicate the AML Compliance Person, in which case the employee shall report to Sis DeMarco, Chief Compliance Officer. Such reports will be confidential, and the employee will suffer no retaliation for making them.

19. Additional Risk Areas

The firm has reviewed all areas of its business to identify potential money laundering risks that may not be covered in the procedures described above, and has found none.

20. Senior Manager Approval

Senior management has approved this AML compliance program in writing as reasonably designed to achieve and monitor our firm's ongoing compliance with the requirements of the BSA and the implementing regulations under it.

19.0 ELECTRONIC TRANSMISSION OF ORDERS

Triad Securities Corp. (TIAD) uses a Vendor System (s) for the transmission of orders. Currently TIAD uses a system supplied by *Instaquote, a division of Bank of America/Merrill Lynch* and a system supplied by *Fidessa Royal Blue*.

System Access

Access to the system is limited to accounts that maintain a minimum equity of \$100,000. All users are given a unique ID and password that must be used to gain access to the system. All IDs and passwords are controlled by TIAD. The trading desk supervisors of TIAD maintain and monitor the supervisory terminal.

Order Accuracy / Validation / Duplication

Order Accuracy- The system automatically captures the time of entry of the order, the details of the order, the execution time of the order, cancellations or order modifications. The following data is captured: symbol, unique order identifier, number of shares of security, type of order (buy, sell, sell short, short exempt), order conditions (market, limit, stop limit, etc), limit price, account type indicators, time in force (day, GTC, etc), held or not held, time stampings, and any modification of the terms of the order.

Order Duplication - The system requires that all orders must be validated by the customer before final execution. The trade input screen is reset / cleared or disappears after an order is placed and validated.

All day orders are cancelled by the system at the end of the day if not executed. Market on Close orders entered after 15:44 hrs. are prohibited by the system.

System Limits

Order limits are based on the current equity in an account and are imposed on orders before they are executed. Limits are established by the Trading Department and confirmed by the Credit Committee. Limits are enforced through use of the *Exposure Limit Report* that is systemically produced daily and reviewed by the trading desk supervisors.

System Testing

Any system testing will be clearly identified as a test trade and monitored by the trading desk supervisors.

Record Keeping

Order details of all trades are recorded on daily trade blotters and retained historically on the TIAD website.

Short Selling

System users will telephone Triad's operations department to request a locate on a stock that is not on the *easy to borrow list* provided by the clearing firm. Once it is determined that the stock can be borrowed, the customer is given a unique *locate ID number*. The customer is reminded that the ID number is specific for the stock, amount and date requested. The customer will then input this number into the platform trade window in the short sale field.

The order may be executed at this point. On the following day, Arthur Linden or his designee will review the *Hard to Borrow Short Sale Trade Report* for compliance verification.

Supervision

Outsourced functions of the two trading platforms are supervised by Darren Mattos and include prompt trade execution, accurate trade comparison, ACT reporting and OATS reporting. *(Amended 4/23/09)*

SECTION 20: INVESTMENT BANKING: PUBLIC& PRIVATE OFFERINGS AND REALES

In all of the Firm’s investment banking activities, personnel are required to adhere to the Firm’s guidelines on preventing insider trading and the sharing of confidential information with unauthorized parties. On each transaction, when appropriate, the designated Principal charged with deal oversight will ensure that confidentiality agreements are signed when deemed necessary and that only those individuals/outside contractors/etc. who require non-public information to meet their respective responsibilities will have access to such information. This designated Principal should maintain a list of these individuals /contractors/etc. for each transaction to enable the Firm to control the flow of confidential information and restrict access by unauthorized parties.

20.1 Public Offerings

Name of Supervisor (“designated Principal”):	Designated Principal: N/A currently
Frequency of Review:	Project Based; before and during an offering
How Conducted:	Review documents and filings for completion and accuracy. Review compensation arrangements. Attend Meetings
How Documented:	Due diligence files, selling agreements, FINRA/SEC filings, Correspondence, Compensation agreements
3010 Checklist:	SEC Rule 10b-9; 15c2-4; Consolidated FINRA Rules 5110, 5130, 5160, 5190 and 2310; Rule 5121, 1032 and Notices 10-10, 09-49, 09-41, 08-54, 08-57, 08-74; 05-65, 04-13, 04-20, 02-26 and 87-61; SEC Rules 100, 101, 102, 103, 104 and 105 under Reg. M; SEC Rule 415(a)(4)
Comments:	

Currently, the Firm has no plans to engage in any public offering. Nonetheless, if the Firm chooses to participate in the underwriting of corporate securities as a selling group member, or the Firm distributes shares/units in some offerings through allocations of shares from selling group members, the rules set forth below will apply.

The Firm may participate in certain registered offerings on a firm commitment basis, but only to the extent that such participation will not adversely impact the Firm’s net capital. The Firm may also participate in a “best efforts” offering. The Firm may act as managing or lead underwriter in offerings.

The designated Principal will monitor public offering activities to ensure compliance with SEC Regulation M, including Rule 101 and 102, which imposes restrictions on distribution participants. When participating in a distribution of listed and unlisted securities, the Firm and its associated persons involved in the distribution are prohibited from bidding for or purchasing the securities in distribution. The designated Principal will monitor the public offering process closely in order to detect violations of this Rule, among others. Swift disciplinary action will ensue, if necessary.

All personnel conducting public offerings must hold the required licensing in accordance with Rule 1032. While Corporate Securities Limited Representatives (Series 62) and General Securities Representatives (Series 7) may offer corporate securities, they may not engage in Investment Banking activities (such as originating, structuring and pricing public or private securities offerings; or advising or facilitating mergers and acquisitions, tender offers, financial restructurings, asset sales, divestitures or other corporate reorganizations or business combination transactions) unless they hold the Series 79 registration (Investment Banking Representative). The designated Principal responsible for supervising the Firm's public securities offering business must be registered as a General Securities Principal; to supervise Investment Banking activities s/he must also have the Series 79.

20.1.1 In General

A "public offering" may be loosely defined as any offering and/or sale of securities by an issuer or a "control person" to potential purchasers in a manner providing widespread communication. This definition embraces a spectrum of activities ranging from the formal, "underwritten" public offering of a large Firm's securities with underwriters, selling groups and allotments to informal offerings of specialty products such as partnerships, LLCs, unit trusts and the like. It also can include the retail sale of large blocks of "control" stock.

The securities laws and regulations governing broker-dealers provide a formal process of filing, review and clearance of a Registration Statement by federal and state regulatory authorities before a "public offering" of securities may be made. A prospectus or offering circular must be included in the Registration Statement and provided to each potential investor, containing a full and fair disclosure, before any sale can be made. The securities laws impose harsh penalties on broker-dealers, Registered Representatives, issuers, officers, directors, accountants, attorneys and others who participate in the distribution of "publicly offered" securities without following the registration and clearance rules. In many states, investors have an automatic right of rescission of any securities sold without proper registration or providing a cleared final prospectus.

If in any doubt exists about whether a transaction should be registered as a "public offering," the Compliance Department should be consulted immediately for a review.

There are several "hybrid" types of offerings which do not require full scale registration. These include:

Regulation A. The "Regulation A" offering is a permitted public offering up to a maximum of \$5 million which is pre-cleared through a regional office of the SEC and under the pre-filing requirements of the states where offered. An Offering Circular as cleared by the SEC Regional Office and states must be provided to each potential investor.

"SCOR" Offering. This is a permitted public offering up to a maximum of \$1 million under the exemption provided by Rule 504 of Regulation D (see below). The offering must be filed and cleared under special uniform SCOR regulations in each state where offered.

Typically, Reg A and SCOR offerings end up as "bulletin board" or "penny stock" offerings. Please be aware of the Firm's policies set forth elsewhere in this Manual as to the offering and trading of these securities; see Sections 6.5.4 (Physical Stock Certificates Transactions) and 12.14 (Transactions in Penny Stocks), as well as the Firm's AML Procedures, Red Flags (18.11.b.). The Firm regards these offerings as subject to at least the same levels of "due diligence" as are required for public offerings in which the Firm is involved.

ALL THESE OFFERINGS, PUBLIC AND PRIVATE, INVOLVE THE FIRM DIRECTLY OR INDIRECTLY WHETHER OR NOT THE FIRM UNDERTAKES ANY FORMAL ROLE AS "UNDERWRITER" OR SELLING AGENT. UNDER NO CIRCUMSTANCES SHOULD ANY REGISTERED REPRESENTATIVE ATTEMPT TO INVOLVE HIMSELF/HERSELF IN ANY OFFERING, WHETHER PUBLIC OR PRIVATE, WITHOUT PRIOR DISCLOSURE, DISCUSSION AND APPROVAL IN WRITING BY THE DESIGNATED PRINCIPAL.

20.1.2 Role of the Underwriter

The securities laws define an "underwriter" as any person, firm or corporation who acts on behalf of an issuer or control shareholder in distributing securities to the public. Typically, in an underwritten public offering, a group of broker-dealers agrees (agreement among underwriters) to form a syndicate to "underwrite" the offering. This means that if any one underwriter is unable to take up its portion of the issue, the others will step in. The underwriters pick a "managing underwriter or underwriters" who bear the responsibility for organizing the offering, completing "due diligence," etc. (see below). These underwriters in turn agree with the issuer (underwriting agreement) to make the public offering. This will either be on a "firm commitment" (buy and re-sell) or a "best efforts" (agency) basis. These agreements are signed only AFTER all the clearances are obtained and the underwriters and the issuer meet to price the offering and list the securities for trading.

Other broker-dealers act as members of the "selling group." These brokers are not committed to underwrite the issue in a formal sense (although they may be "underwriters" under the strict statutory definition). They typically sign a "selling agreement" and get a straight commission for placing a portion of the issue with their customers. Under Consolidated FINRA Rule 5160, selling group (or selling syndicate) agreements must include the price at which the securities are to be sold (or the formula used to ascertain the price) and to whom and under what circumstances concessions may be allowed.

All underwriters (including members of the selling group) have liability to the buying public to perform a "due diligence" review of the offering material to make sure that it does not contain any misleading statements or omissions of "material fact." A "material fact" is any piece of information about the issuer and the offering which a reasonable investor could consider material in deciding whether to buy or sell.

The underwriting syndicate hires counsel who works with the managing underwriter(s), counsel for the issuer and the issuer's accountants to make sure that "due diligence" is complete and that all disclosures and clearances have been properly made and obtained. All other broker-dealers (including the other underwriters and members of the selling group) rely on this work to demonstrate a responsible and reasonable course of dealing for the benefit of the investing public. Failure to observe common practices or to make a reasonable investigation can be the basis later on for extensive liability.

Of particular note is the long-established prohibition against using any selling material that (a) contains

information about the issuer or offering that is not in the prospectus or (b) has not been reviewed and pre-cleared by FINRA (see below). Failure to observe these prohibitions can cause a whole offering to be recalled and severe monetary and other penalties to be imposed.

Whether acting as managing underwriter or member of the underwriting syndicate, the Firm expects that each of its employees and Registered Representatives will be knowledgeable about the rules and will not engage in activity that could jeopardize this very demanding form of business.

20.1.3 The Firm's Participation as Underwriter or Selling Group Member

In cases where the Firm will participate in a public offering of securities, but a different Firm serves as lead (managing) underwriter, prior to effectiveness of the registration statement describing in detail the securities to be offered by the issuer, the Firm shall perform the following, at a minimum:

- Perform reasonable "due diligence";
- Ensure adherence to requirements of Rule 5121 if the Firm or other members of the selling group have conflicts of interest (see sub-section below);
- Obtain and review the registration statement, offering material, background documents, form of selling agreement, etc.;
- Review such items as the issuer's industry and its financial and management history, among others;
- Use, where appropriate, the advice and guidance of an attorney, accountant, and/or other "due diligence" experts in the issuer's specific industry;
- Attend any "due diligence meetings" or other sessions providing an opportunity to meet the management and ask questions about the issuer and the offering;
- Create a reasonably comprehensive "due diligence" file for the offering, containing copies of documents, records of meetings, telephone conversations, visits, etc.; and
- Obtain and disseminate to prospective investors copies of the "red herring" preliminary prospectus and hold necessary information meetings.

After the effectiveness of the registration statement, the Firm shall take the following actions:

- Ascertain that the final (pricing) amendment to the registration statement has been filed and the registration statement has become effective in each applicable jurisdiction (federal and state) before any sales are made;
- Obtain any final "cold comfort" or other documentation provided by the issuer or lead underwriter;
- Sign the underwriting agreement (or selling group agreement). When concessions or discounts are granted in a public offering, the Firm should make proper disclosure of this fact: the selling syndicate agreement must contain this information. Concessions and discounts shall be extended only to member broker-dealers for services provided in a distribution;

- Ensure completion of required notifications and disclosures under Consolidated FINRA Rules 5160 and 5190 relating to offering participants, pricing and concessions;
- Provide a copy of the final prospectus to each offeree and purchaser; and
- If the offering has a contingency, establish a proper escrow account as required by SEC Rule 15c2-4.

20.1.4 Compensation Arrangements

Compensation arrangements in public offerings will be scrutinized with particular care. Underwriting compensation is defined under Consolidated FINRA Rule 5110 and includes underwriting fees and commissions, as well as stocks, warrants, options, finder's fees, consulting fees, and certain other items. Underwriting compensation for the six-month period prior to an offering's registration is subject to review by FINRA's Corporate Financing Department to determine if it meets the requirements of the Corporate Financing Rule.

In general, underwriting compensation must be fair and reasonable and is assumed to vary directly with the amount of risk assumed by the participating members and inversely with the dollar amount of the offering proceeds. Consolidated FINRA Rule 5110 describes "items of value" that, if received during the 180 day period before filing of the registration statement and up to the offering's effectiveness (the "review period"), are included in underwriting compensation. The Rule describes exceptions to items of value, including compensation from private placements with institutional investors. Also excluded are listed securities, debt securities and derivative instruments, pooled investment vehicles, and cash compensation for providing a loan or M&A services, subject to certain conditions as set forth in the Rule. The Rule also contains a lock-up provision, restricting the disposition of certain securities held by participating members. Corporate finance personnel are required to access Consolidated FINRA Rule 5110 when questions on compensation arise. Because FINRA has noticed a high degree of price uniformity in compensation arrangements, it has emphasized that coordinated pricing, exchange of information among underwriters and intimidating or anti-competitive activity among broker-dealers involved in the business will result in disciplinary action. Compensation arrangements should be reviewed with the Compliance Department before final agreement and submission for regulatory review. Any evidence of coercion or intimidation should be reported immediately to Compliance.

20.1.5 Underwriting Procedures

The following procedures describe the regulations applicable to public offerings, including SEC Regulation M and its applicable Rules (for instance, Rules 100, 101, 103, and 104). Regulation M covers the persons selling securities, their affiliates, and others participating in a distribution, and includes definitions, exceptions and restrictions that may vary with each different offering.

The designated Principal supervising public offerings will, in each separate offering, inform the persons participating in the offering of their obligations under Regulation M, and specifically, the applicable restrictions under Rule 101. Generally, Rule 101 makes it unlawful for any person engaged in a distribution to bid for or purchase any of the securities being distributed, or to attempt to induce any other person to bid for or purchase any security of the same class and series as that being distributed, any security immediately convertible or exchangeable for the securities being distributed, or any right to purchase any such security until the termination of that person's participation in the distribution. The complexity of Rule 101 requires extreme care to assure compliance with its terms. Apart from the

regulatory sanctions that may be imposed for a violation of the Rule, an inadvertent purchase, the solicitation of a purchase, or the issuance of a research report could force the Firm to drop out of or postpone its participation in an underwriting. The designated Principal, in his supervision of public offerings, will attempt to detect any violations of applicable restrictions under Regulation M (including Rule 101) and will conduct further investigations and impose disciplinary action, if necessary.

The Pre-Filing Period. All offers, oral and written, to buy or sell securities which are the subject of the proposed offering are prohibited until the registration statement has been filed with the SEC. Any unusual publicity by the prospective underwriters or the issuer regarding the issuer's business or the prospects of the issuer's industry may be considered an offer or part of the selling effort and must be avoided. All releases of information concerning an issuer of securities or the securities to be sold, including any research reports prepared by employees of the Firm, must be approved in writing by the head of the Corporate Finance Department, who will make a record of such approval.

The Waiting Period. During the waiting period between the filing of a registration statement with the SEC and the declaration by the SEC of its effectiveness, offers ("indications of interest") are permitted but sales are prohibited. Thus, Registered Representatives can contact customers to solicit indications of interest concerning the purchase of the security. Such oral offers are permitted without restriction. Note, however, that communications transmitted by radio or television are not considered oral offers and are not permitted.

Written offers may be made in only two forms: either using the preliminary or "red herring" prospectus, or a "tombstone ad." The preliminary prospectus or "red herring" prospectus, which derives its name from a special legend printed on the cover page in red ink, is the only written material that may be used to solicit indications of interest. Any Registered Representative who writes to a customer and encloses a preliminary prospectus must be sure to make no comment on the securities except to give the expected offering date.

Recent rule changes have now made it possible to offer securities over the Internet by posting the prospectus on a web page or other electronic forum. A detailed set of rules and procedures governs this activity. As long as they are observed, offers may be made. The normal rules apply relative to subscriptions, payment, etc. No security may be sold in any jurisdiction until all regulatory clearances have been obtained in that jurisdiction and then only by properly registered or qualified brokers or representatives.

If the Firm chooses to participate in such offerings, the Firm's policy would be to distribute a red herring prospectus for all offerings in which it participates to each customer who provides an indication of interest at least forty-eight (48) hours before a registration statement is declared effective by the SEC, and confirmation of each indication must occur promptly after SEC effectiveness.

The designated Principal must review each indication of interest for preliminary blue-sky clearance and suitability and must approve intended recipients prior to mailings.

As promptly as possible after receipt of red herring prospectuses at the respective branch office (or Internet posting), Registered Representatives shall take the following steps:

- Receive approval for sending;

- Whether sent hard copy or electronically, include no details of the offering in accompanying correspondence;
- Insert business card or name and address into each communication;
- Maintain records of recipients of red herrings and communicate these names to the designated Principal.

The cover letter or e-mail to the customer, if any, must be limited to a statement that the preliminary prospectus is enclosed, but may give the expected offering date. No comment may be made with respect to the underlying company, the contents of the prospectus or other matters.

Effectiveness; The Post-Effective Period. The day before the filings become effective the underwriters meet with the issuer and "price" the issue, put the prospectus and selling literature in final form and prepare to move forward with the "pricing amendment." Upon filing this amendment, the SEC (or other regulatory body) makes the filing "final" and the underwriters are cleared to sign the agreements and sell the offering. At that point all "indications of interest" are converted into final "orders" and sales and trading can commence.

Generally, the managing underwriter places a "tombstone ad" in the papers and electronic media announcing the offering. The information that may be contained in a tombstone ad is generally limited to very basic information such as the identity of the security, its price, who will execute orders and from whom a prospectus may be obtained.

In the post-effective period, offers and sales of the securities may be made to anyone. Representatives must deliver a copy of the final prospectus with sales of securities that are part of the Firm's unsold underwriting allotment at all times and on any resales by dealers within ninety (90) days of effectiveness of the registration statement for initial public offerings and forty (40) days for other public offerings. Copies of the final prospectus must be delivered to all purchasers either prior to the delivery of the confirmation of sale or affirming the confirmation of sale.

No Registered Representative shall represent to a customer that a security being sold in a public offering is being sold "at the market" unless the offering price of the security is based on the price of that security or another security of that issuer sold on a national exchange, or the Firm's Corporate Finance Department informs the Representative in writing that the security is being offered "at the market."

Where the Firm is acting as managing underwriter, it will "keep the books" on the offering in accordance with SEC and FINRA rules, noting all indications of interest, participations by underwriters and selling group members and processing orders. The Firm will use its clearing firm to interact with the issuer, transfer agent and custodial bank to complete the allocation of securities to customers/accounts and the receipt and payment of moneys from the offering, including any concession and commission payments.

Records of the Firm's activities as managing underwriter (including any net capital computations) are retained by the Firm in accordance with its normal records retention policies set forth elsewhere in this manual.

Many "best efforts" offerings contain a required minimum which must be reached before the offering can be declared successful. In cases where the Firm is manager of such an offering, the Firm and the issuer make arrangements with an independent financial institution (usually a bank or trust company) to escrow the offering proceeds until the required minimum is reached and, if it is not reached by the specified date, to return subscriptions to the investors. All such arrangements are subject to review and

approval by counsel for the issuer and the selling broker-dealers to make sure that they are in compliance with applicable laws and regulations.

20.1.6 FINRA Application and Notifications

Corporate Financial Rule: Filing Requirements. FINRA Rules require that three (3) copies of all public offering application materials (including registration statement, prospectus and selling material) be submitted for review to the Corporate Financing Department of FINRA along with a filing fee. The electronic filing system “COBRA” enables these filings to be accomplished in coordination with the SEC EDGAR filing system. Web COBRADesk, an Internet-enhanced version of COBRA, eliminates the need for members to file registration statements with the Corporate Financing Department if a registration statement had been filed with the SEC using EDGAR. Consolidated FINRA Rule 5110: (1) requires that members file certain information on offerings Rule 2720 and Consolidated FINRA Rules 5110 and 2310 through COBRADesk; (2) provides that all public offering documents that are filed with the SEC through EDGAR will be treated as filed with FINRA; and (3) reduces the number of offering documents that are required to be filed with FINRA for members that file manually instead of electronically through EDGAR. The Firm has selected the CCO to act as the coordinator of COBRADesk filings for the Firm.

Filings required under Consolidated FINRA Rule 5110(b) must be filed no later than one business day after the registration statement or other offering documents are filed or submitted to the SEC, state securities commission or other regulatory authority, or if not filed, 15 days prior to the anticipated date on which offers will commence. The designated Principal must ensure that the managing underwriter, issuer or other member (or the Firm itself) has made all required filings.

Notification Requirements for Offering Participants: The lead managing underwriters are required to make certain notifications under Consolidated FINRA Rule 5190. These notifications are for distributions of listed and unlisted securities that are covered securities subject to a restricted period under Rule 101 of Reg. M. If there is no managing underwriter, each distribution participant must file these notices unless one group member assumes that responsibility (in writing). If the Firm is an issuer or selling security holder in such a distribution (per Rule 102 of Reg. M), it must make these notifications unless they have been made by another party. The following table summarizes the notification requirements under Consolidated FINRA Rule 5190.

Notification Requirement	Information Required	Notes	Time Frame	Form Used to Notify
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<p>Determination of applicable restricted period, including contemplated commencement of restricted period 5190(c)(1)(A)</p>	<p>Whether 1-day or 5-day restricted period applies.</p> <p>Basis for this determination.</p> <p>Date and time of commencement of restricted period.</p> <p>List of distribution participants and affiliated purchasers (defined in Reg. M).</p>	<p>If 5-day period is specified, no written basis for determination is necessary.</p> <p>No longer required to submit reg. stmt. or other offering documents to Mkt. Reg. Dept.</p>	<p>No later than the business day prior to the first complete trading session of the restricted period.</p> <p>Shortened session (holiday) constitutes “complete” session.</p>	<p>Regulation M Restricted Period Notification</p>
<p>Determination that no restricted period applies under the “actively traded” securities exception 5190(d)(1)</p>	<p>Determination that no restricted period applies.</p> <p>Basis for such determination, including the security name and symbol.</p>	<p>For NASDAQ-listed securities, firms can rely on an Underwriting Activity Report (UAR) generated by FINRA’s Market Regulation Department as the basis for determining the applicable restricted period.</p>	<p>At least one business day prior to the pricing of the distribution.</p>	<p>Regulation M Restricted Period Notification</p> <p>Underwriting Activity Report Request Form (for NASDAQ listed securities)</p>

<p>Pricing of distribution (applicable to distributions subject to a restricted period and distributions of “actively traded” securities) 5190(c)(1)(B), 5190(d)(2)</p>	<p>Security name and symbol;</p> <p>Type of security;</p> <p>Number of shares offered;</p> <p>Offering price;</p> <p>Last sale before the distribution (<i>i.e.</i>, the last sale before pricing);</p> <p>Pricing basis;</p> <p>SEC effective date and time,</p> <p>Trade date;</p> <p>Restricted period; and</p> <p>Distribution participants and affiliated purchasers.</p>	<p><i>Type:</i> common stock, preferred security, etc.</p> <p><i>Pricing Basis:</i> a discount to the last sale price, a negotiated price, best efforts at the market, etc.</p> <p><i>Trade date:</i> the first trade date that the shares from the distribution are available for trading in the aftermarket.</p> <p><i>Restricted period:</i> the first and last trade dates of the actual restricted period)</p>	<p>No later than the close of business the next business day following the pricing of the distribution.</p>	<p>Regulation M Restricted Period Notification</p>
<p>Cancellation or postponement of distribution 5190(c)(1)(C)</p>	<p>Notice of cancellation or postponement.</p>	<p>Applicable where prior notice of commencement of restricted period has been provided to FINRA.</p>	<p>Immediately upon the cancellation or postponement.</p>	<p>Regulation M Restricted Period Notification</p>
<p>Intent to effect syndicate covering transaction (Rule 104 Reg M) 5190(e)(1)</p>	<p>Notify of intent to engage in syndicate covering transaction;</p> <p>Security name and symbol;</p> <p>Date such activity will occur.</p>	<p>For all OTC equity securities.</p>	<p>Prior to engaging in activity.</p>	<p>Regulation M Notice of Intent to Impose a Penalty Bid and/or Effect a Syndicate Covering Transaction</p>

Confirmation of syndicate covering transaction (Rule 104 Reg M) 5190(e)(2)	Confirm that firm has engaged in syndicate covering transaction; Security name and symbol; Total number of shares; and Date of activity.	For all OTC equity securities.	Within one business day of completion of the activity.	Regulation M Trading Notification
Intent to impose a penalty bid Rule 104 Reg M) 5190(e)(1)	Notify of intent to impose the penalty bid; Security name and symbol; Date such activity will occur.	For all OTC equity securities.	Prior to imposing the penalty bid.	Regulation M Notice of Intent to Impose a Penalty Bid and/or Effect a Syndicate Covering Transaction
Confirmation of penalty bid (Rule 104 Reg M) 5190(e)(2)	Confirm that firm has imposed penalty bid; Security name and symbol; Total number of shares; and Date of activity.	For all OTC equity securities.	Within one business day of completion of the activity.	Regulation M Trading Notification

Responsible parties must update any notification submitted to the Market Regulation Department, as necessary (*e.g.*, a manager would update the notification if distribution participants were added after the restricted period commenced or if a deal was oversubscribed and the over-allotment option was exercised). All notices must be submitted to FINRA’s Market Regulation Department via email to secondaryofferings@finra.org; fax to (301) 339-7403; or a third-party vendor (*e.g.*, Dealogic, Ipreo), within the required time periods. These notices must *not* be sent to FINRA’s Corporate Financing Department. The time frames expressed may be later if necessary under specific circumstances (for instance, with a PIPE offering commenced and priced on the same day). The designated Principal must contact FINRA, when applicable, to request exceptions. The designated Principal will ensure compliance with these requirements and should consult Consolidated FINRA Rule 5190, Regulation M and Notice 08-74 for related details.

In addition to the standard SEC registered public offering material, offering material used in exempt Rule 504 and exempt intrastate public offerings must also be submitted for preliminary review. See Notice 00-12. Should the Firm conduct intrastate offerings, the CCO will ensure compliance with all applicable provisions under SEC and State regulations, including Section 3(a)(11) and Rule 147 of the '33 Act.

20.1.7 Rule 10b-9 – Prohibited

SEC Rule 10b-9 prohibits the representation in any offering that it is an “all or none” or “part or none” offering (for example, where there will be a refund if a minimum is not met) unless all or a specified part of the consideration paid for the security will be promptly refunded to the purchaser unless (a) all or a specified number of the securities is sold at a specified price within a specified time and (b) the total amount due to the seller is received by him or her by a specified date. If the offering has such a contingency, a proper escrow account is required by SEC Rule 15c2-4. The designated Principal should review the terms of the offering to make sure that they conform to this Rule.

20.1.8 Offerings with Conflicts of Interest

Rule 5121 governs public offerings by members that have conflicts of interest. The Firm has a conflict of interest if:

- It is the issuer of the securities offered;
- The issuer controls, is controlled by or is under common control with the Firm or its associated persons (see the rule for definition of “control,” generally defined as 10% or more ownership, including the right to receive securities within 60 days of the Firm’s participation in the offering);
- At least five percent of the net offering proceeds, not including underwriting compensation, are intended to be: (i) used to reduce or retire the balance of a loan or credit facility extended by the Firm, its affiliates and its associated persons, in the aggregate; or (ii) otherwise directed to the Firm, its affiliates and associated persons, in the aggregate.
- As a result of the public offering and any transactions contemplated at the time of the public offering: (i) the Firm will be an affiliate of the issuer; (ii) the Firm will become publicly owned; or (iii) the issuer will become a member firm or form a broker-dealer subsidiary.

In summary, the Rule prohibits the Firm (and any member in the offering) with a conflict of interest from participating in a public offering unless:

- the nature of the conflict is prominently disclosed and
- a qualified independent underwriter (QIU) participates in the offering; or
- the member firm(s) managing the offering does not itself have a conflict (and is not an affiliate of a firm with a conflict); or
- the offered securities are exchange-listed and have a bona fide public market or are investment grade rated by a nationally recognized statistical rating organization.

Prominent Disclosure: The prospectus (or other such document) must disclose the nature of the conflict of interest and the name of the member firm acting as the QIU (if required) and a brief statement regarding the role and responsibilities of the QIU. This is required whether or not a filing with FINRA is required.

QIU: A QIU is not required if the member firm with a conflict of interest or its affiliate is not managing the offering; or if the offered securities have a “bona fide public market” or are “investment grade rated” or are securities in the same series that have equal rights and obligations as investment grade rated securities (*e.g.*, securities issued under a medium-term note program). When a QIU is required, the following apply:

- the QIU must participate in the preparation of the registration statement and the offering document and exercise the usual standards of due diligence with respect to the offering document;
- The QIU does not have pricing responsibilities;
- For offerings with co-or multiple lead managers responsible for due diligence, each manager must be conflict-free; otherwise the QIU and filing requirements apply;
- The QIU must agree to Securities Act Section 11 liability undertakings, must meet eligibility requirements relating to experience in managing offerings and its responsible associated persons must meet disqualification provisions (see Rule 5121);
- The QIU may not receive more than five percent of the offering proceeds;
- The QIU cannot beneficially own, as of the date of its participation in the public offering, more than five percent of the class of securities that would give rise to a conflict of interest, including any right to receive any such securities exercisable within 60 days.

The Firm may provide FINRA with its QIU qualification details and update that information annually; FINRA will rely on such information without requesting it in each offering.

Filing: Any offering that requires a QIU must be filed with FINRA’s Corporate Financing Department per FINRA Rule 5110; those without a QIU do not have to file.

Discretionary Accounts: The Firm may not sell to discretionary accounts any security where the conflict exists, unless it has received specific written (or emailed) approval of the transaction from the account holder and retains documentation of the approval in its records.

Escrow Account: If the Firm participates in a public offering of its own securities, all of the offering proceeds must be placed in an escrow account and not be released or used by the Firm until it has filed with FINRA a net capital computation that meets ratio requirements in the rule. The Firm must also disclose in the registration statement or offering document a date by which the offering is expected to be completed and the terms of breaking escrow.

The designated Principal will review the circumstances of all proposed offerings to determine if they would be considered public offerings with conflicts of interest under Rule 5121. He or she will then monitor the offering process to ensure the Firm adheres to the requirements summarized herein. As with all offerings, records will be maintained to show compliance and supervisory oversight and approval.

20.1.9 Short Sales of Securities in a Public Offering

If a person had sold a security short during the Rule 105 restricted period, such person is prohibited from purchasing the security from the underwriter or other broker/dealer participating in the public offering unless such person meets one of the following exceptions:

- A bona fide purchase of the same security is made prior to pricing as long as the short sales did not occur within 30 minutes of the close of regular trading hours on the last day prior to pricing. A bona fide purchase is defined as a purchase that is equal to or greater than the Rule 105 restricted period short sale; is reported pursuant to an effective transaction reporting plan; is made after the last Rule 105 restricted period short sale the day prior to the day of pricing; and has been executed during regular trading hours.
- The purchase is made in a separate account and decisions regarding transactions for the account are made separately and without coordination of trading or cooperation among or between accounts.
- The purchase is being made by an individual fund within a fund complex, or a series of a fund, and the short sale had been made by another fund within the same complex or a different series of fund.

The conditions surrounding these exceptions can be complex so Representatives are encouraged to contact the designated Principal if they have customers who made short sales during the restricted period.

20.1.10 SPACS: Special Purpose Acquisition Companies

Currently, the Firm has no plans to offer SPACs. Should that situation change, the Firm will adhere to the following rules.

Special purpose acquisition companies (SPACs) are shell companies that raise capital in initial public offerings (IPOs) for the purpose of merging with or acquiring an operating Firm. SPAC IPOs differ significantly from traditional equity IPOs, with unique conflicts of interest and incentives for SPA managers, underwriters and financial advisors. Firm personnel and their customers who invest in SPACs should be aware of these differences before participating in a SPAC IPO.

SPACs are companies without any revenue or operating history that use investors' funds to acquire or merge with an operating Firm. SPACs can operate as blank check companies, which the SEC defines as companies that either have no specific business plan or purpose, or have indicated that their business plan is to engage in a merger or acquisition with an unidentified Firm or companies, and are issuing "penny stock" as defined in Exchange Act Rule 3a51-1. If a SPAC meets the definition of a blank check company, it would be required to comply with Rule 419 under the Securities Act of 1933, which requires investors' funds to be held in escrow, filing of a post-effective amendment upon execution of an acquisition agreement, and the return of the escrowed funds if an acquisition has not occurred within 18 months of the effective date of the initial registration statement. Most SPACs, however, are not required to comply with Rule 419 because they are structured so that they can rely on an exception from the definition of "penny stock" or they meet other exceptions for listed companies.

SPAC IPOs have certain unique risks. The Firm, when underwriting a SPAC IPO, must address these

risks in its suitability analysis and must disclose them to investors. These risks include:

- The risk that SPAC managers are unqualified or incompetent, a risk made more pronounced by lack of any operating history or past performance of the SPAC.
- The risk that no acquisition will occur and the SPAC will be liquidated. The SPAC structure, which requires most of investor's funds to be held in escrow and returned if an acquisition is not completed, does provide some downside protection. Moreover, investors may be able to sell their SPAC units in the secondary market. However, investors must either bear the opportunity cost of waiting for a determination about whether an acquisition will occur or sell in the secondary market before the outcome is determined.

The designated Principal must ensure that marketing materials distributed by the Firm provide an accurate and balanced description of SPACs, including a fair description of all risks associated with the investment, including the risk that the acquisition may not occur or that the customer's investment may decline in value even if the acquisition is completed.

Following the IPO, nearly all of the SPAC proceeds are held in an escrow account to be used to complete an acquisition. The escrow account typically invests in money market funds or short-term U.S. government securities. The SPAC assets are released from escrow when the shareholders approve an acquisition or the SPAC is dissolved. If a SPAC fails to complete an acquisition within the specified time period, it must dissolve. When a SPAC dissolves, it returns to investors their pro rata share of the assets in escrow. In most cases, investors will receive nearly all of their principal invested, but will not share in any of the returns generated from the funds held in escrow as such proceeds are used to cover the operating expenses of the SPAC. The Firm, when acting as SPAC underwriter, generally should not engage in a proxy solicitation if payment of part of the underwriting fee or an advisory fee is contingent upon the successful completion of the acquisition. In such a case, the Firm would have a conflict of interest if it recommended that a customer vote "yes" on the proposed acquisition.

At the acquisition stage of a SPAC's life, the Firm is required to disclose these incentives and all of the conflicts that the Firm may face as a sponsor or adviser of a SPAC prior to recommending the sale or purchase of SPAC shares to its customers. The Firm must also consider the implications under FINRA's conflicts of interest rule, Rule 5121, if the acquisition is successful. (Rule 5121 requires a qualified independent underwriter to conduct due diligence in a public offering in which a participating member has a conflict of interest or offerings in which the issuer proposes to acquire a broker-dealer that would become publicly owned as a result of the acquisition—see related procedures herein.)

Firm RR's who recommend SPAC securities to investors must understand the features of the securities in order to perform a suitability analysis before executing a transaction. The RR should have reasonable grounds for believing that such a recommendation is suitable for its customers. See the "Restrictions on IPO Transactions" section for a description of suitability and transaction approval considerations.

The principal designated to supervise IPO's for the Firm is responsible for ensuring compliance with these guidelines and with any regulatory guidance published on the subject (see Notice 08-54). All other IPO procedures, above, must be followed when applicable. Records of SPAC transactions and underwriting will be maintained in accordance with the procedures described herein.

20.1.11 At-The-Market Offerings

The Firm may engage in “at-the-market” equity offerings of a firm’s securities. In these offerings sales prices are not fixed; rather, they are established during the course of the offering based on market conditions at the time of individual sales. SEC Rule 415(a)(4) describes these offerings as primary offerings and are therefore subject to prospectus delivery requirements unless the provisions of Rule 153 apply (for purchasers who are BD’s). Therefore, the Firm, when participating in such an offering, must deliver prospectuses to its customers.

Certain other considerations should be noted and addressed by Firm personnel engaged in these offerings:

- The restricted period would commence one or five business days before the pricing of each sale and continue until the person's participation in the distribution is completed. In practice, the application of Rule 101 will essentially be the same as in the case of a fixed price offering, where one price is established for the entire distribution, because the activities of distribution participants are restricted during the entire course of offers and sales, whether the securities are sold at fixed or varying prices.
- At-the-market offerings may occur concurrently with other registered offerings of the issuer (i.e., shelf registrations for registered securities could be sold in acquisitions, firm commitment underwritings and at-the-market offerings all at the same time).
- The underwriter must be named in a prospectus that is part of the registration statement. If the registration statement becomes effective without naming the underwriter, a post-effective amendment (not a sticker supplement) must be filed.
- The amount of voting securities that may registered for an at-the-market offering is 10% of the aggregate market value of the issuer’s outstanding voting stock held by non-affiliates as defined by Rule 405. The aggregate market value should be calculated on the basis of either the last sale price, or the average of the bid and asked price of such stock, as of a date within 60 days prior to the registration filing.
- The limitations on at-the-market offerings apply only to offerings by or on behalf of the registrant. A secondary offering by a control person that is not deemed to be by or on behalf of the registrant is not restricted by Rule 415(a)(4).

The Firm, when engaged in such offerings, shall obtain written confirmation from the issuer that the offering complies with all applicable registration requirements and respective limitations. In addition, the designated Principal will ensure that all policies and procedures related to public offerings, as outlined above, are also followed where applicable. The CCO will maintain documentation related to the offering and will review sales activities for compliance with prospectus delivery and other applicable standards.

20.2 Private Offerings

Name of Supervisor (“designated Principal”):	Private Placements Principal: Andrew Hirschberg
Frequency of Review:	Periodically throughout offerings, including upon offering materials completion; receipt of subscription documents and checks; etc.
How Conducted:	Perform reasonable due diligence and customer suitability analyses
How Documented:	File copies of documents Correspondence Initials on blotters/purchase agreements; memorandum distribution logs
3010 Checklist:	Sections 3(b) or 4(2) of 1933 Act; Regulation D; SEC Rules 10b-9 and 15c2-4, Consolidated FINRA Rules 5110 and 5122, Rule 1032, Notices 08-57, 09-27, 09-41, 10-22
Comments:	See Section on Member Private Offerings for requirements related to offerings in the Firm as issuer.

The Firm may act as placement agent, syndicate/selling group member, lead manager or underwriter in select private placements of the following types of securities: debt, equity, and/or rights to purchase securities. The Firm may participate in the following types of offerings: contingency (“all or none” or “part or none”), best efforts, or firm commitment underwritings. The Firm may also offer securities known as “PIPES” (private investments in public equities)—see the related sub-section, below. No associated person may conduct private placements not approved by the designated Principal, who must pre-approve all offerings prior to the Firm’s involvement in any offering. Offerings outside the scope of approved types of offerings may need approval by FINRA. The designated Principal will make this determination when considering respective offerings for approval and will, working with the CCO, request FINRA approval when necessary. NOTE: Please see Section 20.7, below, for a description of the procedures related to offerings of limited partnerships/hedge funds.

A "private placement" is an offer and/or sale of securities not involving a public offering. Private offerings do not require registration with the SEC under the 1933 Act. Private placements are not permitted to be sold by means of general advertising or solicitation. They are often more complex products as compared with other securities and their relative investor risks and tax consequences may have a wide range of implications.

The Series 82 registration category is applicable to any associated person of the Firm whose securities business is limited solely to effecting sales of private securities offerings. 82-licensed RR’s may effect sales of private placement securities as part of a primary offering; they are not permitted to effect resales of or secondary market transactions in private placement securities (for which a general securities or other, limited license is required), nor are they permitted to engage in Investment Banking activities (such as originating, structuring and pricing private securities offerings) unless they hold the Series 79 registration (Investment Banking Representative). The designated Principal responsible for supervising the Firm’s private securities offering business must be registered as a General Securities Principal; to supervise Investment Banking activities s/he must also have the Series 79.

The Firm’s private placement business is supervised by its Private Placements Principal, whose detailed reviews of all documentation and sales activity ensure compliance with all applicable SEC and FINRA regulations.

20.2.1 Exemption from Registration

Private placements are conducted in reliance upon Sections 3(b) or 4(2) of the 1933 Act as construed or under Regulation D, or both. Issuers claiming an exemption from the 1933 Act carry the burden of proving that its activities come within that exemption. All Registered Representatives involved in private placements are required to be familiar with Reg. D. Notices, on Form D, are due within fifteen days after the first sale of securities in an offering under Reg. D—they are prepared by the issuer's counsel.

Regulation D contains a series of six rules, Rule 501 through Rule 506.

Rule 501 sets forth definitions and terms applicable to the regulation. State securities regulations ("Uniform Limited Offering Exemptions") usually parallel Regulation D, but often have more stringent requirements on issuers.

The most important definition is of the term "accredited investor." There are a number of categories of accredited investors who are not counted for purposes of determining a purchaser limitation. The main categories are:

- Financial institutions such as banks, insurance companies and investment companies as well as employee benefit plans;
- Any private business development Firm;
- Charitable organizations, including any college or university endowment fund, as well as other non-profit organizations with assets exceeding \$5,000,000;
- Directors, executive officers and general partners of the issuer;
- A business in which all equity owners are accredited investors;
- A trust with assets in excess of \$5,000,000, not formed to acquire the securities offered, whose purchases are made by a sophisticated person;
- Individuals with a net worth in excess of \$1,000,000 (including joint net worth with spouse and excluding the value of their primary residence); and
- Individuals with income in excess of \$200,000 in each of the two most recent years, or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the year of the purchase.

Rule 502 describes general conditions applicable to the regulation. This Rule provides a "safe harbor" from the integration of sales of securities by the issuer made six months prior to or six months after a Regulation D offering, describes when and what type of disclosure must be furnished and provides guidance on limitations on resale.

Rule 503 provides a Uniform Notice of Sale Form (Form D) to be filed by the issuer for exemption qualification due 15 days after the first sale, then due every six months after the first sale and thirty days after the last sale.

Rule 504 provides an exemption from registration for offerings with an aggregate offering price within a 12-month period that does not exceed \$1,000,000. Rule 504 does not have a cap on the number of investors for the offering, has a minimum offering price of \$5 per share and allows for the payment of commissions. This Rule essentially shifts the administration of these smaller offerings to the State. The

offerings, however, continue to be subject to the federal anti-fraud and civil liability provisions of the Securities Act of 1934.

Rule 505 is designed for offerings with an aggregate offering price limitation of \$5,000,000 in any consecutive twelve-month period, a limitation of 35 non-accredited investors, no limitation on accredited investors, commissions are permitted and general solicitation of sales is not permissible.

Rule 506 provides an exemption from registration similar to **Rule 505** except there is no dollar limit on the amount raised and the issuer must reasonably believe, prior to making the sale, that the non-accredited persons either alone or with their purchaser representatives understand the merits and risks of the investments.

Regulation D is interpreted as providing “transactional” exemptions to issuers only. An investor whose purchase was exempt from registration cannot resell his interest without establishing an independent basis of exemption. Additionally, some state securities regulations impose substantially more onerous limitations on issuers than Reg. D.

20.2.2 Due Diligence

As with all securities offerings, the Firm must perform a “reasonable basis” suitability analysis of each private placement offering to determine that the offering is suitable for at least some investors. When recommending private placement securities to investors, the Firm and its RR’s must have essential information about the issuer and the securities offered. The amount of investigation, or ‘due diligence,’ expected of the Firm will depend on certain factors, such as the Firm’s familiarity or affiliation with the issuer, the nature of the targeted investors, the size and stability of the issuer, the presence of red flags and its role in the offering, among others. The designated Principal will determine the amount of due diligence required in any given offering and will ensure that an adequate investigation has been conducted, whether by Firm personnel or another party (see below).

Reasonable Investigation Practices. Notice 10-22 sets forth what FINRA believes are reasonable areas of investigation in a Regulation D offering:

Issuer and its management: Investigate the issuer’s history and management’s background and qualifications	Examine the issuer’s governing documents, including any charter, bylaws and partnership agreement, noting particularly the amount of its authorized stock and any restriction on its activities. If the issuer is a corporation, determine whether it has perpetual existence.
	Examine historical financial statements of the issuer and its affiliates, with particular focus, if available, on financial statements that have been audited by an independent certified public accountant and auditor letters to management.
	Look for any trends indicated by the financial statements.
	Inquire about the business of affiliates of the issuer and the extent to which any cash needs or other expectations for the affiliate might affect the business prospects of the issuer.
	Inquire about internal audit controls of the issuer.

	Contact customers and suppliers regarding their dealing with the issuer.
	Review the issuer's contracts, leases, mortgages, financing arrangements, contractual arrangements between the issuer and its management, employment agreements and stock option plans.
	Inquire about past securities offerings by the issuer and the degree of their success while keeping in mind that simply because a certain product or sponsor historically met obligations to investors, there are no guarantees that it will continue to do so, particularly if the issuer has been dependent on continuously raising new capital. This inquiry could be especially important for any blind pool or blank-check offering.
	Inquire about pending litigation of the issuer or its affiliates.
	Inquire about previous or potential regulatory or disciplinary problems of the issuer. Conduct a credit check of the issuer.
	Make reasonable inquiries concerning the issuer's management. Inquire about such issues as the expertise of management for the issuer's business and the extent to which management has changed or is expected to change. For example, inquire about any regulatory or disciplinary history on the part of management and any loans or other transactions between the issuer or its affiliates and members of management that might be inappropriate or might otherwise affect the issuer's business.
	Inquire about the forms and amount of management compensation, who determines the compensation and the extent to which the forms of compensation could present serious conflicts of interest. Make similar inquiries concerning the qualifications and integrity of any board of directors or similar body of the issuer.
	Inquire about the length of time that the issuer has been in business and whether the focus of its business is expected to change.
Issuer's Business Prospects: Investigate the issuer's business prospects and the relationship of those prospects to the proposed price of the securities being offered	Inquire about the viability of any patent or other intellectual property rights held by the issuer.
	Inquire about the industry in which the issuer conducts its business, the prospects for that industry, any existing or potential regulatory restrictions on that business and the competitive position of the issuer.
	Request any business plan, business model or other description of the business intentions of the issuer and its management and their expectations for the business, and analyze management's assumptions upon which any business forecast is based. Test models with information from representative assets to validate projected returns, break-even points and similar information provided to investors.

	Request financial models used to generate projections or targeted returns.
	Maintain a summary of the analysis that was performed on financial models provided by the issuer that detail the results of any stress tests performed on the issuer's assumptions and projections.
Issuer's Assets: Investigate the quality of the assets and facilities of the issuer	Visit and inspect a sample of the issuer's assets and facilities to determine whether the value of assets reflected in the financial statements is reasonable and that management's assertions concerning the condition of the issuer's physical plants and the adequacy of its equipment are accurate.
	Carefully examine any geological, land use, engineering or other reports by third-party experts that may raise red flags.
	Obtain, with respect to energy development and exploration programs, expert opinions from engineers, geologists and others to determine the suitability of the investment prior to recommending the security to investors.

The extent to which Firm personnel will perform some or all of these investigations will depend on the factors described above, and importantly, the Firm's role in the offering. While it is the designated Principal's responsibility to determine the level of due diligence performed by the Firm in each offering, the following expectations apply in general:

As Preparer of PPM/Lead Manager or Underwriter. Normally it is the syndicate manager or underwriter ("lead manager" herein) in an offering that prepares the private placement memorandum used to offer securities to investors. When the Firm acts in this role (prepares the PPM, whether or not as lead manager), it is expected to perform and document full due diligence on the issuer and the securities, including investigations into the areas outlined above, to the extent they are applicable and deemed necessary.

When preparing the PPM or other offering document, the Firm will investigate representations made by the issuer: blind reliance on issuer statements or information is prohibited, as described below. Should the PPM be determined to contain material misstatements and omissions, the Firm or its associated persons may be accused of violating just and equitable principles under FINRA Rule 2010. Because the PPM or other offering document is a 'communication with the public,' the designated Principal or the Principal designated to review advertising must review the PPM prior to distribution for compliance with Rule 2210.

As Syndicate or Selling Group Member. When acting in this limited role, the Firm, rather than conducting its own thorough investigation, may rely on the investigation performed by the lead manager. To do so, however, the Firm (specifically, the designated Principal and/or designated staff) must believe that the lead manager has the expertise and absence of conflicts to engage in a thorough and independent inquiry, and that it has performed such an inquiry in the particular offering. To acquire this assurance, the Firm's designated personnel will meet with the lead manager, obtain a description of the manager's reasonable investigation efforts, and ask questions of the manager concerning the independence and thoroughness of the manager's exercise of its responsibilities. Should Firm personnel

have reason to believe that the syndicate manager has not addressed a particular issue, then the Firm will be responsible for performing its own suitability analysis with regard to that issue. Personnel should consult the designated Principal to discuss their concerns; the designated Principal must ensure that the Firm investigates and resolves any perceived investigative gaps.

Other Considerations. Below are other areas of significance relating to due diligence. These topics may apply to the Firm, whether it acts as lead manager or syndicate member.

Reliance on Issuer Information. Whether performing full or limited (gap) due diligence, the Firm may not rely blindly on the issuer for information about itself, nor may it rely on the information provided by the issuer and its counsel in lieu of conducting its own reasonable investigation. The Firm, when charged with performing due diligence, is required to exercise a high degree of care in investigating and independently verifying an issuer's representations and claims, particularly those that are obviously self-serving in the context of raising capital for new, speculative ventures. (However, when the issuer is a reporting Firm under the Securities Exchange Act, in the absence of red flags, the Firm (if not an underwriter) typically may rely on the Firm's current public registration statement and periodic reports without further verification/investigation.)

Reliance on Counsel or Experts. The Firm, whether performing full or limited (gap) due diligence, may retain counsel or other experts to assist in undertaking and fulfilling its reasonable investigation obligation. The designated Principal or other designated personnel must carefully review the qualifications and competency of all retained counsel and/or experts. Should Firm personnel perceive of gaps or omissions in the due diligence results of retained counsel or experts, they must discuss the issues with the designated Principal, who will then take steps to address and resolve them. Turning a blind eye to shortfalls by outsourced parties is prohibited.

Affiliation with Issuer. The Firm, if an affiliate of the issuer, must ensure that its affiliation does not compromise its independence as it performs any investigative work and is expected to resolve any conflict of interest. The Firm should also be prepared to identify any conflicts of interest presented by other parties responsible for due diligence/PPM preparation and should act according to the procedures discussed in this section concerning investigative gaps. (See also, section on "member private offerings": compliance with Rule 5122 must be assured in instances where the Firm or its associated persons offer, in a private placement, unregistered securities in an entity controlled by or under common control with the Firm.)

Red Flags. When performing full or limited due diligence, Firm personnel must note any information encountered that could be considered a "red flag." Red flags might consist of publicly available information or non-public information that is discovered during the course of the investigation. A broker's consulting relationship with the issuer or the litigation history of the issuer's senior management are examples of circumstances that may require investigation (and disclosure in the PPM). In addition, an issuer's refusal to provide the Firm (or any BD in the deal) with responsive and current information that is necessary for thorough due diligence could itself constitute a red flag. Lastly, instances where issuers have not historically provided accredited investors with PPM's in 505 or 506 offerings (even though not required) may be deemed red flags, depending on the circumstances.

The Firm is expected to make further inquiries into perceived red flags as well as any substantial adverse information discovered about the issuer: such inquiries may require more action than simply relying on representations by issuer's management, offering document disclosures, due diligence reports by issuer's counsel, or even audited financial statements. When red flags exist that point to inaccuracies

or worse, deliberately misleading or incomplete information, the Firm has a duty conduct a further, independent investigation of the issue. All perceived red flags must be brought to the attention of the designated Principal, who will then take steps to address and resolve them through investigation. Turning a blind eye to red flags is prohibited.

Assistance in PPM Preparation. When the Firm assists in the preparation of a PPM or other offering document, the document to which it contributed is considered a ‘communication with the public’ as described in NASD Rule 2210 and this WSP manual. As such, the offering document must meet the standards of NASD Rule 2210 (fair and balanced, not misleading, etc.). The designated Principal or the Principal designated to review advertising must review the PPM prior to distribution for compliance with Rule 2210. To approve of such communications, the Firm will rely on its own investigative work or its faith in that of trusted third parties.

Documentation. The designated Principal is responsible for ensuring that, for all offerings in which the Firm participates, records are maintained to evidence the Firm’s due diligence process, whether it was full-blown or limited in scope. Such records may include descriptions (dates/locations/attendees) of meetings conducted with parties such as the issuer, various counsel, accountants, consultants, industry experts, and/or other parties. Records may also include due diligence tasks performed; documents and other information reviewed; and the names of responsible parties in the offering, as well as supervisory approval of the offering materials.

20.2.3 Private Placement Offering Memorandum

Potential investors must be provided with offering memorandums that make extensive disclosures regarding the nature, character and risk factors relating to each offering. Although not subject to the pre-registration requirements of public offerings, private placements are subject to federal and state "anti-fraud" laws and regulations giving investors the right to claim damages and rescission in the event of false or misleading statements or omissions.

Approved Materials. As described above, if the Firm prepares or assists in the preparation of the PPM, it must ensure compliance with Rule 2210 (“advertising rule”). The designated Principal will determine the Firm’s responsibilities in any given offering and, when required, review and approve the PPM in accordance with the communications procedures in this WSP.

Regardless of the characterization of the PPM, in ALL offerings RR’s must not distribute PPM’s or other offering documents unless they have been approved for distribution to investors.

Additionally, any sales literature distributed by the Firm concerning a private placement will generally be deemed to constitute a ‘communication with the public,’ *whether or not* the Firm assisted in its preparation. Therefore, associated persons must seek pre-approval by the designated Principal of any items of sales literature they intend to distribute. Only approved items may be provided to potential investors.

The designated Principal is responsible for approving documents/sales literature for distribution and will record his or her approval via initials and date on a file copy of the item.

PPM Distribution. In certain cases, the issuer or lead manager will distribute PPM’s to the Firm’s potential investors on its behalf. RR’s must keep records of all requests made for PPM distributions and these records will be maintained with the final offering records.

In other cases, the Firm itself will coordinate distribution of PPM's to potential investors. Because general advertising of private placements is prohibited, PPM distribution will be strictly monitored so that *only* pre-qualified investors are in receipt of PPM's. All memorandums will be numbered; file copies will be labeled as such. A distribution control sheet will be created and maintained, which will include the memorandum numbers and the respective Representatives assigned. Potential investors receiving offering memorandums will be asked to sign a confidentiality agreement.

During the course of the offering, any supplementary or corrective material necessary to update the offering materials will be provided to potential investors by Representatives (or the issuer or lead manager, as the case may be). The designated Principal shall verify that all such amendments have been sent to offerees and that the files are accurate and complete.

20.2.4 Offering Process & Suitability

The Firm's offering of private placements begins after due diligence is complete (i.e., "reasonable basis" suitability is ensured as described above under "Due Diligence") and upon availability of approved offering documents. In conducting a private placement offering, Representatives shall adhere to the following:

- Cold calling is not permitted;
- General solicitation by means of advertisements is not permitted;
- No seminars or meetings may be held with regard to any current offering unless each invitee is known and qualified in advance; and
- No mention of any specific offering or past performance may be made at generic seminars.

Representatives, the issuer or lead manager will provide potential investors with the offering materials. Representatives considering whether or not to offer private placement securities to investors (and thus "recommend" the securities) must do a "customer specific" suitability analysis. The RR should take into account the investors' knowledge and experience. The fact that an investor meets the net worth or income test for being an accredited investor is only one factor to be considered in the course of a complete suitability analysis. RR's may not simply rely on an investor's self-accreditation to pre-qualify him or her as suitable. RR's must make reasonable efforts to gather and analyze information about the investor's other holdings, financial situation and needs, tax status, investment objectives and such other information that would enable the RR to make a suitability determination. The RR also must be satisfied that the customer fully understands the risks involved and seems able to take those risks. Only those persons deemed suitable may be provided with a PPM and other offering materials. In some cases, a purchaser representative will be required—the Registered Representative must make a judgment about the sophistication of the purchaser; the designated Principal should be consulted if doubt exists.

Despite exemptions under Rules 505 and 506 of Reg. D, to comply with antifraud provisions the Firm requires that all potential investors receive the same offering information, whether they are accredited or not.

Personnel must maintain in investor or deal files all paperwork associated with evidence of the accredited status of investors and each respective customer suitability analysis. If the Firm uses internal forms that mirror 'new account forms' for private placement investors, those forms should show the

components to the suitability analysis and the RR's and supervising principal's approval signatures.

When an investment by an investor is accepted, he or she signs a Securities Purchase Agreement or Subscription Agreement. Since that document is akin to an 'order ticket,' the Firm must keep copies for its records, showing the dated approval initials or signature of the designated Principal. Checks received will be reviewed for acceptability, recorded on the Firm's receipts blotter, and forwarded to the issuer (for non-contingent offerings) or individual bank escrow account (see below). The designated Principal will confirm that Form D and/or other required forms are filed, if applicable, on a timely basis by issuer's counsel. The designated Principal shall ensure that a complete file of all documents related to each offering is maintained as part of the Firm's records, including records of each transaction process (i.e., dates commitments are received, closing dates, etc.), as required by SEC Rule 17a-3.

20.2.5 Investor Funds and Offering Termination in Contingent Offerings

A contingent offering in general is an offering whereby investor funds are deposited into a bank that has agreed in writing to hold all such funds in escrow for the purchase of said offering. The funds will be used for the purchase in an offering if and only if the minimum subscription amount is met during the allocated time period for that offering. Accordingly, if the minimum subscription amount is not met within a specific date, investor funds will be refunded immediately. The termination of a contingent offering is dependent on whether it is an "all or none" or "part or none" offering. The Firm intends to conduct offerings using the "all or none" contingency standard (10b-9(a)(1)). The condition of the contingency offering will be met only when all of the securities being offered are sold at a specified price within a specified time, and the total amount due to the seller is received by him by a specified date. In addition, the Firm intends to place offerings using the "part or none" contingency standard (10b-9(a)(2)). The condition of this type of contingency offering will be met only when a specified number of units of the security are sold at a specified price within a specified time, and the total amount due to the seller is received by him by a specified date. Personnel will use 'best efforts' while attempting to fully and adequately place investors in all contingency offerings.

Escrow Accounts

When conducting a contingent offering, Firm personnel must comply with the strict requirements under SEC Rules 10b-9 and 15c2-4 relating to the maintenance of an escrow account. SEC Rule 15c2-4 requires that in private contingency offerings, investor funds are to be forwarded to a broker-dealer and held in a segregated escrow account or held by in escrow by an outside bank. Those funds are to be held in escrow until the contingency is satisfied before the funds can be released to the issuer. Accordingly, the designated Principal or designee will establish a relationship, in writing, with a bank, whereby the bank agrees to hold investor funds in an escrow account until the contingency offering subscriptions are met. The CCO (or designee) will establish written procedures related to the escrowed funds and will provide them to the bank. All escrow accounts will be segregated and logged, identifying the investor and the funds deposited. The written agreement must properly advise the bank that upon notice from the Firm that the terms of the contingency offering have been met, they are to forward the funds to the issuer per the agreement's instructions.

A minimum contingency offering may not be considered sold unless the securities are sold in bona fide transactions and that the purchase prices are fully paid ("received"). A bona fide investor is a purchaser who is independent of the issuer. A fully paid transaction occurs when all of the subscription funds are deposited and have cleared in the escrow account prior to the contingency offering's closing. Funds are then considered "received."

If a contingency offering's requirements are not met—if minimum funds are not raised or if minimum funds are not raised within the offering's timeframe—investor funds must be immediately refunded. The written agreement between the Firm and the bank holding the escrowed funds must instruct the bank to refund all investor funds if the Firm informs the bank that the terms of the contingency offering have not been satisfied.

The designated Principal will ensure compliance with these SEC rules by supervising the flow of monies and the status of offerings. Evidence of non-compliance will lead to further investigation and proper remedies, including disciplinary action if deemed necessary.

20.2.6 Private Investment in Public Equity (PIPE) Transactions

The Firm may act as placement agent in select private placements of PIPES. A PIPE (Private Investment in Public Equity) is a private offering in which accredited investors agree to purchase restricted, unregistered securities of public companies. Only after the SEC approves the PIPE shares' registration are investors free to sell them on the open market. PIPE transactions may involve the sale of common stock, convertibles, preferred stock, convertible debentures, warrants, or other equity or equity-like securities of an already-public Firm.

A PIPE transaction may require shareholder approval if the securities will be offered at a discount or amount to 20% or more of the issuer's outstanding capital stock (or represent 20% of the voting power of shareholders). Related restrictions are found in New York Stock Exchange Rule 312.03(c); Section 713 of the American Stock Exchange Firm Guide; and Rule 4350 of FINRA Marketplace Rules. The designated Principal must ensure that that issuer has addressed these possibilities and has obtained necessary approvals, where required, prior to engaging in an offering of PIPES.

PIPES are often more complex products as compared with other securities and their relative investor risks and tax consequences may have a wide range of implications. Investors must be accredited and are often personally known to the issuer's personnel and/or have been carefully pre-screened for suitability, sophistication, and ability to assume risk. RR's must feel certain of such factors prior to continuing with a PIPES transaction.

When conducting transactions in PIPES, each RR is responsible for complying with all procedures and guidelines outlined in this Section on Private Placements; in addition, he or she must understand—and make sure the potential investor understands—the following characteristics of these types of investments.

Investor Funding: Investors will commit to a specified number of shares at a fixed price, with the closing conditioned upon, among other things, the SEC's preparedness to declare effective a resale registration statement covering the resale from time to time of the shares sold in the private placement. Investors do not fund at the time of entering into the purchase agreement. Instead, the issuer then files a resale registration statement covering the resale from time to time of those securities by the PIPE investors. The transaction closes once the SEC has indicated its preparedness to declare effective the resale registration statement. An investor (purchaser) is named as a "selling stockholder" in the resale registration statement, which remains effective until shares may be sold under Rule 144(k).

Pricing Risks: The investor bears the risk from the time of pricing until the time of closing. The issuer is not obligated to deliver additional securities to the PIPE investor in the event of fluctuations in stock price or otherwise. The investor enters into a definitive purchase agreement with the Firm in which

they commit to purchase securities at a fixed purchase price.

Limited Liquidity (Black-Out Period): In connection with a PIPE transaction, an issuer typically must keep effective a resale registration statement for two years. During this two year period, the issuer may suspend the use of a registration statement because the registration statement must be amended or corrected to remedy a material misrepresentation or omission. This suspension period often is referred to as a black-out period. During the black-out period, the PIPE purchaser will have limited liquidity, as they will not be able to avail themselves of the resale registration statement to resell the securities purchased in the PIPE transaction. It is important to note that PIPE shares are restricted and may not be resold—or sold short—prior to their effective registration. Representatives must make potential investors aware of this limitation.

Risk of Market Manipulation: Associated persons must attempt to keep all information relating to the proposed PIPE transaction confidential. Although the PIPE vehicle is not a product of inside information, the information relating to the PIPE transaction could serve to manipulate the price of that Firm’s underlying stock. Any public broadcast and dissemination of the PIPE transactions to parties other than those contemplating investing in the PIPE transaction are prohibited and could adversely affect the underlying stock’s price and risk the success of the PIPE transaction. Under Regulation FD (Fair Disclosure), the fact that an issuer is contemplating a PIPE transaction may itself constitute material nonpublic information—this information must be protected by the Firm, its personnel and potential investors.

20.3 Direct Participation Programs and Unlisted REITs

A direct participation program (“DPP”) is a type of investment whereby the income would generally flow through to the investors. These offerings may be sold as a public offerings or private placements.

Name of Supervisor (“designated Principal”):	Direct Participation Program Principal: XXXXXXXX
Frequency of Review:	In course of conducting transactions
How Conducted:	Review of Offering Material, correspondence, customer account information (suitability forms)
How Documented:	Offering material; Due diligence files; Correspondence Approval noted by Principal initials or signature
3010 Checklist:	NASD 2310, 2340, 11580, IM-11580; Consolidated FINRA Rules 2310(b), 5110 and 6620 series; SEC Rule 10b-5; Notice 96-14, 01-08, 04-50, 08-35, 08-57, 09-09, 09-33
Comments:	

Currently, the Firm will not engage in DPPs and transactions in Unlisted REITs. Should that policy change, the following rules will govern.

A direct participation program (DPP) is a type of investment whereby the income and tax benefits would generally flow through to the investors. DPPs are equity securities in a direct participation program (usually structured as a limited partnership) and may be publicly traded. Limited partners are viewed as passive investors with little or no say in the managerial decision-making. Consolidated FINRA Rule 2310 governs the underwriting terms and arrangements of DPPs and unlisted REITs.

(Private placements of non-public LP's and Hedge Funds and sales of REIT's, UITs, TIC interests and application-way LP's are addressed in different sections in this Manual.) Note that DPPs are excluded from the definition of "new issue" under Consolidated FINRA Rule 5130, which describes restrictions on offerings of new issues.

The current prospectus of each DPP/REIT, including liquidity disclosure, should be delivered to the customer prior to, or at the time of, the sales presentation. The customer should be encouraged to read the prospectus prior to making an investment decision. Outdated prospectuses should not be used and amendments to prospectuses should be provided promptly to customers. Registered representatives are required to disclose all pertinent facts regarding the offering including whether the sponsor has offered prior programs and if so, whether;

- the prior program included a date or time period when it might be liquidated; and
- the program was liquidated on or about the published dates or time period.

Representatives and their supervisors must examine carefully the suitability of these investments since they may not be appropriate if an individual does not meet certain accredited or sophisticated investor requirements. These securities are not offered via application; rather they are generally sold via a direct placement process, similar to private placements. Unlike mutual funds and annuities, direct participation programs are not extremely liquid investments. Thus, Representatives should view these as more long-term investments. Final approval of all DPP accounts must be given by the designated Principal.

20.3.1 Suitability Requirements

In recommending to a customer the purchase, sale or exchange of any direct participation program security, including unlisted REITs, Registered Representatives must have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his or her other security holdings and as to his financial situation and needs, among other criteria.

Prior to the execution of a transaction recommended to a non-institutional customer, Registered Representatives of the Firm shall make reasonable efforts to obtain information concerning:

- The customer's financial status,
- The customer's tax status,
- The customer's investment objectives, and
- Such other information used or considered to be reasonable by the Firm or Registered Representative in making recommendations to the customer.

Customers purchasing these investments must meet the State's minimum suitability standards that are outlined in each respective prospectus.

20.3.2 Investor Representations and Warranties

As a general investor suitability standard, it will be the policy of the Firm to require that prospective subscribers for DPP/REIT investments make certain written representations and warranties including, but not limited to, the following: (i) the subscriber is acquiring the investment for the subscriber's own account, for investment only, and not with a view toward the resale or distribution thereof; (ii) the subscriber possesses sufficient knowledge of business, finance, securities and investments, and sufficient experience and skill in investments based on actual participation, to evaluate the risks and merits of an investment in the investment; (iii) the subscriber has no need for liquidity with respect to this investment; and (iv) the subscriber's DPP/REIT investment will not exceed 20% of the subscriber's net worth (or joint net worth with the subscriber's spouse).

Each prospective purchaser of a DPP/REIT investment will be required to make certain representations and supply information in order to establish his or her suitability. The suitability standards referred to above, however, represent minimum suitability requirements for a prospective purchaser, and the satisfaction of such standards by a prospective purchaser does not necessarily mean that the purchase is a suitable investment for the purchaser. Accordingly, each prospective purchaser must rely on his or her own judgment and advisors in making a decision to invest.

Purchaser Representative: The Firm encourages each Representative to ask prospective investors to consult a qualified financial and tax advisor and an attorney in connection with an investment in DPPs or REITs. Special consideration and attention should be given to the limited liquidity of, and risks associated with, these investments. Each prospective investor must consider the investment in light of his or her individual investment objectives and present and expected future financial and tax position.

20.3.3 Due Diligence Procedures

Prior to participating in a public offering of a direct participation program or unlisted REIT, the designated Principal shall have reasonable grounds to believe, based on information provided by the sponsor through a prospectus or other materials, that all material facts are adequately and accurately disclosed and provide a basis for evaluating the program. Further, the Firm shall make a reasonable effort to determine that the organization and offering expenses in connection with the distribution of the public offering, as defined in Consolidated FINRA Rule 2310(b)(4)(C), are fair and reasonable and will not participate in any offering where these expenses are found to be unfair or unreasonable (see below).

In determining the adequacy of disclosed facts, the designated Principal or designee shall obtain information on material facts relating, at a minimum, to the following, if relevant in view of the nature of the program:

- Items of compensation,
- Physical properties,
- Tax aspects,
- Financial stability and experience of sponsor,
- The program's conflicts and risk factors, and
- Appraisals and other pertinent reports.

An important risk factor in REITs concerns dividend distributions. The Company's due diligence process should include an analysis of the amount of distributions that represents a return of investors' capital and whether that amount is changing. The Firm should consider whether there are impairments to the REIT's assets or other material events that would affect the distributions and whether disclosure

regarding dividend distributions needs to be updated to reflect these events. Examples of pertinent information include unscheduled cancellations of existing leases that impair the program's operating cash flows. Declining cash flows may be an indicator of unsustainable dividend payments: this risk to future returns and viability of the program must be assessed and communicated to potential investors.

The designated Principal or designee will review the facts and make sufficient inquiries, including the following, to test for possible integration:

- Is there more than one offering being conducted at one time?
- Are the offerings a part of a single part of a financing?
- Do the offerings involve issuance of the same class of security?
- Are the offerings made at or about the same time?
- Is the same type of consideration to be received?
- Are the offerings made for the same general purpose?

The designated Principal or designee will adequately review and make sufficient inquiries into the possible disqualification of the issuer and other sellers to the Regulation D exemption. The designated Principal or designee will make the following inquiries:

- Is there more than one offering under Reg D—Rule 505 exemption being conducted at one time?
- When was the last offering under Reg D—Rule 505 exemption conducted?
- What was the total amount raised in the last offering under Reg D—Rule 505 exemption?
- How many non-accredited investors purchased an interest in the last offering under Reg D—Rule 505 exemption?

The designated Principal will adequately review the results of the inquiries and document them in a due diligence file. The due diligence file will be maintained with the other records of the Company and must be made available to all RR's offering such securities (these RR's must understand the above-named issues and characteristics). A memorandum will be prepared summarizing the results of the review to document the findings of the due diligence.

The Firm or any person associated with it may rely upon the results of an inquiry conducted by another member or members provided that:

- The Firm or the associated person has reasonable grounds to believe that such inquiry was conducted with due care;
- The results of the inquiry were provided to the Firm or associated person with the consent of the member or members conducting or directing the inquiry; and
- No member who participated in the inquiry is a sponsor of the program or an affiliate of such sponsor.

The designated Principal will conduct periodic reviews of Representative activity in DPP/REIT sales to ensure adherence to all necessary requirements and procedures.

20.3.4 Rollups

FINRA Rules prohibit the Firm from participating in a "limited partnership rollup transaction" unless in conformity with the Rules. A "rollup" is a transaction in which limited partners of Partnership A are solicited to vote to "roll up" the partnership into Partnership B or some other entity in which they will receive substitute securities. The structure of the transaction can take any number of different forms, whether a sale of assets, exchange of interests, combination into a new entity, etc. The Rules are complex and designed to ensure that the terms and conditions of the "rollup" are fair and properly disclosed to the partners. Compensation to participating broker-dealers is subject to stated limits.

Any proposals for the Firm or any of its Registered Representatives to engage or participate in a "rollup" must be carefully reviewed in advance by the designated Principal and the Compliance Department to determine that the transaction complies with the Rules.

20.3.5 Secondary Market Trading

Many DPP investments are quoted and traded on the "secondary market." FINRA has established a quotation system for such trades. Transactions in non-exchange-listed DPPs must be reported as any other OTC security: see the section on "Trade Reporting" herein for details. See Notice 97-8 for a complete discussion of procedures.

The Firm, when it participates in the transfer of limited partnership securities in secondary market transactions, must use the standardized Limited Partnership Transfer Form under the Uniform Practice Code (See Notice 96-14 for the form). This requirement does not apply to limited partnership securities that are traded on a national securities exchange, or are on deposit in a registered securities depository and settle regular way.

20.3.6 Valuation of DPP/REIT Units for Reporting Purposes

Rule 2340 requires general securities members to provide valuations and disclosures relating to DPPs and REITs on customer account statements under certain circumstances. The requirement does not apply to members that do not carry customer accounts and do not hold customer funds and securities; it only applies to members that self-clear or clear for other members ("general securities members"). The Rule covers securities that are sold in a public offering and exclude securities listed on a national securities exchange, as well as securities that are in a depository and settle regular way.

Estimated values must be included if the annual report of the security held in the customer's account includes a per-share estimated value ("par value"). In summary, investors must be provided reasonably current valuations: the Firm may not use a per-share estimated value that is calculated on data older than 18 months. The Firm must not use par value in a customer account statement more than 18 months following the conclusion of an offering, unless an appraisal of the program's assets and operations yields the same value. Notice 01-08 defines and describes the estimated value necessary to be reported, in addition to disclosures required in conjunction with the reported value; Notice 09-09 clarifies allowed use of estimated values. The designated Principal is responsible for determining the Firm's reporting requirements, if any, to ensure compliance with Rule 2340.

FINRA has also adopted amendments to Consolidated FINRA Rule 5110, "Corporate Financing Rule--Underwriting Terms and Arrangements," and 2310 "Direct Participation Programs," that are intended to help ensure that DPP general partners or sponsors and REIT trustees provide estimated per share

values in their annual reports. These Rules, as amended, prohibit a member or associated person from participating in a public offering of DPP or REIT securities unless the general partner or trustee, as applicable, agrees to disclose in each annual report distributed to investors pursuant to Section 13(a) of the Securities Exchange Act of 1934 a per share estimated value of the securities, the method by which it was developed, and the date of the data used to develop the estimated value. The designated Principal, in his or her review of Company DPP offerings, will assure compliance with these Rules, as amended.

20.3.7 Compensation in Public Offerings

Consolidated FINRA Rule 2310 includes definitions of and limitations on compensation paid to participating members in public DPP/REIT offerings. The Rule limits the amount of organization and offering (O&O) expenses for an investment program to 15% of the gross proceeds of the offering. O&O expenses have three components: (1) issuer expenses that are reimbursed or paid for with offering proceeds; (2) underwriting compensation; and (3) due diligence expenses. The Rule also addresses the allocation of compensation for dual employees of the issuer/sponsor and an affiliated broker-dealer and in connection with multiple offerings.

Underwriting compensation may never exceed 10% of the gross proceeds. This limit includes all items of compensation, paid from whatever source, such as amounts deducted from the offering proceeds or amounts paid to member firms, underwriters or affiliates in the form of trail commissions. Underwriting compensation includes payments to wholesaling or retailing firms engaged in the solicitation, marketing, distribution or sales of investment program securities (DPPs/REITs). It also includes payments for training and education meetings, contributions to conferences and meetings held by non-affiliated broker-dealers for their RRs, and payments for legal services provided to BDs. The designated Principal will ensure that the Firm's compensation in public DPP/REIT offerings does not exceed the limitations described in this Rule.

The following types of non-cash compensation are allowed, provided they are not preconditioned on achieving a sales goal:

- Gifts amounting in aggregate value not exceeding \$100 annually, per person. All gifts must be reported to Compliance under the Firm's gifts and gratuities policy.
- An occasional meal, ticket to a sporting event or show, or comparable entertainment that is not so frequent, nor so extensive, as to raise any question of propriety.
- Payment or reimbursement in connection with training or educational meetings, subject to several conditions. *Note:* Prior approval must be obtained from the designated Principal before participating in such meetings. The location of the meeting must be appropriate for its purpose, *e.g.*, a U.S. office of the offeror or broker-dealer holding the meeting, or a facility located in the vicinity of such office, or a U.S. regional location with respect to meetings of associated persons who work within that region or where a significant or representative asset of a DPP or REIT is located (i.e., for inspection of real estate, oil and gas production facilities, and other types of assets that will be held and managed by the program). The designated Principal will determine the appropriateness of the meeting.

- Only expenses incurred by the Firm or its employees are eligible for payment. Expenses for guests of employees (spouse, *etc.*) will not be reimbursed.

The designated Principal must review all forms of compensation and will ensure that the Firm’s compensation in public DPP/REIT offerings does not exceed the limitations described in this Rule.

The designated Principal must file, or have another member file on the Firm’s behalf, with FINRA’s Corporate Financing Department information on a proposed public DPP offering, describing the proposed terms of the offerings, including compensation. Prior to commencing the offering, a “no objections” opinion must be received by the Firm. The designated Principal will ensure that this opinion is received in all underwritings in which it participates.

20.4 Rule 144 Transactions: Restricted Securities

Name of Supervisor (“designated Principal”):	Trade Desk Supervisor: XXXXXXXXX
Frequency of Review:	Continuous; per transaction
How Conducted:	Receive requests for resale transactions; assess eligibility; review circumstances for red flags.
How Documented:	Records of transaction and notes on circumstances/eligibility review. Completed Deposited Securities/Resale Request Questionnaires Account Records
3010 Checklist:	SEC Rule 144, Consolidated FINRA Rule 6600 and 6700 Series, Notice 01-19, 08-42, 08-57, 09-05, 10-26; http://sec.gov/rules/final/2007/33-8869.pdf
Comments:	

Rule 144 offers a key exemption under the Securities Act of 1933 affecting the liquidity and transferability of securities. The rule permits a person who acquires “restricted” securities in a non-registered offering or an affiliate who holds restricted “control” securities to resell without being deemed a statutory underwriter engaged in a distribution. In the absence of compliance with Rule 144 or another exemption, securities must be resold through a registration statement pursuant to Section 5 of the 1933 Act. To constitute an exempt Rule 144 transaction, the resale of securities must satisfy strict holding periods and other limitations. Rule 145 extends similar principles to securities acquired in business combination transactions, such as reclassifications, mergers, consolidations and asset transfers. Rule 145 applies only to affiliates selling securities of a shell company. These Rules were revised in 2008 to ease respective restrictions.

In general, Firm Representatives must not recommend or accommodate resales of 144 stock unless all applicable conditions under the Rules are met. Below is a brief summary of some of these conditions:

Holding Period Requirements for Restricted Securities of Reporting Companies	Affiliates and Non-Affiliates are subject to a six-month holding period during which no resales are permitted under Rule 144.
	After six months, Affiliates may resell if they comply with all Rule 144 conditions.
	After six months but before one year, Non-Affiliates may resell if they comply with the Rule 144(c) current public information condition.
	After one year, Non-Affiliates may resell without any restrictions.
Holding Period Requirements for Restricted Securities of Non-Reporting Companies	Affiliates and Non-Affiliates are subject to a one-year holding period during which no resales are permitted under Rule 144.
	After one year, Non-Affiliates may resell without any restrictions.
Form 144 Filing Thresholds	Affiliates must file a Form 144 if any proposed sale will involve more than 5,000 shares or an aggregate dollar amount greater than \$50,000 in any three-month period.
	Non-Affiliates are not required to file a Form 144.

The Registered Representative handling this transaction is responsible for contacting the Trade Desk Supervisor or other knowledgeable principal to discuss the proposed transaction. He or she must be prepared to document the seller's status (affiliate or non-affiliate) and eligibility to sell, and must document the determination made. All necessary documentation, including necessary forms, must be received prior to executing the transaction and be maintained in the client's files. Below are details on how Firm personnel must attempt to determine eligibility for public sale.

Avoiding Illegal, Unregistered Distributions: Eligibility Assessment

Whether reselling unregistered securities for its own account or for a customer, the Firm is required to make a determination that the securities qualify for the exemption under Section 4(2) of the Securities Act. Firm personnel are prohibited from selling securities that may constitute illegal, unregistered resales. Even in unsolicited transactions, registered persons must inquire about the circumstances of the transaction, such as the relationship between the seller (customer) and issuer, and the nature, scope, size, type and manner of the offering. Specifically, it must be determined if the seller is: an issuer, person in a control relationship with an issuer, or an underwriter. The designated Principal must approve all resales based on the information gathered to substantiate eligibility.

The following questions are useful in determining preliminary eligibility:

- How long has the customer held the security?
- How did the customer acquire the securities?
- Does the customer intend to sell additional shares of the same class of securities through other means?
- Has the customer solicited or made any arrangement for the solicitation of buy orders in connection with the proposed resale of unregistered securities?
- Has the customer made any payment to any other person in connection with the proposed resale of the securities? and
- How many shares or other units of the class are outstanding, and what is the relevant trading volume?

Below are some red flags that, if perceived, should be discussed with the designated Principal prior to progressing with a resale transaction:

- A customer opens a new account and delivers physical certificates representing a large block of thinly traded or low-priced securities;
- A customer has a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale;
- A customer deposits share certificates that are recently issued or represent a large percentage of the float for the security;
- Share certificates reference a Firm or customer name that has been changed or that does not match the name on the account;
- The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired;
- There is a sudden spike in investor demand for, coupled with a rising price in, a thinly traded or low-priced security;
- The company was a shell company when it issued the shares;
- A customer with limited or no other assets under management at the Firm receives an electronic transfer or journal transactions of large amounts of low-priced, unlisted securities;
- The issuer has been through several recent name changes, business combinations or recapitalizations, or the company's officers are also officers of numerous similar companies;
- The issuer's SEC filings are not current, are incomplete, or nonexistent.

Required Procedure:

Obviously Eligible: In cases where the customer is well known to the Rep/Firm, where a modest amount of widely traded securities are offered, and where the customer is known to be unaffiliated with the issuer, Firm personnel may proceed with the transaction subject to the designated Principal's supervision and approval. Notes in the account and transaction records should show the Principal's approval and comments as to the Rep's/Principal's confidence in eligibility.

Not Apparently Eligible: In cases where the Firm is offered a block (large or otherwise) of a little-known security by a customer whose relationship with the issuer is unknown, Reps must make inquiries to determine if the proposed resale is not illegal. For all such offers to sell blocks of unregistered securities, the Rep must provide the customer with a Deposited Securities/Resale Request Questionnaire for completion. This procedure also applies to deposits of unregistered securities or large blocks of BB or Pink Sheet securities. The Rep must present the completed questionnaire to the designated Principal for review. If approved, the transaction/deposit may take place. If the Rep and designated Principal have reason to be suspicious about the transaction, they will bring it to the attention of the CCO and AML Compliance Officer for further review and follow-up. All documentation of attempted and completed transactions must be maintained with customer records.

Importantly, Firm personnel may not simply rely on a seller's representations or its counsel's opinions to satisfy its eligibility concerns. Nor may the Firm rely on a third party to undertake the necessary inquiry into eligibility. While outside counsel, clearing firms transfer agents, issuers and issuer's counsel may provide valuable input into the process, it is the Firm, itself, which must make the determination based on its inquiry. Also, the fact that securities have been issued by a transfer agent without a restrictive legend, or have been put into trading status by a clearing firm, does not mean those securities may be resold immediately and without limitation.

Secondary transactions in Restricted Equity Securities under Rule 144A are reportable to ORF: see CF Rule 6622 and the Order Processing/Reporting section in this Manual. All secondary market transactions in TRACE-Eligible Securities (debt securities), unless otherwise exempt, must be reported to TRACE. Please refer to Section 12.10 on “TRACE Procedures” (including reporting Rule 144A transactions) for details.

20.5 Restrictions on IPO Transactions

Consolidated FINRA Rule 5130 prohibits the Firm or a person associated with it from: selling, or causing to be sold, a new issue of equity securities (“Initial Public Offering” or “IPO”) to any account in which a restricted person has a beneficial interest; purchasing an IPO security in any account in which the Firm or person associated with it has a beneficial interest; and continuing to hold new issues acquired by the Firm as an underwriter, selling group member, or otherwise, except as otherwise permitted within the Rule.

20.5.1 Restrictions on IPO Transactions

Name of Supervisor (“designated Principal”):	Home Office Supervisor: Designated New Issue Supervisor:
Frequency of Review:	Continuous; daily
How Conducted:	Review and approval of transaction in IPO’s. Review of documentation used to identify restricted or non-restricted accounts. Commission Reviews
How Documented:	Order tickets; account documentation, including representations. Trade Reports Investigation Records, when applicable
3010 Checklist:	Consolidated FINRA Rule 5130, Notices 03-79, 05-65, 08-54, 08-57
Comments:	

New issues, as defined in Rule 5130, do not include private placement securities (and 144A stock); commodity pools; rights offerings, exchange offers, or offerings made pursuant to a merger or acquisition; investment grade asset-backed securities; convertible securities; offerings of preferred securities; registered investment company offerings, securities that have a pre-existing non-U.S. market; BDCs (business development companies); DPPs; REITs; or certain exempted securities. Consolidated FINRA Rule 5130 should be consulted by personnel with questions about the nature of “new issue” securities.

Neither the Company nor any person associated with it shall be permitted to participate in the purchase or sale of a new issue *except* when purchases are by, and sales are to, the following accounts or persons, whether directly or through accounts in which such persons have a beneficial interest:

1. An investment company registered under the Investment Company Act of 1940;
2. A common trust fund or similar fund as described in Section 3(a)(12)(A)(iii) of the Act, provided that:
 - the fund has investments from 1,000 or more accounts; and
 - the fund does not limit beneficial interests in the fund principally to trust accounts of restricted persons;

3. An insurance company general, separate or investment account, provided that:
 - the account is funded by premiums from 1,000 or more policyholders, or, if a general account, the insurance company has 1,000 or more policyholders; and
 - the insurance company does not limit the policyholders whose premiums are used to fund the account principally to restricted persons, or, if a general account, the insurance company does not limit its policyholders principally to restricted persons;
4. An account if the beneficial interests of restricted persons do not exceed in the aggregate 10% of such account;
5. A publicly traded entity (other than a broker/dealer or an affiliate of a broker/dealer where such broker/dealer is authorized to engage in the public offering of new issues either as a selling group member or underwriter) that:
 - is listed on a national securities exchange; or
 - is a foreign issuer whose securities meet the quantitative designation criteria for listing on a national securities exchange;
6. An investment company organized under the laws of a foreign jurisdiction provided that:
 - the investment company is listed on a foreign exchange for sale to the public or authorized for sale to the public by a foreign regulatory authority (funds, such as hedge funds, that are limited to high net worth individuals are not eligible for this exemption); and
 - no person owning more than 5% of the shares of the investment company is a restricted person;
7. An Employee Retirement Income Security Act benefits plan that is qualified under Section 401(a) of the Internal Revenue Code, provided that such plan is not sponsored solely by a broker/dealer;
8. A state or municipal government benefits plan that is subject to state and/or municipal regulation;
9. A tax exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code; or
10. A church plan under Section 414(e) of the Internal Revenue Code.

The Rule describes further exemptions related to: issuer directed securities, issuer-sponsored programs, anti-dilution provisions, stand-by purchasers, and under-subscribed offerings. RR's and their supervisors must consult the Rule for specific guidance on these exemptions.

Firm personnel, when considering a purchase or sale of new issue securities, whether for a customer, the Firm or an associated person, must review Consolidated FINRA Rule 5130 or consult their supervising Principal for guidance. Every prospective transaction in IPO securities must undergo detailed scrutiny to identify restricted persons, as defined in the Rule. Prior to conducting a transaction in a new issue, the RR must ensure that the following preconditions have been met. Before selling a new issue to any account, the RR must ensure that the Firm has obtained within the twelve months prior to such sale, a representation from:

- **Beneficial Owners**--The account holder(s), or a person authorized to represent the beneficial owners of the account, that the account is eligible to purchase new issues in compliance with this Rule (in the case of accounts that are funds of funds, the Firm need only receive this representation from the master fund); or
- **Conduits**--A bank, foreign bank, broker-dealer, or investment adviser, or other conduit that all purchases of new issues are in compliance with this Rule.

Associated persons may not rely upon any representation that they believe, or have reason to believe, is inaccurate. The first such representation from an account must be a positive affirmation; thereafter, personnel may use annual negative consent letters to affirm the account’s non-restricted status. Oral representations and affirmations are not acceptable; they must be in writing or via electronic communication. The designated Principal must ensure maintenance of copies of all records and information relating to whether an account is eligible to purchase new issues (for instance, the exemption relied upon) in respective files for at least three years following the Company’s last sale of a new issue to that account. *All purchases and sales of new issue securities must be pre-approved by the designated Principal*, who shall evidence his or her approval by initialing and dating the order ticket.

20.6 Mergers & Acquisitions

Name of Supervisor (“designated Principal”):	Designated Principal: Brian James
Frequency of Review:	Continuous; per transaction
How Conducted:	Review contracts, fee agreements, due diligence records, fairness opinions (if applicable), etc.
How Documented:	Signature or initials on contracts, fee agreements.
3010 Checklist:	Rule 1032, Consol. FINRA Rule 51.50; Notices 07-54, 09-41
Comments:	

While FINRA does not have specific rules governing all aspects of M&A advisory services provided by member BD’s, the Firm has included these procedures to clarify its expectations of its M&A personnel and supervisors. While conducting its M&A business, the Firm strives to maintain high standards of commercial and ethical conduct and just and equitable principles. The Firm is dedicated to serving the best interests of its clients and complying with all applicable regulatory requirements.

The Firm may conduct mergers and acquisitions (M&A) advisory services for its corporate clients. Services may consist of advisory work in connection with: merger and acquisition transactions, sales, divestitures, recapitalizations, valuations and/or fairness opinions. Currently, the Firm will not issue fairness opinions. Should that policy change, the procedures set forth in Section 20.7, below, will govern. All advisory work performed by the Firm’s personnel must be subject to the terms of a negotiated, executed engagement letter signed by the designated Principal (or other, when permitted by the designated Principal). No member of the Firm may conduct advisory services for clients that have not been approved by the designated Principal.

Certain activities performed or supervised by the Firm’s M&A advisory personnel may create a

registration requirement in accordance with Rule 1032. Personnel engaging in or supervising any of the following activities on behalf of the Firm will require Series 79 licensing, in addition to any other licenses they are required to hold based on their other securities activities:

- 1) advising on or facilitating debt or equity securities offerings through a private placement or a public offering, including but not limited to origination, underwriting, marketing, structuring, syndication, and pricing of such securities and managing the allocation and stabilization activities of such offerings, or
- (2) advising on or facilitating mergers and acquisitions, tender offers, financial restructurings, asset sales, divestitures or other corporate reorganizations or business combination transactions, including but not limited to rendering a fairness, solvency or similar opinion.

The Licensing and Registration Principal will ensure all licensing requirements are met.

Services. M&A advisory services provided by the Firm may include the following:

- M&A Representation, Buy-side: the Firm may assist the buyer client in identifying the Firm to be acquired, valuing the target Firm, conducting due diligence, structuring the transaction and performing other, related services.
- M&A Representation, Sell-side: the Firm may assist the seller client to identify prospective acquirers, determine a preliminary range of valuations, draft and distribute a descriptive memorandum, negotiate transaction terms, coordinate due diligence visits and other services. The Firm requires prospective acquirers to sign confidentiality agreements prior to allowing them access to any non-public information.
- Valuation Services: either on a standalone basis or in combination with other M&A services, appointed personnel will analyze comparable transactions, current market data, and financial projections prepared by the Firm or the client in order to determine a range of estimated values. The designated Principal (or his/her designee) should review and approve all valuations before they are provided to clients.
- Fairness Opinions: in certain instances, fairness opinion may be issued to clients. Fairness opinions concern a transaction in its entirety, rather than on specific terms or conditions of a transaction, and are limited to the financial characteristics of the transaction. The opinions may be issued in cases where the Firm represents buyers or sellers in change of control transactions. The designated Principal (or his/her designee) should review and approve all fairness opinions before they are provided to clients. It is not our current practice, nor do we intend to issue such fairness opinions in the near future. If, however, a transaction requires a fairness opinion, it is the Firm's intent to rely on an opinion issued by issuer's counsel. (see Section 20.7, below)

Due Diligence. M&A professionals must undertake a due diligence process to examine thoroughly the advisory client and its industry prior to providing M&A services. Due diligence practices should include interviews of management, visits to Firm facilities (if appropriate) and the careful examination of relevant factors, including, where applicable:

- Profile/Operational Structure: products and services, Firm history, departments/ divisions/subsidiaries, customers, suppliers, operational methods and physical plants.
- Industry: competitors, local and broader industry dynamics, market trends, cyclicity/seasonality and industry forecasts.
- Management and Employee Issues: organizational structure, biographical data regarding key officers/directors/employees, compensation and benefits plans, and union status.
- Financial Data: historical and projected financial statements, including interim results, R&D expenditures, inventories, order backlogs, recorded and contingent liabilities, litigation, significant contracts and organizational structure/tax status.

In conducting due diligence, Firm personnel must determine what information (listed above or otherwise) is relevant to a particular assignment and must attempt to incorporate an analysis of all available, pertinent information.

When representing sellers, personnel may prepare a memorandum describing the client and communicating background information. This memorandum typically includes information that allows prospective acquirers to evaluate the acquisition opportunity prior to submitting non-binding expressions of interest or visiting the client. Personnel may not make any representation or warranty as to the accuracy or completeness of memorandum information and the designated Principal will ensure that memorandums include language disclosing that the memorandums do not represent offers to sell the company or its securities.

Fees. The purpose of the Firm's M&A activity is to generate fee income by providing advisory services. All services will be subject to the terms of an engagement letter, describing the scope of the assignment, the fee arrangement and other specifics of the relationship between the Firm and the client. The Firm typically receives a success fee contingent upon completion of an assignment, with out-of-pocket expenses paid by the client. Such fees are typically based upon the size of the transaction and are due at closing. The Firm may also receive retainer fees upon signing an engagement letter and periodically thereafter, which may be credited against any success fee. In the case of valuations, fees charged by the Firm will be a fixed dollar amount not subject to the estimated valuation amounts. If the Firm changes its current policy and decides to issue fairness opinions (see Section 20.7 below), fees will be a fixed dollar amount contingent only upon issuance of an opinion, and not subject to the valuation, completion of the transaction, or the Firm's expressed opinion on the fairness of the transaction. The designated Principal is charged with reviewing and approving all fees negotiated by Firm personnel. This approval will be evidenced by his or her signature on the agreements or initials on agreements executed by other Firm personnel.

Legal Issues. When services are provided to publicly-held clients or to investors in such companies, legal counsel may be required and retained to ensure compliance with appropriate rules and regulations regarding proxy solicitations or tender offers or other potential securities matters. Additionally, M&A transactions may present the risk of potential conflicts of interest. To address this situation and to attempt to prevent perceived conflicts, the Firm shall disclose to its clients any relationships that it reasonably believes may create a conflict of interest or perception thereof.

Record Keeping. The Firm shall maintain files for each M&A engagement including the following information, as appropriate:

- A signed copy of the engagement letter.
- A copy of all descriptive memorandums.
- Distribution ledgers, indicating the name of each individual receiving a copy of the memorandum, date of receipt, number of memorandum (if appropriate) and any other pertinent information.
- Copies of any confidentiality agreements.
- A copy of any Fairness Opinion letter.
- A copy of the final presentation made to the client’s board of directors.
- A log of expenses, and any invoices for fees or expense reimbursement.

Principals in charge of M&A engagements will review the files of each engagement, on an on-going basis, to ensure that all required documents are being maintained.

Securities Offerings. When securities offerings are made by the Firm in conjunction with M&A advisory services (for instance, offering privately-placed debt securities in the context of a restructuring/recapitalization), all relevant procedures described in this Manual relating to securities offerings must be followed. No securities offerings are permitted without proper registration and supervisory approval, as herein described.

20.7 Fairness Opinions

Name of Supervisor (“designated Principal”):	Designated Principal: Brian James
Frequency of Review:	Continuous; per transaction
How Conducted:	Review fairness opinions.
How Documented:	Signature or initials on fairness opinions
3010 Checklist:	Consolidated FINRA Rule 5150

Currently, the Firm will not issue fairness opinions. If, however, a transaction requires a fairness opinion, it is the Firm’s intent to rely on an opinion issued by issuer’s counsel. Should that policy change, the following procedures will govern.

The Firm may issue fairness opinions to its mergers and acquisitions customers relative to transactions involving a change of control of a company through merger, acquisition or sale. These opinions when issued by the Firm must not provide information contrary to fact and must contain appropriate, quantitative disclosure when the Firm has reason to believe the fairness opinion may be provided to the company’s public shareholders. These disclosures must include:

- Whether the Firm will receive any compensation contingent on the successful completion of the transaction for acting as an adviser to any party in the transaction that is the subject of the fairness opinion for providing the opinion, acting as an advisor or providing any other services relative to the transaction. Note - Transactions also include subsequent related transactions

that occur contingent to the transaction on which the fairness opinion is issued;

- Any material relationships that existed during the past years or any contemplated material relationships between the Firm and any party to the transaction that is the subject of the fairness opinion that could result in the payment or receipt of compensation, other than de minimus fees;
- Whether the opinion was approved or issued by a fairness committee;
- Whether the opinion addresses the fairness of compensation paid to any insiders relative to compensation paid to public shareholders; and
- Whether the Firm has verified any information provided by the parties involved in the transaction with an independent third-party. Note - the Firm is not required to verify such information and if no verification is done, the disclosure would simply state that no such verification was made.

The designated Principal shall review all fairness opinions to determine that appropriate disclosures are included. He/she will evidence his/her review by affixing his/her initials and the date of review on a copy of the opinion that will be retained in the client's file.

Fairness Committees: The Firm will generally use a fairness committee in constructing or issuing opinions and implement procedures regarding these committees as follows:

- The Head of Investment Banking shall select committee members on the basis of their experience within the industry in which the client transacts business as well as experience in the type of transaction being proposed and their tenure with the Firm;
- The Firm shall promote a fair and balanced review by the fairness committee, by requiring that all opinions are reviewed and approved by a member of senior management or the compliance staff that does not serve on the deal team for the transactions or the committee itself; and
- In reviewing the opinion the designated reviewer shall determine that the valuation analyses used are appropriate.

The person designated to review the report as described above shall evidence his/her review by affixing his/her initials and the date to a copy of the report prior to submitting it to the designated Principal for his/her final review and approval.

APPENDIX A: REGISTERED REPRESENTATIVE AND EMPLOYEE CERTIFICATION

COMPLIANCE AND SUPERVISION AGREEMENT

As a condition of association with Triad Securities, I agree to comply with the following policies, procedures and regulatory requirements:

I understand that it is the policy of the company NOT to permit dual registration of securities licenses. Any exceptions to this policy would require written approval from the President of the firm.

I will not accept or generate securities transactions until such time that I have been notified of all state and federal agency approvals of my registrations.

I will promptly notify the President of any change which may affect the information reported on my U-4.

I will not solicit or effect transactions for customers in states where I am not registered. I will notify the President of the location of all customers so as to comply with the various states' rules.

I will notify the President immediately if I should become involved in any judicial or regulatory investigation. I will not respond to any requests for information to regulatory authorities until advised to do so by the President.

I agree to notify the Chief Compliance Officer promptly of any customer complaints, either oral or written, brought to my attention.

I will not guarantee the present or future value or price of any securities or that any company or issuer of securities will meet specified promises or obligation.

I will not agree to re-purchase at some future time any security from a client for my own account, for the account of the Firm or for any other account.

I will not act as a personal custodian for securities, stock powers, money or other property belonging to a client.

I will not borrow money or securities from a client.

In order to avoid "free-riding" issues, neither myself nor my immediate family (defined as spouse, children, or any relative living in the house) will be allowed to participate in new issues that are immediately to be traded in the secondary market.

I will not maintain a joint account in securities with any client or share any benefit with any client resulting from a securities transaction without written approval from the President.

I will advise the President in writing of my personal securities accounts or securities accounts of immediate family members (defined as spouse, children or any relative living in the house). It is required that duplicate confirms be sent to the Firm.

I will not accept gratuities or compensation of any sort from a client or anyone other than the Firm for securities sales activities.

I have read the Insider Trading Policies included in the Firm's Written Supervisory Procedures Manual and agree to comply with all of the employee responsibilities outlined in that section.

I will advise the President in writing of all outside activities and receive approval in writing prior to engaging in such activities.

I agree to abide by all SEC, NASD, MSRB and State rules and regulations pertaining to effecting securities transactions with the public.

I will not make oral presentations regarding a new issue of securities, shares of an investment company or units of a UIT which are not set forth in the offering documents. These products will be sold by prospectus and all oral representations will be to clarify material set forth in offering documentation and sales materials.

I will not accept any order of a third party without prior written authorization signed by the customer.

I personally will not pay any fees or other gratuities to any individual or company for prospective customers or sales.

I will not render any tax or legal advice to customers but rather refer them to an accountant or attorney.

I am not a municipal finance professional of the Firm and therefore not subject to restrictions on political contributions to my local municipal securities issuers, in accordance with MSRB Rule 37.

The undersigned has read, understands, and agrees to comply with the statements made herein. Further, the undersigned has read the Written Supervisory Procedures Manual, has been given the opportunity to ask questions about the Manual and understands the procedures set forth in the Manual. It is understood that failure to comply with the rules and regulations promulgated by the SEC, NASD, and the State Securities Commissions could result in disciplinary action (including termination) being taken against the undersigned representative. It is also understood that failure to comply with Firm policies and procedures could result in the same or similar actions.

I understand that I must disclose any website which I am associated with to the President. Further, I understand that I may not use the name of Triad Securities on such website in any way, including posting of my resume.

The following represents a listing of all current broker/dealer accounts held by me and/or my immediate family as defined by the policies of the Firm.

Date

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APPENDIX B: LIST OF PERSONS SUBJECT TO SPECIAL SUPERVISION

SEE SPECIAL SUPERVISION FILE

APPENDIX E:

1 of 3

Sample of Affidavit for ***all*** Employees deemed Municipal Finance Professionals (“MFP”) to read and sign. A list of Employees deemed MFP’s is attached hereto.

<i>Employees affidavit for MSRB Rule G-37</i>	
MSRB Rule G-37 requires that I notify Triad Securities Corp. of any and all contributions that I have made to any political party or candidate regardless of political party or election.	
I have () have not () made a political contribution during the most recent quarter. If yes, indicate:	
Political Party/Candidate:	_____
City:	_____
County:	_____
State:	_____
Amount of contribution:	_____
Employee Name:	
Date Signed:	

Sample of Affidavit for all New Employees to read and sign

<i>New Employees affidavit for MSRB Rule G-37</i>	
MSRB rule G-37 may require that I notify Triad Securities Corp. of any and all contributions that I make to any political party or candidate regardless of political party or election.	
I have () have not () made a political contribution within the past two (2) years. If yes, indicate:	
Political Party/Candidate:	_____
City:	_____
County:	_____
State:	_____
Amount of contribution:	_____
Employee Name:	
Date Signed:	

FORM G-37/G-38

NAME OF DEALER: _____
 REPORT PERIOD: _____

I. CONTRIBUTIONS MADE: (LIST BY STATE)

<u>STATE</u>	COMPLETE NAME TITLE (INCLUDING ANY CITY/COUNTY/ STATE OR OTHER POLITICAL SUB- DIVISION) OF <u>OFFICIAL/POLITICAL</u> PARTY	TOTAL NUMBER AND DOLLAR AMOUNT OF CONTRIBUTIONS; BY DEALER: BY PAC: BY (ENTER NUMBER OF) _____ <u>MUNICIPAL FINANCE PROFESSIONALS</u> <u>AND EXECUTIVE OFFICERS</u>
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**II. PAYMENTS MADE TO POLITICAL PARTIES OF STATES OR POLITICAL SUBDIVISION
(LIST BY STATE)**

<u>STATE</u>	COMPLETE NAME OR ISSUER AND <u>CITY/COUNTY</u>	<u>TYPE OF MUNICIPAL</u> <u>SECURITY BUSINESS</u>	NAME, COMPANY,ROLE AND COMPENSATION ARRANGEMENT OF ANY PERSON EMPLOYED BY DEALER TO OBTAIN OR RETAIN SUCH MUNICIPAL <u>SECURITIES BUSINESS</u>
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**III. ISSUERS WITH WHICH DEALER HAS ENGAGED IN MUNICIPAL SECURITIES BUSINESS
(LIST BY STATE)**

<u>STATE</u>	COMPLETE NAME OF ISSUER <u>AND CITY/COUNTY</u>	<u>TYPE OF MUNICIPAL SECURITIES</u> <u>BUSINESS (NEGOTIATED UNDERWRITING</u> <u>PRIVATE PLACEMENT, FINANCIAL</u> <u>ADVISOR, OR REMARKETING AGENT)</u>
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FORM G-37/G-38

IV. CONSULTANTS (SPECIFY INFORMATION FOR EACH CONSULTANT MUST BE ATTACHED)

NAME OF CONSULTANT:	CONSULTANT COMPANY
NAME:	
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

SIGNATURE: _____ DATE: _____
(MUST BE OFFICER OF DEALER)

NAME: _____

ADDRESS: _____

PHONE: _____

SUBMIT TWO COMPLETED FORMS QUARTERLY BY DUE DATE (SPECIFIED BY THE MSRB) TO:

MUNICIPAL SECURITIES RULE MAKING BOARD
1640 KING STREET
SUITE 300
ALEXANDRIA, VIRGINIA 22314

Employees deemed Municipal Finance Professionals

NONE

ATTACHMENT TO FORM G-37/G-38

(Submit a separate attachment sheet for each consultant listed under IV)

Name of Consultant: _____

Consultant Company Name: _____

Role to be performed by Consultant: _____

Compensation Arrangement: _____

Total dollar amount paid to Consultant during reporting period: _____

Dollar amounts paid to Consultant connected with particular municipal securities business
(each such business and amount paid must be separately identified):

Authorized agent(s) allowed to act on behalf of this account:

(Full or Limited Trading Authorization required for each agent)

Name: _____ **

SS Number: _____ Passport Number: _____
(For U.S. citizens) (For Non-U.S. Citizens)

Residential Address: _____
**(Copy of utility bill required)

Home Phone Number: _____ Cell Phone Number: _____

Business Phone Number: _____ Fax Number: _____

e-mail address: _____

Place of Birth: _____ Date of Birth: ___ Citizenship: _____

Name: _____ **

SS Number: _____ Passport Number: _____
(For U.S. citizens) (For Non-U.S. Citizens)

Residential Address: _____
**(Copy of utility bill required)

Home Phone Number: _____ Cell Phone Number: _____

Business Phone Number: _____ Fax Number: _____

e-mail address: _____

Place of Birth: _____ Date of Birth: ___ Citizenship: _____

**** IDENTIFICATION REQUIREMENTS:** Please provide copy of driver's license (or passport for non-U.S. citizens) and copy of utility bill for proof of residential address.

Appendix G

Special Statement Regarding Uncovered Options Writers

There are special risks associated with uncovered options writing that exposes the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions.

The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position and may incur large losses if the value of the underlying instrument increases above the exercise price.

As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears the risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, TRIAD SECURITIES CORP. may request significant additional margin payments. If an investor does not make such margin payments, then TRIAD SECURITIES CORP. may liquidate positions in the investor's account without prior notice in accordance with the TRIAD SECURITIES CORP. Customer Agreement.

For combination writing (positions in more than one option at the same time), the potential risk is unlimited.

If a secondary market in options were to be unavailable, investors could not engage in closing transactions, and an option writer would remain obligated until expiration or assignment.

The writer of an American style option is subject to being assigned an exercise at any time after he/she has written the option until the option expires. By contrast, the writer of a European style option is subject to exercise assignment only during the time set for exercise. NOTE: It is expected that you have read the booklet entitled Characteristics and Risks of Standardized Options available from TRIAD SECURITIES CORP and promulgated by OCC and NASD. In particular, your attention is directed to the chapter entitled "Principal Risks of Options Positions." This statement is not intended to enumerate all of the risks entailed in writing uncovered options.