

Safety and Security

A Guide to How Your
Assets Are Protected





The Safety of Your Assets

As an investor, you are entitled to understand the steps taken to give you confidence in the safety and security of your assets. Please take time to read and understand the following information.

National Financial Services LLC: An Industry Leader

As you may know, we have an agreement with National Financial Services LLC (NFS) in which NFS provides trade execution, clearing, and other related services for your account. The agreement also allocates between NFS and us certain responsibilities regarding your account.¹

Established in 1983, NFS is an industry leader. It presently services over 8.4 million accounts and custodies over \$849 billion in assets.²

Regulatory Controls For Your Protection

As a registered broker/dealer, NFS is subject to the rules and regulations of the Securities and Exchange Commission (SEC), the New York Stock Exchange (NYSE), the National Association of Securities Dealers (NASD), other exchanges of which NFS is a member, and the Municipal Securities Rulemaking Board (MSRB). These regulatory organizations each have certain rules

¹ For further details regarding these responsibilities, please refer to the welcome letter you received upon opening your brokerage account.

² As of June 30, 2003.



and regulations that NFS must follow to safeguard your assets. Their rules include:

- Keeping accurate records of your assets held at NFS
- Maintaining net capital at required levels

Compliance with the various industry rules is monitored each day. In addition, compliance is strictly enforced by the regulatory agencies and reviewed each year during the annual audit, which is performed by an independent public accounting firm. NFS is also subject to examinations by the SEC, NYSE, and other organizations to ensure that their regulations are met.

Asset Protection

Securities Investor Protection Corporation (SIPC)³

We and NFS are both members of the Securities Investor Protection Corporation (SIPC), which was created in 1970 to protect customers of member broker/dealer firms. The SIPC is a non-profit membership corporation funded by broker/dealers who are required by law to be members. To cover assets such as yours, the SIPC fund is supported by:

- \$1 billion line of credit with a bank consortium
- Borrowing power of up to \$1 billion more from the U.S. Treasury through the Securities and Exchange Commission (SEC)

Because the Securities Investor Protection Act of 1970 affords special benefits to SIPC-covered firms, such as NFS, our agreement with NFS provides your assets the highest level of coverage available.

³ A full description of the SIPC organization and its coverage may be found at its website at <http://www.sipc.org>.

Within certain limits, SIPC coverage covers both investor securities held by NFS and cash on deposit for the purpose of purchasing securities or as a result of the sale of securities. This SIPC coverage protects your assets in the unlikely event that NFS should fail to meet its obligations. The SIPC coverage is separate from the SIPC coverage which is available should we as your broker/dealer fail to meet our obligations. SIPC coverage also does not protect against a decline in market value of securities.

While analyzing your SIPC coverage, you should know additional facts, including:

- The maximum SIPC coverage is \$500,000 for covered accounts
- Your cash balances awaiting reinvestment are protected up to \$100,000, which is included in the \$500,000
- These limits are on a per-customer basis as defined in the Securities Investor Protection Act
- Most types of securities held in a brokerage account at NFS are protected, including stocks, bonds, notes, debentures, certificates of deposit (CDs), and mutual funds held with the SIPC member

Radian Asset Assurance, Inc.

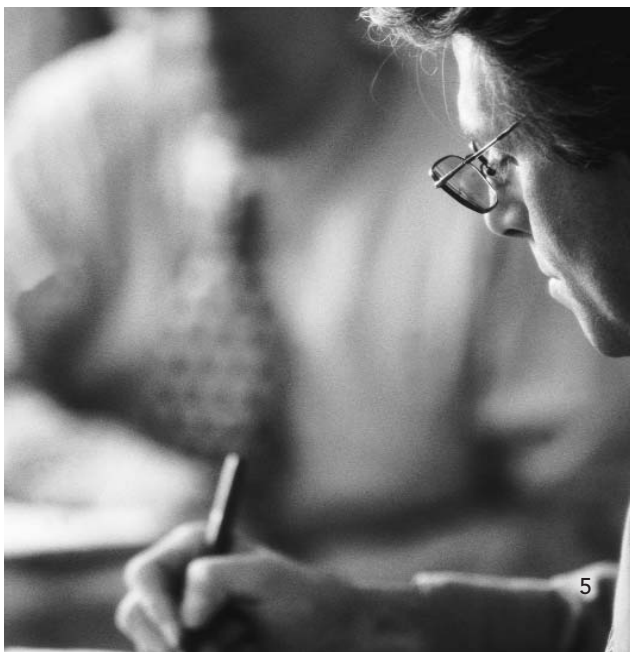
To supplement its SIPC coverage, NFS has arranged for additional protection for customer cash and securities.⁴

Radian Asset Assurance, Inc.⁵ has AA ratings from Standard & Poor's® and Fitch Ratings. Radian was chosen to provide coverage in excess of SIPC coverage because NFS believes it offers the best combination of service and value.

Remember, this account protection does not cover declines in the market value of securities or apply to any failures by us as your broker/dealer to meet our separate obligations outlined in your welcome letter.

⁴ This additional insurance would apply should NFS fail to meet its obligations and is separate from any coverage we as your broker/dealer may provide. This additional insurance covers total account net equity in excess of the \$500,000/\$100,000 coverage provided by SIPC and in those circumstances when NFS' SIPC insurance has been exhausted.

⁵ Formerly Asset Guaranty Insurance Company.





Further Safeguards

NFS is required by the SEC to file monthly and quarterly financial and operational reports (FOCUS reports) within 17 business days of the month's end. The quarterly report contains financial statements, including:

- Statement of financial condition
- Income statement and statement of changes in stockholder's equity
- Regulatory schedules, including a computation of net capital, a reserve formula computation, and other key financial and operational data

As a broker/dealer, NFS cannot use your fully paid customer securities for our own business. These

securities must be held for your exclusive benefit and are subject to the instructions we as your broker/dealer provide to NFS.

NFS must account for, and inspect, every physical security owned by an investor at least once every calendar quarter. Any differences must be recorded and corrected within specific time frames.

Net customer cash balances not required for customer transactions must be maintained in a cash account segregated for the exclusive benefit of customers.

Contingency Planning

In the event of a business disruption, NFS has an extensive and sophisticated Emergency Contingency Plan in place to safeguard your assets and protect vital account information.

Duplicate records and backup systems are maintained at its primary data processing facility in Dallas, Texas. Safeguards and redundancies were of primary importance in designing this state-of-the-art data processing complex, which was built to withstand the failure of any single component in the system.

For More Information

As described in this brochure, we are committed to protecting your assets through our relationship with NFS. If you need additional information about how your assets are protected, please contact your investment representative.

National Financial Services LLC, Member NYSE, SIPC

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