



Supplemental Application and Agreement for Limited Margin and Trading Option Spreads in Your IRA Account

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Instructions:

1. In order to request limited margin or spread option trading in your IRA account, please complete and sign the Add Options Trading and Margin to Your Account form. Limited margin in an IRA can support option trading up to Spread Trading (Level 2).
2. Please review, sign, and return this supplemental application and agreement along with the Add Options Trading and Margin to Your Account form.

The following terms, conditions, and disclosures supplement the Schwab IRA and ESA Account Agreement. In the event of any inconsistency or conflict between the terms of this supplement and the terms of your Schwab IRA and ESA Account Agreement, the terms set forth in this supplement will control.

1. Eligibility, Rules, and Limitations

- You must meet Schwab's minimum account equity requirement of \$25,000* for either limited margin or spread option trading in your IRA account. This balance can be comprised of cash, marginable security positions, sweep money market funds, or a combination of these. If you engage in pattern day trading activity in your IRA, you will also be subject to the \$25,000 Pattern Day Trader minimum equity requirement. Schwab does not recommend that you engage in day trading in your IRA account.
- Schwab may, at its sole discretion, remove the limited margin and/or spread option trading features from your IRA account.
- IRA accounts enrolled in Schwab Advisor Services™ or in retail discretionary advisory products such as Windhaven® Strategies, ThomasPartners® Strategies, or Schwab Intelligent Portfolios™ are not eligible to add limited margin or spread option trading to their IRA accounts.
- Account equity or cash balances that drop below the minimums require an immediate deposit, sale of sufficient securities, or transfer of sufficient assets to satisfy the minimum requirements.
- You may not use margin in your IRA to borrow funds or maintain a debit balance in your IRA.
- Margin activity, if any, will be reflected on your statements. Since the IRA-margin feature does not support margin borrowing, no margin interest will be charged.
- Schwab does not recommend any transaction or investment strategy in connection with establishing either limited margin or spread option trading in your IRA account.
- You may not open multiple Limited Margin IRAs of the same type (e.g., two Roth Limited Margin accounts).
- There may be tax implications for you resulting from IRS rules regarding limited margin or spread option trading in your IRA account. Schwab does not give tax advice. Please consult with your own tax advisor.
- Securities regulations require that spread option trading occur in a margin account. Your IRA will be subject to a combination of cash and margin account regulations, including Federal Reserve Board Regulation T and various Self-Regulatory Organization regulations applicable to margin.
- Limited margin and spread option trading is available on the following IRA account types: Traditional Contributory, Rollover, Roth Contributory, Roth Conversion, SEP, and SIMPLE.
- Your IRA must be approved for limited margin and spread option trading.
- You must maintain a cash balance equal to or greater than the requirement to exercise the options in the IRA on the last day prior to expiration. Schwab may close your position without notice if you fail to meet the requirements for options exercise or assignment.
- Schwab may close your position without notice if you fail to meet the requirements for a spread or any other position in your account.
- Spread option trading is subject to all other restrictions and conditions in this Supplemental Application and Agreement.
- Cash-Settled Indexes with American-style expiration are not eligible for spread option trading in your IRA account. Vertical spreads on Cash-Settled Indexes with European-style expiration may be permitted.
- Cash-Settled Indexes are not eligible for calendar spreads trading in an IRA (regardless of expiration style).
- You may not short stock or sell naked (uncovered) options.

*Special minimums, when applicable under select offers, supersede published retail minimums.

This Supplemental Application and Agreement does not purport to disclose all of the risks and other significant aspects of limited margin and spread option trading in your IRA account. You acknowledge that you will carefully consider whether limited margin or spread option trading is appropriate for you in light of your experience, knowledge, objectives, financial resources, retirement goals and resources, and other relevant circumstances.



2. Select Your Strategy

Limited Margin Only

Add only Limited Margin to my account.

Limited Margin with Spread Option Trading

Add Limited Margin with Spread Option Trading to my account.

3. Required Attestation for SEP-IRA and SIMPLE IRA

If you are not self-employed or if you have other employees in your plan, your account is not eligible for Limited Margin or Spread Option Trading.

A. Are you self-employed? Yes No

B. If you are self-employed, do you have any other employees in your SEP-IRA or SIMPLE IRA plan? Yes No

SIMPLE IRA Master Account					—				
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By selecting "Yes" in 3A and "No" in 3B, you hereby represent that there are no employees participating in the SEP-IRA or SIMPLE IRA and that you meet one of the following criteria: (1) You are a sole proprietor (who individually or with a spouse owns 100% of an unincorporated business); (2) You are a partner of a partnership; (3) You are a sole shareholder of the corporation (who individually or with a spouse owns 100% of the corporation); or (4) You are a spouse of an individual described in (1), (2), or (3).

If at any time in the future, the SEP-IRA or SIMPLE IRA plan and/or you no longer meet the above criteria, you understand that your account will no longer be eligible for limited margin or spread option trading, and you agree to immediately notify Schwab regarding this change in status.

4. Authorization and Acceptance of Risks

By applying to add limited margin and spread option trading to your IRA account, you represent that you:

- Understand the risks and potential tax consequences inherent in using margin and spread option trading in your IRA account;
- Are financially able to withstand trading losses, including the loss of your entire investment, and the potential tax consequences associated with using margin and/or spread option trading in your IRA account;
- Understand that limited margin trades are cash up front and if you pledge any part of your IRA as security for a loan, the part you pledge may be treated as a "deemed" distribution to you;
- Hereby confirm that you have determined either on your own or with the help of a professional tax advisor that engaging in limited margin and spread option trading in your IRA account will not result in a prohibited pledge of the assets of your IRA and therefore will not result in a deemed distribution from your IRA;
- Understand that if a short position or debit balance in the margin portion of your IRA cannot be covered with assets in your IRA, adverse tax consequences may occur, including, but not limited to, the possible imposition of excise taxes on deemed excess contributions and being treated as receiving a distribution even though you may not have received a cash or in-kind distribution from your IRA. You understand that such a distribution could be subject to federal and state income tax and, depending on your age, may be subject to a premature distribution penalty;
- Have determined that limited margin and/or spread option trading is suitable for you, considering your financial situation, investment objectives, retirement goals and resources, and other relevant circumstances; and
- Agree that Schwab has not solicited or recommended that you engage in limited margin and/or spread option trading in your IRA account.

5. Acceptance of Supplemental Terms and Tax Withholding Election

By signing this Supplemental Application and Agreement, you acknowledge that you have received and read a copy of the attached (1) Supplemental Terms for Using Margin in Your IRA to Execute Options Spreads ("Supplemental Terms"), (2) Margin Risk Disclosure Statement, and (3) Day Trading Risk Disclosure Statement. You acknowledge that your signature signifies and constitutes your agreement that the margin portion in your IRA and any transactions involving spread option trading will be governed by the Supplemental Terms. For purposes of this Supplemental Application and Agreement and the attached Supplemental Terms, the terms "you," "your," and "Account Holder" refer to each person who signs this Account Application. The terms "we," "us," "our," and "Schwab" refer to Charles Schwab & Co., Inc.

You agree that no provision of this Supplemental Application and Agreement can be amended or waived except in writing signed by an authorized representative of Schwab. You agree that Schwab may at any time, and in its sole discretion, cease to permit limited margin and/or spread option trading in your IRA account without providing advance notice to you. You further agree that Schwab may amend the terms of this Supplemental Application and Agreement at its discretion.

Deemed distributions from your IRA will generally be subject to federal (and possible state) income tax. By signing this form, you elect to not have federal or state income tax withheld. You understand that you will be liable for payment of federal and state income taxes on the taxable portion of any deemed distribution. You may also be subject to tax penalties under the estimated tax payment rules if your withholding and payment of estimated tax, if any, are not adequate.



Supplemental Terms for Using Margin in Your IRA to Execute Options Spreads

These terms, conditions and disclosures relate to your account and are part of the Account Agreement between each account holder and Charles Schwab & Co., Inc. ("Schwab"). Please read and retain for your files.

1. Acknowledgment of Risks of Options Spreads

You should be aware that while Options Spreads can sometimes be considered an approach to reduce trading risks, there are serious consequences that can result from executing Options Spreads in your IRA. Some, though not all, of the risks that you should consider before trading Options Spreads include:

• Early Exercise and Assignment Can Create Risk and Loss

Options Spreads are subject to early exercise or assignment. All American-style short option positions are liable for assignment at any time. We allocate exercise assignment notices among customer short positions according to an automated procedure. This procedure randomly selects from among all customer short option positions (including positions established on the date of assignment) those contracts that are subject to exercise. You acknowledge that the assignment process may result in multiple partial assignments and/or multiple transactions to fulfill a single assignment, and a separate commission charge will apply to each partial assignment or transaction needed to complete an assignment.

These early assignments can not only remove the very protection that you may have been seeking, but can lead to money due and/or greater losses than anticipated when you entered the trade.

In cases where exercise or assignment results in money due or a disallowed short equity

position in your IRA, or has the potential to create such a condition in your IRA, by entering into this Agreement you authorize Schwab to take such actions as may be necessary with respect to your account to manage risk. These actions may include, without limitation, exercising or entering "Do Not Exercise" instructions for the long side of the spread, selling the long side of the spread, buying to close the short side of the spread, closing other option or equity positions in your account to generate sufficient cash to cover any potential deficit condition, including to generate sufficient cash to buy to close any short equity position, or taking other actions as may be necessary. For more information, see Section 3, "Margin Terms and Disclosure of Credit Policies for Margin Accounts Within IRAs."

• **Execution of Spread Orders Is Often "Not Held" and at the Discretion of the Marketplace**
Because Options Spreads are a combination of standardized put and call contracts, they have no benchmarks such as "time and sales" or "NBBO" (National Best Bid/Offer); therefore, the "market" cannot be "held" to a price.

• Spread Pairing

When you establish a spread position, the purchased option is required to expire on the same or later date than the option sold. When there is more than one possible way to pair available options in your IRA, Schwab's systems determine spread pairings and may not pair

options in a manner that produces the lowest possible margin or equity requirements (hereinafter referred to as either "margin requirements" for standard margin accounts or "equity requirements" for IRA-margin or cash accounts).

• Spreads Are Bona-Fide Trades and Not "Legged" or "Paired" Individual Separate Trades

Consolidated quotes may be confusing when trading Options Spreads. An option may be offered on one exchange and bid on another exchange, which can lead the investor to believe that a spread order should be filled, when, in fact, the bids and offers must be on the **same** exchange. All bona-fide spreads are routed and executed on "one" exchange.

• Spreads Are Generally Entered on a Single Exchange and Are Acted Upon by a Market Maker or Floor Broker

Spreads are executed at the discretion of a market maker or floor broker and when cancelled or filled may require that the market maker take manual action and require manual reporting at times. Delays for reporting of fills and cancels may create additional risks in fast or changing markets.

• Closing Transactions May Not Be Possible

If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an option writer would remain obligated for indefinite periods or until expiration or assignment.

2. Acknowledgment of Tax Risks in Using Margin in Your IRA to Execute Options Spreads

• Pledging Account as Security

Under Section 408(e)(4) of the Internal Revenue Code, if an account holder uses his or her IRA or any portion thereof as security for a loan, the portion so used is treated as distributed to that individual. You should consult with a professional tax advisor to determine whether establishing the IRA-margin feature or trading Options Spreads will trigger a taxable distribution. In addition, if there is an actual extension of credit as a result of the margin account (e.g., failure to pay for trades by settlement, or failure to promptly close any short equity position resulting from options exercise or assignment), Schwab may be required to report the loan as a taxable distribution from your IRA.

• Deemed Distributions and Withholding

Deemed distributions from an IRA are subject to the same withholding requirements that

apply to regular distributions—10% withholding on the taxable portion. As provided in the Application and Authorization Agreement, in the event of a deemed distribution as a result of the margin account, the IRA owner elects out of income tax withholding. However, you remain liable for the tax to the IRS and any applicable state taxing authorities. Account holders under age 59½ may also be subject to a 10% early withdrawal penalty. Should there be a deemed distribution, Schwab will be required to report the deemed distribution to the IRS on Form 1099-R. You will also have an obligation to report any taxable distributions to the IRS.

• Deemed Contributions

Deemed contributions may arise where there are failed margin calls and loan write-offs. Schwab will be required to report on Form 5498 any deemed contributions to the IRA.

In addition, deemed contributions may also subject you to a 6% excise tax.

• Unrelated Business Income Tax (UBIT)

IRAs are subject to UBIT. Income attributable to debt actually incurred by your IRA is likely to be taxable to the IRA at your individual tax rate.

• Limits on Additional Contributions

Trades requiring margin, including American-style Options Spreads, may require a deposit of additional funds to your account to maintain sufficient margin. However, the Internal Revenue Code places restrictions and limits on the amount of funds that can be deposited to an IRA. Deposits to the account in excess of such limits may cause adverse tax consequences, including, but not limited to, forfeiture of tax advantages and/or the risk of penalties imposed by the IRS.

3. Margin Terms and Disclosure of Credit Policies for Margin Accounts Within IRAs

• Payment for Transactions

When you execute Options Spreads in the margin portion of your IRA, you agree to deposit the required initial equity by the settlement date and to maintain your equity at the required levels. However, by entering into this Agreement, you authorize Schwab to liquidate at any time (including on or before the settlement date) depending on market conditions in order to maintain required equity levels or mitigate risk. In addition, you agree to contribute to your IRA as necessary to pay any debit remaining. You

understand that such a contribution could have adverse tax consequences for you.

Option transactions are settled on the first business day after the day your order is executed. We may decline to accept your order to purchase option contracts if there are not sufficient cleared funds (that is, funds on which no holds or other restrictions are imposed) available in your IRA to pay the purchase price, if you do not have sufficient equity in your IRA to meet applicable equity requirements or for

other reasons subject to our discretion. In all cases, Options Spreads must be settled on the first business day after the day your order is executed, and it is your responsibility to deposit necessary funds and maintain sufficient equity in your IRA.

• Maintenance of Collateral

You represent that Options Spreads in your IRA will not require collateral or result in liabilities or obligations in excess of the value of the assets in your IRA. You agree that a sufficient cash

3. Margin Terms and Disclosure of Credit Policies for Margin Accounts Within IRAs (Continued)

balance will be available in your IRA to cover any potential exercise or assignment arising from any Options Spreads; and if an exercise or assignment creates a short position or debit balance in the margin portion of your IRA, the deficit condition will be covered immediately with assets in your IRA. You understand that amounts available for purchases within your IRA may be limited due to amounts needed to satisfy minimum equity requirements.

• Liquidation

If you do not maintain enough equity in your IRA to secure your option obligations adequately, or if you do not satisfy, in a timely manner, any money or collateral call (relating to settlement of a trade or otherwise), we may (but are not required to), without prior notice, take any action with respect to and for your IRA that we, in the reasonable exercise of our business judgment, consider necessary for our protection. **Holders of long options in an IRA must have a cash balance equal to or greater than the requirement to exercise the options in the account on the last trading day prior to expiration or we may close out the position in the open market on a "best-effort" basis prior to the market close.**

Whenever it is necessary for our protection or to satisfy a deficiency, debit or other obligation owed us, we may (but are not required to) sell, assign and deliver all or any part of the securities and other property in your IRA securing your obligations, or close any or all

transactions in your IRA. With respect to your Options Spreads transactions associated with your IRA-margin account, Schwab will not seek collateral from any of your other accounts as security for your obligations in your IRA.

It is our policy to attempt to contact you, when practicable, before taking any action described in this section by sending you a margin call or money due notice (hereinafter referred to as either a "margin call" for standard margin accounts or a "money due notice" for IRA-margin and cash accounts). However, we reserve the right to take any such action without prior notice or demand for additional collateral, and free of any right of redemption. Any prior demand, call or notice will not be considered a waiver of our right to sell or buy without demand, call or notice.

We may choose which securities or other property in your IRA to buy or sell, which transactions to close, and the sequence and timing of liquidation. We may take such actions on whatever exchange or market and in whatever manner (including public auction or private sale) that we choose in the exercise of our business judgment. You agree not to hold us liable for the choice of which securities or other property to buy or sell, or of which transactions to close, or for the timing or manner of the liquidation.

You agree to pay on demand any account deficiencies after liquidation, whether liquidation is complete or partial.

You are responsible for monitoring the status of your account, for ensuring that sufficient collateral is maintained in the account and for liquidating positions to minimize losses. Any action we take or do not take to issue a money due notice or liquidate collateral is undertaken solely to protect our interest as a creditor. You agree that we do not have any responsibility to issue a margin call, to liquidate positions in your account or to select the securities to be liquidated or the manner or timing of the liquidation in order to prevent or minimize losses to you.

• Short Sales and Other Borrowing

Schwab will not permit the borrowing of funds or the ability to have a debit balance in your IRA. You may not sell stock short or sell naked (uncovered) options.

• Interest on Debit Balances

Debit balances are not permitted in your IRA. No other interest will be charged.

• Account Agreement

All transactions in the margin portion of your IRA are subject to the Application and Authorization Agreement in its entirety and any other written agreements between you and Schwab, all as amended from time to time. In the event of a conflict between the terms of this Application and Authorization Agreement and any other agreement to which Schwab or any of its affiliates and you are parties, the terms of this Application and Authorization Agreement will control.

4. Release and Indemnification of Schwab

• You agree that neither Schwab nor any of its officers, directors, employees, agents or representatives will have any liability for any consequential, incidental, special, exemplary, punitive or any other damages with respect to your decision to engage in Options Spreads or in limited margin trading in your IRA.

• To the extent permitted by law, you agree to indemnify Schwab and each person named above from any and all liability or responsibility for any and all claims of whatever nature, losses, costs, charges, fees, expenses, penalties and damages in any way arising from or as a result of Schwab's effecting and/or

executing any Options Spreads or limited margin transactions in your IRA, or the failure or breach at any time of any representation, warranty, or covenant made by you in this Application and Authorization Agreement.

5. IRA-Margin Risk Disclosure

When considering the use of an IRA-margin account, you should determine how the use of margin fits your own investment philosophy. Because of the risks involved, it is important that you fully understand the rules and requirements involved in trading Options Spreads and/or limited margin using IRA-margin. The following paragraphs highlight some of these critical aspects of IRA-margin trading:

IRA-margin trading increases your level of market risk. Since options are a derivative instrument, IRA-margin trading of Options Spreads increases your potential market exposure by allowing you to purchase or write options contracts on a greater amount of securities with your investing dollar. Therefore, your exposure to market volatility increases—a volatile market could result in even greater losses. **A decline in the value of positions that you open using IRA-margin may require you to provide additional funds to Schwab in order to avoid the forced sale or buyback of those positions or other positions in your account.**

Your downside is not limited to the current equity value in your IRA-margin account. If the positions in your account decline in value, so does the value of your account equity. When the value of your account equity falls below the maintenance equity requirements, or Schwab's higher "house" requirements, Schwab can move to protect its position. In order to cover maintenance equity deficiencies, Schwab may issue you a money due

notice—a request for additional cash—or sell or buy back positions in your account. If a sale or buyback does not cover the deficiency, you will be responsible for any shortfall.

Schwab may initiate the sale or buyback of any positions in your account, without contacting you, to meet a money due notice. Schwab will attempt to involve you in the case of maintenance equity deficiency; however, market conditions may require the firm to quickly sell or buy back any of your positions without your consent. Because the positions are equity to meet the maintenance equity requirements, Schwab has the right to decide which positions to sell or buy back in order to protect its interests. Even if Schwab has contacted you and provided a specific date by which you can meet a money due notice, the firm can still take necessary steps to protect its financial interests, including immediately selling or buying back the positions without prior notice to you. Schwab's "house" initial and maintenance equity requirements may exceed those established by the Federal Reserve Board and/or the Financial Industry Regulatory Authority (FINRA). Please call Schwab for current initial and maintenance equity requirements. Schwab may change its initial equity requirements at any time and without prior notice. We may also impose at any time and without prior notice more stringent requirements on positions that in our sole discretion involve higher levels of risk; for

example, higher limits may apply for thinly traded, speculative, or volatile securities, or concentrated positions of securities.

Schwab may increase its "house" maintenance margin requirements at any time and is not required to provide you with advance written notice. Changes in Schwab's policy regarding "house" maintenance equity requirements often take effect immediately and may result in the issuance of a maintenance money due notice. Your failure to satisfy the money due notice may cause Schwab to liquidate, buy back or sell positions in your account. Schwab retains absolute discretion to determine whether, when, and in what amounts we will require additional equity. For example, we may require additional equity if an account contains only one position or a large concentration of one or more positions; if an account contains low-priced, thinly traded, or volatile securities or derivatives; or if some of your equity is or becomes restricted, non-negotiable or non-IRA-margin-eligible. We may also consider market conditions, your financial resources, or other factors deemed by us to be relevant given the circumstances at the time.

You are not entitled to an extension of time on a money due notice. While an extension of time to meet equity requirements may be available to customers under certain conditions, a customer does not have a right to the extension.