

**Coverdell Education Savings Account  
Agreement and Disclosure Statement**

THIS DOCUMENT MAY ONLY BE USED WITH A SOUTHWEST SECURITIES ACCOUNT.

HOW TO GET STARTED  
TO ESTABLISH A SOUTHWEST SECURITIES  
COVERDELL EDUCATION SAVINGS ACCOUNT (COVERDELL ESA)

- Complete and sign the Coverdell ESA Application. 1 All beneficiary information including Social Security numbers should be completed.
- Submit the completed Coverdell ESA Application 1 to your Account Executive.
- Enclose a check made payable to Southwest Securities for the initial Education contribution, if applicable. Your check should reference which tax year the contribution should be credited.

**1) CUSTODIAL FEES FOR STANDARD ASSETS**

• Initial Set Up or Acceptance	Fee No Charge
• Annual Maintenance	Fee No Charge
• Spousal Annual Maintenance	Fee No Charge
• Premature Distribution	Fee No Charge
• Transfer or Termination	Fee \$25.00

The Custodial Fee Schedule for Standard Assets will apply to any Southwest Securities IRA Account which is invested in widely held or publicly traded securities, such as Stocks, Bonds, Mutual Funds and/or Fixed Income instruments.

# Southwest Securities

## Coverdell Education Savings Custodial Account

Form **5305-EA**

(March 2002)

Department of the Treasury  
Internal Revenue Service

(Under Section 530 of the Internal Revenue Code)

### Article I

- 1.01 The custodian may accept additional cash contributions provided the designated beneficiary has not attained the age of 18 as of the date such contributions are made. Contributions by an individual contributor may be made for the tax year of the designated beneficiary by the due date of the beneficiary's tax return for that year (excluding extensions). Total contributions that are not rollover contributions described in section 530(d)(5) are limited to \$2,000 for the tax year. In the case of an individual contributor, the \$2,000 limitation for any year is phased out between modified adjusted gross income (AGI) of \$95,000 and \$110,000. For married individuals filing jointly, the phase-out occurs between modified AGI of \$190,000 and \$220,000. Modified AGI is defined in section 530(c)(2).

### Article II

- 2.01 No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or a common investment fund (within the meaning of section 530(b)(1)(D)).

### Article III

- 3.01 Any balance to the credit of the Designated Beneficiary on the date on which he or she attains age 30 shall be distributed to him or her within 30 days of such date.
- 3.02 Any balance to the credit of the Designated Beneficiary shall be distributed within 30 days of his or her death unless the designated death beneficiary is a family member of the Designated Beneficiary and is under the age of 30 on the date of death. In such case, that family member shall become the Designated Beneficiary as of the date of death.

### Article IV

- 4.01 The Depositor shall have the power to direct the Custodian regarding the investment of the above-listed amount assigned to the custodial account (including earnings thereon) in the investment choices offered by the Custodian. The Responsible Individual, however, shall have the power to redirect the Custodian regarding the investment of such amounts, as well as the power to direct the Custodian regarding the investment of all additional contributions (including earnings thereon) to the custodial account. In the event that the Responsible Individual does not direct the Custodian regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the Depositor also will govern all additional contributions made to the custodial account until such time as the responsible individual otherwise directs the Custodian. Unless otherwise provided in this agreement, the Responsible Individual also shall have the power to direct the Custodian regarding the administration, management, and distribution of the account.

### Article V

- 5.01 The "Responsible Individual" named by the Depositor shall be a parent or guardian of the Designated Beneficiary. The custodial account shall have only one Responsible Individual at any time. If the Responsible Individual becomes incapacitated or dies while the Designated Beneficiary is a minor under state law, the successor Responsible Individual shall be the person named to succeed in that capacity by the preceding Responsible Individual in a witnessed writing or, if no successor is so named, the successor Responsible Individual shall be the Designated Beneficiary's other parent or successor guardian. Unless otherwise directed by checking the option in the Adoption Agreement, at the time that the Designated Beneficiary attains the age of majority under state law, the Designated Beneficiary becomes the Responsible Individual. If a family member under the age of majority under state law becomes the Designated Beneficiary by reason of being a named death beneficiary, the Responsible Individual shall be such Designated Beneficiary's parent or guardian.
- 5.02 If elected in the Adoption Agreement, the Responsible Individual shall continue to serve as the Responsible Individual for the custodial account after the Designated Beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates. If the Responsible Individual becomes incapacitated or dies after the Designated Beneficiary reaches the age of majority under state law, the Responsible Individual shall be the Designated Beneficiary.

### Article VI

- 6.01 If elected in the Adoption Agreement the Responsible Individual may change the beneficiary designated under this agreement to another member of the Designated Beneficiary's family described in section 529(e)(2) in accordance with the Custodian's procedures.

### Article VII

- 7.01 The Depositor agrees to provide the Custodian with all information necessary to prepare any reports required by section 530(h).
- 7.02 The Custodian agrees to submit to the Internal Revenue Service (IRS) and Responsible Individual the reports prescribed by the IRS.

### Article VIII

- 8.01 Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III will be controlling. Any additional articles inconsistent with section 530 and the related regulations will be invalid.

### Article IX

- 9.01 This agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the Depositor and Custodian whose signatures appear on the Adoption Agreement.

### Article X

- 10.01 **Applicable Law:** This Custodial Agreement shall be governed by the laws of the state where the Custodial Account has its situs. The term Designated Beneficiary shall also include the Depositor, Responsible Individual and Death Beneficiary, where applicable.
- 10.02 **Annual Accounting:** The Custodian shall, at least annually, provide the Designated Beneficiary (or the Responsible Individual, if applicable) with an accounting of such Designated Beneficiary's account. Such accounting shall be deemed to be accepted by the Designated Beneficiary, if the Designated Beneficiary (or Responsible Individual) does not object in writing within 60 days after the mailing of such accounting.
- 10.03 **Amendment:** The Depositor, Designated Beneficiary and Responsible Individual irrevocably delegates to the Custodian the right and power to amend this Custodial Agreement. Except as hereafter provided, the Custodian will give the Designated Beneficiary (or Responsible Individual) 30 days prior written notice of any amendment. In case of a retroactive amendment required by law, the Custodian will provide written notice to the Designated Beneficiary (or Responsible Individual) of the amendment within 30 days after the amendment is made, or if later, by the time that notice of the amendment is required to be given under regulations or other guidance provided by the IRS. The Depositor, Designated Beneficiary and Responsible Individual shall be deemed to have consented to any

such amendment unless the Designated Beneficiary (or Responsible Individual) notifies the Custodian to the contrary within 30 days after notice to the Designated Beneficiary (or Responsible Individual) and requests a distribution or transfer of the balance in the account.

**10.04 Resignation and Removal of Custodian:**

- (a) The Trustee may resign and appoint a successor trustee or custodian to serve under this agreement or under another governing agreement selected by the successor trustee or custodian by giving the Depositor written notice at least 30 days prior to the effective date of such resignation and appointment, which notice shall also include or be provided under separate cover a copy of such other governing instrument, if applicable, and the related disclosure statement. The Depositor shall then have 30 days from the date of such notice to either request a distribution of the entire account balance or designate a different successor trustee or custodian and notify the Custodian of such designation. If the Depositor does not request distribution of the account balance or notify the Custodian of the designation of a different successor trustee or custodian within such 30 day period, the Depositor shall be deemed to have consented to the appointment of the successor trustee or custodian and the terms of any new governing instrument, and neither the Depositor nor the successor shall be required to execute any written document to complete the transfer of the account to the successor trustee or custodian. The successor trustee or custodian may rely on any information, including beneficiary designations, previously provided by the Depositor to the Custodian.
- (b) The Depositor may at any time remove the Custodian and replace the Custodian with a successor trustee or custodian of the Depositor's choice by giving 30 days notice of such removal and replacement. The Custodian shall then deliver the assets of the account as directed by the Depositor. However, the Custodian may retain a portion of the assets of the ESA as a reserve for payment of any anticipated remaining fees and expenses, and shall pay over any remainder of this reserve to the successor trustee or custodian upon satisfaction of such fees and expenses.
- (c) The Custodian may resign and demand that the Depositor appoint a successor trustee or custodian of this ESA by giving the Depositor written notice at least 30 days prior to the effective date of such resignation. The Depositor shall then have 30 days from the date of such notice to designate a successor trustee or custodian, notify the Custodian of the name and address of the successor trustee or custodian, and provide the Custodian with appropriate evidence that such successor has accepted the appointment and is qualified to serve as trustee or custodian of a Coverdell ESA.
  - (1) If the Depositor designates a successor trustee or custodian and provides the Custodian evidence of the successor's acceptance of appointment and qualification within such 30-day period, the Custodian shall then deliver all of the assets held by the Custodian in the account (whether in cash or personal or real property, wherever located, and regardless of value) to the successor trustee or custodian.
  - (2) If the Depositor does not notify the Custodian of the appointment of a successor trustee or custodian within such 30 day period, then the Custodian may distribute all of the assets held by the Custodian in the account (whether in cash or personal or real property, wherever located, and regardless of value) to the Depositor, outright and free of trust, and the Depositor shall be wholly responsible for the tax consequences of such distribution.

In either case, the Custodian may expend any assets in the account to pay expenses of transfer (including re-registering the assets and preparation of deeds, assignments, and other instruments of transfer or conveyance) to the successor trustee or custodian or the Depositor, as the case may be. In addition, the Custodian may retain a portion of the assets as a reserve for payment of any anticipated remaining fees and expenses. Upon satisfaction of such fees and expenses, the Custodian shall pay over any remainder of the reserve to the successor trustee or custodian or to the Depositor, as the case may be.

**10.05 Custodian's Fees and Expenses:**

- (a) The Depositor, Designated Beneficiary and Responsible Individual agree that the Custodian shall be entitled to receive any and all fees specified in the Custodian's current published fee schedule for establishing and maintaining this Coverdell ESA, including, but not limited to, any fees for distributions from, transfers from, and terminations of this Coverdell ESA. The Custodian may change its fee schedule at any time by giving the Designated Beneficiary (or Responsible Individual) 30 days prior written notice.
- (b) The Depositor, Designated Beneficiary and Responsible Individual agree that the Custodian shall be entitled to reimbursement for any expenses incurred by the Custodian in the performance of its duties in connection with the account. Such expenses include, but are not limited to, administrative expenses, such as legal and accounting fees, and any taxes of any kind whatsoever that may be levied or assessed with respect to such account.
- (c) All such fees, taxes, and other administrative expenses charged to the account shall be collected either from the assets in the account or from any contributions to or distributions from such account if not paid by the Depositor, Designated Beneficiary or Responsible Individual, but the Depositor, Designated Beneficiary and Responsible Individual shall be responsible for any deficiency.
- (d) In the event that for any reason the Custodian is not certain as to who is entitled to receive all or part of the Custodial Funds, the Custodian reserves the right to withhold any payment from the Custodial Account, to request a court ruling to determine the disposition of the Custodial assets, and to charge the Custodial Account for any expenses incurred in obtaining such legal determination.

**10.06 Withdrawal Requests:** All requests for withdrawal, distribution, or payment from the account shall be in writing on a form provided and accepted by the Custodian. Such written request must also specify the reason for the withdrawal, distribution, or payment and the desired method or form of withdrawal, payment, or distribution.

**10.07 Responsibilities:** The Depositor, Designated Beneficiary and Responsible Individual represent that all information and instructions given to the Custodian by the Depositor, Designated Beneficiary and Responsible Individual is complete and accurate and that the Custodian shall have no responsibility for any incomplete or inaccurate information provided by the Depositor, Designated Beneficiary or Responsible Individual. The Depositor, Designated Beneficiary and Responsible Individual agree to be responsible for all tax consequences arising from contributions to and distributions from this Custodial Account and acknowledges that no tax advice has been provided by the Custodian.

**10.08 Change of Designated Beneficiary:**

- (a) If elected in the Adoption Agreement, while the Designated Beneficiary is a minor or otherwise lacks legal capacity, the Responsible Individual may at any time change the Designated Beneficiary for this Coverdell ESA to any member of the family under the age of 30 of the original Designated Beneficiary or direct the Custodian to roll over or transfer the funds in this Coverdell ESA to a Coverdell ESA for any member of the family under the age of 30 of the original Designated Beneficiary. If elected in the Adoption Agreement, when the Designated Beneficiary has legal capacity, the Designated Beneficiary may at any time change the Designated Beneficiary for this Coverdell ESA to any member of the family under the age of 30 of the original Designated Beneficiary or direct the Custodian to roll over or transfer the funds in this Coverdell ESA to a Coverdell ESA for any member of the family under the age of 30 of the original Designated Beneficiary.
- (b) Any change of Designated Beneficiary under this Coverdell ESA agreement shall not be treated as a distribution, if the new Designated Beneficiary is a Member of the Family (as defined under section 10.10) and such new Designated Beneficiary has not attained the age of 30, as of the date of such change.
- (b) Notwithstanding Section 3.01, a new Designated Beneficiary may be named within 30 days after the Designated Beneficiary attains the age of 30.

**10.09 Designated Beneficiary's Minority or Incapacity:** The following provisions apply while the Designated Beneficiary is a minor or lacks legal capacity:

- (a) The Responsible Individual shall have, to the exclusion of the Designated Beneficiary, all of the rights, powers, and responsibilities granted to the Designated Beneficiary under this Custodial Agreement, including, without limitation, the right to receive accountings and notices of amendment and resignation, the power to remove and replace the Custodian, the power to direct investments, the power to request withdrawals, distributions, and payments, and the power to direct a rollover or transfer to the trustee or custodian of a Coverdell ESA for the Designated Beneficiary or another member of the family of the Designated Beneficiary.

(b) In the event the Responsible Individual dies, becomes disabled, or otherwise fails or refuses to act and no successor Responsible Individual has been appointed, or no duly appointed Responsible Individual is willing or able to serve, then a parent of the Designated Beneficiary or the legal guardian or conservator of the estate of the Designated Beneficiary may appoint a Responsible Individual in writing on a form acceptable to and filed with the Custodian.

10.10 **Member of the Family:** The term "member of the family of the Designated Beneficiary" includes the Designated Beneficiary's: spouse, children, grandchildren, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; and spouses of the foregoing. A first cousin, but not his or her spouse, is also a family member.

10.11 **Designated Death Beneficiary:** In accordance with Article 3.02 of this Agreement and if permitted by the Custodian, the Depositor, Designated Beneficiary or Responsible Individual shall have the right to name a Designated Death Beneficiary(ies) on a form provided by and acceptable to the Custodian. In the event of the Designated Beneficiary's death, such Designated Death Beneficiary(ies) shall be entitled to the remaining interest in the account. If any such Designated Death Beneficiary is not a member of the family (as defined in Article 10.10 of this Agreement), the remaining balance in the account shall be distributed to the Designated Death Beneficiary within 30 days of the death of the Designated Beneficiary. If any such Designated Death Beneficiary is a member of the family (as defined in Article 10.10 of this Agreement), the remaining balance in the account shall become the Coverdell ESA of the Designated Death Beneficiary. If no death beneficiary designation is in effect or if none of the Death Beneficiaries survive the Designated Beneficiary, the remaining balance will be paid to the estate of the Designated Beneficiary.

#### Article XI

#### SELF-DIRECTED COVERDELL ESA PROVISIONS

11.01 **Investment of Contributions:** At the direction of the Designated Beneficiary (or the direction of the Depositor or the Responsible Individual, whichever applies) the Custodian shall invest all contributions to the account and earnings thereon in investments acceptable to the Custodian, which may include marketable securities traded on a recognized exchange or "over the counter" (excluding any securities issued by the Custodian), covered call options, certificates of deposit, and other investments to which the Custodian consents, in such amounts as are specifically selected and specified in orders to the Custodian in such form as may be acceptable to the Custodian, without any duty to diversify and without regard to whether such property is authorized by the laws of any jurisdiction as a custodial account investment. The Custodian shall be responsible for the execution of such orders and for maintaining adequate records thereof. However, if any such orders are not received as required, or, if received, are unclear in the opinion of the Custodian, all or a portion of the contribution may be held uninvested without liability for loss of income or appreciation, and without liability for interest pending receipt of such orders or clarification, or the contribution may be returned. The Custodian may, but need not, establish programs under which cash deposits in excess of a minimum set by it will be periodically and automatically invested in interest-bearing investment funds. The Custodian shall have no duty other than to follow the written investment directions of the Designated Beneficiary (or the Depositor or Responsible Individual), and shall be under no duty to question said instructions and shall not be liable for any investment losses sustained by the Designated Beneficiary.

11.02 **Registration:** All assets of the account shall be registered in the name of the Custodian or of a suitable nominee. The same nominee may be used with respect to assets of other investors whether or not held under agreements similar to this one or in any capacity whatsoever. However, each Designated Beneficiary's account shall be separate and distinct; a separate account therefor shall be maintained by the Custodian, and the assets thereof shall be held by the Custodian in individual or bulk segregation either in the Custodian's vaults or in depositories approved by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

11.03 **Investment Advisor:** The Designated Beneficiary (or Depositor or Responsible Individual) may appoint an Investment Advisor, qualified under Section 3(38) of the Employee Retirement Income Security Act of 1974, to direct the investment of this Coverdell ESA. The Designated Beneficiary shall notify the Custodian in writing of any such appointment by providing the Custodian a copy of the instruments appointing the Investment Advisor and evidencing the Investment Advisor's acceptance of such appointment, an acknowledgement by the Investment Advisor that it is a fiduciary of the account, and a certificate evidencing the Investment Advisor's current registration under the Investment Advisor's Act of 1940. The Custodian shall comply with any investment directions furnished to it by the Investment Advisor, unless and until it receives written notification from the Designated Beneficiary, Depositor or Responsible Individual that the Investment Advisor's appointment has been terminated. The Custodian shall have no duty other than to follow the written investment directions of such Investment Advisor and shall be under no duty to question said instructions, and the Custodian shall not be liable for any investment losses sustained by the Designated Beneficiary.

11.04 **No Investment Advice:** The Custodian does not assume any responsibility for rendering advice with respect to the investment and reinvestment of this Coverdell ESA and shall not be liable for any loss which results from the Designated Beneficiary's exercise of control over his account. The Custodian and Designated Beneficiary (or Depositor or Responsible Individual) may specifically agree in writing that the Custodian shall render such advice, but the Designated Beneficiary, Depositor or Responsible Individual shall still have and exercise exclusive responsibility for control over the investment of the assets of the account, and the Custodian shall not have any duty to question investment directives.

11.05 **Prohibited Transactions:** Notwithstanding anything contained herein to the contrary, the Custodian shall not lend any part of the corpus or income of the account to; pay any compensation for personal services rendered to the account to; make any part of its services available on a preferential basis to; acquire for the account any property, other than cash, from; or sell any property to, any Designated Beneficiary, any member of a Designated Beneficiary's family, or a corporation controlled by any Designated Beneficiary through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote, or of 50 percent or more of the total value of shares of all classes of stock of such corporation.

11.06 **Unrelated Business Income Tax:** If the Designated Beneficiary, Depositor or Responsible Individual directs investment of the account in any investment which results in unrelated business taxable income, it shall be the responsibility of the Designated Beneficiary, Depositor or Responsible Individual to so advise the Custodian and to provide the Custodian with all information necessary to prepare and file any required returns or reports for the account. As the Custodian may deem necessary, and at the Designated Beneficiary's (or Depositor's or Responsible Individual's) expense, the Custodian may request a taxpayer identification number for the account, file any returns, reports, and applications for extension, and pay any taxes or estimated taxes owed with respect to the account. The Custodian may retain suitable accountants, attorneys, or other agents to assist it in performing such responsibilities.

11.07 **Disclosures and Voting:** The Custodian shall deliver, or cause to be executed and delivered, to the Designated Beneficiary, Depositor or Responsible Individual all notices, prospectuses, financial statements, proxies and proxy soliciting materials relating to assets credited to the account. The Custodian shall not vote any shares of stock or take any other action, pursuant to such documents, with respect to such assets except upon receipt by the Custodian of adequate written instructions from Designated Beneficiary, Depositor or Responsible Individual

11.08 **Miscellaneous Expenses:** In addition to those expenses set out in Section 10.05 of this plan, the Designated Beneficiary, Depositor or Responsible Individual agrees to pay any and all expenses incurred by the Custodian in connection with the investment of the account, including expenses of preparation and filing any returns and reports with regard to unrelated business income, including taxes and estimated taxes, as well as any transfer taxes incurred in connection with the investment or reinvestment of the assets of the account.

11.09 **Nonbank Custodian Provision:** If the Custodian is a nonbank custodian, the Designated Beneficiary, Depositor or Responsible Individual shall substitute another trustee or custodian in place of the Custodian upon receipt of notice from the Commissioner of the Internal Revenue Service or his delegate that such substitution is required because the Custodian has failed to comply with the requirements of Income Tax Regulations Section 1.408-2(e), or is not keeping such records, making such returns, or rendering such statements as are required by applicable law, regulations, or other rulings. The successor trustee or custodian shall be a bank, insured credit union, or other person satisfactory to the Secretary of the Treasury pursuant to Section 408(a)(2) of the Code. Upon receipt by the Custodian of written acceptance by its successor of such successor's appointment, Custodian shall transfer and pay over to such successor the assets of the account (less amounts retained pursuant to Section 10.04 of the Custodial Agreement) and all records (or copies thereof) of the Custodian pertaining thereto, provided that the successor trustee or custodian agrees not to dispose of any such records without the Custodian's consent.

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**General Instructions**

(Section references are to the Internal Revenue Code unless otherwise noted.)

**Purpose of Form**

Form 5305-EA is a model custodial account agreement that meets the requirements of section 530(b)(1) and has been pre-approved by the IRS. A Coverdell education savings account (ESA) is established after the form is fully executed by both the Depositor and the Custodian. This account must be created in the United States for the exclusive purpose of paying the qualified elementary, secondary, and higher education expenses of the Designated Beneficiary.

If the model account is a trust account, see Form 5305-E, Coverdell Education Savings Trust Account.

Do not file Form 5305-EA with the IRS. Instead, the Depositor must keep the completed form in its records.

**Definitions**

**Custodian.** The Custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as Custodian. Any person who may serve as a Custodian of a traditional IRA may serve as the Custodian of a Coverdell ESA.

**Depositor.** The Depositor is the person who establishes the custodial account.

**Designated Beneficiary.** The Designated Beneficiary is the individual on whose behalf the custodial account has been established.

**Family member.** Family members of the Designated Beneficiary include his or her spouse, child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law, and the spouse of any such individual. A first cousin, but not his or her spouse is also a "family member".

**Responsible Individual.** The Responsible Individual, generally, is a parent or guardian of the Designated Beneficiary. However, under certain circumstances, the Responsible Individual may be the Designated Beneficiary.

**Identification Numbers**

The Depositor and Designated Beneficiary's social security numbers will serve as their identification numbers. If the Depositor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The Designated Beneficiary's social security number is the identification number of his or her Coverdell ESA. If the Designated Beneficiary is a nonresident alien, the Designated Beneficiary's individual taxpayer identification number is the identification number of his or her Coverdell ESA. An employer identification number (EIN) is required only for a Coverdell ESA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Coverdell ESAs.

**Specific Instructions**

**Note:** The age limitation restricting contributions, distributions, rollover contributions, and change of beneficiary are waived for a designated beneficiary with special needs.

**Article X.** Article X and any that follow may incorporate additional provisions that are agreed to by the Depositor and Custodian to complete the agreement. They may include, for example, provisions relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the Custodian, Custodian's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the Depositor, Designated Beneficiary, or Responsible Individual, etc. Attach additional pages as necessary.

**Optional provisions in Article V and Article VI.** Form 5305-EA may be reproduced in a manner that provides only those optional provisions offered by the Custodian.

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# COVERDELL EDUCATION SAVINGS ACCOUNT DISCLOSURE STATEMENT

## GENERAL INFORMATION

Coverdell Education Savings Accounts (Coverdell ESAs) were established under the Taxpayer Relief Act effective in 1998. This type of account was originally called an Education Individual Retirement Account and the annual contribution limit per Designated Beneficiary for 1998 through 2001 was \$500. Effective for contributions made for tax year 2002, the annual contribution limit is increased to \$2,000 per Designated Beneficiary. The Economic Growth and Tax Relief Reconciliation Act increased the annual contribution limit, as well as made other important changes that are described in the following questions and answers. Amounts deposited in the account grow tax-free until distributed, and the Designated Beneficiary will not owe tax on any withdrawal from the account if the Designated Beneficiary's qualified education expenses at an eligible educational institution for the year equal or exceed the amount of the withdrawal. If the Designated Beneficiary does not need the money for educational purposes, the account balance can be rolled over to a Coverdell ESA of certain family members who can use it for their education. Amounts withdrawn from a Coverdell ESA that exceed the Designated Beneficiary's qualified education expenses in a taxable year are generally subject to income tax and to an additional tax of 10 percent.

There are potentially three (or more) parties involved in the establishment of, making contributions to, and directing distributions from the account. These parties are referred to in the following questions and answers, and include the:

**Depositor:** The Depositor is the initial contributor who establishes the Coverdell ESA by executing the Adoption Agreement and who contributes the initial contribution. Subsequent contributions to the account may be made by the original Depositor or by other eligible contributors. The Depositor may also be the Designated Beneficiary and/or the Responsible Individual.

**Designated Beneficiary:** The Designated Beneficiary is the individual for whose benefit the Coverdell ESA is established. Except for "special needs designated beneficiaries", no contribution can be made after the Designated Beneficiary's 18<sup>th</sup> birthday. The Designated Beneficiary may also be the Depositor and/or the Responsible Individual.

**Responsible Individual:** The Responsible Individual is the individual who generally controls all decisions regarding the account, including authorizing payments from the account. There can be only one Responsible Individual at any time and generally must be a parent or legal guardian of the Designated Beneficiary. However, in certain cases the Designated Beneficiary may automatically become his or her own Responsible Individual. The Responsible Individual may also be the Depositor.

**Q1: What is a Coverdell Education Savings Account (Coverdell ESA)?**

**A1:** A Coverdell ESA is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified education expenses of the Designated Beneficiary of the account. The account must be designated as a Coverdell ESA when it is created in order to be treated as a Coverdell ESA for tax purposes.

**Q2: For whom may a Coverdell ESA be established?**

**A2:** A Coverdell ESA may be established for the benefit of any child under the age of 18. Contributions to a Coverdell ESA is not permitted after the Designated Beneficiary reaches his/her 18th birthday.

**Q3: Where may an individual open a Coverdell ESA?**

**A3:** An individual may open a Coverdell ESA with any bank, or other financial institution that has been approved to serve as a nonbank trustee or custodian of an individual retirement account (IRA), and the bank or entity is offering Coverdell ESAs.

**Q4: When may a taxpayer start contributing to a Coverdell ESA?**

**A4:** A taxpayer may start making contributions on January 1, 1998, or at any time thereafter.

**Q5: How much may be contributed to a Coverdell ESA on behalf of a Designated Beneficiary?**

**A5:** For tax years 1998 through 2001, the maximum contribution limit per year was \$500 in aggregate contributions made for the benefit of any Designated Beneficiary. For tax year 2002 and thereafter, the maximum contribution limit per year is \$2,000 in aggregate contributions made for the benefit of any Designated Beneficiary. Contributions may be made into a single Coverdell ESA or into multiple Coverdell ESAs for the benefit of any one Designated Beneficiary.

**Q6: What happens if more than the maximum annual contribution limit is contributed to a Coverdell ESA on behalf of a Designated Beneficiary for a particular calendar year?**

**A6:** Aggregate contributions for the benefit of any one Designated Beneficiary in excess of annual limit for a particular calendar year are treated as excess contributions. If the excess contributions (and any earnings attributable to them) are not withdrawn from the ESA that received the excess contribution by May 31<sup>st</sup> of the calendar year following the calendar year in which the excess was made, the excess contribution is subject to a 6 percent excise tax for each year the excess amount remains in the account. If the excess contributions (and any earnings) are timely withdrawn, no 6 percent excise tax applies. However, any earnings distributed in such a corrective distribution will be taxable to the Designated Beneficiary, but no 10% additional tax applies to the earnings.

**Q7: May contributions other than cash be made to a Coverdell ESA?**

**A7:** No. Coverdell ESAs are permitted to accept contributions made in cash only.

**Q8: May contributors take a deduction for contributions made to a Coverdell ESA?**

**A8:** No. Contributions to a Coverdell ESA are not deductible. Therefore, contributions to a Coverdell ESA create "basis" in the account. This means that any distributions that are not used for qualified education expenses are taxable only with respect to any earnings on the contributions.

**Q9: Are there any restrictions on who can contribute to a Coverdell ESA?**

**A9:** Any individual may contribute to a Coverdell ESA if the individual's modified adjusted gross income for the taxable year for which the contribution is made is no more than \$95,000 (\$190,000 for married taxpayers filing jointly). For purposes of this section, "modified AGI" means the AGI of the taxpayer for the taxable year increased by amounts excluded from gross income under sections 911 (foreign earned income); 931 (income from Guam, American Samoa, or Northern Mariana

Islands); and 933 (income from Puerto Rico). The maximum annual contribution per Designated Beneficiary is gradually reduced for individuals with modified adjusted gross income between \$95,000 and \$110,000 (between \$190,000 and \$220,000 for married taxpayers filing jointly).

For example, an unmarried taxpayer with modified adjusted gross income of \$96,500 could make a maximum contribution for the year per Designated Beneficiary of \$1,800 ( $\$110,000 - \$96,500 \times .1333 = \$1,800$ ). A married individual filing jointly with modified adjusted gross income of \$215,000 could make a maximum contribution for the year per Designated Beneficiary of \$350 ( $\$220,000 - \$215,000 \times .07 = \$350$ ). Taxpayers with modified adjusted gross income above \$110,000 ( $\$220,000$  for married taxpayers filing jointly) cannot make contributions to anyone's Coverdell ESA.

**Q10: May a Designated Beneficiary contribute to his/her own Coverdell ESA?**

**A10:** Yes.

**Q11: Does a taxpayer have to be related to the Designated Beneficiary in order to contribute to the Designated Beneficiary's Coverdell ESA?**

**A11:** No.

**Q12: Can entities make contributions to the Designated Beneficiary's Coverdell ESA?**

**A12:** Yes. Any entity can make contributions to the Designated Beneficiary's Coverdell ESA without regard to such entity's adjusted gross income. For example, Century Computer Services, Inc. decides to make Coverdell ESA contributions on behalf of any child under the age of 18 of their employees in the amount of \$500. Century Computer Services, Inc. qualifies as a contributor regardless of the company's adjusted gross income, but the company cannot take a deduction for such contributions. Also, other contributions up to \$1,500 could be made into the same Coverdell ESA or another Coverdell ESA on behalf of any one these employees' children.

**Q13: Is the contributor to a Coverdell ESA required to have compensation or earned income in order to make contributions?**

**A13:** No. The contributor (whether an individual or an entity) is not required to have earned income or compensation.

**Q14: What is the deadline for making contributions to a Coverdell ESA for a particular tax year?**

**A14:** Beginning for contributions made for tax year 2002, the deadline to make contributions is the tax filing deadline for such year not including extensions. Thus, in most cases, the deadline to make contributions for a tax year is the following April 15<sup>th</sup>. The contributor should designate in writing to the trustee or custodian the tax year for which the contribution is being made.

**Q15: Are there any special reporting requirements for a Coverdell ESA?**

**A15:** Yes. The trustee or custodian will issue an annual Form 5498-ESA to the IRS and to the Designated Beneficiary reporting contributions made for the tax year, and any rollover contributions or transfers received during the tax year. The trustee or custodian will also issue Form 1099-Q to the IRS and to the Designated Beneficiary whenever distributions or transfers are paid from the account. The Designated Beneficiary is responsible for determining whether or not a distribution is taxable and to file Form 5329 with the IRS if excess contributions have been made to the account or if distributions were made that exceed the qualified education expenses for the year. If a rollover or transfer is made from the Coverdell ESA of one Designated Beneficiary to another eligible family member of the Designated Beneficiary, certain statements must be attached to the tax returns of both the original Designated Beneficiary and the eligible family member to which the account was rolled over or transferred (see Form 1040 instructions). Taxable distributions from a Coverdell ESA are included in gross income on the "Other Income" line of Form 1040. The trustee or custodian is not required to report the taxable amount of any distribution from the ESA, except for earnings that are distributed on a returned contribution. Instead, the trustee or custodian will report the December 31<sup>st</sup> fair market value on Form 1099-Q. The Designated Beneficiary will use the worksheet in IRS Publication 970 to figure the earnings, basis and taxable amount of any ESA distributions.

**Q16: How many Coverdell ESAs may a Designated Beneficiary have?**

**A16:** There is no limit on the number of Coverdell ESAs that may be established for a particular Designated Beneficiary. However, for any given taxable year the total aggregate contributions to all the accounts for a particular Designated Beneficiary may not exceed the annual contribution limit described in Q&A 5.

**Q17: May a Designated Beneficiary take a tax-free withdrawal from a Coverdell ESA to pay qualified education expenses if the Designated Beneficiary is enrolled less than full-time at an eligible educational institution?**

**A17:** Yes. Whether the Designated Beneficiary is enrolled full-time, half-time, or less than half-time, he/she may take a tax-free withdrawal to pay qualified education expenses.

**Q18: What happens when a Designated Beneficiary withdraws assets from a Coverdell ESA to pay for qualified education expenses?**

**A18:** Generally, the withdrawal is tax-free to the Designated Beneficiary to the extent the amount of the withdrawal does not exceed the Designated Beneficiary's qualified education expenses.

**Q19: What are "qualified education expenses"?**

**A19:** "Qualified education expenses" mean qualified higher education expenses for tuition, fees, books, supplies, and equipment required for the enrollment or attendance of the Designated Beneficiary at an eligible educational institution. Qualified higher education expenses also include room and board (generally the school's posted room and board charge, or \$2,500 per year for students living off-campus and not at home) if the Designated Beneficiary is at least a half-time student at an eligible educational institution. A student will be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic workload for the course of study the student is pursuing as determined under the standards of the institution where the student is enrolled.

The standards for determining whether a student is enrolled at least half-time are the same as those used for the Hope Scholarship Credit. A student is eligible for the Hope Scholarship Credit if: (1) for at least one academic period (e.g., semester, trimester, quarter) beginning during the calendar year, the student is enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential and is enrolled in one of the first two years of postsecondary education, and (2) the student is free of any conviction for a Federal or State felony offense consisting of the possession or distribution of a controlled substance. For purposes of the Hope Scholarship Credit, a student will be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic workload for the course of study the student is pursuing as determined under the standards of the institution where the student is enrolled. The institution's standard for a full-time workload must equal or exceed the standards established by the Department of Education under Higher Education Act and set

forth in 34 CFR 674.2(b).

Beginning in 2002, qualified education expenses also include qualified elementary and secondary education expenses for tuition, fees, academic tutoring, special needs services in the case of a special needs beneficiary, books, supplies, and other equipment which are incurred in connection with the enrollment or attendance of the Designated Beneficiary as an elementary or secondary school student at a public, private or religious school. Such expenses also include room and board, uniforms, transportation, and supplementary items and services (including extended day programs) which are required or provided by a public, private or religious school in connection with such enrollment or attendance, and expenses for the purchase of any computer technology or equipment or Internet access and related services, if such technology, equipment, or services are to be used by the Designated Beneficiary and the Designated Beneficiary's family during any of the years the Designated Beneficiary is in school.

Qualified education expenses also include amounts contributed to a qualified state tuition program. Also, qualified education expenses are reduced by any amount provided by scholarship, educational assistance allowance, or any other payment (other than a gift or bequest) which is excludable from gross income under any law of the United States.

**Q20: What is an eligible educational institution?**

**A20:** For purposes of qualified higher education expenses, an eligible educational institution is any college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. (The same eligibility requirements for institutions apply for the Hope Scholarship Credit, the Lifetime Learning Credit, and early withdrawals from IRAs for qualified higher education expenses).

For purposes of elementary and secondary education expenses, an eligible education institution means any school which provides elementary education or secondary education (kindergarten through grade 12), as determined under state law.

**Q21: What happens if a Designated Beneficiary withdraws an amount from a Coverdell ESA but does not have any qualified education expenses to pay in the taxable year he/she makes the withdrawal?**

**A21:** Generally, if a Designated Beneficiary withdraws an amount from a Coverdell ESA and does not have any qualified education expenses during the taxable year, a portion of the distribution is taxable. The taxable portion is the portion that represents earnings that have accumulated tax-free in the account. The taxable portion of the distribution is also subject to a 10 percent additional tax unless an exception applies. Form 5329 is required to be filed with the IRS by the Designated Beneficiary. The 10 percent additional tax does not apply to distributions made: (1) to a death beneficiary (or to the estate of the Designated Beneficiary) after the death of the Designated Beneficiary; (2) attributable to the Designated Beneficiary become disabled within the meaning of section 72(m)(7) of the Internal Revenue Code; or (3) made on account of a scholarship, allowance or payment to the extent such payment or distribution does not exceed the amount of such scholarship, allowance or payment.

**Q22: Is a distribution from a Coverdell ESA taxable if the distribution is contributed to another Coverdell ESA?**

**A22:** Any amount distributed from a Coverdell ESA and rolled over to another Coverdell ESA for the benefit of the same Designated Beneficiary or certain members of the Designated Beneficiary's family is not taxable. An amount is rolled over if it is paid to another Coverdell ESA on a date within 60 days after the date of the distribution. Members of the Designated Beneficiary's family include the Designated Beneficiary's spouse, children, grandchildren, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, or sister-in-law, and the spouse of any such individual. A first cousin, but not his or her spouse is also a family member of the Designated Beneficiary. The annual contribution limit to Coverdell ESAs does not apply to these rollover contributions. For example, an older brother who has \$5,000 left in his Coverdell ESA after he no longer needs the account for education purposes can roll over the full \$5,000 balance to a Coverdell ESA for his younger sister who is still in high school without paying any tax on the transfer or rollover. The eligible family member to whose Coverdell ESA such amount is rolled over or transferred must be under the age of 30.

**Q23: What happens to the assets remaining in a Coverdell ESA after the Designated Beneficiary finishes his/her education?**

**A23:** There are two options. The amount remaining in the account may be withdrawn for the Designated Beneficiary. The Designated Beneficiary will be subject to both income tax and the additional 10 percent tax on the portion of the amount withdrawn that represents earnings if the Designated Beneficiary does not have any qualified education expenses in the same taxable year he/she makes the withdrawal. Alternatively, if the amount in the Designated Beneficiary's Coverdell ESA is withdrawn and rolled over (or transferred) to another Coverdell ESA for the benefit of an eligible member of the Designated Beneficiary's family, the amount rolled over or transferred will not be taxable.

**Q24: Rather than rolling over money from one Coverdell ESA to another, may the Designated Beneficiary of the account be changed from one Designated Beneficiary to another without triggering a tax?**

**A24:** Yes, provided: (1) the terms of the particular trust or custodial account permit a change in designated beneficiaries, and (2) the new Designated Beneficiary has not attained age 30 and is a member of the previous Designated Beneficiary's family.

**Q25: May a student or the student's parents claim the Hope Scholarship Credit or Lifetime Learning Credit for the student's expenses in a taxable year in which the student receives money from a Coverdell ESA on a tax-free basis?**

**A25:** Yes, effective for tax year 2002. If a student is receiving a tax-free distribution from a Coverdell ESA in a particular taxable year (beginning in 2002), the student's expenses may generally be claimed as the basis for a Hope Scholarship Credit or Lifetime Learning Credit for that same year, provided however that the distributed amount from the Coverdell ESA is not used for the same educational purposes as the tax credit.

**Q26: May contributions be made to both a qualified state tuition program and a Coverdell ESA on behalf of the same Designated Beneficiary in the same taxable year?**

**A26:** Yes, beginning in tax year 2002. The excise tax prohibiting contributions to both a Coverdell ESA and a qualified state tuition program was repealed for 2002 and forward. Therefore, contributions may be made to a Coverdell ESA on behalf of a Designated Beneficiary during the same taxable year in which any contributions are made to a qualified state tuition program on behalf of the same Designated Beneficiary. However, if distributions from a Coverdell ESA and a qualified state tuition program exceed the Designated Beneficiary's qualified education expenses for the year, the Designated Beneficiary is required to allocate the expenses between the distributions to determine the amount includible in gross income, if any.

**Q27: What happens to the assets remaining in the Coverdell ESA after the death of the Designated Beneficiary?**

- A27:** Generally within 30 days after the death of the Designated Beneficiary, distribution is made to the Designated Beneficiary's estate; or the Responsible Individual may change the name of the Designated Beneficiary to an eligible family member under the age of 30 of the original Designated Beneficiary, if the agreement permits. Alternatively, if the agreement permits the naming of a Designated Death Beneficiary, any remaining balance in the account on the date of death of the Designated Beneficiary shall become payable to such Designated Death Beneficiary. If the Designated Death Beneficiary is not an eligible family member of the Designated Beneficiary, the entire balance must be distributed within 30 days of the death of the Designated Beneficiary. If the Designated Death Beneficiary is an eligible family member of the Designated Beneficiary, the entire balance may be rolled over or transferred tax free to a Coverdell ESA on behalf of such Designated Death Beneficiary. Any distributions paid after the date of death of the Designated Beneficiary are taxable to the extent such distribution represents earnings, unless the account is rolled over or transferred to a Coverdell ESA on behalf of an eligible family member of the Designated Beneficiary.
- Q28: What happens to the assets remaining in the Coverdell ESA after the Designated Beneficiary attains the age of 30?**
- A28:** Any balance remaining in the Coverdell ESA when the Designated Beneficiary attains the age of 30 must be distributed to such Designated Beneficiary within 30 days. However, if permitted under the Agreement, the remaining balance may be rolled over or transferred to a Coverdell ESA on behalf of an eligible family member.
- Q29: Do the age requirements described above apply to "special needs" Designated Beneficiaries?**
- A29:** No. A Coverdell ESA established on behalf of any Designated Beneficiary with special needs (as determined by IRS regulations) may continue to receive contributions after the Designated Beneficiary's 18<sup>th</sup> birthday. In addition, any remaining balance in a Coverdell ESA on behalf of any Designated Beneficiary with special needs is not required to be distributed within 30 days after the Designated Beneficiary attains the age of 30.
- Q30: Does the Internal Revenue Service provide a publication that contains more information on Coverdell ESAs?**
- A30:** Yes. IRS Publication 970, Tax Benefits for Higher Education, contains information regarding the Coverdell ESA, as well as claiming the Hope Credit, Lifetime Learning Credit, student loans, penalty-free withdrawals from IRAs for certain education expenses, employer-provided educational assistance and qualified state tuition programs. The Custodian recommends that the Depositor, Designated Beneficiary and/or Responsible Individual read Publication 970 before making contributions to or taking distributions from a Coverdell ESA. Publication 970 can be downloaded from the IRS web site at [www.irs.gov](http://www.irs.gov).



**Southwest Securities, Inc. and/or Broker/Dealers for which it clears**  
 Southwest Securities, Inc. Member NYSE/FINRA/SIPC

New Account  
 Update

## Coverdell Education Savings Account Application

### 1. Funding Information.

Regular Contribution for tax year: \_\_\_\_\_  ESA Rollover (Must also complete ESA Rollover Form)  Transfer from another ESA (Must also complete Account Transfer Form)

### 2. Designated Beneficiary Information.

Full Name of Applicant (First, Middle, Last)	Social Security #	Date of Birth
Home Address (P.O. Box unacceptable)	City	State/Province
	Country	Zip

### 3. Responsible Individual's Information.

Full Name of Applicant (First, Middle, Last)	Social Security #	Date of Birth
Home Address (P.O. Box unacceptable)	City	State/Province
	Country	Zip
Mailing Address (P.O. Box acceptable)	City	State/Province
	Country	Zip
Home Phone Number	Fax Number	Email Address

The Responsible Individual  shall  shall not continue to serve as the Responsible Individual after the Designated Beneficiary attains the age of majority pursuant to section 5.02 of the Custodial Agreement.

The Responsible Individual  may  may not change the beneficiary designated under this Custodial Agreement pursuant to Section 6.01 of the Custodial Agreement. (I acknowledge that I am aware that if the designated beneficiary is changed, a new account must be set up.)

**Note:** The Responsible Individual may be the Grantor, but generally must be a parent or legal guardian of the Designated Beneficiary.

### 4. Verification Information.

#### IMPORTANT INFORMATION ABOUT 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. What this means to you: When you open an account, we will require your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

#### Identification Provided:

##### For Individuals:

Driver's License  Passport/Visa  Other \_\_\_\_\_

Issuer: \_\_\_\_\_ ID Number: \_\_\_\_\_

Date of Issuance (If applicable): \_\_\_\_\_ Date of Expiration: \_\_\_\_\_

### 5. Client Profile.

Marital Status:  Single  Married  Divorced  Widowed      Number of Dependents: \_\_\_\_\_

Citizenship Status:  U.S. Citizen  Resident Alien **\*Note:** Non-Resident Aliens are NOT permitted to open ESA Accounts.

#### Credit References:

Reference 1: \_\_\_\_\_ Reference 2: \_\_\_\_\_ Reference 3: \_\_\_\_\_

#### Investment Objectives (You may rank two objectives.):

- 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 of principal with the hope of achieving commensurate gains. May include investing in low priced securities, options, non-rated bonds or non-investment grade bonds.

What is the source of funds for this account?  Income from Earnings  Investment Proceeds  Gift  Sale of Business  Inheritance  
 Pension/IRA/Retirement  Spouse/Parent  Lottery/Gambling  Insurance Proceeds  Legal Settlement  Other (If other, please explain:)

**Financial Information:**

Investment Experience (# of Years)	Estimated Annual Income	Estimated Net Worth (Exclusive of Home)	Estimated Liquid Net Worth (Cash, Securities, etc)	Tax Bracket
<input type="checkbox"/> Stocks _____ <input type="checkbox"/> Bonds _____ <input type="checkbox"/> Options _____ <input type="checkbox"/> Commodities _____ <input type="checkbox"/> Futures _____ <input type="checkbox"/> Other _____	<input type="checkbox"/> Under \$25,000 <input type="checkbox"/> \$25,000-\$49,999 <input type="checkbox"/> \$50,000-\$99,999 <input type="checkbox"/> \$100,000-\$249,999 <input type="checkbox"/> \$250,000-\$499,999 <input type="checkbox"/> \$500,000-\$999,999 <input type="checkbox"/> Over \$1,000,000	<input type="checkbox"/> Under \$50,000 <input type="checkbox"/> \$50,000-\$99,999 <input type="checkbox"/> \$100,000-\$249,999 <input type="checkbox"/> \$250,000-\$499,999 <input type="checkbox"/> \$500,000-\$999,999 <input type="checkbox"/> Over \$1,000,000	<input type="checkbox"/> Under \$50,000 <input type="checkbox"/> \$50,000-\$99,999 <input type="checkbox"/> \$100,000-\$249,999 <input type="checkbox"/> \$250,000-\$499,999 <input type="checkbox"/> \$500,000-\$999,999 <input type="checkbox"/> Over \$1,000,000	<input type="checkbox"/> 10% <input type="checkbox"/> 15% <input type="checkbox"/> 25% <input type="checkbox"/> 28% <input type="checkbox"/> 33% <input type="checkbox"/> 35%

**Employment Information:** (Please specify if unemployed, retired, homemaker, or student. If self-employed, please specify industry.)

Employer (If self-employed, please specify name of business.)	Occupation	Business Telephone		
Employer's Address	City	State/Province	Country	Zip

**Affiliations/Disclosures:**

- Yes  No Are you or your spouse an employee of or affiliated with a securities firm, exchange or any of its affiliated companies?  
*(If yes, please specify the company name and address to which duplicate statements and confirmations should be sent.)*

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- Yes  No Are you or your spouse a director, officer, or 10% shareholder of any publicly traded company?  
*(If yes, please specify company name & symbol.)*

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- Yes  No Does any other person have Trading Authorization over this account? If yes, please specify name.  
*(We must have a copy of the agreement conferring authority, their name, relationship to you and their investment experience.)*

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- Yes  No Are you or anyone with an interest in this account either: (1) a senior military, governmental, or political official in a non-U.S. country, or (2) closely associated with an immediate family member of such an official? *(If Yes, identify the name of the official, office held, and country.)*

**6. Beneficiary Designation.**

Name and Address	Birth Date	Social Security #*	Relationship	Beneficiary Type*	Share %*
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%
				<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	_____%

**\*Note:** Beneficiaries must have a social security number. In the event of your death, the Primary Beneficiaries will receive the proceeds of your ESA in equal shares or in the specified Share %, if indicated. If no Primary Beneficiary survives you, the Contingent Beneficiaries will receive the proceeds of your IRA in equal shares or in the specified Share %, if indicated. If the Beneficiary Type box is not checked for a beneficiary, the beneficiary will be deemed to be a Primary Beneficiary. If no beneficiary is listed, the balance in the account shall be paid to your estate. The total % of all Primary Beneficiaries must equal 100%; the total % of all Contingent Beneficiaries, if designated should also equal 100%.

**Additional Guidance**

It is in your best interest to seek the guidance of your tax or legal professional before completing this form because of the potentially significant financial and estate planning consequences associated with beneficiaries naming successor IRA beneficiaries. Please see the Death Distribution information contained within your IRA adoption agreement and disclosure. For more information, refer to Internal Revenue Service (IRS) Publication 590 or visit the IRS Website at [www.irs.gov](http://www.irs.gov).

**7. Account Instructions.**

**Cash Investment: (CHECK ONLY ONE BELOW. IF YOU DO NOT MAKE A SELECTION, YOUR FUNDS WILL BE INVESTED IN THE DREYFUS FUNDS GENERAL MONEY MARKET FUNDS, CLASS B SHARES.)**

**Dreyfus Funds**

- General Money Market Funds, Class B Shares
- General Government Securities Money Market Fund, Class B Shares
- General Municipal Money Market Fund, Class B Shares
- Bank Insured Deposit (FDIC Insured deposit account)

**Federated Funds**

- Florida Municipal Cash Trust
- Minnesota Municipal Cash Trust
- California Municipal Cash Trust
- NY Municipal Trust

For new accounts, if no selection of a money fund is made, your account will default to sweep cash balances to the Dreyfus General Money Market Fund. For existing accounts, please notify your broker if you wish to sweep cash balances to the Dreyfus General Money Market Fund, the Bank Insured Deposit or other selection. Accounts eligible to sweep to Bank Insured Deposit are typically those where the beneficial owner is a person and all required customer identification information is on file. If your account is ineligible it will be set to sweep to Credit Interest (CIP) or to a selected money market fund. I acknowledge that I am aware that if I elect or otherwise have cash swept to the Bank Insured Deposit, the Truth in Savings document will be mailed to me. The Bank Insured Deposit is a FDIC-insured NOW account maintained at Southwest Securities FSB, Dallas, Texas, an affiliate of SWST. Your bank deposits are generally insured up to \$250,000 per depositor, while your IRA and other qualifying self-directed retirement funds on deposits are separately insured up to \$250,000. Deposits you may have directly placed with Southwest Securities FSB should be taken into account when assessing your FDIC coverage. Information regarding FDIC coverage is available at [www.fdic.gov](http://www.fdic.gov). Cash balances invested in the Bank Insured Deposit are not covered by SIPC or excess-SIPC coverage. Please consult your broker, as certain types of accounts, including corporations, partnerships and employee benefit plans, are not eligible to invest in the Bank Insured Deposit, unless the entire beneficial interest in the account is operated primarily for religious, philanthropic, charitable, educational, or similar purposes, and is not operated for profit or contains public funds. Your broker may receive a fee with respect to the Bank Insured Deposits. For more information concerning your cash account options, please contact your broker. For complete sweep account disclosures please see our Customer Information Brochure.

**8. Option Account Agreement.**

Investment Objectives (See definitions above.)	Option Activity Has Been	Trade Frequency	Trading Occurred In
<input type="checkbox"/> Income <input type="checkbox"/> Speculation	<input type="checkbox"/> No Activity <input type="checkbox"/> Buying <input type="checkbox"/> Writing <input type="checkbox"/> Uncovered (sales)	<input type="checkbox"/> No Trading <input type="checkbox"/> Infrequent <input type="checkbox"/> Moderate <input type="checkbox"/> Active	<input type="checkbox"/> Cash <input type="checkbox"/> Margin <input type="checkbox"/> Both <input type="checkbox"/> Neither

**Option Strategy Levels:** (Check the strategy level you wish to employ.)

- Level 1: Covered Call Writing – Writing calls fully covered by underlying stock or security convertible into underlying stock or writing puts fully covered by cash.
- Level 2: Level 1 plus buying calls and/or puts.

**By signing below, I acknowledge that I have received a copy of the Southwest Securities, Inc. (“SWST”) Option Account Agreement Section of the Customer Information Brochure and that I have read, understand and agree to be bound by the terms. I feel that I have sufficient knowledge to invest in options and I represent that I will maintain extra awareness due to the short life and price volatility of options. I REPRESENT THAT I AM CAPABLE OF EVALUATING, CARRYING AND BEARING THE FINANCIAL RISKS AND HAZARDS OF THE OPTION STRATEGIES THAT I HAVE REQUESTED. I further acknowledge that I have read and understand the pre-dispute arbitration clause located on page 7, paragraph 35 of the Cash Account Agreement Section of the Customer Information Brochure and agree to resolve any disputes arising out of my account by arbitration.**

**X** \_\_\_\_\_  
 Responsible Individual's Signature Date

**9. Account Agreement and Special Instructions. (Please read and sign.)**

You hereby request that Your Broker maintain a Brokerage Account in the name(s) listed on this Application. You acknowledge that you have received, read and understood the SWST Cash Account Agreement Section of the Customer Information Brochure and you agree to be bound by the terms and conditions of the Agreement that apply to your Brokerage Account, as amended and that you will contact Your Broker regarding any questions that may relate to your account.

**Under Rule 14b-1(c) of the Securities Exchange Act, a broker is required to disclose to an issuer the name, address, and securities positions of our customers who are beneficial owners of that issuer’s securities unless the customer objects. If you object to the disclosure of such information, please check box:**

By signing this Application, you confirm your intention to reinvest cash credit balances held by SWST in your name, and you further confirm that this cash credit balance is being maintained in your account solely for the purpose of reinvestment. You acknowledge your understanding that cash balances of up to \$250,000 are protected by the Securities Investor Protection Corporation (SIPC), but SIPC coverage is not available for funds maintained solely for the purpose of earning interest.

"Power of Attorney" not related to limited trading authorization will be accepted if it complies with the POA standards established by Southwest Securities, Inc.

**Certification of Taxpayer ID Number (Substitute W-9):** Under penalty of perjury, you certify that (1) the number shown on this form is your correct taxpayer identification number, (or you are waiting for a number to be issued) and (2) you are not subject to backup withholding because (a) you are exempt from backup withholding, or (b) you have not been notified by the Internal Revenue Service (IRS) that you are subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified you that you are no longer subject to backup withholding (does not apply to real estate transactions, mortgage interest paid, the acquisition or abandonment of secured property, contributions to an individual retirement arrangement (IRA), and payments other than interest and dividends), and (3) you are a U.S. person (including a U.S. resident alien). You understand that you must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because of underreporting interest or dividends on your tax return.

The Internal Revenue Service does not require your consent to any provision of this document other than the certifications required to avoid backup withholding.

In consideration of the firm accepting an account for me/us, I/We ("I") acknowledge that I have read, understand and agree to be bound by the SWST Cash Account Terms that I acknowledge receiving at the time the account was opened. **I further acknowledge that I have read and understand the pre-dispute arbitration clause located on page 7, paragraph 35 of the Cash Account Agreement Section of the Customer Information Brochure and agree to resolve any disputes arising out of my account by arbitration.** I certify that the foregoing client information is accurate and I am aware that the information is relied on by the broker in servicing my account. If I experience a material change in circumstances, I will provide my broker with an updated application.

Under penalties of perjury, I certify that the above information (including my social security number and the Designated Beneficiary's and Responsible Individual's social security number) is correct. I hereby agree to participate in the Coverdell Education Savings Custodial Account offered by the Custodian. I acknowledge receipt of a copy of the plan document under which this Coverdell Education Savings Custodial Account is established and a copy of the Disclosure Statement with respect to this Coverdell Education Savings Custodial Account. In the event that this is a rollover contribution, the undersigned hereby irrevocably elects to treat this contribution as a rollover contribution. If the Responsible Individual Information is completed above, I appoint the above-named person as Responsible Individual with the rights, powers, and responsibilities set out in the Coverdell Education Savings Custodial Account Agreement. The Custodian of this account is Southwest Securities, Inc. Notice of revocation must be delivered or mailed to Southwest Securities, Inc. / 1201 Elm Street, Suite 3500 / Dallas, TX 75270 / Phone #: (214) 859-1800.

**X** \_\_\_\_\_  
 Responsible Individual' Signature Date

**FOR BROKER USE ONLY**

I have received this application and believe the ESA Account is suitable for:  Level 1  Level 2  None

Characteristics and Risks of Standardized Options Delivered: \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_  
 Customer Information Brochure Delivered: \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_  
 Privacy Policy Delivered: \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

Account #: \_\_\_\_\_ SSN: \_\_\_\_\_  
 Verify receipt of original: \_\_\_\_\_  
 Office #: \_\_\_\_\_ Rep #: \_\_\_\_\_

**X** \_\_\_\_\_  
 Investment Representative's Signature Date

\_\_\_\_\_   
 Investment Representative's Printed Name

Copies of all Written Agreements Delivered: \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

**X** \_\_\_\_\_  
 Principal's Signature Date

\_\_\_\_\_  
 Principal's Printed Name

**X** \_\_\_\_\_  
 Registered Option Principal's Signature Date

**X** \_\_\_\_\_  
 Registered Option Principal Printed Name Date

**X** \_\_\_\_\_  
 Authorized Signature of Custodian Date

**X** \_\_\_\_\_  
 Authorized Printed Name of Custodian