

2008 Tax Information Guide

Dear Customer:

This tax guide is designed to assist you in preparing your federal income tax return. The guide contains an explanation of the statements that we may send to you depending upon the type of reportable income you have received on your account(s) held at Penson Financial Services, Inc. For your convenience, other general information is provided regarding year-end reporting on your investments. If you have questions about the forms or information we have provided, or believe there is an error on your 1099, please contact your broker. If you have specific questions about preparing your tax return, we recommend that you consult your accountant, attorney or other tax professional. Penson Financial Services, Inc. provides neither tax nor legal advice.

IMPORTANT TAX MESSAGE
Regarding Income Reclassification and
Delayed Forms

For tax year 2008, if you traded in any mutual funds, please be prepared to receive a corrected 1099 form. Although we provide our most current information on your Form 1099s, an issuer may reclassify distributions after the 1099 has been mailed to you resulting in a corrected Form 1099. For example, a payment originally reported as a dividend may reclassify to a qualified dividend or capital gain by the issuer. Mutual funds, real estate investment trusts (REITs), and Utilities are among the issuers that sometimes change the nature of their distributions. If the tax status has not been determined, we must report the distribution as a dividend.

IRS regulations require us to provide additional information to holders of securities classified as Collateralized Debt Obligations. Income derived from REMICs (a special class of CDOs) must be reported using the accrual method of

accounting, and the interest shown on your form 1099-OID is reported on an accrual basis rather than a cash basis. If you own any of these securities, a separate information reporting statement will be mailed to you by March 16, 2009.

If you owned units in a Limited Partnership anytime during the tax year, you should receive a Schedule K-1 directly from the partnership. Generally partners have until April 15th to issue the K-1s, although they normally issue them in March. If you do not receive your K-1 you should contact the partnership or your broker.

Some regulated investment companies (RICs) and Real Estate Investment Trusts (REITs), will sometimes elect to retain and pay taxes on undistributed capital gain income they received during the tax year. We must report your share of this gain and related taxes paid. If that is the case, they will send you a Form 2439, Notice to Shareholder of Undistributed Long-term Capital Gains on or before the sixtieth (60th) day following the close of the company's taxable year.

If any of the above situations apply to you, it may be prudent to file your return on or after April 15, 2009.

**INFORMATION ABOUT YOUR PENSON
FINANCIAL SERVICES COMBINED 1**

ALL THE 1099 INFORMATION FOR THE DIFFERENT FORMS WILL APPEAR ON A SINGLE PAGE. YOU WILL STILL HAVE TO GO THROUGH THE YEAR END DETAIL SECTION THAT ACCOMPANIES THE 1099 BECAUSE THERE MAY BE INFORMATION THAT MAY EFFECT CAPITAL GAIN CALCULATIONS THERE.

The combined form 1099 contains tax information that we are required to report to the IRS about your account and is divided into the following sections:

- 1099-DIV, Dividends & Distributions
- 1099-INT, Interest Income
- 1099-OID, Original Issue Discount
- 1099-B, Proceeds from Broker and Barter Exchange Transactions
- 1099-MISC, Royalty, Miscellaneous Income, and In Lieu Dividend Distributions

NOTE: If you received dividends from your investment in any money market funds, these are shown summed with the ordinary dividends on the 1099-DIV section of the substitute 1099 form.

ANY REPORTABLE DISTRIBUTIONS OR SALES THAT OCCURRED IN A FOREIGN CURRENCY WILL BE SHOWN ON THE APPROPRIATE 1099 FORM CONVERTED TO US DOLLARS.

NOTE: SPECIFIC INSTRUCTIONS FOR THE RECIPIENT FOR EACH BOX OF THE DIFFERENT 1099 FORMS ARE ON THE BACK OF THE COVER SHEET. THE INSTRUCTIONS BELOW ARE FOR ADDITIONAL CLARIFICATION

**Dividends and Distributions (1099-DIV) -
Instructions to Recipient**

The IRS is requiring federally tax-exempt dividends to be reported on a 1099 tax form for tax year 2006 going forward. They will be reported with tax-exempt interest in box 8 of the 1099-INT

Nominees: If this form includes amounts belonging to another person(s), you are considered a nominee recipient. You must file Form 1099-DIV with the IRS for each of the other owners to show their share of the income, and you must furnish a Form 1099-DIV to each. A husband or wife is not required to file a nominee return to show amounts owned by the other. See the 2008 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Interest Income (1099-INT) - Instructions to Recipient

The IRS is requiring federally tax-exempt interest to be reported on a 1099 tax form for tax year 2006 going forward. They will be reported in Box 8 of the 1099-INT.

Nominees: If this form includes amounts belonging to another person(s), you are considered a nominee recipient. Complete a Form 1099-INT for each of the other owners showing the income allocable to each. File Copy A of the form with the IRS. Furnish Copy B to each owner. List yourself as the "payer" and the other owner(s) as the "recipient." File Form(s) 1099-INT with Form 1096, Annual Summary and Transmittal of U.S. Information Returns, with the Internal Revenue Service Center for your area. On Form 1096 list yourself as the "filer." A husband or wife is not required to file a nominee return to show amounts owned by the other.

Original Issue Discount (1099-OID) - Instructions to Recipient

Original issue discount (OID) is the excess of an obligation's stated redemption price at maturity over its issue price (acquisition price for a stripped bond or coupon). OID is taxable as interest over the life of the obligation. If you are the holder of an OID obligation, generally you must include an amount of OID in your gross income each year you hold the obligation. Obligations that may have OID include a bond, debenture, note, certificate, or other evidence of indebtedness having a term of more than 1 year. For example, the OID rules may apply to certificates of deposit (CDs), time deposits, bonus savings plans, and other deposit arrangements, especially if the payment of interest is deferred until maturity. In addition, the OID rules apply to Treasury inflation-indexed securities.

Per IRS regulations, income generated by REMICs and CDOs is reported on a separate Form 1099-OID. A separate information statement will be furnished to all REMIC or FASIT regular interest holder or CDO holder by March 16, 2009.

Proceeds from Broker & Barter Exchange Transactions (1099-B) - Instructions to Recipient

Sales Proceeds reported on the 1099 are shown net of the commission and fees. The details of the net figure are shown on the Year-End Tax Statement.

Accrued Interest on Bonds: Accrued interest or Purchase Interest will be shown separately in the year end statement for personal capital gain calculations. It will be summed and in the same section as the other interest detail.

Sale of Foreign Currency: This will show up in the year end detail, but will not be included with the total on the 1099-B. These transactions are not required to be reported on the 1099-B.

Short Sales: We are required to report short sales on a trade-date basis in the year the short sale is executed, although the short sale may remain open at year-end. If the position is still open, you should report the transaction on Schedule D and attach a statement explaining that the short position has not yet been covered.

Miscellaneous Income (1099-MISC) - Instructions to Recipient

Substitute dividends (Box 8) are required to be reported in lieu of dividends as a result of a loan of customer's securities. Penson will also be reporting Miscellaneous income in Box 3.

Information About Your Year-End Tax Statement

THIS FORM IS NOT REPORTED TO THE IRS. DO NOT USE THESE FIGURES WHEN FILING YOUR TAXES. USE THE FIGURES ON YOUR COMBINED 1099 WHEN FILING YOUR RETURN.

The Year-End Tax Statement provides additional information you may find helpful when preparing your tax return. The Statement details all dividends and interest payments and charges. In addition, the statement details securities purchased and sold, options purchased and sold, and original issue discount activity.

Important Note Regarding Tax File Adjustments

Certain distributions of income may be reclassified after they are posted to your account. For example, a payment reported as an ordinary dividend may later be reclassified by an issuer as a capital gain or a qualified dividend. Reclassifications are shown on the Year-End Tax Statement and not on the Penson Financial Services, Inc. monthly statement as these entries affect the reporting on the 1099, but no money entries are actually made in your account.