

## Customer Agreement and Information Brochure

Southwest Securities Inc., (“SWST”), a Member Firm of the New York Stock Exchange (NYSE), the National Association of Securities Dealers (NASD), and the Securities Investor Protection Corporation (SIPC) may perform, as agent, certain execution and clearing functions for your independent brokerage firm. These services are performed under a contract, known as a Clearing Agreement, between SWST and your independent brokerage firm. In this Agreement, “Broker” or “Your Broker” refers to the account executive/registered representative with whom you deal or to the introducing brokerage firm employing him/her. In addition, “You”, “Your”, and “Customer” refer to each person who signs the account application. SWST’s role is limited to performing execution, clearing and custodial functions for Your Broker. SWST makes no investment recommendations to the customers of your brokerage firm and assumes no responsibility for any investment recommendations that Your Broker may make, or for trades made within your account.

Your account executive is not an employee or agent of SWST; but rather an employee or owner of a brokerage firm using the facilities of SWST to perform certain execution and clearing functions. Neither they nor their firm may contractually bind SWST or make any representations to you on SWST’s behalf. SWST 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. SWST has no responsibility to supervise or monitor the activities of the introducing broker and they are exclusively responsible for ensuring that the transactions within your account comply with all applicable laws and regulations.

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

In consideration for SWST opening and maintaining one or more accounts, you agree to be bound by the terms and conditions of this Customer Agreement, which may be amended at our discretion, as follows:

### **CASH ACCOUNT AGREEMENT**

The terms and provisions of this Agreement apply to both SWST and Your Broker. You understand and agree that any rights that either SWST or Your Broker has under this Agreement may be exercised by either party 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. SWST and Your Broker may collect from you or enforce any other rights under this Agreement independently or jointly. **You understand and acknowledge that SWST may modify or change the terms and conditions set forth herein without notice.**

**1. Applicable Rules and Regulations.** All transactions made for you are subject to the constitution, rules, regulations, customs, usages, rulings and interpretations of the exchange or market, and its clearing house, if any, where the transactions are executed, as well as the mandates of the New York Stock Exchange, the NASD, the Securities Exchange Commission, and the Federal Reserve Board. The transactions shall also be subject to all applicable federal and state laws, rules and regulations, and will be construed in accordance with the laws of the State of Texas.

**2. Capacity to Contract, Customer Affiliation.** The Customer represents being of legal age, and not an employee of any exchange, member firm of an exchange or the NASD, bank, insurance company, or trust company, and that we will be promptly notified upon such association. The Customer also represents that no one has an interest in this account or other accounts of the Customer with SWST, other than those signing the appropriate account documents.

**3. Binding Upon Customer’s Estate.** Customer hereby agrees that this Agreement will be binding upon their heirs, executors, administrators, personal representatives and assigns, and that any successor will be notified of this Agreement’s provisions.

**4. Important Information About Procedures for Opening a New Account:** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

**5. Agreement Contains Entire Understanding/Assignment.** The Customer may not assign the rights and obligations in this Agreement without first obtaining the prior written consent of a duly authorized officer of SWST.

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

**7. Waiver and Modification.** Except as specifically permitted in this Agreement, no provision may be waived or amended unless it is agreed to in writing and signed by a duly authorized officer of SWST. Customer further understands that the failure to exercise any right or obligation granted by this agreement will not be considered as a waiver of that right or obligation.

**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, citizenship, age, occupation, bank or other brokerage reference, as well your financial situation (net worth, income, investment experience, investment objective). 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, determining the commission charged, review of orders/accounts, supervision of orders/accounts, furnishing of investment advice, handling and supervision of discretionary accounts, and the handling of accounts for employees or officers of member organizations, self-regulatory organizations and other financial institutions. Each account opened is subject to our acceptance and we reserve the right to close an account or reject a transaction at anytime. SWST and Your Broker reserve the right to conduct background checks on account holders at any time, including obtaining credit reports. If requested, I will sign a separate release authorizing the release of credit information.

**9. Backup Withholding.** Federal law requires that a specified percentage of taxable interest, dividends, and proceeds from the sale of securities be withheld, unless you furnish a 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, your 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 SWST cannot reliably associate a payment with valid documentation, SWST must adhere to the presumption rule, meaning that foreign persons or individuals will be treated as US persons, until the necessary documentation is provided. Failure to provide this form will result in the withholding of a specified percentage 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.

**10. Cash Account.** Your brokerage cash account 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 security, 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 SWST must be received into your account. Your Broker can tell you the amount due shortly after any purchase. SWST 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, 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 SWST. The proceeds of a sale cannot be paid to you until our receipt of your stock certificate in good, deliverable form by the settlement date. If we 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 the open market. Again, you will be responsible for any resulting loss, 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 SWST’s policy that funds cannot be withdrawn against a deposited check within ten business days of the date of deposit.

**11. Interest on Cash Balances.** For your account to be credited with interest, you must sign the New Account Application that specifies that funds left with SWST are pending investment. Interest will be paid on those balances that accrue \$1.00 or greater of interest during the month. See the section “SIPC Coverage and Excess SIPC Coverage” for a discussion of your account protection.

The base rate is set at the discretion of SWST, with consideration of commercially recognized interest rates, industry conditions regarding the extension of margin credit, and general credit conditions. Your rate of interest will be changed automatically and without notice in accordance with shifts in these factors.

**12. Compensation to SWST.** SWST may receive compensation for establishing relationships through which investment products are made available 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 or SWST.

**13. PC2 Bank Insured Funds.** Cash balances may be automatically invested in the PC2 Bank Insured Funds (“Funds”), an FDIC-insured NOW account maintained at Southwest Securities Bank, Arlington, Texas, an

affiliate of SWST.<sup>1</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.

**14. 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 will have authority on behalf of the account to buy, sell and otherwise deal in securities; to receive on behalf of the joint account demands, notices, confirmations, reports, statements of account, and communications of every kind; and to deal with the Broker on behalf of the joint account as fully and completely as if the Customer alone were interested in the account. This may all be done without notice to others interested in the 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 deliveries of securities or payments to any of the joint account parties, Your Broker will be under no duty or obligation to inquire into those deliveries or payments. Joint authority will remain in force until Your Broker receives written notice of its revocation. Your Broker, however, is authorized, at their discretion, to require joint account action by the joint tenants with respect to any matter concerning the joint account.

The liability 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 owed the Broker. It is understood that the lien be in addition to and not in substitution of the rights and remedies the Broker would otherwise have.

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

**15. 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. Further, the custodian represents and warrants that the assets in the account belong to the minor and that all such assets, whether or not transferred out of the UGMA/UTMA account, will only be used for the benefit of the minor.

**16. Employee Stock Option Plans.** With SWST’s and Your Broker’s consent, you may exercise employee stock options or execute other employee stock plans through them. In such instances, by your signing the New Account Application, you represent to the issuer of such securities that SWST may make payments from your account for the cost the securities. You understand that once those instructions have been accepted by SWST, they are not revocable or amendable by you. You agree to hold SWST 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. You understand that prior to acceptance of your instructions, SWST must verify that the issuer will promptly deliver a readily marketable security in negotiable form, and that you must designate the account into which the securities are to be deposited.

**17. New Issues.** In connection with certain public offerings of securities, after a registration statement has been filed, you may be permitted to enter a conditional offer expressing your offer to purchase securities “when and if issued”. You understand that a conditional offer is an offer to purchase public offering securities which (i) cannot be accepted until such time (the “Time of Effectiveness”) as the public offering securities have been effectively registered, 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. You will be entitled to cancel any conditional offer at any time prior to the time you are sent notice that the Time of Effectiveness has occurred and your offer 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 obligation to pay for the purchase upon our demand. SWST and Your Broker’s processing of any conditional offer or subscription will be subject to certain rules and regulations, which 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 SWST and Your Broker reserves discretion to reject any offer for any reason, to allocate securities on any basis, or to change its methods for allocating securities at any time and without notice. You also understand that SWST and Your Broker may require that your account contain available funds equal to or greater than the purchase price reflected by your offer. Any offer inadvertently accepted without sufficient funds in your account will be

<sup>1</sup> Deposits you may have directly placed with Southwest Securities Bank should be taken into account when assessing your FDIC coverage.

subject, at our discretion, to cancellation or liquidation. You are responsible for your offers, including any purchases which exceed available funds. If funds are not available in the account and an offer is accepted, your payment must be immediately submitted to SWST. 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.

**18. Restricted Securities.** You agree to advise SWST and Your Broker as to the status of any securities that fall under Rule 144, 145, 148, and 701 of the Securities Act of 1933, as amended, and to timely deliver the appropriate paperwork to ensure clear legal transfer and good delivery of such securities.

**19. Customer's Responsibility Regarding Certain Securities.** Certain securities may grant the holder 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. SWST 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. SWST and Your Broker are not obligated to notify you of any such reorganizations. If, due to a reorganization, you sell more shares of a security than you own, if you become uncovered on an options position, or if you become otherwise exposed to risk requiring SWST or Your Broker to take market action in your account, SWST 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.

**20. Delivery of Securities.** Without abrogating any of SWST's 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 SWST 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.

**21. 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 SWST, or a customer of his firm. In such a case, the commission will be reflected on your confirmation.

**22. Transactions and Settlements.** All customer orders for the purchase or sale of securities and other property will be executed with the understanding that an actual purchase or sale is intended and that it is the Customer's intention and obligation to deliver securities or the necessary funds by settlement date.

If the Customer fails to deliver to the Broker any securities and other property 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. 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 which the Broker is unable to borrow. The Broker is the Customer's agent to complete all such transactions and is authorized to make advances and expend monies as required.

Please be advised that certain orders, at SWST's 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 would 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. You understand that SWST may not be held liable for acting upon false oral instructions or forged documents.

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

**24. 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 before your order is executed. During market hours, it is rarely possible to cancel

your market order. Do not assume that any order has been executed or cancelled until you have received confirmation from SWST or Your Broker. Please be advised that SWST 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.

**25. 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.

**26. Order Flow Disclosure.** Payment for Order Flow is compensation paid to a brokerage firm by another broker/dealer in return for directing some customer orders for execution. Such remuneration is considered compensation to the firm, and the source and amount 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. Order Routing Statistics required under SEC rules are available on the Internet at [www.swst.com](http://www.swst.com).

**27. Confirmations.** The confirmation contains the complete terms of the trade. While SWST makes every effort to transmit reports of transactions accurately, errors do occasionally occur, especially during periods of heavy volume. If this transaction is not entirely in accordance with your understanding and directions, you must report the error to Your Broker in writing or by electronic mail within two (2) days after your receipt of the confirmation. SWST cannot be held responsible for the price as reported to you if your order was executed at another price. Furthermore, SWST cannot be held responsible for reports of transactions that have not, in fact, occurred. As soon as the error is discovered, the correct information will be reported to you as expeditiously as possible.

It is your responsibility to review upon first receipt, all confirmations of transactions. If notification is not received within the specified time, you will not later claim the transaction(s) to be incorrect or unauthorized. The firm reserves the right to determine the validity of your objection.

**28. Account Statements.** It is your responsibility to review upon receipt, all account statements. The information contained in your account statements will 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. The firm reserves the right to determine the validity of your objection.

**29. Notices and Other Communications.** Notices including, but not limited to, initial and maintenance calls, delivered to the customer's address of record or to the electronic mail address provided will 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, will be deemed to have been delivered to you, whether you actually received it or not.

**30. Monitoring and Recording Telephone Conversations and E-mail.** SWST reserves the right to monitor and record any or all telephone conversations and electronic communications between you and SWST and any of SWST's employees or agents.

**31. Safeguarding Your Securities.** Your assets that remain in SWST's 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).

**32. SIPC Coverage and Excess SIPC Coverage.** SWST is, and Your Broker may be, a member of the Securities Investor Protection Corporation (SIPC). SIPC protects each customer's accounts up to \$500,000, and is limited to \$100,000 on claims for cash. Additional coverage has been secured by SWST 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. Note that money market fund balances are not considered cash; as they are considered to be securities. SIPC or the excess SIPC coverage does not protect cash balances created and maintained solely for the purpose of earning interest.

**33. Fees and Charges.** You understand that SWST 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, including all associated collection costs. You acknowledge and agree that such commission rates and fees are determined and set by SWST or Your Broker and are subject to change at any time. You agree to pay any applicable fees charged by an electronic communications network (ECN), as well as, all applicable federal, state and local fees and taxes. A schedule of SWST's fees is attached as Schedule A.

**34. Satisfaction of Indebtedness.** All securities and other property of the Customer, in any account in which the Customer has an interest, will be subject to a lien for the discharge of any and all indebtedness or any other obligations of the Customer. All securities and other property of the Customer will be held by the Broker as

security for the payment of any such obligations or indebtedness in any account that the Customer may have an interest, , subject to applicable law. SWST or Your Broker may, at any time and without prior notice to the Customer, use and/or transfer any or all securities and other property 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. 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 due 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.

**35. Arbitration Agreement.** THE CUSTOMER AGREES, AND, BY CARRYING AN ACCOUNT FOR THE CUSTOMER, BROKER AGREES THAT ALL CONTROVERSIES THAT 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.

**36. 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 Broker 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 Broker 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, a margin account will be opened. The securities purchased are 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 shortfall in the account after such a sale.
- **Your securities or other assets may be sold 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.
- **"House" maintenance margin requirements may be increased 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 SWST 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 SWST 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 SWST 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 SWST. Not all securities are 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 SWST extending credit to you based on the marginable securities in your Account as collateral. Margin is the amount you pay when you use SWST's 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 SWST 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 SWST, and your account will be debited. You are required to pay interest on the amount advanced as you would on any other loan.
5. SWST holds the securities you buy as collateral for your debt. Although SWST retains your securities as collateral, you receive credit for all dividends or interest, and you may direct Your Broker to sell your stock, 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 their 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 SWST minimum maintenance requirement is 30%. 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 SWST can increase the margin maintenance requirement at any time, i.e., in cases where there is a lack of diversification in an account's collateral or a preponderance of low priced or infrequently traded securities. If the equity in your account falls below 30% due to a decline in the market value of your securities, it will be necessary for you to deposit additional marginable securities or make cash payment to reduce your indebtedness.
8. If your equity falls below the minimum maintenance requirement established by SWST, you will usually receive a margin call notice informing you of the additional collateral required to bring your account above the minimum level. Further, if SWST considers it necessary, 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. SWST does not have to grant a customer an extension on a margin call. If you fail to meet a margin call, SWST 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 SWST and may be done without further notice to or contact with the customer. SWST reserves the right to select the securities to be sold.

In addition, market conditions may make it difficult for SWST to send you a margin call. The volatility of the market may require SWST 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. SWST 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.

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 SWST 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 SWST. 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 that 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 deposited in the account if the value of your investments declines.  
All securities which SWST may at any time be holding for you or which may be in SWST's possession are subject to a general lien for the discharge of your indebtedness and other obligations to SWST. This lien is equal to the amount of money that you owe SWST or Your Broker.
10. The Customer authorizes SWST to lend any securities or other property held by SWST in the Customer's margin account and to carry such property in its customer loans. Such property may be pledged, repledged or hypothecated by SWST without notice to the Customer, for equal or greater amounts due to SWST. SWST shall have no obligation to retain a like amount of similar securities or property.
11. A short sale is a transaction in which you sell a security that you do not own. SWST borrows the security on your behalf for delivery to the purchaser. Prior approval is required on all short sales (including short sales versus the box). 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 by 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 SWST charges on your debit balance is determined by our cost of borrowing money and other factors. The rate is set at the discretion of SWST or Your Broker. When Your

Broker sets the rate, you will receive an additional disclosure brochure from Your Broker. Your rate of interest may be changed automatically and without notice.

13. Interest on margin accounts is computed on the settled margin balance in your account. The annual rate of interest which will be charged on your settled margin balance may vary from the SWST Base Rate, depending on the amount of the settled debit balance in your account. Each day this interest is accumulated into a monthly total. The normal interest period ends on the last business day of the monthly statement cycle. Interest is computed by multiplying the daily debit balance by the daily 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, separate computations will be made for each interval in which there is a change in the rate during the interest period. When the rate changes during an interest period, interest will be calculated according to the number of days each interest rate is in effect during that period.
14. **I acknowledge that I have read, understand, and agree to be bound by the pre-dispute Arbitration Clause located in Paragraph 35 of the Cash Account Agreement.**

#### **OPTION ACCOUNT AGREEMENT**

In connection with any transactions in Put and Call options (including combinations of the two) that SWST 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 SWST 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 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 appropriate option exchange, the NASD, Inc., and any additional terms and conditions which may be imposed.
4. You 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. 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 Your Broker immediately. SWST or Your Broker reserve the right to deny, revoke or discontinue option privileges on any account.
6. You acknowledge that SWST or Your Broker have the right to determine whether an order is acceptable, as well as, the position limits that SWST 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. 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 your accounts, you agree that you will not sell, during the life of such option(s), the underlying collateralizing 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 options. The Broker has the right, at its sole discretion, to permit you to apply the proceeds of such sale to 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 exercising 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. 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 SWST's part to sell or exercise such options on your behalf.
11. You acknowledge that you are aware that all short American style option positions are subject to assignment at any time and that European style option contracts are only exercisable on the option's date of expiration. Since an American-style option provides an investor a greater degree of flexibility than a European style option, the premium an American style option is at least equal to or higher than the premium for a European-style option which otherwise has all the same features.
12. When SWST receives an exercise notice from the Options Clearing Corporation, SWST 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 procedure which randomly selects from among all customer short option positions that are subject to exercise. All short options positions are liable for assignment at any time. A more detailed description of SWST's random allocation procedure is available upon request.
13. If an exercise notice is assigned to your account, you must deliver the underlying security to SWST in the case of a Call, and deposit funds or securities with SWST in the case of a Put, sufficient to properly margin the security promptly.
14. **I acknowledge that I have read, understand, and agree to be bound by the pre-dispute Arbitration Clause located in Paragraph 35 of the Cash Account Agreement.**

### INVESTMENT OBJECTIVES

To ensure that you, the customer, and the firm have a mutual understanding of the meaning of the investment objective terminology utilized on the New Account Application, the terms and corresponding definitions are given below. Please discuss any necessary clarifications of these terms with your broker.

- **Capital Preservation:** Preserving the value of your existing assets by investing in securities with a smaller degree of risk of loss of principal. May include investment in government bonds or certificates of deposit.
- **Income:** Generating current income by investing in securities with a lower degree of risk of loss of principal. May include investing in investment grade corporate bonds, bond funds or unit investment trusts.
- **Growth:** Generating capital appreciation by investing in securities with a higher degree of volatility and risk of loss of principal. May include investing in stocks or mutual funds.
- **Speculation:** Trading volatile securities with a higher than average possibility of loss with the hope of achieving commensurate gains. May include investing in low priced securities, options, non-rated bonds or non-investment grade bonds.

### SCHEDULE A: COMMISSIONS AND OTHER FEES<sup>2</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:

**Interest:** SWST 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.

**Returned Check:** \$25

**Wire Transfer Fee:** \$25 (Continental U.S.) plus any applicable foreign costs.

**Transfer Fee:** \$75 where the registration of a certificate is requested.

**Courtesy Transfer:** \$50 on all securities where no buy or sell takes place.

**Deposit/Withdrawal At Custodian (DWAC) Fee:** \$25 per issue.

**DTC Deliveries:** \$50 per position on all non-DVP transactions.

**Account Transfer via ACAT System:** \$50

**Non-ACATS Transfer:** \$150 on incoming and outgoing transfers.

**Certificate Handling Fee:** \$20 per issue on all incoming certificates to SWST.

**Legal Transfer Fee:** \$50 plus applicable costs on items where stock power is insufficient to make the security negotiable.

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

**Equity Redemption or Tender<sup>3</sup>:** \$.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:** \$50

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

**Mutual Fund Position Networking Fee:** \$50 per position on non-ACAT transfers of network eligible mutual fund positions onto SWST books.

**Non-Networked Mutual Funds Annual Maintenance Fee:** \$100 per position

**Bond Fees:** 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.

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

**Other Regulatory Fees:** A regulatory fee may be assessed on the sell side of all applicable securities transactions.

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

**IRA Fees:** For accounts that utilize the SWST's 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.:

- Annual maintenance fee: \$35
- Annual maintenance fee/spouse: \$35
- Transfer fee: \$50
- Termination fee: \$50

#### **Private Placement/Limited Partnerships:**

In addition to the above, should an account 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: \$75
- Annual safekeeping fee: \$100
- Re-registration of any kind: \$75

## **Southwest Securities, Inc. Business Continuity Planning Disclosure**

Southwest Securities, Inc., ("SWST"), provides services using computer systems and financial relationships. The events of September 11, 2001 emphasized the importance of the capital markets to our economy. As a result, we have been working to improve our responses to various situations that have the potential to impact our ability to serve you. This disclosure document is designed to provide you with information on how we have approached and/or plan to approach various situations that we may encounter.

#### **Overview of Southwest Securities Inc.**

Southwest Securities Inc., a Member Firm of the New York Stock Exchange, is a full-service brokerage firm providing customers with execution services on all major exchanges and access to all major markets. In addition, SWST performs, as agent, certain execution and clearing functions for independent brokerage firms. These functions are provided primarily in Dallas, Texas with various broker, trading, stock-loan and investment banking offices located in other locations in the United States.

<sup>3</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.

<sup>2</sup> Commission and fees are subject to change without notice. Please contact your broker with any questions.

SWST uses various mission critical systems to provide these services to our customers. These systems are housed at one of our data centers, one of our offices, or at a third party service provider, exchange or utility.

Our business continuity planning (“BCP”) first insures the safety and security of our employees. The events of 9/11 emphasized the unique skill sets of personnel who work in our industry and the need to put their safety first so that after an interruption they are available to continue serving our customers. In addition to protecting our personnel, our BCP and daily operations are focused on preserving our critical firm and customer data through regular back ups which are moved off-site either via media and/or real time and near real time electronic copies of our data at remote locations. In 1996 we added a second data center in one of the suburbs of Dallas which houses our backup hardware/software, real time data copies and back office recovery space. We have constructed high bandwidth networks between our two data centers allowing us to utilize the resources of both centers during normal production, as well as facilitating the real time movement of data from the primary data servers to the back up data servers. Finally, our industry is heavily interconnected with data connections ranging from dial-up modem communication, dedicated private lines, frame relay technology and, in many cases, the Internet through encrypted sessions. Where mission critical systems are involved, we have installed, where possible, redundant connections to the exchanges, utilities and counterparties involved.

### **Business Continuity Planning Response Scenarios**

The details of our BCP are proprietary and contain information that is confidential and in many cases potentially harmful to SWST and our customers if publicly available. The following series of event scenarios are presented to disclose to you our planned approach for dealing with a variety of hypothetical Significant Business Disruptions (SBD’s), but based on the number of variables present in each situation, SWST can’t guarantee we will follow these plans.

Scenario: An event occurs that, like 9/11, causes the complete shut down of securities trading, clearance/settlement or other banking services nationwide. (nationwide)

SWST plans to continue business during this type of event and will await the reopening of the affected institutions. Unless a securities industry holiday is declared, we plan to be open each business day until full functionality is restored. The recovery time in this scenario will be dependent on the timing specified by the impacted organizations. We plan to be ready to open when they reopen.

Scenario: A specific exchange is unable to trade. (nationwide)

SWST plans to continue business during this type of event and will route its order flow away from that exchange to alternative exchanges for the securities that exchange trades. Our recovery time objective for this scenario is less than one hour.

Scenario: One of our major telecommunications vendors loses a key central office or service offering. (nationwide and/or firm only)

SWST plans to continue business during this type of event and will use alternative dialing plans (e.g. placing/receiving local calls through a long distance vendor different from the failed vendor), backup lines from a different vendor for mission critical data applications (e.g. use the Sprint backup connection to an exchange when AT&T is down). Our planned recovery time objective is less than four hours.

Scenario: The power grid (ERCOT) that serves the majority of our Texas locations is down. (regional)

SWST plans to continue business during this type of event and will utilize the backup generators that are located at both the primary data center location and the backup data center location to power our operations during the outage. Where necessary, we will relocate personnel among our facilities to compensate for any workspace outages. Our planned recovery time objective for power to our data centers from the backup generators is less than fifteen minutes. If we are required to activate our business resumption space for operations recovery, the planned recovery time objective is four hours for mission critical functions.

Scenario: Our headquarters location is closed. (single building, city wide, business district)

SWST plans to continue business during this type of event and will transfer its mission critical activities to the backup data center and our other offices and affiliate offices. Assuming no access to and no power to the building, the planned recovery time objective for mission critical activities is four hours.

Our planned recovery times for business resumption may be negatively impacted by the unavailability of external resources and other circumstances beyond our control.

In the event of a significant business disruption, Southwest Securities, Inc. will supply additional information at 866-SWS-5BCP (866-797-5227).

### **Updates to this disclosure**

As we continue to test our plans and as conditions in our firm and the industry change, we will continuously revise the plans as considered necessary. Whenever we update this disclosure document we will promptly place a copy of it on our website. You may request a hard copy of this disclosure in its current revision be sent to you at any time by mail. <http://www.southwestsecurities.com/pdf/bcp.pdf>

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