

## **Customer Information Brochure**

**On February 3, 2003, SWS Securities, Inc. changed its name to Southwest Securities, Inc. Any reference in this document to SWS Securities, Inc. will effectively apply to Southwest Securities, Inc.**

## Customer Information Brochure

SWS Securities Inc., ("SWS"), a Member Firm of the New York Stock Exchange, performs, as agent, certain execution and clearing functions for independent brokerage firms. These services are performed under contracts, known as Clearing Agreements, between SWS and the independent brokerage firms ("Your Broker"). SWS' role is limited to performing execution, clearing and custodial functions for Your Broker. SWS makes no investment recommendations to the customers of these brokerage firms and assumes no responsibility for any investment recommendations that Your Broker may make.

Your account executive is not an employee or agent of SWS; rather he/she is an employee or owner of a brokerage firm using the facilities of SWS to perform certain execution and clearing functions. Neither he/she nor his/her firm may contractually bind SWS or make any representations to you on SWS' behalf. SWS is acting only as an agent for Your Broker and accepts no liability or responsibility for any act or omission of Your Broker or its employees. In these Agreements, "Broker" or "Your Broker" refers to the account executive with whom you deal or to the introducing brokerage firm employing him/her.

You should discuss your investment goals thoroughly with Your Broker. The more he/she knows about your circumstances and financial aims, the better prepared he/she is to help you. SHOULD YOU HAVE ANY QUESTIONS CONCERNING ANY ASPECT OF THESE AGREEMENTS, YOUR ACCOUNT OR SECURITIES IN GENERAL CONTACT YOUR BROKER IMMEDIATELY.

### CASH ACCOUNT AGREEMENT

The Terms and Provisions of this Agreement apply to both SWS and Your Broker. You understand and agree that any rights that either SWS or Your Broker has under this Agreement may be exercised by either SWS or Your Broker or may be assigned to the other, including, but not limited to, the right to collect any debit balance or other obligations owing in your Account and that SWS and Your Broker may collect from you or enforce any other rights under this Agreement independently or jointly. **You understand and acknowledge that SWS may modify or change the terms and conditions set forth herein without notice.**

**1. Applicable Rules and Regulations.** All transactions in the Customer's Account shall be subject to the constitution, rules, regulations, customs and usages of the exchange or market, and its clearing house, if any, where the transactions are executed by the Broker or its agents. The transactions shall also be subject to all applicable federal and state laws, rules and regulations.

**2. Capacity to Contract, Customer Affiliation.** By signing the agreement, the Customer represents that he/she is of legal age, and that he/she is not an employee of any exchange, or of any corporation of which any exchange owns a majority of the capital stock, or of a member of any exchange, or of a member firm or member corporation registered on any exchange, or of a bank, trust company, insurance company or of any corporation, firm or individual engaged in the business of dealing, either as broker or as principal, in securities, bills of exchange, acceptances or other forms of commercial paper, and that the Customer will promptly notify the Broker in writing if the Customer is now or becomes so employed. The Customer also represents that no one except the Customer has an interest in the account or accounts of the Customer with SWS.

**3. Binding Upon Customer's Estate.** Customer hereby agrees that this Agreement and all the terms thereof shall be binding upon Customer's heirs, executors, administrators, personal representatives and assigns.

**4. Choice of Laws.** This Agreement and its enforcement shall be governed by the laws of the State of Texas and its provisions shall be continuous, shall cover individually and collectively all accounts which the Customer may open or re-open with you, and shall inure to the benefit of your present organization, and any successor organization, irrespective of any change or changes at any time in the personnel thereof, for any cause whatsoever, and of the assigns of your present organization or any successor organization, and shall be binding upon you and/or your estate, executors, administrators and assigns.

**5. Agreement Contains Entire Understanding/Assignment.** This Agreement contains the entire understanding between the Customer and the Broker concerning the subject matter of this Agreement. Customer may not assign the rights and obligations hereunder without first obtaining the prior written consent of a duly authorized officer of SWS.

**6. Severability.** If any provision of this Agreement is held to be invalid, void or unenforceable by reason of any law, rule, administrative order or judicial decision, that determination shall not affect the validity of the remaining provisions of this Agreement.

**7. Waiver.** Except as specifically permitted in this Agreement, no provision of this Agreement can be, nor be deemed to be, waived, altered, modified or amended unless such is agreed to in writing signed by a duly authorized officer of SWS.

**8. Opening an Account.** Before an account can be opened you must furnish Your Broker with certain information, including your name, address, Social Security number or tax identification number (see Backup Withholding below), citizenship, age, occupation, bank or other brokerage reference, as well as a general idea of your financial situation. Your Broker has the responsibility for opening, approving and monitoring your Account. Your Broker must obtain and is responsible for new account documentation, knowledge of customer and customer investment objectives, new account approval/rejection, review of orders/accounts,

supervision of orders/accounts, furnishing of investment advice, handling and supervision of discretionary accounts and handling of accounts for employees or officers of member organizations, self-regulatory organizations and other financial institutions.

**9. Backup Withholding.** Federal law requires that a specified % OF TAXABLE INTEREST, DIVIDENDS, AND PROCEEDS FROM THE SALE OF SECURITIES BE WITHHELD, unless you furnish the correct taxpayer identification number. To avoid this "backup withholding," complete and return the New Account Application, which includes the W-9 Form, certifying that the taxpayer number you are furnishing is correct and that you are not subject to backup withholding. For most individuals, the taxpayer identification number and Social Security number are the same.

Foreign persons or individuals claiming foreign status must complete a Substitute W-8 Form. If SWS cannot reliably associate a payment with valid documentation, SWS must adhere to the presumption rule, meaning the foreign persons or individuals will be treated as US persons, until the documentation is provided. Failure to provide this form will result in a withholding of a specified % from the payment(s). A "foreign person" includes a non-resident alien individual, a foreign corporation, a foreign partnership, a foreign trust, a foreign estate, foreign government, international organization, foreign central bank of issue, foreign tax-exempt organization, or foreign private foundation, and any other person that is not a U.S. person.

The annual withholding rates are as follows: 30.0% for 2002-03; 29% for 2004-05; 28% for 2006-10; and 31% for 2011 and thereafter.<sup>1</sup>

**10. Cash Account.** The cash account is the most common type of brokerage account. It does not provide for the extension of credit, and you must pay in full for any security that you purchase. Regulation T of the Federal Reserve Board and certain Exchange rules require settlement of the purchase or sale of securities on the settlement date, which is usually three business days following the transaction.

When you buy a stock, prompt payment in cash or by personal check, wire transfer, cashier's check or money order payable in U.S. funds to the order of SWS must be received into your Account. Your Broker can tell you the amount due shortly after any purchase. SWS will prepare and send a confirmation to you as soon as possible after execution of your order. You should not wait for the arrival of the confirmation before paying, since funds must be received by the settlement date. Federal Regulation T requires us to liquidate securities for which prompt payment is not received. In that event, you will be responsible for any resulting loss but will not be entitled to any gain, and your Account will be restricted for 90 days.

When you sell your stock it is essential that you deliver the certificate promptly to your Account at SWS because the proceeds of a sale cannot be paid to you until receipt of your stock certificate in good, deliverable form and the settlement date occurs. If you do not receive the securities that you sold within a reasonable amount of time after settlement date, Your Broker is required to purchase the securities in open market. Again, you will be responsible for any resulting loss but will not receive any gain, and your Account will be restricted for 90 days.

The proceeds of a sale will be either retained in your Account or, if you so request, the funds will be mailed to you. You may also request that sale proceeds, dividends and interest be automatically deposited to your bank account by electronic funds transfer. In general, it is SWS' policy that funds cannot be withdrawn against a deposited check within ten business days of the date of deposit.

**11. Interest on Cash Balances.** From time to time when changing investments through Your Broker, you may have a cash balance in your Account. SWS pays interest on cash balances carried by us that are pending investment or reinvestment. For your Account to be credited with interest, you must sign the New Account Application that specifies that funds left with SWS are pending investment. Interest will be paid on those balances that accrue \$1.00 or greater of interest during the month. The balance required to accrue at least \$1.00 in interest will change based on the rate of interest paid. See the section "SIPC COVERAGE & EXCESS SIPC COVERAGE" for a discussion of your protection.

The annual rate of interest that is paid on a credit balance is determined by the cost of borrowing money. The rate is related to short-term money market instruments; however, it is not tied directly to any standard such as the prime rate or broker call money rate. The rate is set at the discretion of SWS or Your Broker.

**12. PC2 Bank Insured Funds.** If elected, cash balances may be automatically invested in the PC2 Bank Insured Funds ("Funds"), an FDIC-insured NOW account maintained at First Savings Bank, FSB Arlington, Texas, an affiliate of SWS.<sup>2</sup> The Funds provide investors with up to \$100,000 of FDIC-insured deposits. Any amounts, including interest, in excess of \$100,000 are not covered by FDIC insurance. Information regarding FDIC coverage is available at [www.fdic.gov](http://www.fdic.gov). Cash balances invested in the Funds are not covered by SIPC or excess-SIPC coverage. Certain types of accounts, including corporations, partnerships and employee benefit plans, are not eligible to invest in the Funds, please consult your broker. Your broker may receive a fee with respect to the PC2 Bank Insured Funds.

**13. Joint Accounts.** Joint account customers agree, that the signatories, jointly and severally, have the authority on behalf of the account to do all acts and have all rights, responsibilities and obligations that an individual account holder may have. Joint account customers, jointly and severally, agree that each of them

<sup>1</sup> The Backup Withholding Rate is subject to change without notice.

<sup>2</sup> Deposits you may have directly placed with First Savings Bank, FSB or MyBankUSA, a division of First Savings Bank, FSB, should be taken into account when assessing your FDIC coverage.

shall have authority on behalf of the account to buy, sell and otherwise deal in, through Your Broker, stock, bonds and other securities and to receive on behalf of the joint account demands, notices, confirmations, reports, statements of account, and communications of every kind and to dispose of same; and generally to deal with the Broker on behalf of the joint account as fully and completely as if customer alone were interested in said account, all without notices to the other or others interested in said account. Your Broker is authorized to follow the instructions of any of the account holders in every respect concerning the joint account. In the event of such deliveries of securities or payments of monies to any of the joint account parties, Your Broker shall be under no duty or obligation to inquire into the purpose or propriety of any such demand for delivery of securities or payment of monies. The authority hereby conferred shall remain in force until Your Broker receives written notice of the revocation. Notwithstanding the foregoing, Your Broker is authorized, at its discretion, to require joint account action by the joint tenants with respect to any matter concerning the joint account.

The liability of the undersigned with respect to said account shall be joint and several. All property shall be subject to a lien in the Broker's favor for the discharge of the obligations of the joint account to the Broker, such lien to be in addition to and not in substitution of the rights and remedies the Broker would otherwise have.

It is further agreed that in the event of the death of either of any of the undersigned, the estate of any of the undersigned who shall have died shall be liable and each survivor shall continue to be liable jointly and severally to the Broker for any net debit balance or loss in said account in any way resulting from the completion of transactions initiated prior to the receipt by the Broker of the written notice of the death of the descendant or incurred in the liquidation of the account or the adjustment of the interests of the respective parties.

**14. Custodial Accounts.** The Broker will consider all accounts opened under the Uniform Gift to Minors Act ("UGMA"), the Uniform Transfers to Minors Act ("UTMA"), or similar state statutes to be properly created and that all property so transferred is done in compliance with such applicable statutes. The Broker may in good faith rely upon the instructions given, representations made and actions taken by a transferor or custodian, and act in reliance upon those instructions given by the transferor or custodian. Further, the custodian, whose signature appears on the agreement, represents and warrants the assets in the account belong to the minor and all such assets, whether or not transferred out of the UGMA/UTMA account will only be used for the benefit of the minor.

**15. Employee Stock Option Plans.** With SWS and Your Broker's consent, you may exercise employee stock options or execute other employee stock plans through them. In such instances, by your signature on the New Account Application, you hereby warrant and represent to the issuer of such securities that SWS will, where applicable, make payment from your Account for the cost of the purchase or exercise price and any applicable withholding taxes, whereupon for any employee stock plan execution or exercise that you request that the issuer deliver all certificates that are the subject of the purchase, exercise, grant or other plan execution to SWS alone. You understand and represent that once the aforementioned instructions have been accepted by SWS, they are not revocable or amendable by you, regardless of market conditions. You agree to hold SWS and Your Broker free and harmless from any liability, cost or expenses associated with the market fluctuation of the stock price of the subject security during the rendering of the exercise or any other plan execution. You understand and accept that prior to acceptance of your instructions, SWS must verify that the issuer will promptly deliver a freely transferable, readily saleable and marketable security in negotiable form, and that you must designate the account into which the securities are to be deposited.

**16. New Issues.** In connection with certain public offerings of securities ("Public Offerings,") after a registration statement has been filed, you may be permitted to enter a conditional offer ("Conditional Offer") expressing your offer to purchase securities when and if issued. You understand that a Conditional Offer is an offer to purchase the public offering securities which (i) cannot be accepted until such time (the "Time of Effectiveness") as the public offering securities have been effectively registered under the securities laws in each jurisdiction where the offer or sale of such securities to you is required, but (ii) may be accepted, in whole or in part, immediately upon such Time of Effectiveness without any further action or consent on your part required. You shall be entitled to cancel any Conditional Offer at any time prior to such time as you are sent notice that the Time of Effectiveness has occurred and your offer has been accepted.

Each Conditional Offer or Subscription will be authorized by you and accepted with the understanding that an actual purchase is intended and that it is your intention and obligation, in every case, to pay for the purchase upon our demand. SWS and Your Broker's processing of any Conditional Offer or Subscription shall be subject to our rules and regulations that are subject to change at any time without notice. You understand that entering a Conditional Offer or a Subscription in no way entitles you to purchase any securities and that SWS and Your Broker reserves absolute authority and discretion to reject any Conditional Offer or Subscription for any reason or to allocate securities on any basis or to change its methods or basis for allocating securities at any time and without notice. You also understand that SWS and Your Broker may require that your Account contain Available Funds or cleared funds equal to or greater than the purchase price reflected by your Conditional Offer or Subscription. Any offer inadvertently accepted without sufficient funds in your Account will be subject, at our discretion, to cancellation or liquidation. You are responsible for your Conditional Offers and Subscriptions including any purchases that result which exceed Available Funds. If funds are not available in the Account and an offer is accepted, your payment

must be immediately submitted to SWS. If payment is not received, or as market conditions warrant, at our discretion, your Account may be liquidated without prior notice. In the event your Account is liquidated, you will be liable for resulting losses and all associated costs incurred by us.

**17. Restricted Securities.** You agree to advise SWS and Your Broker as to the status of any securities that fall under Rule 144 or 145 of the Securities Act of 1933 and you agree to deliver the appropriate paperwork to ensure clear legal transfer and good delivery of such securities. You agree and understand that neither SWS nor Your Broker will allow the sale of such securities until they clear legal transfer. You agree and hold harmless SWS and Your Broker from any losses incurred by such delays regarding the legal transfer process.

**18. Customer's Responsibility Regarding Certain Securities.** Certain securities may grant the holder thereof valuable rights that may expire unless the holder takes action. These securities include, but are not limited to, warrants, stock purchase rights, convertible securities, bonds and securities subject to a tender or exchange offer. You are responsible for knowing the rights and terms of all securities in your Account. SWS and Your Broker are not obligated to notify you of any upcoming expiration or redemption dates, or to take any other action on your behalf, without specific instructions from you, except as required by law and applicable rules of regulatory authorities.

Similarly, you are responsible for knowing about reorganizations related to securities that you hold, including but not limited to stock splits and reverse stock splits. SWS and Your Broker are not obligated to notify you of any such re-organizations. If, due to a re-organization, you sell more shares of a security than you own, or if you become uncovered on an options position, or if you become otherwise exposed to risk requiring SWS or Your Broker to take market action in your Account, SWS and Your Broker will not be responsible for any losses you incur. Overselling in a Cash or Margin Account may be an impermissible short sale and may result in your Account being restricted.

**19. Delivery of Securities.** Without abrogating any of SWS or Your Broker's rights under any other portion of this Agreement and subject to any indebtedness of the Customer to the Broker, the Customer is entitled, upon appropriate demand, to receive physical delivery of fully paid, transferable securities in the Customer's Account.

If transferable physical securities are deposited in an account within ten business days prior to a transfer, such shares will not be released by SWS until the ten-day period has lapsed. In addition, transferable securities purchased and paid for by check will not be released for transfer until ten business days subsequent to the deposit of the check.

**20. Agency and Principal Transactions.** Many stocks and bonds are not traded on a securities exchange but in what is known as the over-the-counter market (OTC). When you buy or sell a security in this market, Your Broker may act as an agent or as a principal. The confirmation, which you receive, will designate the capacity in which Your Broker acted. When Your Broker acts as a principal, that firm is selling securities to you that it either owns or expects to buy shortly, or is buying securities from you for its own account. When Your Broker acts in an agency capacity for you in purchasing or selling securities in the OTC market, he is dealing on your behalf with another broker/dealer, which could be SWS, or a customer of his firm. In such a case, the commission will be reflected on your confirmation.

**21. Transactions and Settlements.** All orders for the purchase or sale of securities and other property will be authorized by the Customer and executed with the understanding that an actual purchase or sale is intended and that it is the Customer's intention and obligation in every case to deliver securities or funds to cover any and all sales or to receive any pay for securities or funds upon the Broker's demand. The Customer understands and agrees any order to sell "short" will be designated as such by the Customer, and that the Broker will mark the order as "short". All other sell orders will be for securities owned ("long"), at that time, by the Customer. By placing the order the Customer affirms that he will deliver the securities on or before the settlement date.

If the Customer fails to deliver to the Broker any securities and other property that the Broker has sold at the Customer's direction, the Broker is authorized to borrow the securities and other property necessary to enable the Broker to make delivery and the Customer agrees to be responsible for any cost or loss the Broker may incur, or the cost of obtaining the securities and other property if the Broker is unable to borrow it. The Broker is the Customer's agent to complete all such transactions and is authorized to make advances and expend monies as are required.

Please be advised that certain orders, at SWS' or Your Broker's discretion, may be subject to manual review and entry, which may cause delays in the processing of your orders. You should be aware that with respect to any order, you will receive the price at which your order was actually executed in the marketplace, which may be different from the price at which the security or option is trading when your order is entered.

**22. Execution of Orders/Erroneous Reports.** Your Broker can execute your orders to buy or sell securities or forward them to SWS for execution. Stock and option exchanges have rules governing erroneous reports of executions. The price at which an order is executed shall be binding notwithstanding that an erroneous report may have been rendered, or no report received from the exchange. Also, a report shall not be binding if an order was not actually executed but was reported in error to have been executed.

**23. Cancellation Requests; Late and Corrected Reports.** When you place a request to cancel an order, the cancellation of that order is not guaranteed. Your order will only be canceled if your request is received in the marketplace and matched up with your order before your order is executed. During market hours, it is rarely possible to cancel your market order as market orders are subject to immediate execution. Do not assume that any order has been executed or cancelled until you have received a transaction confirmation from SWS or Your Broker. Please be advised that SWS and Your Broker may, from time to time, receive late reports from exchanges and market makers reporting the status of transactions. Accordingly, you may be subject to late reports related to orders that were previously unreported to you or reported to you as being expired, cancelled, or executed. Further, any reporting or posting errors, including errors in execution prices, will be corrected to reflect what actually occurred in the marketplace.

**24. Losses Due To Extraordinary Events.** We are not responsible and you agree not to hold us liable for losses caused directly or indirectly by conditions beyond our control, including, but not limited to: war, natural disasters, government restrictions, exchange or market rulings, strikes, interruptions of communications or data processing services, news or analysts' reports, trading volumes, market volatility or disruptions in orderly trading on any exchange or market.

**25. Order Flow Disclosure.** The firm receives remuneration for directing orders to particular broker/dealers or market centers for execution. Payment for Order Flow is compensation paid to a brokerage firm by another broker/dealer in return for directing customer orders for execution. Such remuneration is considered compensation to the firm, and the source and amount of any compensation received by the firm in connection with your transaction will be disclosed upon request. This compensation may include non-cash items such as reciprocal arrangements, discounts, rebates or reductions or credits against fees that would otherwise be payable in full by Your Broker.

In determining where to route each customer order, SWS assesses the quality of the markets to which it routes order flow because meaningful opportunities for price improvement may exist. The foremost objective is to obtain best execution for our clients and our correspondent customers, regardless of any compensation factor. The obligation to obtain the best execution for our customers is also borne by the executing brokerage firm. If specific routing instructions are not received from you or our broker, it is the policy of SWS to direct orders to the market where we believe the customer will receive the best execution. SWS believes the order routing system may provide opportunity for orders to be executed at prices more favorable than the national best bid or offer. The factors we may consider in determining where to send an order include the opportunity for price improvement over other available prices, the reputation of the exchange specialist who makes the market in the stock, the ability to execute a trade regardless of the size of the order and the quality of previous order executions.

**26. Confirmations.** The confirmation contains the complete terms of the trade. While SWS makes every effort to transmit reports of transactions accurately, errors do occasionally occur, especially during periods of heavy volume. If you find an error on your confirmation, you should notify Your Broker immediately so that corrective action can be taken. SWS cannot be held responsible for the price as reported to you if your order was executed at another price. Furthermore, SWS cannot be held responsible for reports of transactions that have not, in fact, occurred.

It is your responsibility to review upon first receipt, whether delivered to you in the mail, by electronic mail, or other electronic means, all confirmations of transactions. Transactions shall be binding upon you, if you do not object, either in writing or via electronic mail within ten (10) days after the confirmation is first received by you. The terms of the confirmation cannot be changed orally. In all cases, the firm reserves the right to determine the validity of your objection to the transaction.

**27. Account Statements.** It is your responsibility to review upon first receipt, whether delivered electronically or in hard copy, all account statements. The information contained in your Account statements (excluding transactions which are covered under Confirmations above) shall be binding upon you, if you do not object, either in writing or via electronic mail, within ten (10) days after the account statement is first received by you. In all cases, the firm reserves the right to determine the validity of your objection to the information contained in the account statement.

**28. Notices and Other Communications,** including, but not limited to, initial and maintenance calls, delivered or mailed to the customer's address of record or to the electronic mail address provided shall, until SWS has received notice in writing of any different address, be deemed to have been personally delivered to the Customer whether actually received or not. Any notices requiring immediate verbal delivery left for you on your answering machine, or otherwise, shall be deemed to have been delivered to you whether actually received or not.

**29. Monitoring and Recording Telephone Conversations and E-mail.** For your protection and for the protection of SWS, and as a tool to correct misunderstandings, SWS reserves the right, at its discretion, and without further notice to you, to monitor and record any or all telephone conversations between you and SWS and any of SWS' employees or agents and to monitor your electronic communications conducted with us.

**30. Safeguarding Your Securities.** Your assets that remain in SWS' custody are insured against loss from fire, theft and forgery under mandated insurance programs and protected against business failure under the federally backed Securities Investor Protection Corporation (SIPC).

**31. SIPC Coverage and Excess SIPC Coverage.** SWS is, and Your Broker may be, a member of the Securities Investor Protection Corporation (SIPC), a federal corporation that is authorized to borrow monies from the U. S. Treasury. SIPC protects each customer's accounts up to \$500,000 limited to \$100,000 on claims for cash. (Please note that money market fund balances are not considered cash; they are considered to be securities.) Additional protection up to \$24,500,000 per customer has been secured by SWS through a policy purchased through an independent insurer. An explanatory brochure on our SIPC insurance and a disclosure statement on the supplemental coverage are available upon request. You need not fill out any forms or take any action to benefit from this new, higher level of insurance. SIPC or the excess SIPC coverage does not protect cash balances created and maintained solely for the purpose of earning interest.

**32. Fees and Charges.** You understand that SWS and Your Broker may charge commissions and other fees for execution or any other service furnished to you, and you agree to pay such commissions and fees at the then prevailing price. You acknowledge and agree that such commission rates and fees are determined and set by SWS and Your Broker and are subject to change at any time, and you agree to be bound thereby. You agree to pay any applicable ECN fees. You further agree to pay all applicable federal, state and local fees and taxes. A schedule of SWS' fees is attached as Schedule A.

**33. Satisfaction of Indebtedness.** All securities and other property of the Customer in any account in which the Customer has an interest shall be subject to a lien for the discharge of any and all indebtedness or any other obligation of the Customer to the Broker. All securities and other property of the Customer shall be held by the Broker as security for the payment of any such obligations or indebtedness to the Broker in any account that the Customer may have an interest, and the Broker, subject to applicable law may, at any time and without prior notice to the Customer, use and/or transfer any or all securities and other property interchangeably in any account(s) in which the Customer has an interest.

Further, the Customer agrees to satisfy, upon demand, any indebtedness, and to pay any debit balance remaining when the Account is closed, either partially or totally. Customer Account(s) may not be closed without the Broker first receiving all securities and other property for which the Account is short and all funds to pay in full for all securities and other property in which the Account(s) are long. The customer further agrees to reimburse the Broker for any and all expenses.

**34. Arbitration Agreement.** THE CUSTOMER AGREES, AND, BY CARRYING AN ACCOUNT FOR THE CUSTOMER, BROKER AGREES THAT ALL CONTROVERSIES WHICH MAY ARISE BETWEEN US CONCERNING ANY TRANSACTION OR THE CONSTRUCTION, PERFORMANCE, OR BREACH OF THIS OR ANY OTHER AGREEMENT BETWEEN US PERTAINING TO SECURITIES AND OTHER PROPERTY, WHETHER ENTERED INTO PRIOR, ON OR SUBSEQUENT TO THE DATE HEREOF, SHALL BE DETERMINED BY ARBITRATION. ANY ARBITRATION UNDER THIS AGREEMENT SHALL BE CONDUCTED PURSUANT TO THE FEDERAL ARBITRATION ACT BEFORE THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR THE MUNICIPAL SECURITIES RULEMAKING BOARD AND IN ACCORDANCE WITH THE RULES THEN PREVAILING AT THE SELECTED ORGANIZATION. THE CUSTOMER MAY ELECT IN THE FIRST INSTANCE WHETHER ARBITRATION SHALL BE BY THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR THE MUNICIPAL SECURITIES RULEMAKING BOARD, BUT IF THE CUSTOMER FAILS TO MAKE SUCH ELECTION, BY REGISTERED LETTER OR TELEGRAM ADDRESSED TO THE BROKER AT THE BROKER'S MAIN OFFICE, BEFORE THE EXPIRATION OF TEN DAYS AFTER RECEIPT OF A WRITTEN REQUEST FROM THE BROKER TO MAKE SUCH ELECTION, THEN THE BROKER MAY MAKE SUCH ELECTION. THE AWARD OF THE ARBITRATORS, OR OF THE MAJORITY OF THEM, SHALL BE FINAL, AND JUDGMENT UPON THE AWARD RENDERED MAY BE ENTERED IN ANY COURT, STATE OR FEDERAL, HAVING JURISDICTION. FURTHER, NO PERSON SHALL BRING A PUTATIVE OR CERTIFIED CLASS ACTION TO ARBITRATION, NOR SEEK TO ENFORCE ANY PRE-DISPUTE ARBITRATION AGREEMENT AGAINST ANY PERSON WHO HAS INITIATED IN COURT A PUTATIVE CLASS ACTION; WHO IS A MEMBER OF A PUTATIVE CLASS WHO HAS NOT OPTED OUT OF THE CLASS WITH RESPECT TO ANY CLAIMS ENCOMPASSED BY THE PUTATIVE CLASS ACTION UNTIL: (I) THE CLASS CERTIFICATION IS DENIED; (II) THE CLASS IS DECERTIFIED; OR (III) THE CUSTOMER IS EXCLUDED FROM THE CLASS BY THE COURT. SUCH FORBEARANCE TO ENFORCE AN AGREEMENT TO ARBITRATE SHALL NOT CONSTITUTE A WAIVER OF ANY RIGHTS UNDER THIS AGREEMENT EXCEPT TO THE EXTENT STATED HEREIN.

**35. Arbitration Disclosures.**

- ARBITRATION IS FINAL AND BINDING ON THE PARTIES.
- THE PARTIES ARE WAIVING THEIR RIGHT TO SEEK REMEDIES IN COURT, INCLUDING THE RIGHT TO JURY TRIAL.
- PRE-ARBITRATION DISCOVERY IS GENERALLY MORE LIMITED THAN AND DIFFERENT FROM COURT PROCEEDINGS.
- THE ARBITRATORS' AWARD IS NOT REQUIRED TO INCLUDE FACTUAL FINDINGS OR LEGAL REASONING AND THE PARTY'S RIGHT TO APPEAL OR SEEK MODIFICATION OF RULINGS BY THE ARBITRATORS IS STRICTLY LIMITED.

- THE PANEL OF ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY.

### MARGIN DISCLOSURE STATEMENT

Your brokerage firm is furnishing this document to you to provide some basic facts about purchasing securities on margin, and to alert you to the risks involved with trading securities in a margin account. Before trading stocks in a margin account, you should carefully review the margin agreement provided by your firm. Consult your firm regarding any questions or concerns you may have with your margin accounts.

When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from your brokerage firm. If you choose to borrow funds from your firm, you will open a margin account with the firm. The securities purchased are the firm's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and, as a result, the firm can take action, such as issue a margin call and/or sell securities or other assets in any of your accounts held with the member, in order to maintain the required equity in the account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

- **You can lose more funds than you deposit in the margin account.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to the firm that has made the loan to avoid the forced sale of those securities or other securities or assets in your account(s).
- **The firm can force the sale of securities or other assets in your account(s).** If the equity in your account falls below the maintenance margin requirements or the firm's higher "house" requirements, the firm can sell the securities or other assets in any of your accounts held at the firm to cover the margin deficiency. You also will be responsible for any short fall in the account after such a sale.
- **The firm can sell your securities or other assets without contacting you.** Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities or other assets in their accounts to meet the call unless the firm has contacted them first. This is not the case. Most firms will attempt to notify their customers of margin calls, but they are not required to do so. However, even if a firm has contacted a customer and provided a specific date by which the customer can meet a margin call, the firm can still take necessary steps to protect its financial interests, including immediately selling the securities without notice to the customer.
- **You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.** Because the securities are collateral for the margin loan, the firm has the right to decide which security to sell in order to protect its interests.
- **The firm can increase its "house" maintenance margin requirements at any time and is not required to provide you advance written notice.** These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause the member to liquidate or sell securities in your account(s).
- **You are not entitled to an extension of time on a margin call.** While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.

### MARGIN & SHORT ACCOUNT AGREEMENT

In consideration for SWS and Your Broker opening or maintaining one or more margin accounts on your behalf, you confirm and agree to the following:

1. The terms and provisions of this Agreement apply to accounts of SWS and the Broker/Dealers for which it clears. The provisions of this Agreement shall be considered supplementary to the Cash Account Agreement that you have signed. Except as specifically amended by this Agreement, all the terms and conditions set forth in the Cash Account Agreement shall remain effective with respect to your margin account.
2. One of the services provided by SWS to you, as a customer of Your Broker, is to permit you to maintain a margin account and borrow money on marginable securities using credit extended by SWS. All securities are not marginable. If you do not know whether the security you plan to purchase is marginable, please consult with Your Broker before you make the purchase.
3. A margin account involves SWS extending credit to you based on the marginable securities in your Account as collateral. Margin is the amount you pay when you use SWS' credit to purchase a security. At the time that you open a margin account, you must furnish Your Broker with the information required for all other accounts, as well as a signed margin agreement which contains loan terms and provisions enabling SWS to pledge or lend securities carried for your Account.
4. Margin requirements are twofold. First, there is an initial margin requirement at the time of purchase; and second, there is a minimum margin equity that must be maintained in your Account. In most cases, the minimum amount due for initial purposes is established by the Federal Reserve Board in accordance with Regulation T. This requirement is expressed as a percentage of the purchase price and it may change from time to time. For example, if the margin requirement is 50%, and you purchase a stock costing \$5,000.00 plus commission, you are only required to deposit 50% of that amount. Under

Regulation T, your margin must be deposited into the account by settlement date. The balance due on the purchase will be loaned to you by SWS, and your Account will be debited this amount. You are required to pay interest on the amount advanced as you would on any other loan.

5. SWS holds the securities you buy as collateral for your debt. Although SWS retains your securities as collateral, you receive credit for all dividends or interest, and you may direct Your Broker to sell your stock, as you wish, so long as your Account is in good order. The settlement date for purchases and sales of most securities made in margin accounts is usually three business days from the date of the transaction.
6. In addition to the initial margin requirements of the Federal Reserve Board, the New York Stock Exchange, Inc. (NYSE) requires a customer opening a margin account to have minimum initial equity of \$2,000 in his account. For example, if your initial purchase of stock costs \$2,400, you will have to deposit \$2,000 rather than \$1,200 which would be required by the Federal Reserve Board (assuming the Regulation T requirement is 50%).
7. The NYSE also sets minimum maintenance requirements. Under present Exchange rules, the margin that must be maintained in an account is 25% of the market value of all securities "long" in the account. The SWS maintenance requirement is 35%. For other securities, such as bonds, there may be a somewhat higher or lower requirement, depending on the security. In accordance with the terms of the margin agreement SWS can increase the margin maintenance requirement at any time if it deems it necessary, i.e., in cases where there is a lack of diversification in an account's collateral or a preponderance of low price or infrequently traded securities. If the equity in your Account falls below 35% due to a decline in the market value of your securities, it will be necessary for you to deposit additional marginable securities or make a cash payment to reduce your indebtedness.
8. If your equity falls below the maintenance requirement established by SWS, you will usually receive a margin call notice informing you of the additional collateral required to bring your Account up to the minimum level. Further, if SWS, at our discretion, considers it necessary for our own protection, we may require you to immediately deposit cash or collateral into your Account prior to any applicable settlement date in order to assure due performance of your open contractual commitments. SWS does not have to grant a customer an extension on a margin call. If you fail to meet a margin call, SWS has the right to force the sale in a customer's account of any or all securities and other property in your Account; buy any or all securities and other property which may be short in your Account; cancel any or all open orders; and/or close any or all outstanding contracts to meet any obligations to the firm. This is at the discretion of SWS and may be done without further notice to or contact with the customer. Also, the customer cannot decide which securities should be sold from his/her account.

In addition, market conditions may make it difficult for SWS to send you a margin call. The volatility of the market may require SWS to take immediate action without demand for additional collateral, or prior notice of sale or purchase, or other notice or advertisement, to protect our interests. SWS can unilaterally force the sale of securities in a client's account at anytime without being required to contact the customer. It should be noted that prior notices in the form of a margin call should not be construed as a waiver of our right to take immediate action in your Account to protect our interests at some future date without making a margin call. The forgoing procedures are followed in substantially all cases; however, a decision as to whether to make a margin call and whether to sell a customer's securities who does not respond promptly to a margin call may be made on an individual basis, taking into account the circumstances of the individual customer, market conditions, the size of the debt and other factors.

9. It is important that you understand the nature of the debit balance in your Account and how it is computed. A debit balance represents money that SWS has loaned to you. As previously noted, when you purchase securities on margin, you must pay the amount of money required by Regulation T and the balance of the purchase price is loaned to you by SWS. It is this loan portion which creates the debit balance and upon which interest is charged. Each additional purchase made on margin adds to your debit balance, and any other charge which is assessed against your Account (including interest charges) increases your debit balance. It is very important to understand that unlike in a cash account, a customer can lose more funds than he/she deposits in the account if the value of your investments declines.
- Every security held in any of your Accounts is collateral for any debit balance in all accounts carried for you by SWS. All securities which SWS may at any time be holding for you or which may be in SWS' possession are subject to a general lien for the discharge of your indebtedness and other obligations to SWS. This is without regard to the advances made in connection with such securities and without regard to the number of accounts you have with SWS. This lien is equal to the amount of money that you owe SWS or Your Broker. In enforcing this lien, SWS may, at our discretion, select the securities to be sold in your Account to reduce or entirely liquidate any debit balance in your Accounts.
10. Within the limitations imposed by applicable laws, rules and regulations, the Customer hereby authorizes SWS to lend either to itself or to others any securities or other property held by SWS in the Customer's margin account and to carry such property in its general loans. Such property may be pledged, repledged or hypothecated by SWS from time to time, without notice to the Customer, either separately or in common with others such property for any amounts due to SWS thereon or for a greater

sum, and SWS shall have no obligation to retain a like amount of similar securities or property in its possession and control.

11. A short sale is a transaction in which you sell a security that you do not own. SWS borrows the security on your behalf for delivery to the purchaser. The ability to borrow the security you wish to sell short must be determined; therefore, prior approval is required on all short sales (including short sales versus the box). The credit that appears on your statement due to a short sale (including a short sale against the box) is offset by a debit of like amount since SWS has to borrow the security in order to deliver it to the buying Broker and make a cash deposit as collateral for the borrowed security. In fact, it is not a true credit. The credit generated by any short sale does not reduce your debit balance for the purpose of computing interest until the short position is covered, either by delivery of the security or purchasing it. Always bear in mind that your short credit may be reduced substantially or possibly lost altogether when you cover your short position by purchasing the security. There are special margin requirements on a short sale. NYSE rules presently require for maintenance margin on short sales: (i) \$2.50 per share or 100% of the current market value, whichever is greater, of each stock short in the account selling at less than \$5 per share, or, (ii) \$5 per share or 30% of the current market value, whichever is greater, of each stock short in the account selling at \$5 per share or above.
12. If the security that you sold short (or short against the box) appreciates in market price over the selling price, interest will be charged on the appreciation in value. If the security that you sold short depreciates in market price, interest on any debit balance in your Account is reduced in relation to the depreciation in value. The daily closing price is used to determine any appreciation or depreciation of the security sold short (this practice is known as "marking-to-the-market").  
The annual rate of interest which SWS charges on your debit balance is determined by our cost of borrowing money. The rate is related to a short-term money market instrument, but is set at the discretion of SWS or Your Broker. When Your Broker sets the rate, you will receive an additional disclosure brochure from Your Broker. Your rate of interest will be changed automatically and without notice in accordance with shifts in the money rate.
13. Interest on margin accounts is computed on the net debit balances. Each day this interest is accumulated into a monthly total. The total debit balance in the period is then averaged to determine the debit balance on which interest is charged. An offsetting free credit balance in a cash account serves to reduce the total. The normal interest period ends on the last business day of the monthly statement cycle. Interest is computed by multiplying the average daily debit balance by the average interest rate (1/360 of the annual interest rate) times the number of days in the interest period. If during any interest period there is a change in interest rates applicable to your Account, interest charges at the different rates will be averaged to determine the rate of interest to be charged to the debit balance.
14. **I acknowledge that I have read, understand, and agree to be bound by the pre-dispute Arbitration Clause located in Paragraph 34 of the Cash Account Agreement.**

#### **OPTION ACCOUNT AGREEMENT**

In connection with any transactions in Put and Call options (including combinations of the two) which SWS and/or Your Broker may handle, purchase, sell, and / or endorse for your account, you confirm and agree to the following:

1. The terms and provisions of this agreement apply to accounts of SWS and the Broker/Dealers for which it clears. The provisions of this agreement shall be considered supplementary to the Cash and Margin Agreement(s) (if applicable) that you have signed. Except as specifically amended by this Agreement, all the terms and conditions set forth in the Cash Account Agreement and the Margin & Short Account Agreement shall remain effective with respect to your option account.
2. By signing the Option Agreement, you acknowledge your understanding of the risks involved in dealing in options. Where the term option is used, this includes all standardized Put and Call options issued by the Options Clearing Corporation.
3. You hereby acknowledge receipt of the current Options Clearing Corporation Disclosure Document and the Special Statement for Uncovered Option Writers, if applicable, and confirm that all your option transactions are subject to the rules and regulations of the Options Clearing Corporation, the Chicago Board Options Exchange or the appropriate option exchange, and the National Association of Securities Dealers, Inc. relative to the business being processed, from time to time in force, including additional terms and conditions which may be imposed thereby.
4. You hereby agree that acting alone or in concert with others, you will not exceed the position and exercise limits imposed by the Options Clearing Corporation, or other regulatory bodies having jurisdiction over the market in which transactions are undertaken. You further understand that it may be necessary to report your position in a class of options having the same underlying security to the proper regulatory authority, indicating your name, address, and social security number.
5. You acknowledge that you have furnished your Broker with your financial information and investment objectives. Should your financial situation or investment objectives change, you will notify my Broker immediately. Broker may reserve the right to deny, revoke or discontinue option privileges on any

account when such privileges might be deemed inappropriate based on financial information, investment experience or investment objectives.

6. You acknowledge that SWS or Your Broker shall have the right to determine whether an order is acceptable and the position limits that SWS or Your Broker are prepared to undertake for your account.
7. You acknowledge that both the purchase and sale (writing) of Put and Call options involve a high degree of risk and are not suitable for all investors. You are aware that you should not purchase an option unless you are able to sustain a total loss of the premium (cost of option) and the costs associated with purchasing the option. Further, you are aware that you should not sell (write) an option unless you own the underlying security or are in a position to assume the substantial risks inherent in writing "naked" options. Consideration of your personal financial situation, investment objectives and tax considerations will be made prior to engaging in any option transactions. You agree not to hold the Broker liable for any loss incurred due to the purchase or sale of such securities.
8. You are aware that when you purchase an option, you must pay the full premium and that an option purchase cannot be margined. In addition, there are special margin requirements governing the sale of options with which you will become familiar before commencing an option program. Complete details on the margin requirements for options are available through your Broker.
9. As additional consideration for the opening sale of Call option(s) for my accounts, you hereby agree that you will not sell, during the life of such option(s) the underlying securities collateralizing such options including any cash or securities, which may accrue on such underlying covered securities until such option(s) are closed, exercised, expire, or you have been approved for and have met the collateral requirements established by the Broker for carrying Uncovered Call options. You also agree that the Broker, in its sole discretion, may refuse any orders to sell such underlying securities which it receives from you or by means of a "give-up" basis through another broker unless, prior to such sale, you have met the collateral requirements established by the Broker for carrying Uncovered Call option. The Broker has the right, at its sole discretion, to permit you to apply the proceeds of such sale to such collateral requirements.
10. Since option contracts are traded for a specified period of time and have no value upon expiration, you agree to advise your Broker if you wish to enter offsetting transactions by closing out your position or exercise the option prior to the expiration date. Failure to do this may result in the option expiring worthless, even though it might have a monetary value on the expiration date. You understand that you bear full responsibility for taking action to exercise or sell valuable options; however, in the absence of you notifying the Broker to exercise a valuable options contract by 3:00 PM, CST, on the last business day prior to expiration date of the options contract, you agree that the Broker may exercise the options contract on your behalf. This is in no way to be construed as an obligation on SWS' part to sell or exercise such options on your behalf.
11. When SWS receives an exercise notice from the Options Clearing Corporation, SWS assigns the notice to a customer who is a writer of an identical option contract. Exercise assignment notices for option contracts are allocated among customer short positions pursuant to a manual procedure, which randomly selects from among all customer short option positions, including positions established on the day of assignment, those contracts that are subject to exercise. All short options positions are liable for assignment at any time. A more detailed description of SWS' random allocation procedure is available upon request.
12. If an exercise notice is assigned to your account, you must deliver the underlying security to SWS in the case of a Call, and deposit funds or securities with SWS in the case of a Put, sufficient to properly margin the security promptly.
13. **I acknowledge that I have read, understand, and agree to be bound by the pre-dispute Arbitration Clause located in Paragraph 34 of the Cash Account Agreement.**

### **SCHEDULE A: COMMISSIONS AND OTHER FEES<sup>3</sup>**

Your Broker will set the commissions or miscellaneous fees, if any, to be charged to you on security transactions reflected on your confirmation. You should consult Your Broker for details of his commission charges. Other customer charges and fees include:

**Wire Transfer Fee:** \$15 (Continental U.S.) plus any applicable foreign costs.

**Transfer Fee:** \$7.50 per transaction on all purchases of securities in which transfer agent charges a fee.

**Equity Redemption or Tender:** \$.04 per share with a \$4 minimum and \$80 maximum charged for securities surrendered through tender, exchange, merger or acquisition.

**Exercising Warrants or Rights Subscriptions:** \$25

**Exercising Employee Stock Options:** \$35

**Bond Fees<sup>4</sup>:** Handling fee on buys and sells are \$5 for T-Bills and \$15 for T-Notes, T-Bonds and GNMA's and other Government instruments.

**Returned Check:** \$15

**Courtesy Transfer:** \$25 on all securities where no buy or sell takes place.

**Postage and Insurance:** All trades are subject to a postage and insurance charge.

**SEC Fee:** \$.01 per \$322.22 value on the sell side of all listed securities, including options.

**IRA Fees:** For accounts that utilize the SWS' IRA Prototype and hold only widely held securities i.e. Publicly Traded Equities, Mutual Funds, Fixed Income Instruments eligible for deposit in a nationally recognized depository etc.:

- Initial set up fee: no charge
- Annual maintenance fee: no charge
- Annual maintenance fee/spouse: no charge
- Premature distribution fee: no charge
- Transfer or termination fee: \$25

In addition to the above, should a Retirement Plan account utilizing any Retirement Plan prototypes, including SWS' IRA Prototype, transfer and or hold assets that are not widely held, publicly traded securities such as Limited Partnerships, closely held private company investments etc., the following fee schedule will be applicable:

- Transfer in, Purchase and Sale: \$100 for first item; \$50 thereafter
- Annual maintenance fee: \$100 for first item; \$50 thereafter
- Re-registration of any kind: \$100 for first item; \$50 thereafter

**Inactive Account Fees:** Inactive accounts may be charged \$50 per year. Retirement accounts using SWS' IRA Prototype are excluded.

**Customer-Name Safekeeping:** Customer-name safekeeping is available for a fee of \$15 per issue per year. Retirement accounts using SWS' IRA Prototype are excluded.

**Customer Transfer to Another Dealer:** \$50

**Mutual Fund Fee:** Service fees may be charged for purchases and redemptions of mutual funds that are executed through SWS.

**Interest:** SWS reserves the right to charge interest on: (i) payments to you before the settlement date on securities; (ii) payments to you for securities sold where good delivery of securities has not been made; and (iii) payment which has not been received from you on or before the settlement date on securities purchased.

<sup>3</sup> Commission and fees are subject to change without notice. Please contact your broker with any questions.

<sup>4</sup> Charges are for street name or customer name positions and securities delivered to SWS. If the securities are held in street name or customer name, the fee will be based on shares accepted for tender, not on returned (unaccepted) shares. For shares delivered to SWS for tender, the fee will be based on total shares tendered, including any pro-rated shares.