

Professional Investment Counsel, Inc.

5845 Cromo, Suite 3
El Paso, Texas 79912

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Contacts: Gary M. Borsch
David B. Prilliman

This brochure provides information about the qualifications and business practices of Professional Investment Counsel, Inc. If you have any questions about the contents of this brochure, please contact us at (915) 845-6700. 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 Professional Investment Counsel, Inc. is also available on the SEC's website at www.advisorinfo.sec.gov

Item 2 - Material Changes

Due to the Dodd-Frank financial reform legislation, Professional Investment Counsel, Inc. is transferring registration from the Securities and Exchange Commission to individual state securities boards.

Item 3 - Table of Contents

| <u>Item Number</u> | <u>Item</u> | <u>Page</u> |
|---------------------------|--|--------------------|
| 2 | Material Changes..... | 2 |
| 3 | Table of Contents..... | 2 |
| 4 | Advisory Business..... | 3 |
| 5 | Fees and Compensation..... | 4 |
| 6 | Performance-Based Fees..... (None) | 5 |
| 7 | Types of Clients..... | 5 |
| 8 | Methods of Analysis, Investment Strategies, and Risk of Loss..... | 5 |
| 9 | Disciplinary Information..... | 6 |
| 10 | Other Financial Industry Activities and Affiliations..... (None) | 7 |
| 11 | Code of Ethics..... | 7 |
| 12 | Brokerage Practices..... | 7 |
| 13 | Review of Accounts..... | 8 |
| 14 | Client Referrals and Other Compensation..... | 9 |
| 15 | Custody..... | 10 |

| | | |
|----|---|----|
| 16 | Investment Discretion..... | 10 |
| 17 | Voting Client Securities..... | 10 |
| 18 | Financial Information..... | 11 |
| 19 | Requirements for State-Registered Advisors..... | 11 |

Item 4 - Advisory Business

Professional Investment Counsel, Inc. (PIC; the Company) was founded in 1973 by Harry J. Stone in El Paso, Texas. The Company was registered with the Securities and Exchange Commission between the years 1973 to 2012. As noted under Item 2, above, the Company's registration is being transferred to individual state securities boards.

The Company's El Paso, Texas business address is the firm's only location. PIC is also locally owned, with ownership consisting of the Stone Family Trust, Carol A. Stone, Gary M. Borsch and David B. Prilliman. The Company is not affiliated with any broker/dealer or any other institution.

Professional Investment Counsel currently manages \$50 million in client assets as of 12/31/11. Approximately 90% of these assets are discretionary and 10% are non-discretionary assets.

Professional Investment Counsel's business is limited to portfolio management and on-going advice with regard to stock and bond investment. Clients include individuals, trusts and individual retirement plans, foundations, endowments and corporate/public pension plans.

The Company does not professionally advise on other matters such as insurance, real estate or other assets, or on matters pertaining to personal and family obligations or financial planning. If questions arise within these areas the client is advised that any opinion expressed is not a substitute for that of experts in these fields. In these cases the client is urged to seek the advice of qualified attorneys, accountants or other appropriate professionals.

PIC's investment advice is limited to investments in higher quality large capitalization stocks, both domestic and foreign, that pay dividends and are listed on U.S. exchanges. While our focus is on equities, we also invest in fixed-income securities if indicated by market conditions or to satisfy client objectives. This would include interest-bearing instruments such as U.S. Treasuries, high-grade corporate and municipal bonds, certificates of deposit or money market funds.

We do not offer advice on other types of investment such as option or derivative trading, foreign stocks not listed on U.S. exchanges, smaller capitalization stocks or private placements.

We tailor portfolios to meet the needs and objectives of the individual client within the constraints of the client and the constraints of our investment style. For example, the portfolio of a client with a low-risk tolerance that requires income might include a mix of Treasury securities, high-dividend paying stocks such as utilities, and some level of invested cash depending on market conditions.

The portfolio of a client willing to accept greater market risk that does not have high income requirements might include a mix of high-quality equities that still pay dividends but have greater growth potential, and some level of invested cash depending on market conditions.

A prospective client requiring very aggressive growth with a high-risk tolerance would be advised to seek out an advisor that specializes in this investment style.

We also constantly monitor and adjust portfolios to take into account changing market conditions, changes in the prospects of individual securities or to balance the particular portfolio. To accomplish this, we use a “top-down” macroeconomic approach whereby we review international and domestic events on a daily basis to determine their effect on client portfolios.

We also maintain a “Current Holdings” list of companies that meet PIC’s criteria for investment. While each portfolio is different, the majority of client accounts include some variation of the securities from the Current Holdings List.

Upon client request, we may also purchase a security that is not within our Current Holdings List, impose restrictions on investing in certain securities or types of securities, or keep a security within a portfolio due to a personal reason of the client.

Item 5 – Fees and Compensation

Management fees are based upon the total value of the client’s portfolio that may include stocks, bonds, mutual funds, money market funds, cash and/or other investment instruments.

Professional Investment Counsel is a fee-only investment advisor. **No** other forms of compensation such as commissions, wrap fee or performance-based fees are received.

For portfolio management and on-going advice relating to stocks and fixed-income securities, the annual fee, payable quarterly in arrears, is computed as follows:

| <u>Portfolio Market Value</u> | <u>Annual Management Fee (%)</u> |
|-------------------------------|----------------------------------|
| Up to \$1,000,000 | 1.00% |
| \$ 1,000,000 - \$2,000,000 | 0.75%* |
| \$ 2,000,000 - \$3,000,000 | 0.60% |
| Above \$3,000,000 | 0.50% |

* Management fees on portfolios above \$1,000,000 can be mutually negotiable and modified at the discretion and consent of both Professional Investment Counsel, Inc. and the client.

To calculate the quarterly management fee, the annual rate is divided by four and then multiplied times the total value of the portfolio at the end of that quarter. For example, the quarterly fee on a portfolio with an annual fee of 1.00% would be calculated each quarter by taking the portfolio's value at the end of that quarter and then multiplying that value by 0.25%. This would be the management fee for the quarter just ended.

At the discretion of the client, management fees can be deducted directly from the custodian holding the client assets (i.e., a broker-dealer such as Charles Schwab or Merrill Lynch) or clients can be billed directly. In either case, the client receives a quarterly statement from PIC stating the amount of these management fees and the basis of their calculation.

It should also be noted that the broker involved in the purchase or sale of a security will incur a transaction cost. However, since PIC's investment strategy involves a low frequency of trading and low portfolio turnover, these costs are considered nominal in nature.

Cancellation of the advisory service agreement can be made, in writing, by either the client or the Company at any time. If the effective cancellation date does not coincide with the end of the quarter, any management fees due will be assessed in arrears on a daily pro-rata basis beginning on the first day of the quarter.

Item 6 – Performance-Based Fees

As previously noted, Professional Investment Counsel, Inc. does not receive any fees based on portfolio performance. In addition, no employees of PIC receive performance-based fees.

Item 7 – Types of Clients

Professional Investment Counsel's clients include individuals, trusts and individual retirement plans, foundations, endowments and corporate/public pension plans. The minimum account size for opening an account is \$100,000.

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

Professional Investment Counsel uses a "top-down" approach that is based upon in-house economic and fundamental analysis. What this top-down approach simply means is that we start our investment process by first analyzing the economy and market as a whole. This is accomplished by constantly monitoring economic and market inputs such as inflation, interest rates and market valuations.

From this analysis we reach conclusions concerning the future direction of the economy and of financial markets. From this we determine which stock market sectors or industry groups will perform best under the parameters we see going forward.

Our investment style could be described as conservative in that we have a long-term view toward investment and invest in larger, higher quality securities that pay dividends. In addition and as previously noted, PIC client portfolios have a low trading frequency since it is our belief that active trading strategies eventually hurt performance.

Also unless directed by the client we do not engage in option or futures trading either as a speculation or hedge, and we do not sell stocks short.

There are risks involved when investing in stocks or bonds. As a summary, there are three basic forms of risk involving portfolios managed by the Company:

Stock Market Risk – The market value of stocks may decline, sometimes suddenly and sharply, over a short, or even an extended, period of time causing the value of the assets to go down. Stock market risk may affect a single security, an industry, a sector of the economy, a style of investment, or the market as a whole.

Management Risk – The particular stocks selected by PIC may fail to perform as expected. As with any managed portfolio, the Company may not be successful in selecting the best-performing stocks or investment techniques, and asset performance may lag behind that of other investments.

Non-diversification Risk – PIC is a large-cap core style investor. Therefore, portfolios will not be diversified across different investment styles such as small-cap investments, derivative products or international investments; or evenly spread across market sectors such as financials, utilities or industrial stocks. Consequently, portfolios will be subject to more non-diversification risk than if the assets within the portfolio were invested evenly across a broad range of investments, investment styles and sectors.

Therefore, investment in the types of securities described is only suitable for long-term investors willing to accept short-term market price fluctuations.

Item 9 – Disciplinary Information

There have been no legal or disciplinary events that are material to client or prospective client evaluation of the Company's advisory business or the integrity of management, which consists of Gary M. Borsch, CEO, and David B. Prilliman, President.

Item 10 – Other Financial Industry Activities and Affiliations

Professional Investment Counsel, Inc. is a 100% privately held corporation that is incorporated in the State of Texas. The Company has **no affiliation** with any broker-dealer or other financial/non-financial institution including accounting firms, investment advisors or financial planners, law firms, or insurance companies and agencies.

Item 11 – Code of Ethics

The Company's Code of Ethics and Conduct is predicated on the principle that Professional Investment Counsel, Inc. owes a fiduciary duty to its clients. Accordingly, PIC employees are required to act with integrity, competence, diligence, respect, and in an ethical manner, and must avoid activities, interests and relationships that run contrary to the best interests of clients.

In summary, employees of Professional Investment Counsel, Inc. must:

- Place client interests ahead of PIC or personal interests.
- Avoid taking advantage of their position through investment opportunities, excessive gifts or other gratuities from individuals seeking to conduct business with the Company.
- Follow PIC established procedures if engaging in personal investment.
- Maintain the confidentiality of client security holdings, financial circumstances and personal information at all times.
- Maintain compliance with Federal/State Securities laws and regulations.

A copy of the Company's Code of Ethics is available to any client or prospective client upon request.

Item 12 – Brokerage Practices

PIC does not require or request that clients use a particular broker-dealer for security transactions and custody, as the selection of a broker-dealer is at the discretion of the client.

However, PIC does suggest broker-dealers to clients and prospective clients if it is in the best interest of the client in order to reduce transaction costs or improve the quality of execution.

This normally involves suggesting Charles Schwab and Co., since after years of experience we believe they provide the best value for the client. As a result, over 90% of the client accounts managed by PIC are with Charles Schwab for custody and securities transactions.

PIC has no affiliation with Charles Schwab and Co.

PIC also does not recommend, request, require or permit clients to direct PIC to execute transactions through a specified broker-dealer other than the custodian, as client directed trades may not be in the best interest of the client and may cost the client more money.

One exception to this policy was with an institutional client that was a public pension plan where directed trades were permitted. This agreement was terminated in 2005.

As previously noted, **there is no commission or other compensation received by Professional Investment Counsel for trades, or any other activity, placed with a broker-dealer including Charles Schwab and Co.** As such, there is no conflict of interest. This would include non-cash items such as paid vacations and gifts/entertainment that are not of *de minimis* value. This would also include soft-dollar arrangements.

Soft-dollars refer to research or products and services that are received by an advisor from a broker-dealer or a third party as part of the commission paid for the execution of client securities transactions. As noted, Professional Investment Counsel, Inc. does not have any soft-dollar arrangements.

The purchase or sale of an individual security may be combined or aggregated for various client accounts on an infrequent basis in order to obtain a uniform price for each client involved in the transaction. The conditions under which such an aggregate trade is permitted would include:

- The Company has determined, on an individual basis that the securities order is in the best interests of each client participating in the order.
- The trade is consistent with the Company's trading policies, i.e., no short selling, no option or derivative trading, no private placements, etc.
- The actual prices applicable to the aggregated transaction will be averaged, and each client account participating in the aggregated transaction will be deemed to have purchased or sold its share of the security involved at that average price.
- All transaction costs incurred in effecting the aggregated transaction costs shall be shared on a pro-rata basis among all accounts participating in such aggregated transactions.

Item 13 – Review of Accounts

Portfolios are monitored on a continuous basis. An in-depth review is triggered when a particular stock, industry or sector either comes into question or has a more favorable outlook.

The two officers of the Company, Gary M. Borsch, CEO and David B. Prilliman, President, who are the only supervised persons within the company, conduct these reviews.

Clients receive a statement from the Company on a quarterly basis. This statement is in addition to the statements the client receives from the broker-dealer or other institution that has custody of the assets.

The quarterly Professional Investment Counsel statement includes a listing of all securities, cash and equivalents, or other assets such as mutual funds within the portfolio. It also specifically denotes the following items:

- The quantity or number of shares held.
- The purchase price for each security.
- The total initial cost of the security at time of purchase.
- The current market price of each security as of the statement date.
- The current market value of each security as of the statement date.
- The percent of assets that each security represents within the portfolio.
- The percent of assets and current yield that each investment category (i.e., stocks, bonds, etc.) represents within the portfolio.
- The total initial cost, the current market value and current yield of the entire portfolio as of the statement date.

Item 14 – Client Referrals and Other Compensation

Professional Investment Counsel, Inc. does not have any referral agreements whereby third parties receive compensation for referring prospective clients to PIC.

At one time, the Company did enter into an agreement with Charles Schwab & Co., Inc., an independent and unaffiliated broker-dealer, to participate in the Schwab Advisor Network, an advisor referral service.

This agreement was terminated in 2006 and there are no residual effects from the agreement.

There are also no arrangements whereby a third party, who is not a client, provides any sort of economic benefit to PIC for providing investment advice or other advisory services to our clients.

As a simple example, PIC does not receive any compensation, sales awards, or other prizes such as paid trips for placing client assets with a particular mutual fund.

Item 15 - Custody

Professional Investment Counsel, Inc. does not have custody of any client assets. Instead, client assets are placed with a third party non-affiliated broker-dealer, bank or other qualified custodian chosen by the client.

Professional Investment Counsel, Inc. has no access to the client assets held by the third party custodian other than the deduction of quarterly management fees as agreed to and authorized by the client at the client's discretion. This authorization is in writing and in possession of the custodian, PIC and the client.

As previously noted under Item 11, PIC statements are sent to clients on a quarterly basis while custodians normally send monthly statements.

Professional Investment Counsel has internal controls whereby custodial monthly statements are meticulously reviewed each month on every account against our records in order to verify accuracy. Clients are urged to also compare PIC quarterly statements with the custodial statements.

Item 16 – Investment Discretion

Professional Investment Counsel, Inc. obtains discretionary authority in order to manage client securities accounts on behalf of the client.

In a discretionary account, PIC obtains a Limited Power of Attorney (LPOA) from the client that allows the Company to buy and sell securities within the portfolio on their behalf, but does not allow the Company to transfer or withdraw funds from the account other than the pre-agreed quarterly management fee as authorized by the client. As noted under Item 13, the deduction of quarterly management fees is at the client's discretion.

Item 17 – Voting Client Securities

It is the policy of PIC to vote all client proxies in the interest of maximizing shareholder value in a manner consistent with its fiduciary duty to clients. Normally this involves voting as the Board recommends.

However, under special circumstances if the Company determined after due diligence that the recommended proposals were not in the client's best interest then a contrary vote could be cast.

In order to ensure that proxy-voting materials are received from companies or intermediaries,

with the client's consent, new account forms of broker-dealers/custodians state that PIC will receive this documentation.

The Company President is responsible for ensuring that proxies are received, voted and submitted in a timely manner.

For any client who has provided specific voting instructions, the President shall vote that client's proxy in accordance with the client's written instructions. Obtaining information on how proxies were voted, either through written instruction or by the Company's determination can be obtained verbally.

A copy of the Company's proxy voting policies and procedures is available upon request.

Item 18 – Financial Information

PIC does not require or solicit prepayment of any fees in advance of, or at the time of, any client agreement. As noted under item 5, above, all management fees are charged on an annual basis, and are payable quarterly in arrears.

In addition, the Company has never been the subject any bankruptcy petition since its inception in 1973 and is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

Item 19 – Requirements for State-Registered Advisors

The formal education, business backgrounds, and other pertinent information of the two executive officers, who are the only representatives/supervised persons of the Company, are provided within Form ADV, Part 2B.

In addition, there are no management or supervised persons that have any relationship or arrangement with any issuer of securities, and, to the Company's best knowledge have **not** been found liable in any arbitration, civil, self-regulatory organization, or administrative proceeding involving any of the following:

- An investment or an investment-related business or activity.
- Fraud, false statement(s), or omissions.
- Theft, embezzlement, or other wrongful taking of property.
- Bribery, forgery, counterfeiting, or extortion.
- Dishonest, unfair, or unethical practices.

