tZERO GROUP, INC.
TZROP FULL TOKENIZATION FAQ
March 6, 2025

On March 14, 2025 (the "**Effective Date**"), tZERO Group, Inc., a Delaware corporation ("**tZERO Group**") plans to fully tokenize the capitalization table of its Preferred Equity Tokens, Series A, par value $0.01 per share ("**TZROP**"). The "**Full Tokenization**" of TZROP entails a change to the TZROP shareholder register from a conventional book-entry shareholder register to a digitally native blockchain-based shareholder register, with automated smart contract functionality, making TZROP a "digital asset security" under applicable regulatory guidance. If you currently hold your shares of TZROP in a tZERO Securities, LLC ("**tZERO Securities**") brokerage account, on the Effective Date, our new special purpose broker-dealer, tZERO Digital Asset Securities, LLC ("**tZERO Digital**"), will open an account in your name and/or assume custody of your shares of TZROP, subject to your right to opt out, which will be elaborated on by tZERO Securities in a direct communication to you as its customer. The following are answers to frequently asked questions ("**FAQ**") relating to the Full Tokenization. You can always contact tZERO Group at ir@tzero.com if you have additional questions.

Q: Are any terms of TZROP changing due to the Full Tokenization?

A: No, aside from the technical changes to its record keeping system, the terms of TZROP are not changing.

Q: Why is tZERO Group changing the shareholder record keeping system for TZROP?

A: tZERO Group's mission is advancing the development and adoption of securities that utilize blockchain technology features. Recently, its subsidiary, tZERO Digital was admitted to FINRA membership as a new Special Purpose Broker-Dealer that can custody digital asset securities, enabling TZROP to adopt more blockchain features and remain available for trading in tZERO's broker-dealer operated platform. The Full Tokenization of TZROP will unlock potential for future smart contract automation functionalities and will deploy new utility features at the time of TZROP's full tokenization, including issuer tools leveraging artificial intelligence (AI) data driven insights relating to TZROP's ownership structure, transactions and investor base, while maintaining data privacy. This tool set will form the backbone of tZERO's end-to-end digital asset security product offering for issuers looking to fully tokenize their capital tables in a way that introduces meaningful and actionable issuer and investor facing tools that prove the use case for tokenized and automated securities versus legacy book-entry systems dispersed across multiple databases and market participants.

Q: What is a digital asset security?

A: A digital asset security is a security that is issued and/or transferred using distributed ledger or blockchain technology, which also serves as the source of truth for record ownership. The smart contract technology governing a digital asset security may, at an issuer's discretion, offer its holders certain automated utility features. Following the Full Tokenization, TZROP will be a digital asset security.

Q: How is the TZROP shareholder register maintained today?

A: Currently, TZROP's shareholder register is maintained by the SEC-registered transfer agent, Computershare Trust, N.A. ("**Computershare**"), on its conventional books and records. tZERO Group, as issuer, has also arranged for a non-controlling digital "courtesy carbon copy" of TZROP's shareholder registry to be viewable on the blockchain to enhance investor transparency and the ownership experience. The "courtesy carbon copy" has no bearing on ownership, no legal effect and cannot be used to transfer shares of TZROP. Computershare may register peer-to-peer transfers of record ownership of TZROP in limited circumstances, including those that do not constitute "sales" for purposes of securities laws, such as pursuant to a divorce decree, death, gift or certain corporate actions (and then only following compliance with Computershare's procedures, including delivery of appropriate documentation).

Q: Following the Full Tokenization, will Computershare continue to be the transfer agent for TZROP?

A: No. In connection with the Full Tokenization, tZERO Group has notified Computershare that it is terminating its transfer agency agreement for TZROP and taking over maintenance of the TZROP shareholder register, as issuer.

Q: How does tZERO Group plan to maintain the TZROP shareholder register following the Full Tokenization?

A: When tZERO Group assumes the maintenance of the tZROP register, it will utilize the Ethereum blockchain to record and maintain the definitive record of ownership of TZROP. Each record holder and their holdings of TZROP will be recorded on the blockchain with a unique digital wallet address controlled by tZERO Group. While the security position information of each record holder will be publicly viewable on the blockchain, personal identifiable information of record holders will not be publicly available, such information will be maintained confidentially off-chain by tZERO Group.

Q: What is a record holder and how do I know if I am one?

A: Record holders own shares of TZROP directly and are listed on the TZROP shareholder register. If you own TZROP but do not hold them in a tZERO Securities brokerage account, you are a record holder. If you hold shares of TZROP in your tZERO Securities brokerage account, you are not a record holder.

Q: Do I need to take any action in connection with the Full Tokenization?

A: No action is needed from record holders on the Effective Date or in connection with the Full Tokenization. If you currently hold your shares of TZROP in a tZERO Securities brokerage account, on the Effective Date, tZERO Digital will open an account in your name and/or assume custody of your shares of TZROP, subject to your right to opt out, which will be elaborated on by tZERO Securities in a direct communication to you as its customer. Because the Full Tokenization of TZROP will make it a digital asset security, custody services must move from tZERO Securities to a special purpose broker-dealer like tZERO Digital that can custody digital asset securities in accordance with applicable regulations.

Q: How do I opt out?

A: Record holder do not have an opt out right. Customer of tZERO Securities may opt out of becoming a tZERO Digital customer. If you are a customer of tZERO Securities and do not wish to have a tZERO Digital account opened in your name, please email support@tzero.com and request an opt out form. In response, tZERO Securities customer support will send you an opt out form, which must be completed for your opt out request to be processed. If you opt out and own TZROP in your brokerage account, you must sell your shares of TZROP or register your shares of TZROP directly in your name on TZROP's shareholder register prior to March 13, 2025. If you have opted out and not taken one of these action, on March 13, 2025, tZERO Securities will register all of your shares of TZROP in your brokerage account directly in your name on TZROP's shareholder register. After such action is taken, you will be a record holder.

Q: Following the Full Tokenization, will TZROP have any new utility features?

A: The Full Tokenization of TZROP has enabled the deployment of new utility features, including artificial intelligence data driven insights relating to TZROP's ownership structure, transactions and investor base. tZERO plans to leverage the new upgradable technology powering TZROP to bring additional utility features to its investors in the future, which may include individual customer custodial wallets, on-chain KYC verification and accreditation or automated on-chain corporate actions, without sacrificing data privacy standards.

Q: After the Full Tokenization, do I need to utilize a wallet for my TZROP?

A: No. tZERO Group will administer all wallets and keys associated with the maintenance of the TZROP shareholder register. Record holders will not be permitted to hold shares in a personal wallet address. For shares of TZROP held in a brokerage account, tZERO Digital will administer all wallets and keys associated with the shares of TZROP in its custody.

Q: What is going to happen to the existing courtesy carbon copy of TZROP ownership available on the blockchain?

A: It will be “burned” and no longer viewable on the blockchain on and following the Effective Date.

Q: What security measures is tZERO Group and tZERO Digital taking to ensure that my TZROP shares are secure?

A: To create, store and manage private keys for TZROP, tZERO entities will use a key management software as a service platform, offered by a vendor that specializes in encryption. Private keys will be subject to security procedures that are based on a defense-in-depth approach where both the creation and the signing of the wallet’s keys are protected by a mixture of complementing approaches, where the major ones are:

- MPC (Secure Multi-party computation) - The private key is never held in one place. The creation, signing and revocation are done in a trustless distributed manner between a threshold of co-signing components.
- Chip-Level Hardware Isolation - All the key material is protected in a hardware isolated environment. In addition, any code or data that can act as a single point of compromise, is executed in hardware isolation.
- Policy Engine - Policy on transfer amount-based limits is enforced by any of the co-signing components to assure that any attack on the initiating client or on any of the centralized components between the client and the co-signer is blocked.

The trustless MPC setup assures that the private key is not reconstructed throughout the entire lifecycle of the key, not during its initiation and not during the setup phase. The distributed key generation can be done either through online co-signers or as an offline process to comply with the SAS-70 standard. Each individual MPC key share is randomized in a hardware isolated component using a NIST SP 800- 90A compliant random number generator, eliminating the feasibility to weaken the protocol implementation. As in any signing system, even if the message signing is distributed, the transaction crafting is still conducted in a centralized component and is prone to a spoofing attack. In order to handle this attack vector, the distributed MPC-based signing process is utilized for a distributed verification process, where each of the co-signers parse the message to be signed and assures that it matches the metadata of the signed request it is carried with.

The hardware isolation mitigates risk of a takeover by either an outsider or insider who has access to a threshold of the devices holding the MPC key shares. The major attack scenario is an administrative personnel that has access to all machines during the key provisioning or key signing phase. Through the use of hardware isolation and remote attestation technique, the risk of such an attack vector is drastically mitigated.

Q: After the Full Tokenization, who do I contact for questions?

A: Please contact ir@tzero.com if you are a record holder. If you own shares through your brokerage account, please contact support@tzero.com.

Q: After the Full Tokenization, can I transfer my shares of TZROP peer to peer?

A: No**.** Record holders seeking to effect a change in record ownership following the Full Tokenization should contact ir@tzero.com. These transfers will be subject to tZERO Group's existing policies and procedures and the terms of TZROP, which prohibit peer-to-peer transfers except in limited circumstances, including those that do not constitute "sales" for purposes of securities laws, such as pursuant to a divorce decree, death, gift or certain corporate actions. Otherwise, consistent with the existing terms of TZROP, which are not being amended as part of the Full Tokenization, TZROP may only be purchased or sold on the tZERO Securities ATS.

Q: How do I purchase or sell shares of TZROP on the tZERO Securities ATS?

A: If you are a record holder and wish to purchase or sell shares of TZROP on the tZERO Securities ATS following the Full Tokenization, you will need to take the following steps: (1) open a tZERO Securities and tZERO Digital brokerage account - the online account opening process can be found here, (2) deposit your shares of TZROP into your tZERO Digital account and (3) place your order on tZERO Securities web application. If you are an existing tZERO Securities customer, you may continue to trade shares of TZROP on the tZERO Securities ATS following the Full Tokenization.

Q: How will tZERO Digital custody my shares following the Full Tokenization?

A: tZERO Digital will custody TZROP for its customers in one or more omnibus custodial wallets for the benefit of its customers. The aggregate number of shares held in these custodial wallets will be visible on the Ethereum blockchain. Once your shares of TZROP are on deposit with tZERO Digital, you will not have access to the private keys controlling the wallet address where your shares of TZROP are held under any circumstances. Your beneficial ownership of TZROP will be recorded on a book-entry basis in tZERO Digital's clearing software and will not be visible on the blockchain.

Q: How will the Full Tokenization affect how shares of TZROP are traded on the tZERO Securities ATS?

A: At order entry you will need to send tZERO Digital conditional settlement instructions to settle your trade, but this will be automated through the tZERO on-line brokerage platform. The Full Tokenization will not affect how transactions are executed on the tZERO Securities ATS, which all occur off-chain. Clearance and settlement of transactions in TZROP will be facilitated by tZERO Securities, with respect to cash, and tZERO Digital, with respect to TZROP, on a book-entry basis in each firm's respective clearing software. Trades in TZROP will continue to settle on a same day basis.

Q: Are there any tax consequences because of the Full Tokenization?

A: No, the Full Tokenization is not a taxable event for shareholders.

Q: Are there new risks associated with TZROP when it becomes a digital asset security?

A: Yes, there are unique risks associated with digital asset securities that, in certain cases, will be relevant to TZROP following the Full Tokenization. TZROP meets the definition of a digital asset security because it meets the definition of a "security" under the federal securities laws and will be issued and/or transferred using distributed ledger or blockchain technology.

Risks of fraud, manipulation, theft, and loss

- Ownership of TZROP will be evidenced by a unique identifier often referred to as a "wallet address." A wallet address is controlled by a tool called a "wallet." A wallet is not a storage container which will hold TZROP. Rather, a wallet is a tool used to: (a) create holder addresses on the distributed ledger (blockchain); and (b) create "keys" which control a wallet address. All TZROP record ownership will be recorded on the blockchain with a wallet address created by a tZERO Group operated wallet, except for tZERO Digital record ownership, which will be recorded separately by a tZERO Digital operated wallet. Each wallet address is controlled by a pair of keys: a public key and private key. The private key is used to approve transactions, whereas the public key is used to verify the signatures of these transactions. A public key cannot be tampered with or used without access to its associated private key. The tZERO entities have processes and procedures in place to safeguard all private keys, which would provide access to its shareholder registry. However, subject to your rights and remedies under applicable law, rule or regulation, loss of tZERO Group's or tZERO Digital's private keys may result in the loss of your shares of TZROP. If tZERO Group or tZERO Digital is victimized by fraud, theft or manipulation, we could lose a "private key" necessary to transfer your TZROP, or a bad actor could cause your TZROP to be transferred to an unintended wallet address, which may result in the complete loss of your TZROP.
- In addition, there are risks associated with malicious activity of actors seeking to take advantage of potential vulnerabilities that may be associated with distributed ledger technology and its associated networks. Since there is no central body overseeing the development of the Ethereum network, the functioning of TZROP's shareholder register, as well as further improvements of such functioning, relies on the collaboration and consensus of various stakeholders, among others, and developers enhancing the open-source software related to the digital asset network facilitating the processing of transactions. Any disagreement among stakeholders may result in a Fork. "**Fork**" means: (i) that a network has been changed in a way that makes it incompatible with the unchanged version of the network; (ii) the changes have been widely accepted by users of the network; and (iii) that the two resulting networks have not been merged together. In most cases, immediately following a Fork, the updated network has a duplicate of each asset that was on the original network, and the owners of such assets and their historical transaction history is copied onto the updated network as well. However, in less typical cases, a Fork may be conducted to remove "malicious" transactions, and in such cases,

the updated network may not have a full transaction history. In the event of a Fork, tZERO Group will work to select the network version it will continue to utilize for the TZROP register, burn all duplicate versions of TZROP shares created as a result of the Fork and notify you of the actions it is determined to take.

- Various tactics have been developed to steal digital assets or disrupt digital asset networks. For example, a **"51% attack"** is where an adversary may take control over a digital asset network by providing 51% of the computer power in the digital asset network or "denial of service attack" where an adversary attempts to make digital asset network resources unavailable by overwhelming it with service requests. This may result in significant waiting periods, network congestion and delays during which you may be precluded from requesting a change of record ownership of TZROP or a deposit or withdrawal of TZROP to and from tZERO Digital, while its value may fluctuate significantly, or which may otherwise result in loss or damages. In the event of a 51% attack on the Ethereum network, tZERO Group and/or tZERO Digital will notify you of such 51% attack as soon as practicable and also work to notify you of its impact on TZROP (if any).

Risks relating to valuation, price volatility, and liquidity

- TZROP was issued in an offering exempt from registration under the Securities Act of 1933 by an issuer that is not a reporting company subject to the reporting requirements of the Securities Exchange Act of 1934, which makes it a "**private security**".
- Market prices for private securities, including those that are digital asset securities, may be very volatile and sometimes differ materially from the fair value of a company or an investment opportunity in the case of illiquid/low liquidity assets.
- TZROP is only available for trading on the tZERO Securities ATS, which has limited volume and the depth and liquidity of that market and the ability to sell TZROP may be limited. An increase in trading volume on the tZERO Securities ATS may cause it to not function properly. In these cases, any technological malfunction, due to increased trading volume, cyber-attacks, external security breaches or otherwise, of tZERO Securities ATS may adversely affect your ability to execute trades and trading of TZROP may even be suspended. The number of shares of TZROP traded on the tZERO Securities ATS may be very small, making the market price more easily manipulated than is the case with respect to securities that are traded in greater volume on deeper and more liquid markets.

Q: Where can I learn more information about TZROP and tZERO Group and its subsidiaries?

A: For more information about tZERO and TZROP, without giving effect to the Full Tokenization, please see tZERO Group's latest disclosure statement, available here.

Version History

Version 1 – February 6, 2025
Version 2 – February 13, 2025
Version 3 – March 6, 2025