



Kays Financial Advisory Corporation

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This brochure provides information about the qualifications and business practices of Kays Financial Advisory Corporation ("KFAC"). If you have any questions about the contents of this brochure, please contact us at (770) 951-9001 or skays@scottkays.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Additional information about KFAC also is available on the SEC's website at
www.AdviserInfo.sec.gov.

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Advisory Business

General Information

Kays Financial Advisory Corporation was formed in 1985 and provides financial planning and portfolio management services to its clients. At the outset of each client relationship, KFAC spends time with the client, asking questions, discussing the client's investment experience and financial circumstances, and broadly identifying major goals of the client.

Clients may elect to retain KFAC to prepare a full financial plan. This written report is presented to the client for consideration. In many cases, clients subsequently retain KFAC to manage the investment portfolio on an ongoing basis.

For those financial planning clients making this election, and for other clients who do not need financial planning but retain KFAC for portfolio management services, based on all the information initially gathered, KFAC generally develops with each client an Investment Policy Statement ("IPS"). The IPS reflects KFAC's understanding of the client's risk tolerance and identifies the types of investments and strategies that will be utilized in managing the client's portfolio.

Finally, where KFAC provides only limited financial planning or general consulting services, KFAC will work with the client to prepare an appropriate summary of the specific project(s) to the extent necessary or advisable under the circumstances.

Financial Planning

One of the services offered by KFAC is Financial Planning, described below. This service may be provided as a stand-alone service, or may be coupled with ongoing portfolio management.

Financial Planning may include advice that addresses one or more areas of a client's financial situation, such as estate planning, risk management, budgeting and cash flow controls, retirement planning, education funding, and investment portfolio design and ongoing management. Depending on a client's particular situation, financial planning may include some or all of the following:

- Gathering factual information concerning the client's personal and financial situation;
- Assisting the client in establishing financial goals and objectives;
- Analyzing the client's present situation and anticipated future activities in light of the client's financial goals and objectives;
- Identifying problems foreseen in the accomplishment of these financial goals and objectives and offering alternative solutions to the problems;
- Making recommendations to help achieve retirement plan goals and objectives.
- Designing an investment portfolio to help meet the goals and objectives of the client;
- Providing estate planning advice;
- Assessing risk and reviewing basic health, life and disability insurance needs; and
- Reviewing goals and objectives and measuring progress toward these goals.

Once Financial Planning advice is given, the client may choose to have KFAC implement the client's financial plan and manage the investment portfolio on an ongoing basis. However, the client is under no obligation to act upon any of the recommendations made by KFAC under a Financial Planning engagement and/or engage the services of any recommended professional.

Portfolio Management

At the beginning of a client relationship, KFAC meets with the client, asks questions, gathers information and performs research and analysis as necessary to develop the client's IPS. The IPS will be updated from time to time when requested by the client, or when determined to be necessary or advisable by KFAC based on updates to the client's financial or other circumstances.

To implement the client's investment plan, KFAC will manage the client's portfolio on a discretionary basis or advise the client on a non-discretionary basis. As a discretionary investment adviser, KFAC will have the authority to supervise and direct the portfolio without prior consultation with the client. Clients who choose a non-discretionary arrangement must be contacted prior to the execution of any trade in the account(s) under management. This may result in a delay in executing recommended trades, which could adversely affect the performance of the portfolio. This delay also normally means the affected account(s) will not be able to participate in block trades, a practice designed to enhance the execution quality, timing and/or cost for all accounts included in the block. In a non-discretionary arrangement, the client retains the responsibility for the final decision on all actions taken with respect to the portfolio.

Notwithstanding the foregoing, clients may impose certain written restrictions on KFAC in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments in an investment portfolio or prohibiting the sale of certain investments held in the account at the commencement of the relationship. Each client should note, however, that restrictions imposed by a client may adversely affect the composition and performance of the client's investment portfolios. Each client should also note that his or her investment portfolio is treated individually by giving consideration to each purchase or sale for the client's account. For these and other reasons, performance of client investment portfolios within the same investment objectives, goals and/or risk tolerance may differ and clients should not expect that the composition or performance of their investment portfolios would necessarily be consistent with similar clients of KFAC. KFAC may decline to manage a portfolio where it deems the restrictions to be too burdensome.

Principal Owners

Scott A. Kays and William Alan McKnight are sole principal owners of KFAC. Please see "**Brochure Supplement(s)**", Appendix A, for more information on Mr. Kays, Mr. McKnight and other individuals who formulate investment advice and have direct contact with clients, or have discretionary authority over client accounts.

Type and Value of Assets Currently Managed

As of December 31, 2011, KFAC managed \$156,218,444 on a discretionary basis, and advised on \$19,982,549 of assets on a non-discretionary basis.

Fees and Compensation

General Fee Information

Fees paid to KFAC are exclusive of all custodial and transaction costs paid to the client's custodian, brokers or other third party consultants. Fees paid to KFAC are also separate and distinct from the fees and expenses charged by mutual funds, ETFs (exchange traded funds) or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund's prospectus or offering materials). The client should review all fees charged by funds, brokers, KFAC and others to fully understand the total amount of fees paid by the client for investment and financial-related services.

Financial Planning Fees

Such advice, or consulting work, will be billed separately and on an hourly basis at the following rates: Partner/Senior Advisor (\$275); Junior Financial Planner (\$175); Administrative (\$125). The Client will receive an invoice each month, payable at the time of receipt, for time spent during the previous month on such services provided to the Client. Generally, the Client utilizing Applicant's full-time discretionary investment management services with at least \$500,000 under management is not charged the separate hourly fees listed above.

The following financial planning services are available separately for any Client that does not desire full-time investment money management.

One Time Meeting: This is a one time, 1 to 2 hour meeting and *Financial Physical* designed to provide a basic review of the client's overall financial planning situation. The fee charged is \$275.

Special Financial Planning Project Retainer: This service is designed to only deal with specific issues selected by the client and KFAC after the initial meeting. The Special Financial Planning Project includes an initial meeting, and a final meeting to review the financial plan with email/phone support until plan is reviewed and accepted by client. The fee charged is based on KFAC's hourly billing rates listed above.

Portfolio Management Fees

The annual fee schedule, based on a percentage of assets under management, is as follows. The percentage charged does not apply to the entire balance, but to each balance within a particular rate bracket.

\$0 - \$1,000,000	1.00%
\$1,000,001 - \$2,000,000	0.75%
\$2,000,001 - \$5,000,000	0.65%
\$5,000,001 +	0.50%

The minimum portfolio value is generally set at \$500,000. Minimum annual fees may apply. KFAC may, at its discretion, make exceptions to the foregoing or negotiate special fee arrangements where KFAC deems it appropriate under the circumstances.

Portfolio management fees are generally payable quarterly, in advance. Fees are prorated for significant cash flows into or out of the portfolio. Whether or not a cash flow is significant is determined at the discretion of KFAC. If management begins after the start of a quarter, fees will be prorated accordingly. Fees are normally debited directly from client account(s), unless other arrangements are made.

For all fees billed directly to the Client (as opposed to fees billed to a Client's brokerage account), a penalty fee of 1.5% monthly of the invoiced amount shall be charged to the Client for every 30 days the Client is remiss in paying their invoice.

Either KFAC or the client may terminate their Investment Management Agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any paid but unearned fees will be promptly refunded to the client, and any fees due to KFAC from the client will be invoiced or deducted from the client's account prior to termination.

Other Compensation

Scott A. Kays periodically writes books that are sold through retail channels.

William Alan McKnight, Vice President of KFAC, teaches at Keller Graduate School of Management.

Mr. McKnight maintains an active insurance license and may on occasion sell an insurance product to an individual who is not a client of KFAC. Generally, KFAC refers insurance related business to outside brokers and insurance agents. However, on occasion an existing insurance client of Mr. McKnight, who is also a client of KFAC, may need service on an existing insurance policy or desire to place new insurance. At times, and only for such clients, Mr. McKnight may recommend to clients that they use one of the insurance companies with which he is affiliated to implement financial planning advice and recommendations. Should a client desire to implement the advice through Mr. McKnight in his capacity as an agent or broker for any insurance company that Mr. McKnight is affiliated, he will earn the customary and normal commission(s) or referral fee(s). This creates a conflict of interest and may affect the objectivity of advice provided to the client. Thus Clients are under no obligation to engage any referred party.

Performance-Based Fees and Side-By-Side Management

KFAC does not have any performance-based fee arrangements.

Types of Clients

KFAC serves individuals, pension and profit-sharing plans, trusts, estates. With some exceptions, the minimum portfolio value eligible for conventional investment advisory services is \$500,000. Minimum annual fees may apply. Under certain circumstances and in its sole discretion, KFAC may negotiate such minimums.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

In accordance with the Investment Plan, KFAC generally selects mutual funds, ETF's, individual stocks, options and other investment vehicles for client accounts.

Mutual funds and ETFs are generally evaluated and selected based on a variety of factors, including, without limitation, past performance, fee structure, portfolio manager, fund sponsor, overall ratings for safety and returns, and other factors.

KFAC has developed a computerized analytical system that allows the firm to analyze domestic equity sectors by developing an analysis on a stock by stock basis. This analysis examines investments' fundamentals, valuations, and growth prospects.

In making selections of individual stocks for client portfolios, KFAC may incorporate any of the following types of analysis into its decision-making process:

Fundamental Analysis – This is the primary analytical method used by KFAC. It involves review of the business and financial information about an issuer. Without limitation, the following factors generally will be considered:

- Financial strength ratios;
- Price-to-earnings ratios;
- Dividend yields; and
- Growth rate-to-price earnings ratios

KFAC may at times also utilize:

1. Charting Analysis – involves gathering and processing price and volume information for a particular security. KFAC's charting analysis includes, without limitation:

- mathematical analysis;
- graphing charts; and estimations of future price movements based on perceived patterns and trends.

2. Technical Analysis – involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.

3. Cyclical Analysis – is a type of technical analysis that involves evaluating recurring price patterns and trends.

Investment Strategies

KFAC's strategic approach is to invest each portfolio in accordance with the IPS that has been developed specifically for each client. This means that the following strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances.

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.

Short Sales – a securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price. This type of strategy would generally be executed through a pooled vehicle, such as an inverse ETF.

Margin Transactions – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan. This type of strategy would generally be executed through a pooled vehicle, such as an ETF.

Options Trading/Writing: a securities transaction that involves buying or selling (writing) an option. If you write an option, and the buyer exercises the option, you are obligated to purchase or deliver a specified number of shares at a specified price at the expiration of the option regardless of the market value of the security at expiration of the option. Buying an option gives you the right to purchase or sell a specified number of shares at a specified price until the date of expiration of the option regardless of the market value of the security

at expiration of the option. KFAC offers a portfolio in which covered call options are written on an S&P 500 index ETF. KFAC may buy call or put options or write put options as part of this strategy. It may also use a different ETF as the underlying security on which options are written.

As an overarching strategy, KFAC tries to overweight assets in the portfolio that we believe possess superior investment potential, and we underweight areas that we believe possess lesser investment potential, taking into account the risk level of each of the investments. Less aggressive portfolios would generally have an allocation to fixed income investments as well. Portfolios may also have an exposure to “alternative investments”.

Risk of Loss

While KFAC seeks to diversify clients’ investment portfolios across various asset classes consistent with their Investment Plans in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face.

Management Risks. While KFAC manages client investment portfolios based on KFAC’s experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying mutual funds and other securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that KFAC allocates assets to asset classes that are adversely affected by unanticipated market movements and the risk that KFAC’s specific investment choices could underperform their relevant indexes.

Risks of Investments in Mutual Funds, ETFs and Other Investment Pools. As described above, KFAC may invest client portfolios in mutual funds, ETFs and other investment pools (“pooled investment funds”). Investments in pooled investment funds are generally less risky than investing in individual securities because of their diversified portfolios; however, these investments are still subject to risks associated with the markets in which they invest. In addition, pooled investment funds’ success will be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

Equity Market Risks. KFAC will invest portions of client assets into equity investments, either into pooled investment funds that invest in the stock market or directly in individual stocks. As noted above, while pooled investments have diversified portfolios that may make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in stock prices, regardless of any individual security’s prospects.

Fixed Income Risks. KFAC may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate

risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

Foreign Securities Risks. KFAC may invest portions of client assets into pooled investment funds that invest internationally. While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Finally, foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

Disciplinary Information

KFAC has no disciplinary events to report.

Other Financial Industry Activities and Affiliations

Scott A. Kays and William Alan McKnight, President and Vice President of KFAC respectively, conduct a weekly call-in radio show on a local station. The show provides information on various investment and financial planning topics. The investment and financial planning information does not purport to meet the needs of each individual call-in participant. The show is designed to provide listeners and call-in participants with general investment and financial planning information only. Mr. Kays and Mr. McKnight spend about four to six hours during those weeks in which they host the show. No compensation is paid for their participation in the radio broadcast.

KFAC participates in client referral arrangements where it may compensate unaffiliated third parties for client referrals.

At times, KFAC may act as a sub-adviser to other investment advisory firms. At such times, KFAC shall bill the client separately from the primary adviser. The fees are distinct from those referenced in the ***Portfolio Management Fees*** section and are negotiated on a case by case basis.

KFAC can also engage the services of third party institutional money managers through various custodians. The fees charged by these managers will be separate from those charged by KFAC. The third party management fees will be pre-negotiated. KFAC will bill the client separately.

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

Code of Ethics and Personal Trading

KFAC has adopted a Code of Ethics ("the Code"), the full text of which is available to you upon request. KFAC's Code has several goals. First, the Code is designed to assist KFAC in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940, KFAC owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires KFAC associated persons to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for KFAC's associated persons (managers, officers and employees). Under the Code's Professional Standards, KFAC expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, KFAC associated persons are not to take inappropriate advantage of their positions in relation to KFAC clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time KFAC's associated persons may invest in the same securities recommended to clients. Under its Code, KFAC has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code's personal trading policies include procedures for limitations on personal securities transactions of associated persons and the reporting and review of such trading. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

Participation or Interest in Client Transactions

As outlined above, KFAC has adopted procedures to protect client interests when its associated persons invest in the same securities as those selected for or recommended to clients. In the event of any identified potential trading conflicts of interest, KFAC's goal is to place client interests first.

Consistent with the foregoing, KFAC maintains policies regarding participation in initial public offerings (IPOs) and private placements in order to comply with applicable laws and avoid conflicts with client transactions. If a KFAC associated person wishes to participate in an IPO or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer. If associated persons trade with client accounts (e.g., in a bundled or aggregated trade), and the trade is not filled in its entirety, the associated person's shares will be removed from the block, and the balance of shares will be allocated among client accounts in accordance with KFAC's written policy.

Brokerage Practices

Best Execution and Benefits of Brokerage Selection

When given discretion to select the brokerage firm that will execute orders in client accounts, KFAC seeks "best execution" for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, KFAC may use or recommend the use of brokers who do not charge the lowest available commission in the recognition of research and securities transaction services, or quality of execution. Research services received with transactions may include proprietary or third party research (or any combination), and may be used in servicing any or all of KFAC's clients. Therefore, research services received may not be used for the account for which the particular transaction was effected.

KFAC participates in Schwab's Institutional ("SI") service program. While there is no direct link between the investment advice KFAC provides and participation in the SI program, KFAC receives certain economic benefits from the SI program. These benefits may include software and other technology that provides access to client account data (such as trade confirmations and account statements), facilitates trade execution (and allocation of aggregated orders for multiple client accounts), provides research, pricing information and other market data, facilitates the payment of KFAC's fees from its clients' accounts, and assists with back-office functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of KFAC's accounts, including accounts not held at Schwab. Schwab may also make available to KFAC

other services intended to help KFAC manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services to be rendered to KFAC by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services, pay all or a part of the fees of a third-party providing these services to KFAC, and/or Schwab may pay for travel expenses relating to participation in such training. Finally, participation in SI provides KFAC with access to mutual funds which normally require significantly higher minimum initial investments or are normally available only to institutional investors.

The benefits received through participation in the SI program do not necessarily depend upon the proportion of transactions directed to Schwab. The benefits are received by KFAC, in part because of commission revenue generated for Schwab by KFAC's clients. This means that the investment activity in client accounts is beneficial to KFAC, because Schwab does not assess a fee to KFAC for these services. This creates an incentive for KFAC to continue to recommend Schwab to its clients. While it may be possible to obtain similar custodial, execution and other services elsewhere at a lower cost, KFAC believes that Schwab provides an excellent combination of these services.

Aggregated Trade Policy

Where feasible, KFAC will place batch trades when buying and selling the same security for more than one account.

Orders for the same security entered on behalf of more than one client on the same day will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. KFAC may begin trading in a security before KFAC has completed client allocations in order to take maximum advantage of the time available during the day to trade in order to have as little impact on the market as practicable. Subsequent orders for the same security entered during the same trading day after the final allocation has been sent to the broker will not be aggregated with the original block trade. One exception is that subsequent orders may be aggregated with filled orders if the market price for the security has not materially changed. All clients participating in each aggregated order shall receive the average price and subject to minimum ticket charges, pay their own commissions (some brokerage firms offer lower commissions for larger accounts). If the entire order is filled, clients shall receive their portion of the allocation specified on the trade ticket. All allocations shall be made prior to the trade settling, and generally before the market opens the day after the trades were executed.

In the event an order is "partially filled", the allocation shall be made in the best interests of all the clients in the order, taking into account all relevant factors, including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations.

Review of Accounts

Managed portfolios are reviewed at least quarterly, but may be reviewed more often if requested by the client, upon receipt of information material to the management of the portfolio, or at any time such review is deemed necessary or advisable by KFAC. Also, portfolios are reviewed upon client request or upon receipt of information material to the management of a client portfolio, such as a change in a client's individual situation. Mr. Kays, Mr. McKnight, KFAC's President and Vice President respectively, and Will Howard, Research Analyst and Trader, review all accounts, and may be assisted in the review process by other staff members.

For those clients to whom KFAC provides separate financial planning and/or consulting services, reviews are conducted on an as needed or agreed upon basis. Such reviews are conducted by one of KFAC's investment adviser representatives or principals.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as 1099 forms. In addition, KFAC provides quarterly reports for each managed portfolio. This written report normally includes a summary of portfolio holdings and performance results. Additional reports are available at the request of the client.

Client Referrals and Other Compensation

As noted above, KFAC may receive some benefits from Schwab based on the amount of client assets held at Schwab. Please see ***"Brokerage Practices"*** for more information.

From time to time, KFAC may enter into arrangements with third parties ("Solicitors") to identify and refer potential clients to KFAC. Consistent with legal requirements under the Investment Advisers Act of 1940, as amended, KFAC enters into written agreements with Solicitors under which, among other things, Solicitors are required to disclose their compensation arrangements to prospective clients before they enter into an agreement with KFAC.

KFAC receives client referrals from Charles Schwab & Co., Inc., ("Schwab") through KFAC's participation in Schwab Advisor Network™ ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with KFAC. Schwab does not supervise KFAC and has no responsibility for KFAC's management of clients' portfolios or KFAC's other advice or services. KFAC pays Schwab fees to receive client referrals through the Service. KFAC's participation in the Service may raise potential conflicts of interest.

KFAC pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are transferred to another custodian. The Participation Fee paid by KFAC is a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. KFAC pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to KFAC. The Participation Fee is paid by KFAC and not the client. KFAC has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs KFAC charges clients with similar portfolios who were not referred through the Service.

KFAC generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees KFAC generally would pay in a single year. Thus, KFAC will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of KFAC clients who were referred by Schwab and those referred clients' family members living in the same

household. Thus, KFAC will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts at Schwab and execute transactions at Schwab.

For accounts of KFAC's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from KFAC's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab will also receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, KFAC may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. KFAC nevertheless, acknowledges its duty to seek the best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for KFAC's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Custody

Schwab is the custodian of nearly all client accounts at KFAC. From time to time however, clients may select an alternate broker to hold accounts in custody. In any case, it is the custodian's responsibility to provide clients with confirmations of trading activity, tax forms and at least quarterly account statements. Clients are advised to review this information carefully, and to notify KFAC of any questions or concerns. Clients are also asked to promptly notify KFAC if the custodian fails to provide statements on each account held.

From time to time and in accordance with KFAC's agreement with clients, KFAC will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times there may be small differences due to the timing of dividend reporting and pending trades.

Investment Discretion

As described in the "***Advisory Business***" section, KFAC may accept clients on either a discretionary or non-discretionary basis. For *discretionary accounts*, a Limited Power of Attorney ("LPOA") is executed by the client, giving KFAC the authority to carry out various activities in the account, generally including the following: trade execution; the ability to request checks on behalf of the client; and, the withdrawal of advisory fees directly from the account. KFAC then directs investment of the client's portfolio using its discretionary authority. The client may limit the terms of the LPOA to the extent consistent with the client's investment advisory agreement with KFAC and the requirements of the client's custodian.

For *non-discretionary* accounts, the client also generally executes an LPOA, which allows KFAC to carry out trade recommendations and approved actions in the portfolio. However, in accordance with the investment advisory agreement between KFAC and the client, KFAC does not implement trading recommendations or other actions in the account unless and until the client has approved the recommendation or action. As with discretionary accounts, clients may limit the terms of the LPOA, subject to KFAC's agreement with the client and the requirements of the client's custodian.

Voting Client Securities

As a policy and in accordance with KFAC's client agreement, KFAC does not vote proxies related to securities held in client accounts. The custodian of the account will normally provide proxy materials directly to the client. Clients may contact KFAC with questions relating to proxy procedures and proposals; however, KFAC generally does not research particular proxy proposals.

Financial Information

KFAC does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has no required disclosure for this item.