OPTION EXPIRATION, ASSIGNMENT AND ASSOCIATED RISKS

Expiration day for most listed options typically occurs on Friday, or Thursday when Friday is not a trading day. Certain contracts may also expire on Mondays, Wednesdays, or quarterly cycles, depending on the specific product specifications published by the Options Clearing Corporation ("OCC").

1. **Exercise Policy: Light Horse Does Not Allow Option Exercising**

Light Horse Securities Inc does not permit customers to exercise options, neither early nor at expiration.

2. **Automatic OCC Exercise Rules**

Even though Light Horse does not allow option exercise, customers should be aware of how the OCC processes expiring contracts:

a. Long options automatically exercise if they are at least $0.01 in the money, based on the OCC's official closing price.
b. OCC may adjust or modify deliverables in corporate action situations; deliverables are always subject to change.
c. If an option is out-of-the-money or at the money, OCC typically will not automatically exercise it, but exceptions may occur depending on market conditions or OCC policy.

Light Horse cannot prevent or modify an automatic OCC exercise that occurs due to OCC processing.

3. **Mandatory Pre-Expiration Liquidation by Light Horse**

Because clients cannot exercise options and because OCC can automatically exercise qualifying options, Light Horse enforces strict expiration day risk controls. Light Horse will attempt to sell/liquidate any remaining long or short expiring option positions around 15 minutes before market close on the option's expiration day. This process is performed on a best efforts basis. Light Horse makes no guarantee that liquidation will be successful or that it will fully close out the position.

4. **Opening and Holding Same Day Expiring Options**

a. Light Horse does not permit opening trades in same day expiring options within 3 hours of market close.
b. Light Horse may cancel any opening orders in same day expiring options.
c. Customers are expected to close any expiring option at least 15 minutes before market close to avoid Light Horse selling out the option.

Failure to close positions may result in:

a. Auto liquidation attempts,
b. Uncontrolled OCC automatic exercise,
c. Unexpected assignment,
d. Margin deficits,
e. Forced liquidation of securities, or
f. Restrictions placed on the account.

Light Horse may take action but is not obligated to do so; customers remain fully responsible for managing their risk.

5. Short Options, Assignment, and Delivery

Assignment Risk. A short option may be assigned at any time, including when the option is Out-of-the-money, At-the-money or In-the-money. Assignment is determined randomly by the OCC, not by Light Horse. Even if a short option is significantly out of the money, assignment may still occur (ex-dividend related exercise, extended hours price movement, or other economic incentives).

Delivery Obligations. If assigned:

a. A short call requires delivery of the underlying shares in exchange for cash.
b. A short put requires purchasing the underlying shares. Deliverables may vary depending on OCC rules.

6. Expiration & Account Equity Requirements

Clients are solely responsible for ensuring they have adequate equity to support: any resulting stock position created by OCC automatic exercise, any assignment on short options, any margin requirement arising from these events.

Expiration related positions can trigger: margin calls, hard to borrow stock charges, forced liquidation, material losses in excess of premiums collected.

7. Spread & Multi Leg Strategy Expiration Risk (“Pin Risk”)

Spreads are often called “defined risk”, but that definition applies only at entry, not necessarily at expiration. When underlying prices “pin” between strikes at expiration, spreads may:

a. Convert into unhedged stock positions,
b. Create significantly larger exposure than the theoretical max loss,
c. Trigger unexpected assignments or partial assignments,
d. Create margin calls or forced liquidation.

Example scenarios such as a short call spread being partially assigned while the long leg expires worthless can materially increase losses beyond the initial maximum theoretical risk. Customers must monitor all spread positions carefully as expiration approaches.

8. **After Expiration**

If expiration results in a margin call (Reg T or Money Due), customers may avoid penalties or further restrictions by satisfying the call no later than T+1 after expiration.

9. **No Early Exercise Allowed**

Light Horse does not allow customers to exercise options at all. Customers must proactively close option positions if they do not wish to be subject to OCC automatic exercise rules.

10. **Important Risk Disclosure**

Options involve substantial risk and are not suitable for all investors. Customers may lose:

a. The entire premium,
b. The entire value of the investment in a very short period, and
c. In certain strategies, losses may exceed the initial deposit.

Please review Characteristics and Risks of Standardized Options, and Option Trading Disclosure before trading options.