SPECIAL STATEMENT FOR UNCOVERED OPTION WRITERS

There are special risks associated with uncovered option writing, which exposes the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions.

1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.

2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

3. Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker my liquidate stock of options positions in the investor's account with little or no prior notice in accordance with the investor's margin agreement.

4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.

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

6. The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period.

7. Because stock options are not generally adjusted for ordinary cash dividends and distributions, covered writers of calls are entitled to retain dividends and distributions earned on the underlying securities during the time prior to exercise. However, a call holder becomes entitled to the dividend if he exercises the option prior to the ex-dividend date even though the assigned writer may not be notified that he was assigned an exercise until after the ex-date. The assigned writer of an uncovered call option will then become liable for the dividend, for which cash will be taken out of your account on the dividend payment date. Because call holders may seek to "capture" an impending dividend by exercising, a call writer's chances of being assigned an exercise may increase as the ex-date for a dividend on the underlying security approaches.

As a general rule, stock dividends, stock distributions and stock splits can result in an adjustment in the number of underlying shares or the exercise price, or both. It is possible that an option writer will not receive notification from their brokerage firm that an exercise has been assigned to them until one or more days following the date of the initial assignment to the Clearing Member by OCC. This creates a special risk for uncovered writers of physical delivery call stock options. This is discussed below and under "Settlement" in Chapter VIII, and in paragraph 8 under "Risks of Options Writers" in Chapter X of the Characteristics and Risks of Standardized Options booklet of the Options Clearing Corporation, attached to this email.

The fact that an option writer may not receive immediate notification of an assignment creates a special risk for uncovered writers of physical delivery call stock options that are exercisable when the underlying security is the subject of a tender offer, exchange offer, or similar event. A writer who fails to purchase the underlying security on or before the expiration date for the offer may learn after the expiration date that he has been assigned an exercise filed with OCC on or before that date. At that point, neither the purchase of the underlying security for regular settlement nor the exercise of another option (e.g., the long leg of a spread) will enable the assigned writer to deliver the security on the settlement date for the option exercise. If the assigned writer fails to make timely settlement, he may be liable for, among other things, the value of the offer (because his non-delivery may have prevented the exercising holder from making timely delivery of the security to the offeror). This risk can be avoided only by purchasing the underlying security on or before the expiration date for the offer. Occasionally, an offer will require that tendered securities be delivered in less than the normal settlement time for exchange transactions after the offer's expiration date. In those cases, call writers will need to purchase the underlying equity security at an earlier point -- i.e., at least the number of days equal to the normal settlement time before the offeror's delivery deadline -- in order to protect themselves.

8. You should not assume that the deliverable is 100 shares for each option contract. Sometimes the deliverable is different. It could involve a cash component or shares of another company. Covered call writers should be especially vigilant because a deliverable different than 100 shares will cause them to be partially naked, even in a cash account. For more information on deliverables, please visit the web site of the Options Clearing Corporation, www.optionsclearing.com.

NOTE: It is expected that you will read CHARACTERISTICS AND RISKS OF STANDARDIZED OPTIONS available from ChoiceTrade. In particular, your attention should be directed to the chapter entitled Risks of Buying and Writing Options. This Special Statement is not intended to enumerate all of the risks entailed in writing uncovered options.