

PHYSICIANS FINANCIAL SERVICES, INC.

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3/31/2011

This Brochure provides information about the qualifications and business practices of PHYSICIANS FINANCIAL SERVICES, INC. If you have any questions about the contents of this Brochure, please contact us at 919.863.2355. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. PHYSICIANS FINANCIAL SERVICES, INC. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about PHYSICIANS FINANCIAL SERVICES, INC. is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules.

Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. This Brochure, dated 3/31/11 is a new document prepared according to the SEC’s new requirements and rules.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes as necessary. We will also reference the date of our last annual update of our brochure.

Currently, this Brochure may be requested by contacting Stephanie Yamashita at 919.863.2356 or Stephanie@physiciansfs.com.

Additional information about PHYSICIANS FINANCIAL SERVICES, INC., is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with PHYSICIANS FINANCIAL SERVICES, INC., who are registered, or are required to be registered, as investment adviser representatives of PHYSICIANS FINANCIAL SERVICES, INC.

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Item 4 – Advisory Business

Advisory Services

4. A. Advisory Firm Description

Physicians Financial Services, Inc. was formed in February 1987 by Con T. McDonald. Under McDonald's leadership, Physicians Financial Services, Inc.'s focus will be on Individualized Money Management Services for individuals, retirement plans, endowments and foundations.

Principal Owner: Con T. McDonald

4.B Types of Advisory Services

Wealth Analysis and Management Services:

Wealth Management Services are based on: financial goals and objectives, cash flow, income tax liability, retirement, educational needs, estate tax and insurance requirements (excluding property and casualty insurance and medical insurance – Physicians Financial Services, Inc. strongly recommends utilizing a specialist for these services). After careful review, compilation and analysis of the data supplied by the client, the applicant prepares a plan in written form which includes alternative recommendations for future investment by which the goals and objectives of the plan can be addressed through our financial services. Actual implementation is entirely at the discretion of the client which may require professional assistance (i.e. an accountant, attorney, etc.). Recommendations may be in both generic and specific form. The specific recommendations may include products offered by an associated brokerage firm and/or investment advisory firm depending on the particular goals and objectives of the client.

Money Management Services:

The Money Management Services are designed to meet the desires, objectives and needs of a particular client or entity. This process includes determining risk tolerance and an in-depth understanding of the client's investment objectives. An investment objectives and suitability questionnaire may be used in determining the investment parameters. From the investment questionnaire an Investment Policy Statement may be compiled based on the questionnaire and discussion results.

From this process an appropriate money management strategy will be determined. Depending on the amount of money, we will also determine which manager(s) or combination of manager(s) and funds to be utilized. The client may choose to utilize our

services (referred to as “internal”) and/or select from a list of pre-approved “external” independent sub-managers or funds.

Internal Money Management (Stocks, Mutual Funds, Bonds, and Cash):

Physicians Financial Services, Inc. classifies its internal money management services as a "contrarian/ value" manager, which is an investment philosophy and investment program of purchasing stocks and bonds of financially strong "value" companies, currently considered out-of-favor in the financial markets. We further utilize mutual funds for other asset sector exposure – small-cap, mid-cap, large-cap growth and foreign exposure. This is done to provide more of a “balanced” approach if a client desires.

The program is based on investing, compounding of interest, dividend reinvestment and multiplication of stocks. If the client decides to deposit additional capital, Physicians Financial Services, Inc. will invest the funds when deemed appropriate by market conditions. In addition to a client’s determined investment objectives and risk level, market conditions will dictate the allocation between stocks, mutual funds, bonds and cash.

We only give investment advice in the stock, mutual fund and bond markets after we have determined that the client has sufficient capital and can assume the inherent risks involved with these markets in the manner in which we invest their dollars. We do not recommend Initial Public Offerings (IPOs) for clients due to the inherent risk associated with IPOs.

Unless a client directs us otherwise, our “internal” money management services are executed through Schwab Institutional serving as a third party custodian. Schwab, or other custodian(s), will provide the client with confirmations of all trades and at least quarterly account statements.

External Independent Outside Money Managers (Stocks, Mutual Funds, Bonds and Cash):

In addition to our internal management service we offer clients the ability to select from a list of external independent money managers (sub-manager(s)) as well. We select managers who are able to offer a different approach of money management than Physicians Financial Services, Inc. to help clients achieve their investment objectives and goals through more of an overall “balanced approach” to their total investment portfolio.

Physicians Financial Services, Inc. helps clients with their money manager selection process through providing a limited amount of due diligence on the various managers and oversight of the selected managers. We review and monitor the selected money manager as well as verify client’s asset allocation, investment objectives, risk tolerance and time horizon. Physicians Financial Services, Inc. clients ultimately make the decision on the suitability of the money manager for their investment portfolio.

Physicians Financial Services, Inc. relies on good faith representations and full disclosure from each money manager and various monitoring services to report accurate, timely and factual materials, performance numbers and other information. Physicians Financial Services, Inc. believes all information received from money managers and monitoring services to be accurate and true but we have no way of verifying or guaranteeing the accuracy or completeness of the information received. Physicians Financial Services, Inc. does not warrant any representations made by any money manager or monitoring service. Each money manager is responsible for compliance with applicable laws, regulations and disclosure matters deemed to be in their control. Past performance information provided by money managers and various monitoring services is not reviewed, verified or audited; therefore, no assurance can be given that the performance information provided is calculated on a uniform and consistent basis. Past performance is not a guarantee of future results.

This level of money management may be executed through Schwab Institutional due to coordination needed between the money manager, the clearing operation and Physicians Financial Services, Inc. In addition to external money management through Schwab Institutional services, we also utilize other various external money management firms that do not use the services of Schwab Institutional. These various money management firms may be their own custodian as well. All of these manager services and structure are explained in their ADV/prospectus, which they provide to us and the client prior to engaging their services.

Schwab Institutional, or other custodian(s), will provide the client with confirmations of all trades and at least quarterly account statements.

For each money manager being considered, we will provide a copy of their current ADV Part II to each client, which will provide a description of services, fees, conflicts of interest and risk. In addition, we will provide a copy of Part 2A, Appendix 1, when necessary.

The client may terminate the relationship with the sub-manager(s) by giving written notice without penalty, subject to the payment of any fees incurred and allowing adequate time to process the termination notice. Once the account is formally terminated, the account will be charged all then-current fees and other applicable charges and released to client and Physicians Financial Services, Inc. for further management.

4.C. Client Investment Objectives/Restrictions

Based on client interaction (personal discussions, questionnaires, etc.) advisor will make every effort to tailor investment services within mutually agreed parameters. Depending on each client's situation and each manager's internal policy, it is possible for a client to impose reasonable restrictions on the account if desired.

4.D. Wrap-Fee Programs

Advisor does not participate in, nor is it a sponsor of, any wrap fee programs.

4.E Assets Under Management as of 12/31/2010

Discretionary basis: \$81,689,936.00

Non-Discretionary basis: \$0.00

4.F Assets Under Management Calculation Method

Our method of counting assets includes all accounts under supervision and not exclude assets actually managed by other managers.

Item 5 – Fees and Compensation

Advisory Contracts and Fees

5.A. Adviser Compensation

Wealth Analysis and Management Services Fee Schedule:

A client is charged a fee for services by one of two methods: a fixed fee or an hourly rate. Fixed fees range from \$800 to \$5,000 based on the complexity of a client's personal and business financial situation and level of service. If a client's situation dictates an hourly fee arrangement, then the client is charged at the rate of \$150 per hour. The total fee for an hourly case is \$150 times the number of hours Physician Financial Services, Inc. spends on the case, with a minimum fee of \$800.

Fee payment is required when an agreement is signed and work is completed, which is normally within 90 days. A client may terminate an agreement within five (5) business days after signing, without penalty. After the five (5) day period expires, a client may terminate a contract by written notice to advisor.

If an outside consultant (attorney, accountant, etc.) is required for additional analysis and advice, the outside consultant's fee will be in addition to the amounts disclosed in the above fee schedule.

Money Management Services Fee Schedules:

Internal Money Management:

Our Money Management Fee Schedule (including a combination of stocks, mutual funds, bonds, and cash) for “internal” money management is based upon a percentage of assets under management. All clients are billed quarterly in arrears and are subject to a minimum annual account fee of \$1,000. Fees shall be calculated quarterly based upon fair market value of the portfolio (priced as of the trade date, not settlement date) of the client assets under management by Physicians Financial Services, Inc. as of the last business day of the month of the quarter ended to be billed, applying the appropriate percentage and dividing the resulting amount by four. The basic fee structure is as follows:

Up to \$500,000	1.75%
\$500,001 to \$1,500,000	1.50%
\$1,500,001 to \$3,000,000	1.25%
\$3,000,001 to \$5,000,000	.90%
\$ 5,000,001 and above	negotiated

All fees may be negotiable depending on account variables and extenuating circumstances. A client may terminate an agreement within five business days after signing, without penalty.

The broker-dealer/custodian generally does not charge separately for custody of client’s assets but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed. Neither Physicians Financial Services, Inc. nor its related parties receive any direct compensation from the broker-dealer/custodian.

Transaction Fees/Cost (the trading cost), charged by the clearing Broker Dealer or custodian and internal cost of mutual funds (12b-1 costs, administrative costs, cost of operation and expense ratio, etc.) are not included in the above fee schedule.

External Independent Outside Money Managers :

For clients utilizing outside money managers, their fee(s) are based on full transparency and are broken out into three separate charges based on Physicians Financial Services, Inc.’s fee(s), the actual manager(s) fee(s) and the asset custodian fee(s).

Physicians Financial Services, Inc.'s fees range up to three quarters of one percent (0.75%) depending on size of account and additional money under management. The second component will be the fee each individual sub-manager's charges based on its own fee schedule. Then the third fee will be for the third party custodian for their brokerage and/or custody services. These brokerage and custody services are at their published institutional rate. Neither Physicians Financial Services, Inc. nor its related parties receive any direct compensation from outside money managers or any broker-dealers/custodians for directing transactions through them.

Market forces and market rates are the major factors in determining pricing for a client. All fees may be negotiable depending on account variables and individual circumstances.

Physicians Financial Services, Inc. reserves the right to impose a minimum annual fee of \$1,000 for Internal Money Management and /or External Money Management depending on individual circumstances and other accounts client has managed.

Other Advisory Fee Arrangements

5.B. Direct Billing of Advisory Fees

Each client may have their account debited for our Internal Money Management services by signing a Letter of Authorization. Clients have the option of being billed directly by Physicians Financial Services, Inc. Fees shall be calculated quarterly based upon fair market value of the portfolio (priced as of trade date, not settlement date) of the client assets under management by the Adviser as of the last business day of the month of the quarter ended to be billed, applying the appropriate percentage and dividing the resulting amount by four.

Client will also receive a billing statement directly from Physicians Financial Services, Inc. showing the amount of the fee, market value of the assets on which the fee is based, and the manner in which it was calculated.

With respect to fees associated with external money managers, these 3rd party entities may bill the client in arrears or in advance and they may utilize automated debiting or direct billing depending on each individual external manager.

5.C. Other Fees and Expenses

In addition to Physicians Financial Services, Inc.'s investment advisory fee(s), the client may be assessed other fees by the broker-dealers and/or custodians of client's assets. The client may also incur, relative to certain investment products, charges imposed directly at the investment product level. These charges include but are not limited to: brokerage fees/commissions charged to the client for security trades and executions, custodial fees, wire transfer and electronic fund fees, etc. These additional fees may be billed to the client's account directly by the broker-dealer or custodian of record for the client assets. Any such fees are exclusive of, and, in addition to, Physicians Financial Services, Inc.'s compensation. Physicians Financial Services, Inc. does not receive any portion of these fees.

As part of entering a services agreement with Physicians Financial Services, Inc., client will also establish account(s) at the broker-dealer/custodian, and client acknowledges and accepts the commission schedule of the broker-dealer/custodian where he/she establishes those accounts.

See Item 12A for further discussion on selection of broker-dealer, custodian for client's assets.

5.D Advance Payment of Fees

Physicians Financial Services, Inc. bills all accounts in arrears and does not receive any advanced payments.

5.E Compensation for Sale of Securities or Other Investment Products

Mr. McDonald, as well as other Investment Advisor Representatives, is (are) a Registered Representative of Capital Investment Brokerage, Inc. and/or Capital Investment Group, Inc. These two entities are both Broker Dealers with the Financial Industry Regulatory Authority (FINRA), an independent security regulator. In addition he (they) holds a North Carolina Insurance License and are appointed with numerous insurance companies for various lines of insurance.

A client of Physicians Financial Services, Inc. may request that Mr. McDonald (an Investment Advisor Representative) or another Investment Advisor Representative effect a securities transaction for compensation, payment of which is based upon the published schedule of compensation for securities' sales made through Capital Investment Brokerage, Inc. and Capital Investment Group, Inc. Mr. McDonald owns a one percent interest in Capital Investment Brokerage, Inc. and Capital Investment Group, Inc.

The principal of Physicians Financial Services, Inc., when requested to do so, will assist clients with the implementation of securities products and will receive usual and customary commissions associated with the implementation of these financial products through the broker/dealer, whether investment securities or insurance products. However, clients are advised that they have the option to purchase the recommended investment product(s) through a broker or agent that is not affiliated with Physicians Financial Services, Inc.

Whenever possible, we recommend no-load mutual funds for our clients. If necessary, based on the selection of available mutual funds, we may occasionally recommend funds other than no-load funds.

Physicians Financial Services, Inc. does not reduce asset management fees to offset any of the commissions discussed above.

Item 6 – Performance-Based Fees and Side-By-Side Management

Physicians Financial Services, Inc. does not utilize Performance-Based Fees in its client relationships and does not receive performance-based fees.

Item 7 – Types of Clients

Physicians Financial Services, Inc. serves as an investment adviser specializing in money management for individuals, high net worth individuals, pension and profit-sharing plans, corporations, institutions, foundations, endowments, and trusts. Our focus is to attempt to tailor client's portfolios based on each client's situation, needs and objectives. The common denominator shared by all clients is a degree of financial success and recognition of the need to pull together different pieces of an investment portfolio into an overall well-coordinated investment structure and portfolio.

There is no minimum account size for being a client of Physicians Financial Services, Inc.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

8.A. Methods of Analysis and Investment Strategies

Our Methods of Analysis are based on accessing publicly available information and doing further research on chosen stocks, bonds, mutual funds and other outside money managers. Utilizing the publications ranging from Forbes, Morning Star, Value Line, Wall Street Transcript, Wall Street Journal, Barron's to numerous other publications are our

main research sources. Our research is designed to confirm the facts and provide additional insight into the operations of a company.

Our internal Investment Strategies is based on a philosophy that is contrarian by nature. We do not try to predict markets, we recommend taking what the market gives us. By looking for financially strong, undervalued securities and adding patience and discipline, we pinpoint those stocks and bonds which suit our investment criteria. We then position our portfolios for long-term holding periods, thus taking advantage of the volatile and cyclical nature of the markets. We place major emphasis on cash rich and debt free companies when selecting our positions. Our firm's investment equation consists of liquid assets, earning power, real estate holdings and the management of the company. By using our resources and research, our portfolio approach is designed to preserve capital and provide consistent, stable investment performance over the long run.

Our investment strategy is further based on a five point program:

POINT 1: BARGAIN PRICED STOCKS

We like to buy stock in good quality, financially strong companies selling at or near their historical lows. Stocks that are currently out-of-favor can protect the downside while increasing the upside potential of the investment.

POINT 2: REINVESTMENT OF DIVIDENDS

Consistent reinvestment of dividends to make additional purchases and dollar cost average into the market has provided maximum performance for our clients, although, this strategy can be altered to meet individual needs.

POINT 3: TAX CONSIDERATIONS

Generally, all taxes on market gains are paid separately by the client, not from the portfolio. We strive to create long-term capital gains and have the client pay the lower capital gains tax rate versus paying a higher ordinary income tax rate on the gains. We ultimately do not want the taxes to impede growth in the portfolio.

POINT 4: SAVINGS AND PREMIUMS

Flexibility is designed into the program permitting additional deposits on either a random or systematic basis allowing additional growth and utilizing dollar cost averaging.

POINT 5: MULTIPLICATION OF STOCKS

This is the most fascinating part of the program and is a result of following the first four program steps. Stocks bought at a low price are sold at a higher price; then we multiply that into two, three, or four stocks at lower prices.

With respect to the use of external money managers, other managers are chosen based on their ability to complement other manager's style in an effort to help a client "balance" their overall investment strategy. For specific strategies of the chosen outside managers clients are directed to read the information (prospectus, ADV's, Morningstar, Manager's Brochure, etc.) that has been provided to them. It is expected that each manager utilizes a different style and methods of managing money. It is recommended that clients become comfortable with the various managers chosen.

8.B. Material Risks of Investment Strategies

There can be no guarantee of success of the strategies offered by Physicians Financial Services, Inc. Investment portfolios may be adversely affected by general economic and market conditions such as interest rates, availability of credit, inflation rates, changes in laws, national and international political circumstances and numerous other issues that cannot be predicted. These factors may affect the level and volatility of security pricing and the liquidity of an investment.

Our strategies do not employ limitations in particular sectors, industries, countries, regions or securities. Trading in the portfolios may affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

8.C. Material Risks of Securities Used in Investment Strategies

As with any security, investment(s) and/or investment strategy, all investing carries a high degree of risk associated with it, including, but not limited to, a total loss of contributed capital and possible adverse income tax consequences.

Investing in securities involves risk of loss that clients should be prepared to bear.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of them or the integrity of their management. Physicians Financial Services, Inc. is not aware of any legal

or disciplinary action being taken against the company, its officers nor its Investment Advisor Representatives.

Item 10 – Other Financial Industry Activities and Affiliations

10.A. Registered Representatives

Mr. McDonald is a registered representative of Capital Investment Brokerage, Inc. and Capital Investment Group, Inc. A client of Physicians Financial Services, Inc. may request that Mr. McDonald effect a securities transaction for compensation, payment of which is based upon the published schedule of compensation for securities' sales made through Capital Investment Brokerage, Inc. and Capital Investment Group, Inc. The officer of Physicians Financial Services, Inc. owns a one percent interest in Capital Investment Brokerage, Inc. and Capital Investment Group, Inc.

Mr. McDonald utilizes Schwab Institutional clearing services for money management services and no-load (no commission) mutual funds, stocks, bonds and money market funds. Neither Physicians Financial Services, Inc. nor related party receives any direct compensation or commission from Schwab Institutional. See 12A for further explanation of services and benefits received from Schwab.

10.B. Other Registrations

Neither Physicians Financial Services, Inc. nor its management are registered with, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or as an associated person of the foregoing entities.

10.C. Material Relationships or Arrangements

See Item 12 A. Selection of Broker/Dealer in reference to utilizing Schwab Institutional as a clearing Broker/Dealer and Custodian of clients' assets.

10.D. Recommendation of Other Investment Advisers

As a general rule Registrant does not recommend or select other investment advisers for clients unless other investment adviser would offer a service to complement Physicians Financial Services, Inc.'s services; that is other money managers with a different investment style, as discussed earlier.

Mr. McDonald, President of Physicians Financial Services, Inc., has another Investment Advisory firm, The Wealth Group, Ltd., specializing in helping non-physicians with their financial concerns. In general, clients are not referred to The Wealth Group, Ltd. unless client is a not a physician and could receive additional services at Physicians Financial Services, Inc. that could not be rendered through The Wealth Group, Ltd.

Item 11 – Code of Ethics

We have a Code of Ethics, both written and implied, that is adhered to strictly, supervised and overseen by Mr. McDonald. A copy of the Code of Ethics is available upon request by a client or prospective client.

11.A. Recommendations of Securities and Material Financial Interests

A Code of Ethics directs and is used as the basis of all business offerings and transactions, Physicians Financial Services, Inc. and each of its Access Persons shall be governed by the following principles and guidelines in order to ensure its compliance of the fiduciary responsibilities to clients:

- (1) High standards of commercial honor shall be applied in all dealings with clients and the public by Physicians Financial Services, Inc. and Access Persons, including but not limited to: not buying or selling a security for their personal portfolios where the decision is substantially derived, in whole or in part, by reason of his/her employment unless information is also available to the investment public upon reasonable inquiry;
- (2) All conflicts of interests, including appearances of such, shall be avoided by Physicians Financial Services, Inc. and Access Persons.
- (3) Physicians Financial Services, Inc. and Access Persons must conduct themselves in a manner in which the client's interests are of paramount concern and client interests are placed ahead of those of the Advisor and Access Person, including the offering of investment opportunities to clients first prior to any Access Person acting on them for their pecuniary interest.
- (4) Physicians Financial Services, Inc. and Access Persons emphasizes the unrestricted right of the client to:
 - a) decline to implement any advice rendered and

- b) select and choose a broker/dealer, custodian or insurance company for implementation and execution.
- (5) Physicians Financial Services, Inc. and Access Persons must obtain all pertinent financial and investment objective information prior to executing a trade in a Client's account.
- (6) All activities of Physicians Financial Services, Inc. and Access Persons must be in accordance with and in compliance with Federal securities laws and state regulations governing in Registered Investment Advisory practices.
- (7) All activities of Physicians Financial Services, Inc. and Access Persons shall be consistent with these Code of Ethics and policies or procedures of the Adviser. Any individual not in observance of any of the above may be subject to immediate termination.

11.B. Personal Trading

Officers, Employees and Related parties of Physicians Financial Services, Inc. may have an interest or position in securities which may also be recommended to clients. These personal security transactions may be the same and may be opposite in nature from client transactions and may be effected at different times and/or prices.

A director, officer or employee of Physicians Financial Services, Inc. shall not buy or sell securities for their personal portfolios where their decision is substantially derived, in whole or in part, by reason of his/her employment unless the information is also available to the investment public upon reasonable inquiry. Physicians Financial Services, Inc. maintains a list of all securities holdings for anyone associated with the firm. These holdings and transactions are reviewed on a regular basis by the Chief Compliance Officer.

11.C & D. Timing of Recommendations to Clients and Personal Trading

Physicians Financial Services, Inc. has a "black-out" period on all client transactions for employees' transactions. The Physicians Financial Services, Inc. requires all employees to place trades either at the same time client trades are placed or the employee has to wait until all clients' trades have been consummated for the day before a personal trade can be placed.

Item 12 – Brokerage Practices

12.A. Selection of Broker/Dealers

Physicians Financial Services, Inc. prefers Schwab Institutional as custodian for its money management services program. The client may also elect to use another outside custodian or broker-dealer. All trading fees are based on the published rates, conditions and terms of the broker-dealer/custodian where the client's assets reside.

All money management services accounts are compiled individually; however, when a purchase or sale is made, all accounts that qualify may be bunched and sold together to obtain the same pricing. Not all clients receive the same research selections due to the following factors including timing, available cash, a particular position is being sold (multiplied into others), holding periods, personal preferences and the investment objectives of each individual. However, all things being equal the same research is available for all clients without any restriction or preference.

Physicians Financial Services, Inc./related party does not receive direct "material" benefit from outside parties often referred to as "soft dollars" within the industry. It is deemed that Physicians Financial Services, Inc. does receive "immaterial" direct benefits from related parties and Schwab Institutional. While there is no direct linkage between the investment advice given and participation in the Schwab Institutional program, economic benefits are derived which would not be received if Physicians Financial Services, Inc. did not give investment advice to clients. These benefits include: receipt of duplicate client confirms and bundled duplicate statements; access to a trading desk service Schwab Financial Advisor Service participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; access to research outside individual money managers; ability to have investment advisory fees deducted directly from client's accounts, access to an electronic communications network for client order entry and account information; receipt of compliance publications; and access to mutual funds not generally available to the public and available only to Schwab Institutional clients.

In addition, Schwab Institutional also makes available other services intended to help Physicians Financial Services, Inc., Inc. manage, administer and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. These benefits may be deemed to create, or be perceived as, a conflict of

interest for acting in a client's best interest. We feel the overall benefits available and delivered by Schwab Institutional greatly outweigh any perceived conflict and allows us to better act in our overall clients' best interest as well as each client's best interest. The benefits received by Physicians Financial Services, Inc. through participation in Schwab Institutional do not depend upon the amount of transactions directed through these entities.

It may be deemed that additional indirect benefits (copy, fax, telephone, internet, health insurance, and office space) are given to Mr. McDonald, by a related party of Physicians Financial Services, Inc. - Capital Investment Companies (Capital Investment Brokerage, Inc./Capital Investment Group, Inc. and Capital Investment Counsel, Inc.) for business directed their way. These additional indirect benefits are billed and repaid directly by Mr. McDonald to Capital Investment Companies.

12.B. Aggregation of Orders

Physicians Financial Services, Inc. may execute trades on an individual account basis depending on circumstances of the trade or execute its client's stock trades in a block transaction when possible, and the execution price will be based on an average execution price. See 12.A. above for further explanation and insight into this issue.

Accounts held outside of Schwab may be executed after orders for discretionary accounts at Schwab have been executed, which may affect the timing and the price of execution.

Item 13 – Review of Accounts

For internal managed accounts, all accounts are reviewed at least quarterly by a principal of the firm. Provisions are made for more frequent review should market conditions and a change in client's objectives dictate.

For external managed accounts, each manager has its own review process and it is recommended all clients review the ADV of the proposed manager or the prospectus of the fund advisor.

Item 14 – Client Referrals and Other Compensation

All fees paid to solicitors for recommending Physicians Financial Services, Inc. are part of the fee schedule and in no way increase the fee to the client. Physicians Financial Services, Inc. may enter into an agreement with other financial advisers to solicit clients for Physicians Financial Services, Inc. Some of these solicitors may be registered

representatives of an affiliated broker/dealers – Capital Investment Brokerage, Inc., and Capital Investment Group, Inc. These solicitors receive compensation for client referrals on a continual basis as long as clients continue to renew. Agreements with solicitors are disclosed under a separate written agreement which specifies the terms, conditions and disclosures with the affected client.

Physicians Financial Services, Inc. and its Investment Advisor Representatives do not receive any additional economic benefit from any individual or entity other than the client for providing investment advice of other investment advisory services to its clients.

Item 15 – Custody

Physicians Financial Services, Inc. does not maintain custody of client assets. A qualified custodian will provide account statements to clients quarterly, if not more frequently. Physicians Financial Services, Inc. urges clients to carefully review such statements. Clients are further urged to compare account statement provided by the qualified custodian with any account statements provided by Physicians Financial Services, Inc.

Item 16 – Investment Discretion

We obtain a Limited Power of Attorney for each client's account. This Power of Attorney enables the money manager to determine the quantity and specific security to buy/sell. The Limited Power of Attorney is mainly used in order to make market moves (buys/sells) without having to obtain client's consent since most clients are not easily accessible. Any limitations on the Limited Power of Attorney shall be written on the Limited Power of Attorney form. Clients may change/amend these limitations as required. Such amendments shall be submitted in writing.

Item 17 – Voting Client Securities

17.A. Voting Policies and Procedures

Proxy Voting Policy

Since all client investment positions are held in street name with the brokerage/clearing firms and clients receive proxies and re-organization notices, we do not vote proxies nor re-organization notices for clients unless specifically requested to by the client in writing.

If a client chooses to utilize an outside manager, each manager chosen has its own policy and procedure regarding voting of proxies and reorganization notices as clients desire.

Depending on client desires and wishes on voting of proxies and re-organizational notices this option can be (is) incorporated in the manager selection decision process.

Item 18 – Financial Information

18.A. Advance Payment of Fees.

Physicians Financial Services, Inc. does not require or solicit prepayment of fees. Our billing of client's accounts is done in arrears. See 5.A. for further insight and discussion.

18.B. Financial Condition

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Physicians Financial Services, Inc. has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients.

18.C. No Bankruptcy Proceedings

Physicians Financial Services, Inc. has not been the subject of a bankruptcy proceeding.