

Financial Advantage, Inc.

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FORM ADV PART 2A BROCHURE

This brochure provides information about the qualifications and business practices of Financial Advantage, Inc. If you have any questions about the contents of this brochure, please contact us at (410) 715-9200. 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.

Additional information about Financial Advantage, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov. The searchable IARD/CRD number for Financial Advantage, Inc. is 104610.

Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Generally, Financial Advantage, Inc. will notify clients of material changes on an annual basis. However, where we determine that an interim notification is either meaningful or required, we will notify our clients promptly. In either case, we will notify our clients in a separate document.

Item 3 Table of Contents

Item 1 Cover Page	Page 1
Item 2 Material Changes	Page 2
Item 3 Table of Contents	Page 3
Item 4 Advisory Business	Page 4
Item 5 Fees and Compensation	Page 8
Item 6 Performance-Based Fees and Side-By-Side Management	Page 9
Item 7 Types of Clients	Page 9
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss	Page 9
Item 9 Disciplinary Information	Page 11
Item 10 Other Financial Industry Activities and Affiliations	Page 11
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 12
Item 12 Brokerage Practices	Page 12
Item 13 Review of Accounts	Page 13
Item 14 Client Referrals and Other Compensation	Page 14
Item 15 Custody	Page 14
Item 16 Investment Discretion	Page 14
Item 17 Voting Client Securities	Page 14
Item 18 Financial Information	Page 15
Item 20 Additional Information	Page 15

Item 4 Advisory Business

Financial Advantage, Inc. ("FAI") is a registered investment advisor based in Columbia, Maryland. We are organized as a corporation under the laws of the State of Maryland. We have been providing investment advisory services since 1987. Mr. J. Michael Martin, JD, CFP®, President/CEO/CFO, Ms. Lyn A. Dippel, JD, CFP®, VP/Chief Compliance Officer, Chad J. Norfolk, CFP®/VP, and Curtis R. Gross, MBA, CFA® are our principal owners.

The centerpiece of FAI's service is our planning process where we work closely with Clients and their other advisors to develop detailed strategies in the critical areas of cash flow, taxes, risk management, investments, retirement and estate planning. We offer five distinct and independent services: Financial Advisory Retainer Services, Portfolio Management Services, and Personal Financial Plan Services. Clients may use one or any combination of these services.

As used in this brochure, the words "we", "our" and "us" refer to Financial Advantage, Inc. and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm. Also, you may see the term Associated Person throughout this brochure. As used in this brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs.

Retainer Wealth Management Services

Our Wealth Management Service is a retainer arrangement whereby our staff commits to develop a Personal Financial Plan for you and to help implement the recommendations of the Plan, to oversee and actively manage your investment portfolio, to regularly review, and update the Plan and to be accessible to you for advice and support in all matters impacting your personal financial situation and the achievement of your goals.

Wealth Management Services generally may include such areas as cash flow and budget analysis/planning, tax analysis/planning, risk management, retirement planning, estate planning, and investment/portfolio management. Please refer to the *Portfolio Management Services* section below for more details on the implementation and the portfolio management process.

On an annualized basis, the Firm's fees for the Wealth Management Retainer Services are based on the following fee schedule:

Assets Under Management	Annualized Fee*
First \$2,000,000	0.90%
Next \$3,000,000	0.70%
Above \$5,000,000	0.50%

*Note: The annual retainer fee is subject to a minimum of \$10,000. The fee does not include transaction fees, or other fees/expenses charged by brokers, custodians, or mutual funds.

When agreed between each party, it may be appropriate to establish a fee schedule different from the base fee structure due to circumstances such as prior relationship, related accounts, level of collateral responsibilities, etc.

At our discretion, we may allow accounts of members of the same household to be aggregated for purposes of determining the advisory fee. We may allow such aggregation, for example, where we services accounts on behalf of related accounts. This consolidation practice is designed to allow you the benefit of an increased asset total, which could potentially cause the accounts to be assessed a reduced advisory fee based on the breakpoints available in our fee schedule as stated above.

The annual fee is billed quarterly in advance based on the asset value on the last day of the previous calendar quarter as reported by the custodian. For assets not held at our select custodians, it is your responsibility to provide updated statements of market value. Fees will be assessed pro rata in the event the advisory agreement is executed at any time other than the first day of a billing period.

Fees will either be invoiced and payable by check or the advisory fees will be directly debited by the qualified custodian holding your funds and securities provided you supply us with written authorization permitting the fees to be paid directly from the account. Further, the qualified custodian agrees to deliver an account statement, at least quarterly, directly to you, showing all disbursements from the account. You are encouraged to review all account statements for accuracy and compare those with those we provide to you quarterly.

Sterling Portfolio Management Services

We provide discretionary portfolio management services where the investment advice provided is custom tailored to meet your needs and investment objectives. Subject to any written guidelines, which you may provide, we will be granted discretion and authority to manage the account. Accordingly, we are authorized to perform various functions, at your expense, without further approval from you. Such functions include the determination of securities to be purchased/sold, and the amount of securities to be purchased/sold. Once the portfolio is constructed, we will provide continuous supervision and rebalancing of the portfolio as changes in market conditions and your circumstances may require.

On an annualized basis, the Firm's fees for portfolio management service, will be based on the following fee schedule:

Assets Under Management	Annualized Fee*
First \$2,000,000	0.90%
Next \$3,000,000	0.70%
Above \$5,000,000	0.50%

* Note: The annual portfolio management fee is subject to a minimum of \$5,000. This minimum applies to clients who engage us for Portfolio Management Services only. The fee does not include transaction fees, or other fees/expenses charged by brokers, custodians, or mutual funds.

At our discretion, we may allow accounts of members of the same household to be aggregated for purposes of determining the advisory fee. We may allow such aggregation, for example, where we services accounts on behalf of related accounts. This consolidation practice is designed to allow you the benefit of an increased asset total, which could potentially cause the accounts to be assessed a reduced advisory fee based on the breakpoints available in our fee schedule as stated above.

The annual fee for portfolio management services is billed quarterly in advance based on the asset value on the last day of the previous quarter as reported by the custodian. For assets not held at our select custodians, it is your responsibility to provide updated statements of market value. Fees will be assessed pro rata in the event the portfolio management agreement is executed at any time other than the first day of a calendar quarter.

Management fees will either be invoiced and payable by check or the management fees will be directly debited by the qualified custodian holding your funds and securities provided you supply written authorization permitting the fees to be paid directly from the account. We will not have access to your funds for payment of fees without your written consent. Further, the qualified custodian agrees to deliver an account statement, at least quarterly, directly to you, showing all disbursements from the account. You are encouraged to review all account statements for accuracy.

Termination of Financial Advisory Services/ Portfolio Management Services

Either you or our firm may terminate the retainer or portfolio management agreement within five days of the date of acceptance without penalty to you. Subsequent to that period, either party may terminate the agreement by providing 30 days written notice to the other party, with termination generally taking effect at the end of the calendar quarter unless otherwise provided in the written notice. In the event there are any prepaid unearned fees, we will promptly refund a pro rata share to you. All applicable fees, terms of engagement, and termination clauses will be clearly set forth in agreement executed between all parties.

Personal Financial Planning Services

We offer Personal Financial Planning as a stand-alone service. In one or two meetings with you, we gather and discuss the essential information, which may include spending needs and savings pattern, insurance coverage, taxes, investment, hopes for retirement and for providing for the next generation of your family, or any other personal financial goals or concerns. We assemble the information in a written plan and prepare analysis and recommendations for each topic covered under the scope of the agreement.

The planning process is usually completed within 8 to 12 weeks. Besides the initial one or two meetings, it involves an exchange of drafts of the various scenarios and modules so you have ample opportunity to add to or challenge the analysis, and a final meeting to review all the concepts and recommendations of the Plan.

Components of a Personal Financial Plan may include: Goals, Cash Flow Analysis, Investment Plan, Retirement Planning, Capital Needs Analysis, Risk Management, Income Tax Planning and Estate Planning.

The cost of our Personal Financial Planning varies with the complexity of your specific issues. The minimum fee for a Personal Financial Plan is \$3,000. Planning fees could be lower if the scope of the engagement is substantially limited in nature. Fees are billed 40% of the quoted fee at commencement and the remaining 60% at satisfactory completion of the work. Prepaid fees are fully refundable in the case of non-performance or in the event of cancellation prior to the commencement of work.

Subsequent reviews can be scheduled at your request. Our fee will be based on the scope and complexity of the issues to be addressed in the review.

Hourly and Ad Hoc Consultations

We do not generally offer hourly consulting to the public at large. Where a situation warrants it, personal financial planning and consulting services are provided hourly on a fee-only basis. J. Michael Martin's hourly rate is \$500, Lyn Dippel \$350, Chad J. Norfolk \$350, Dennis Suckstorf \$350, Wayne Patterson \$350. Work performed by other staff members is \$250. Invoices are billed monthly for work that has been performed to completion.

Some of the investments we recommended for your portfolio may be no-load mutual funds. We receive no compensation of any kind from mutual funds or brokers or any third parties. However, you should know that all mutual funds, even no-load funds, charge their shareholders operating fees that are deducted from each shareholder's account at the fund.

These costs, which compensate each fund's managers, analysts and administrators, are completely separate from any fees we charge.

Types of Investments

We offer advice on equity securities, corporate debt securities, certificates of deposit, municipal securities, investment company securities, U.S. Government securities, options contracts on securities and commodities, warrants, and interest in partnerships investing in real estate.

Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship. You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

Assets Under Management

As of December 31, 2011, we manage \$268,372,626 in client assets on a discretionary basis, and we do not manage any client assets on a non-discretionary basis.

MISCELLANEOUS

Financial Planning and Non-Investment Consulting/Implementation Services. To the extent requested by the client, we *may* provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither we, nor any of our representatives, serves as an attorney, accountant, or insurance agent, and no portion of our services should be construed as same. To the extent that you request, we may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, tax preparer, insurance, etc.), including, relative to tax preparation services, our employee, Dennis A. Suckstorf, pursuant to the terms and conditions of a separate written agreement between you and Mr. Suckstorf's tax preparation entity, Suckstorf Financial Consulting, LLC (***see below***). You are under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from we. **Please Note:** If you engage any such recommended professional, and a dispute arises thereafter relative to such engagement, you agree to seek recourse exclusively from and against the engaged professional.

Please Note: Cash Positions. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), we *may* maintain cash positions for defensive purposes. All cash positions (money markets, etc.) shall be included as part of assets under management for purposes of calculating your advisory fee. **Our Chief Compliance Officer, Lyn Dippel, remains available to address any questions that a client or prospective may have regarding the above fee billing practice.**

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by us) will be profitable or equal any specific performance level(s).

Client Obligations. In performing our services, we shall not be required to verify any information received from you or your other professionals, and we are expressly authorized to rely thereon. Moreover, it remains your responsibility to promptly notify us if there are ever any change in your financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

Suckstorf Financial Consulting, LLC. The recommendation by us that you consider engaging the tax preparation services offered by our employee, Dennis A. Suckstorf, pursuant to the terms and conditions of a separate written agreement between you and Mr. Suckstorf's tax preparation entity, Suckstorf Financial Consulting, LLC ("SFC"), presents a **conflict of interest**. You are not under any obligation to SFC for tax preparation services. There is no sharing of fees between the Firm and SFC. **LMS' Chief Compliance Officer, Lyn Dippel, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

Tradeaway Fees. Relative to our discretionary investment management services, when beneficial to the client, individual fixed income transactions may be effected through broker-dealers other than the account custodian, in which event, you generally will incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by the account custodian.

ByAllAccounts, Inc. You, in conjunction with the services provided by ByAllAccounts, Inc., may also engage us to provide periodic comprehensive reporting services which can incorporate all of your investment assets, including those investment assets that are not part of the assets that we manage (the "Excluded Assets"). **You and your other advisors that maintain trading authority, and not us, shall be exclusively responsible for the investment performance of the Excluded Assets.** Our service relative to the Excluded Assets is limited to reporting and non-discretionary consulting services only, which does not include investment implementation. We do not have trading authority for the Excluded Assets. As such, to the extent applicable to the nature of the Excluded Assets (assets over which you and/or your other advisors maintain trading authority), you (and/or the other investment professional), and not us, shall be exclusively responsible for directly implementing any recommendations relative to the Excluded Assets. We shall not be responsible for any implementation error (timing, trading, etc.) relative to the Excluded Assets. In the event that you desire that we provide discretionary investment management services (whereby we would have trading authority) with respect to the Excluded Assets, you may engage us to do so pursuant to the terms and conditions of an *Investment Advisory Agreement*.

Item 5 Fees and Compensation

Please refer to the "Advisory Business" section in this brochure for information on our advisory fees, fee deduction arrangements, and refund policy according to each service we offer.

Additional Fees and Expenses

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this brochure.

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

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the **Advisory Business** section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

Item 7 Types of Clients

We offer investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, and other advisors.

Financial Planning or Investment Management clients are not required to meet any net worth or annual income requirements, nor do we impose a minimum account size to open and maintain an advisory account; however, please refer to the "Advisory Business" section in this brochure to review the minimum annual fee for each of the services that we may provide to you.

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

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, or other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

Methods of Analysis

We may use one or more of the following methods of analysis when providing investment advice to you:

- **Fundamental Analysis** - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.
- **Cyclical Analysis** - a type of technical analysis that involves evaluating recurring price patterns and trends

- **Charting Analysis** - involves the gathering and processing of price and volume information for a particular security. This price and volume information is analyzed using mathematical equations. The resulting data is then applied to graphing charts, which is used to predict future price movements based on price patterns and trends.

Associated Risks

Charting and Technical Analysis - The risk of market timing based on technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

Fundamental Analysis - The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

Cyclical Analysis - Economic/business cycles may not be predictable and may have many fluctuations between long term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

Investment Strategies

We may use one or more of the following investment strategies when formulating investment advice:

- **Long Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- **Short Term Purchases** - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.
- **Option Writing** - a securities transaction that involves selling an option. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The buyer pays the seller a premium (the market price of the option at a particular time) in exchange for writing the option.

We may use trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Trading is not a fundamental part of our overall investment strategy, but we may use this strategy occasionally when we determine that it is suitable given your stated investment objectives and tolerance for risk.

Tax Considerations

Our strategies and investments may have unique and significant tax implications. We consider tax implications when implementing any investment strategy and where feasible we will attempt to minimize your tax liability. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. We will instruct your custodian to use the Average-cost accounting method for mutual funds and the High-cost accounting method for equities and all other securities for calculating and reporting the cost basis of your investments or the custodian will default to the FIFO method where no instruction is given.

You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

Risk of Loss

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance

Recommendation of Particular Types of Securities

As disclosed under the "Advisory Business" section in this Brochure, we recommend all types of securities and we do not necessarily recommend one particular type of security over another since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

Item 9 Disciplinary Information

Financial Advantage, Inc. has been registered and providing investment advisory services since 1987. Neither our firm nor our management persons have any reportable legal or disciplinary information.

Item 10 Other Financial Industry Activities and Affiliations

Our firm and our management personnel provide financial planning services in the area of budgeting and cash management, retirement planning, tax planning, risk management and estate planning in addition to investment management and counseling activities. We do not have a referral arrangement with either an outside or an affiliated entity.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics.

Additionally, we maintain and enforce written policies reasonably designed to prevent any misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm. Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

Participation or Interest in Client Transactions

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

Personal Trading Practices

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. Our firm or persons associated with our firm may recommend securities to you at the same time we or persons associated with our firm purchase such securities for our own account. Such cases create the potential for a conflict of interest because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of securities.

Item 12 Brokerage Practices

We may recommend that you establish brokerage accounts with various registered brokers to maintain custody of your assets and to effect trades for your accounts. We are independently owned and operated and not affiliated with any brokers.

We attempt to use brokers that will provide the best possible execution for your trades. However, because it is not feasible to shop brokers for each trade it is not possible to guarantee that every trade will receive the best possible execution. In evaluating brokerage firms in light of best execution, we look at trading as a process and take into consideration several key factors in the aggregate. Brokers are selected on the basis of adding value to the Client in the areas of breadth and quality of services and discounted transaction costs.

In evaluating the quality of execution, we review our brokerage relationship on an annual basis. Currently we use Schwab Institutional, a division of Charles Schwab & Co. ("Schwab"), a securities broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"), to execute the majority of our trades. We believe that Schwab provides quality execution services for you at competitive prices. In addition, we also consider the quality of the brokerage services provided by Schwab including, the firm's reputation and

financial strength, execution capabilities, commission rates, and responsiveness to our clients and our firm. You may pay higher commissions and/or trading costs than those that may be available elsewhere.

The relationship we have with the Schwab provides us with access to its institutional trading and custody services, which are typically not available to retail investors. Services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors, as well as software and other technology that provide us access to your account(s), facilitate trade execution, and provide research, pricing and other market data. Schwab may also provide publications or presentations on topics such as technology, regulatory compliance and practice management.

Brokerage for Client Referrals

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

Block Trades

When a decision is made to purchase, add to, reduce or sell a particular security across many client accounts, we will execute a block trade in our master account and allocate the shares according to predetermined written allocation instructions and the average price for all shares will be allocated to each trade participant.

In the rare circumstance where there is not enough liquidity in the security to fill the entire order, we will allocate the partial fill according to a pro rata format unless specifically explained otherwise in a written allocation. If a pro rata format is not used, the criteria for the allocation of the partial fill will be documented with the original written allocation plan prior to the trade.

Item 13 Review of Accounts

Services are initiated by an in-person review of your financial goals, preferences and risk tolerance. An investment plan is then drafted for your approval. Subsequent to the plan's approval and implementation, quarterly reviews are conducted which result in a written client report encompassing a summary of account activity, year-to-date income and changes in capital value for individual investments, and a compilation of capital gains and losses for the current tax year. A diversification analysis is part of each quarterly review. Changes in the investment environment or in your circumstances can trigger unscheduled reviews.

Reviews are conducted by J. Michael Martin, President, Lyn A. Dippel, Vice President, Chad J. Norfolk, Vice President, Dennis Suckstorf, Director of Financial Planning and Wayne Patterson. Reviewers perform reviews in accordance with our current portfolio target allocations and investment guidelines set by the Chief Investment Officer and the Investment Committee. Reviewers are members of the Investment Committee and attend regular meetings. Reviewers work as a team to complete all reviews in your account(s). Records are maintained detailing who is responsible for each review.

If you engage us for management services, you will receive confirmations and monthly statements from the Custodian with which your accounts are held. In addition, we will send quarterly reports to you describing the value of each of your accounts as well as performance of the aggregate portfolio. You will also be provided with confidential internet access which will provide you with weekly account valuations, performance, current holdings and transactions. Additional reports can be prepared at your request.

Item 14 Client Referrals and Other Compensation

Certain non-owner employees are eligible to receive a discretionary bonus for a direct referral of a new portfolio management client. You will not be charged additional fees as a result of this arrangement.

Please refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with Charles Schwab & Co. We do not receive any compensation from any third party in connection with providing investment advice to you.

Item 15 Custody

Provided we receive your written authorization, we will instruct your custodian to directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact us directly at the telephone number displayed on the cover of this brochure.

Item 16 Investment Discretion

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement, a limited power of attorney, and/or trading authorization forms.

You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Please refer to the "Advisory Business" section in this brochure for more information on our discretionary management services.

Item 17 Voting Client Securities

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

Item 18 Financial Information

Our firm does not have any financial conditions or impairments that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and we do not require the prepayment of fees six or more months in advance and in excess of \$1,200. Therefore, we are not required to include a financial statement with this brochure.

Item 20 Additional Information

Your Privacy

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure. We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

Trade Errors

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. When this occurs, we may place a correcting trade with the broker-dealer which has custody of your account. If an investment gain results from the correcting trade, the gain will remain in your account unless the same error involved other client account(s) that should have received the gain, it is not permissible for you to retain the gain, or we confer with you and you decide to forego the gain (e.g., due to tax reasons). If the gain does not remain in your account and Charles Schwab & Co. Inc. ("Schwab") is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, we will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in your account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in your account, they may be netted.

Class Action Lawsuits

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

Any Questions: Our Chief Compliance Officer, Lyn Dippel, remains available to address any questions regarding this Part 2A.