



2007 ANNUAL DISCLOSURES

Execution and Order Routing Disclosure. Depending on the security traded and absent specific customer direction, First Southwest Company (“FSC”) sends certain equity orders to exchanges, Electronic Communications Networks, or broker-dealers. Certain of these venues provide payments to FSC or charge access fees to FSC depending upon the characteristics of the order and any subsequent execution. Because these agents are market makers, they may carry inventory in their specific securities, possibly allowing for price improvement to the retail customer by trading through their inventory. Accordingly, the customer’s order should be executed at the “best bid,” “best offer,” or at a price superior to either one by virtue of the market maker’s inventory positioning capability. In addition, FSC may execute certain orders as principal. Also, FSC receives payments for directing listed options order flow to certain option execution venues. Compensation is generally in the form of a per-option-contract cash payment. For further information and electronic reports about FSC execution quality and the source and nature of any compensation received from other market centers, visit our website www.firstsw.com. Information about the source and nature of compensation for a particular transaction or paper copies of electronic reports will be provided upon written request.

Margin Account Disclosures (Applicable to Customers Who Maintain Margin Accounts). Securities purchased on margin are the firm’s collateral for the loan to you. If the securities in your account decline in value, so does the value of collateral supporting your loan, and as a result, FSC, and/or your broker 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 on margin. These risks include, but are not limited to, the following:

- You can lose more funds than you deposit in the margin account;
- FSC and/or your broker can force the sale of securities or other assets in your account;
- FSC and/or your broker can sell your securities or other assets without contacting you;
- You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call; and,
- You are not entitled to an extension of time on a margin call.

Investor Education and Protection. We are required by National Association of Securities Dealers (“NASD”) Conduct Rule 2280 to provide you with information about the availability of information through the NASD’s Public Disclosure Program. Consequently, please be advised that the NASD offers an Investor Brochure describing the Public Disclosure Program. The investor brochure may be obtained via the NASD website www.nasdr.com, through the NASD Public Disclosure Program Hotline Number (800) 289-9999 or by written request addressed to NASD Media Source, P.O. Box 9403, Gaithersburg, MD 20898-9403.

Electronic Check Conversion. When you deposit funds by check, you authorize us to electronically process your payment. If your check is processed electronically, your checking account may be debited on the same day we receive the check, and will not be returned with your checking account statement.

Annual Privacy Notice. It is the policy of FSC to respect the privacy of customers who maintain accounts with FSC. Whether accounts are introduced to FSC by correspondent brokers for whom FSC provides clearing services or the accounts are brokerage clients of FSC (collectively, referred to herein as “Account Holders”), the security and confidentiality of Account Holders’ non-public personal information is protected by FSC. FSC collects information to provide financial services requested by Account Holders from sources such as:

- Applications and account documents received from Account Holders;
- Transactions of Account Holders; and,
- Information we receive from a consumer reporting agency

FSC does not disclose any non-public personal information about Account Holders or former Account Holders to anyone, except as required or permitted by law and to affect, administer or enforce transactions requested by Account Holders in the ordinary course of processing, servicing or maintaining their accounts. Furthermore, FSC does not reserve the right to disclose Account Holders’ non-public personal information in the future without first notifying the Account Holders of a change in privacy policy and providing a convenient opportunity for Account Holders to opt out of information sharing with nonaffiliated third parties.

FSC restricts access to Account Holders’ non-public personal information to employees who need to know for providing financial services to accounts primarily used for personal, family or household purposes. FSC maintains physical, data processing and procedural safeguards in compliance with regulations to protect Account Holders’ non-public personal information. If you are a customer of an introducing broker, you should be aware that the privacy policy and practices of your personal brokerage firm with whom you maintain your brokerage account may be significantly different from that of FSC, which is the clearing firm for your account. Please read the privacy notice of the introducing brokerage firm for important privacy information as it relates to you as its customer, independently of FSC’s, the clearing firm’s, policies.

Business Continuity Plan. FSC maintains a Business Continuity Plan (“BCP”) that addresses the possibility of a future significant business disruption. The BCP outlines how FSC plans to respond to events of varying scope, including describing the diverse geographic location of FSC’s branch offices, alternative business recovery site, data back-up capabilities, recovery of mission critical systems, customers access to funds and securities, and alternate communications between FSC and customers. In the event of a significant business disruption customers can call 800-678-3792 (primary) or 713-651-9850 (alternative). Information summarizing the firm’s BCP will be included with new account information that is mailed to all customers upon opening an account and will be provided at least annually to existing customers. A more expanded summary is available on the firm’s web site at www.firstsw.com and by mail upon customer request.

Arbitration Agreement. Please note that the arbitration agreement between FSC and you has been replaced with the following:

ARBITRATION AGREEMENT. THIS AGREEMENT CONTAINS A PRE-DISPUTE ARBITRATION CLAUSE. BY SIGNING AN ARBITRATION AGREEMENT THE PARTIES AGREE AS FOLLOWS:

- A. ALL PARTIES TO THIS AGREEMENT ARE GIVING UP THE RIGHT TO SUE EACH OTHER IN COURT, INCLUDING THE RIGHT TO A TRIAL BY JURY, EXCEPT AS PROVIDED BY THE RULES OF THE ARBITRATION FORUM IN WHICH A CLAIM IS FILED.
- B. ARBITRATION AWARDS ARE GENERALLY FINAL AND BINDING; A PARTY'S ABILITY TO HAVE A COURT REVERSE OR MODIFY AN ARBITRATION AWARD IS VERY LIMITED.
- C. THE ABILITY OF THE PARTIES TO OBTAIN DOCUMENTS, WITNESS STATEMENTS AND OTHER DISCOVERY IS GENERALLY MORE LIMITED IN ARBITRATION THAN IN COURT PROCEEDINGS.
- D. THE ARBITRATORS DO NOT HAVE TO EXPLAIN THE REASON(S) FOR THEIR AWARD.
- E. THE PANEL OF ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY.
- F. THE RULES OF SOME ARBITRATION FORUMS MAY IMPOSE TIME LIMITS FOR BRINGING A CLAIM IN ARBITRATION. IN SOME CASES, A CLAIM THAT IS INELIGIBLE FOR ARBITRATION MAY BE BROUGHT IN COURT.
- G. THE RULES OF THE ARBITRATION FORUM IN WHICH THE CLAIM IS FILED, AND ANY AMENDMENTS THERETO, SHALL BE INCORPORATED IN THIS AGREEMENT. ANY AND ALL CONTROVERSIES, DISPUTES OR CLAIMS BETWEEN YOU AND FSC, OR THE INTRODUCING BROKER, AGENTS, REPRESENTATIVES, EMPLOYEES, DIRECTORS, OFFICERS OR CONTROL PERSONS OF FSC OR THE INTRODUCING BROKER, ARISING OUT OF, IN CONNECTION WITH, FROM OR WITH RESPECT TO (a) ANY PROVISIONS OF OR THE VALIDITY OF THIS CUSTOMER AGREEMENT OR ANY RELATED AGREEMENTS, (b) THE RELATIONSHIP OF THE PARTIES HERETO, OR (c) ANY CONTROVERSY ARISING OUT OF FSC'S BUSINESS, THE INTRODUCING BROKER'S BUSINESS OR YOUR ACCOUNTS, SHALL BE CONDUCTED PURSUANT TO THE CODE OF ARBITRATION PROCEDURE OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. ARBITRATIONS MUST BE COMMENCED BY SERVICE OF A WRITTEN DEMAND FOR ARBITRATION OR A WRITTEN NOTICE OF INTENTION TO ARBITRATE. IF FSC IS A PARTY TO SUCH ARBITRATION, TO THE EXTENT PERMITTED BY THE RULES OF THE APPLICABLE ARBITRATION TRIBUNAL, THE ARBITRATION HEARING SHALL BE CONDUCTED IN DALLAS, TEXAS. THE DECISION AND AWARD OF THE ARBITRATOR(S) SHALL BE CONCLUSIVE AND BINDING UPON ALL PARTIES, AND ANY JUDGMENT UPON ANY AWARD RENDERED MAY BE ENTERED IN A COURT HAVING JURISDICTION THEREOF, AND NEITHER PARTY SHALL OPPOSE SUCH ENTRY.

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; OR 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; OR (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 CUSTOMER AGREEMENT EXCEPT TO THE EXTENT STATED HEREIN.

ALL ARBITRATION PROCEEDINGS SHALL BE CONDUCTED IN THE ENGLISH LANGUAGE, UNLESS OTHERWISE AGREED BY THE PARTIES BY WRITTEN STIPULATION ENTERED INTO IN THE COURSE OF SUCH ARBITRATION PROCEEDING.

IF YOU ARE NOT RESIDING IN THE UNITED STATES AT THE TIME OF ANY CONTROVERSY BETWEEN YOU AND FSC SUBJECT TO THIS ARBITRATION AGREEMENT, YOU AGREE TO THE PROVISIONS SET FORTH ABOVE AND THE FOLLOWING ADDITIONAL PROVISIONS: (i) THE RULES OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. SPECIFICALLY PROVIDES FOR THE DESIGNATION OF THE PLACE WHERE THE ARBITRATION IS TO BE HELD; AND (ii) YOU SUBMIT TO THE PERSONAL JURISDICTION OF THE STATE OF TEXAS AND AGREE THAT THE COURTS OF SUCH STATE SHALL HAVE AUTHORITY AND JURISDICTION TO INTERPRET AND ENFORCE THESE ARBITRATION PROVISIONS AS SET FORTH IN THIS CUSTOMER AGREEMENT.

To the extent allowed by law, all applicable statutes of limitation and defenses based upon the passage of time related to any civil action or claim shall be tolled while the arbitration procedures specified in this section are pending. You agree to take any actions necessary to effectuate such tolling. You further agree that, to the extent allowed by law, any obligations owed to FSC that arise in connection with your Account(s) are collectable from marital community property estate assets.



IMPORTANT NOTICE TO ALL OF OUR INTRODUCING FIRMS' CUSTOMERS

We are pleased to advise you that your brokerage firm (“introducing broker”) has designated First Southwest Company (“FSC”) as its clearing agent to handle the record keeping, clearance and settlement functions for their accounts. Accordingly, we have established an account for you. In this regard, an agreement has been executed between FSC and your introducing broker, which is governed by Conduct Rule 3230 of the National Association of Securities Dealers (“NASD”). That clearing agreement sets forth, in detail, the duties and responsibilities of your introducing broker and FSC. Apart from that agreement, which covers, among other things, certain aspects of your account, FSC has no other retail brokerage arrangements, joint ventures or partnerships with your introducing broker. FSC is not your broker, but provides the clearance and settlement services regarding all securities transactions processed through us by your introducing broker.

The purpose of this notice is to set forth, in detail, the division of responsibilities and the duties of FSC and your introducing broker. However, it is not meant as a complete listing of every possible circumstance, but only as a general disclosure. You have a direct relationship with your introducing broker and nothing in the clearing and operational services provided by FSC to your introducing broker alters that relationship.

With respect to your account being carried on FSC’s books by arrangement with your introducing broker, FSC will be responsible for:

- Maintaining books and records detailing transactions in your account, and preparing confirmations and statements showing purchases and sales of securities and related activity, including receipt and delivery of securities and monies, the collection and distribution of dividends. Either your introducing broker or FSC will be responsible for sending the confirmations to you, depending upon the precise arrangements made with your introducing broker.
- Money market fund sweep activity will be reflected on your monthly or quarterly statements. Individual trade confirmations for sweep transactions and dividend reinvestments will not be provided.
- Providing margin credit, reviewing requests for extension of payment, the filing of various regulatory reports and observance of applicable industry rules and practices in the extension of credit, which includes compliance with Regulation T of the Federal Reserve Board, the regulations of the NASD and the application of FSC’s own house margin maintenance requirements. In connection with your introducing broker, FSC or your introducing broker sets the rates of interest to be charged to your account. For a full interest disclosure, refer to your new account agreement documents.
- Safeguarding your funds and securities, while in the possession of FSC, in accordance with federal regulations pertaining thereto. FSC is a member of the Securities Investor Protection Corporation (“SIPC”), which provides customers with insurance protection for amounts up to \$500,000 each, with a limitation of \$100,000 on claims for cash balances. You may obtain information about SIPC, including an explanatory brochure, on its website at www.sipc.org, or by telephone at (202) 371-8300. FSC has also acquired “Excess SIPC” insurance from a third party insurer to protect client accounts up to their net equity for loss of securities and cash held at FSC. This “Excess SIPC” protection is in addition to the protection provided by the Securities and Investors Protection Act, which is administered by SIPC, and is subject to certain conditions and limitations, details of which are available upon request. The above coverage does not protect against loss of the market value of securities.
- Providing you with year-end tax information as required by the Internal Revenue Service. FSC will furnish you with a Form 1099 for transactions conducted through FSC.
- Disseminating materials concerning proxies, tender offers, and similar shareholder information received by FSC and providing various records for you as required by applicable laws and regulations.
- **FSC will accept from your introducing broker, without any inquiry or investigation by us, orders and instructions regarding your account. Moreover, until receipt by FSC of your written instructions to the contrary, FSC may carry out all instructions from your introducing broker and for your account(s) and hold you responsible for such transactions.**
- **FSC will not be responsible for any investment recommendation made by your introducing broker. Furthermore, FSC does not audit, supervise, control or verify information provided by your introducing broker in connection with your account, except as required for compliance with the USA PATRIOT Act of 2001.**

To comply with the USA PATRIOT Act of 2001, FSC or your introducing broker may conduct a background check and/or utilize an independent third party to verify all information including information used to verify a customer's I.D.

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. If you have an account, you will be asked for your name, address, date of birth and other information that will allow us to identify you. You may also be asked to provide your drivers license and/or other documents for identification.

Your introducing broker will be responsible for the following with respect to your account(s):

- Full compliance with Conduct Rule 3010 of the NASD. As such, your introducing brokerage firm is responsible for "knowing you," your stated investment objectives and financial resources.
- Servicing of your account and transmission of your orders and related instructions. Your introducing broker is also responsible for the supervision of its registered representatives in accordance with its policies and applicable federal, state and industry regulations.
- Opening, approving and monitoring your account, including obtaining and verifying new account information and providing FSC with such documents as may be necessary from time to time. This includes obtaining information about your financial condition and investment objectives.
- Setting the fees to be charged to your account; therefore, those fees may differ from the fees charged by FSC, its clearing firm. For a copy of FSC's most recent fee schedule, refer to www.firstsw.com.
- Advising FSC of the proper title in which your account should be carried.
- Staffing and maintaining a Compliance Department and the establishment of written procedures for supervising the conduct of your account and enforcing federal, state and industry regulations designed to detect and deter violations of the insider trading laws. Your introducing broker will be responsible for: (a) assuring that transactions in your account are in compliance with applicable laws and regulations, (b) determining the suitability and legality of transactions in your account, (c) determining the propriety of the trading activity conducted in your account, including the frequency of trading, and (d) determining if your account involves discretionary transactions and properly supervising the exercise of such discretion.
- Advising FSC of any reduced sales charge due to break points when purchasing a mutual fund.
- Prompt transmission to FSC of cash and securities delivered for your account. Prompt communications of instructions to FSC involving your account, such as the transfer and delivery of securities, the disbursement of funds from your account and your intentions regarding tender or exchange offers involving securities in your account.
- Responding to any inquiries or complaints that you may have concerning your account and promptly informing FSC, in writing, of any complaints or inquiries that pertain to FSC.

You will remain a customer of your introducing broker and any general questions you may have with respect to your account should be directed to your introducing broker with whom you opened your account. Your introducing broker is provided copies of confirmations and statements in order to facilitate answering any questions you may have. FSC carries your account and acts as your custodian for funds and securities deposited with us directly by you, through your introducing broker, or as a result of transactions we processed on your behalf. All inquiries concerning the positions and balances in your account should be made to your introducing broker. Should information in addition to that provided by your introducing broker be necessary, you may contact FSC Client Services Department at (214) 953-8897.