



PROSPERA
FINANCIAL SERVICES

Form ADV Part 2A Disclosure Brochure

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This brochure provides information about Prospera Financial Services, Inc. and our qualifications and business practices. If you have any questions about this brochure's contents, please contact us at 972-581-3000. 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 us is available on the SEC's website at www.adviserinfo.sec.gov. You can view our information on this website by searching for "Prospera Financial Services" or searching by our firm's CRD number (10740) or our SEC number (801-65845).

***Registration as an investment advisor does not imply a certain level of skill or training.**

ITEM 2 Summary of Material Changes

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we are required by applicable rules and regulations to provide to our clients. This Disclosure Brochure is a new document prepared according to the new requirements and rules and is materially different in structure and requires certain new information that our previous Form ADV Part II and Schedule F did not require. In the future, this item will discuss only specific material changes that are made to our Disclosure Brochure and provide you with a summary of such changes while referencing the date of the last annual update of the brochure.

In the past we have offered or delivered information about our Firm’s qualifications and business practices to clients on at least an annual basis. Pursuant to new rules, we will ensure that you receive a summary of any material changes to this and subsequent Disclosure Brochures within 120 days after our fiscal year ends. Our fiscal year ends on June 30 so you will receive the summary of material changes no later than October 31 each year. At that time we will also offer or provide a copy of the most current Disclosure Brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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ITEM 4 Advisory Business

Introduction, Firm History and Owners

Prospera Financial Services, Inc. (referred to as PFS, we/us/our throughout this document) is a corporation formed under the laws of the State of Texas and is dually registered as an investment advisor and broker/dealer. We have been in business since 1982.

We are registered with the Securities and Exchange Commission (SEC) as an investment advisor firm and as a broker/dealer firm. As a broker/dealer capacity, we are a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). We are primarily owned by Prospera Holdings, LLC which in turn is owned and operated by the following principal shareholders who hold the following offices in Prospera Holdings:

- David Walter Stringer, President, Treasurer and Chief Financial Officer
- Richard Dean Pascuzzi, Vice President and Secretary
- Tim Alan Edwards, Vice President

This brochure is intended to provide you with information regarding our investment advisory services, fee arrangements, qualifications, and business practices that should be considered before becoming our advisory client.

Individuals who are appropriately licensed, qualified or approved as investment advisor representatives with us will be authorized to provide investment advisory services for us. Investment advisor representatives may only provide services and charge fees based on the descriptions detailed in this document. However, the exact services you will receive and the fees you will be charged are dependent upon your particular investment advisor representative. Fees may also vary depending on your geographic location and/or your selected investment advisor representative. Investment advisor representatives are instructed to consider your individual needs when recommending an advisory platform.

Most of our investment advisor representatives are approved to also provide investment advice in their separate capacity as registered representatives of our dually-registered broker/dealer. When acting as a registered representative, these representatives may charge commissions on a per-transaction basis when implementing their advice for clients.

When deciding which, if any, of the advisory programs available through us is appropriate for your needs, you should bear in mind that fee based accounts, when compared with commission based accounts may result in lower costs during periods when trading activity is heavier, such as the year an account is established. However, during periods when trading activity is lower, fee based accounts may actually result in higher annual costs. The total cost for transactions under a fee account versus a commission account can vary significantly and depends upon a number of factors, such as account size, amount of turnover (number of transactions), type and quantities of securities purchased or sold, commission rates and the client's tax situation. You should have a conversation with your investment advisor representative and read this brochure carefully as it explains our program in detail.

Our investment advisor representatives and their branch offices may use marketing names or other names that are held out to the public. Such names are known as "doing business as" names. The purpose for using these other names is so that the investment advisor representative can create an identifiable brand that is specific to him or her personally or to their branch office, but separate from us. While we allow our investment advisor representatives to use other names, they have been instructed to

disclose on advertising and client correspondence that their advisory services and securities are offered through us.

Tailor Advisory Services to Individual Needs of Clients

Services are always provided based on the individual client needs. This means, for example, that you are given the ability to impose restrictions on your accounts managed by us, including specific investment selections and sectors. Investment advisor representatives work with you on a one-on-one basis through interviews and questionnaires to determine your investment objectives and suitability information.

Wrap-Fee Program versus Portfolio Management Program

We provide asset management services through both wrap-fee programs and traditional management programs. Under a wrap-fee program, advisory services and transaction services are provided for one fee. This is different from traditional management programs whereby services are provided for a fee, but transaction services are billed separately on a per-transaction basis. From a management perspective, there is not a fundamental difference in the way we manage wrap-fee accounts versus traditional management accounts. The only significant difference is the way in which you pay for transaction services.

Advisory Services

PFS provides its clients with investment management and/or consulting services in connection with programs we have developed and through programs sponsored by Wells Fargo Advisors (Wells Fargo) and/or First Clearing, LLC (First Clearing). We also provide an asset management program through an arrangement with the Fidelity Institutional Wealth Services platform (Fidelity).

Wells Fargo and Wachovia Corporation merged in 2009 to create Wells Fargo & Company, a diversified financial services firm which includes Wells Fargo Advisors. First Clearing Correspondent Services is a division of First Clearing, LLC. First Clearing, LLC is an affiliate of Wells Fargo & Company and a separately registered broker-dealer and member FINRA/SIPC.

Programs offered by us that are not sponsored by Wells Fargo Advisors or First Clearing include

- Prospera Summit Advisory Program,
- Prospera Summit II Advisory Program, and
- Prospera Financial Planning Program.

These three programs are the only programs without a separate disclosure brochure so this document serves as their brochure. We also provide this brochure for the asset management program we offer through an arrangement with the Fidelity Institutional Wealth Services platform (Fidelity). If you open an account through a program sponsored by Wells Fargo Advisors you will receive the applicable program disclosure brochure prepared and distributed by Wells Fargo Advisors.

PFS generally requires the use of First Clearing as the qualified custodian and clearing broker/dealer for all client accounts established within the Prospera Summit Advisory Program. National Financial Services, LLC (NFS), an affiliated broker/dealer of Fidelity, will be recommended for the Prospera Summit II Advisory Program. Using First Clearing and NFS is based on several factors more thoroughly discussed in the Brokerage Practices section of this brochure. First Clearing is an affiliated broker/dealer of Wells Fargo Advisors and therefore the decision to use Wells Fargo Advisors sponsored programs is a main factor in also recommending the use of First Clearing and vice-versa.

Programs offered by us that are sponsored by Wells Fargo Advisors or First Clearing include

- Private Investment Management,
- Asset Advisor,
- Allocation Advisors,
- Masters,
- Diversified Managed Allocations,
- Wells Fargo Compass,
- Private Adviser Network Investment Consulting Service,
- CustomChoice,
- FundSource, and
- Pathways.

While you may be solicited to establish an account through any of the programs described in this document, not all programs offered are suitable for you. Therefore, your investment advisor representatives must analyze your financial situation to recommend a program or service that is suitable for you. Further, it should be noted while you receive individualized treatment from your investment advisor representative, if you have an account managed by us (i.e. the PFS investment advisor representative is responsible for selecting underlying portfolio holdings within client accounts) you will receive more personalized treatment than if your account is managed by selected third-party money managers (i.e. the selected money manager(s) are responsible for selecting underlying portfolio holdings within client accounts).

PFS Investment Advisor Representative Managed Programs
Sponsored by Prospera Financial Services

PROSPERA SUMMIT ADVISORY PROGRAM

PFS sponsors the Prospera Summit Advisory Program, an investment advisory asset allocation program (Summit). Summit is not a wrap-fee program. Only PFS investment advisor representatives may serve as portfolio managers in Summit. Therefore, participants in Summit must be advisory clients of PFS.

Through Summit, we provide investment supervisory and management services defined as providing continuous investment advice based on your individual needs. Services are provided on a discretionary (Advisor Directed) or non-discretionary (Client Directed) basis. Under both situations, investment advisor representatives are responsible for providing you with on-going, individualized services. Upon execution of a *Summit Advisory Agreement*, we will assist you in establishing an individual account (Account) with us (as the introducing broker/dealer) which is cleared through First Clearing. In the event First Clearing cannot accommodate your incoming securities holdings, your account may be cleared and held at another broker/dealer you select. The clearing broker/dealer serves as the qualified custodian for Accounts through Summit.

In addition to the annual asset management fee, we offer our services on a performance-based fee arrangement to qualifying clients. Not all qualifying clients will be charged a performance-based fee as the determination to charge a performance-based fee will be made between the client and the PFS investment advisor representative on a case-by-case basis.

Our performance based fee arrangement shall comply with Section 205-3 of the Investment Advisers Act of 1940. According to Section 205-3, you must meet the SEC's definition of "qualified clients" to enter into a performance based compensation agreement with us. You must meet the following conditions to be considered a qualified client:

- Have at least \$1,000,000 under management with us at the time you enter into an agreement with us; or
- Provide documentation to us so that we shall reasonably believe you have either a net worth of \$2,000,000 or are a qualified purchaser under Section 2(a)(51)(A) of the Investment Company Act.

Please refer to ITEM 6 of this Brochure for more information.

Either of us may end the agreement for services by providing notice to the other party. In the event you end our services, the termination will be effective upon our receipt of notification. We may end our services by providing you with 30 days written notice. If services are ended within five (5) business days of executing the agreement, services will be ended without penalty. If services are ended after five (5) business days, your qualified and/or ERISA accounts are charged a termination fee to close the account.

PROSPERA SUMMIT II ADVISORY PROGRAM

PFS sponsors the Prospera Summit II Advisory Program, an investment advisory asset allocation program (Summit II). Summit II is not a wrap-fee program. Only investment advisor representatives of PFS may serve as portfolio managers in Summit II. Therefore, participants in Summit II must be advisory clients of PFS.

Through Summit II, we provide investment supervisory and management services defined as providing continuous investment advice based on your individual needs. Services are provided on a discretionary (Advisor Directed) basis. Investment advisor representatives are responsible for providing you with on-going, individualized services. Upon execution of a *Prospera Summit II Advisory Program Advisory Agreement*, we will assist you in establishing an individual account (Account) cleared through National Financial Services, LLC (NFS) as a result of our participation in the Fidelity Institutional Wealth Services program. NFS serves as the qualified custodian-broker/dealer.

Your investment advisor representative will construct a portfolio for you consisting of, but not necessarily limited to, equity investments, fixed income, no-load mutual funds and mutual funds traded at NAV. We may also recommend using unaffiliated Sub-Advisers to manage all or a portion of your assets. Any unaffiliated Sub-Advisers recommendation shall be made on a non-discretionary basis, shall be based on your needs and will only include Sub-Advisers registered or exempt from registration in your home state. You will enter into an agreement directly with the unaffiliated Sub-Adviser(s). A complete description of the third-party investment advisor's services, fee schedules and account minimums will be disclosed in the Sub-Adviser's Form ADV or similar Disclosure Brochure which will be provided to you at the time an agreement for services is executed and an account is established.

Your investment advisor representative will be available to answer questions you may have regarding the portion of your account managed by the Sub-Adviser and will act as the communication conduit between you and the Sub-Adviser. Sub-Advisers may take discretionary authority to determine the securities to be purchased and sold for your account. Sub-Adviser(s) fee shall be calculated and collected separately from Summit II's fee described below.

PROSPERA FINANCIAL PLANNING PROGRAM

Upon execution of a financial planning client agreement, PFS investment advisor representatives provide investment advice through the PFS Financial Planning Program. Financial planning services may be provided in the form of written financial plans or in the form of financial planning consultations. Services

may be provided on a one-time basis or on an on-going basis as you selected and memorialized in the client agreement.

Financial planning services generally cover the following six topics of concern, (1) financial situation; (2) income taxes; (3) insurance; (4) investments; (5) retirement planning; and (6) estate planning. To determine a suitable course of action for an individual client, we perform a review of the variables that are presented. Such review may include, but would not necessarily be limited to, investment objectives, consideration of the client's overall financial condition, income and tax status, personal and business assets, risk profile, and other factors unique to your particular circumstances.

When written financial planning services are provided, PFS shall review your present financial situation and issue a written analysis and report of recommendations in accordance with your goals and objectives. This service may include an initial consultation and subsequent follow-up visits. If you are contracting for consultations only, you will not be provided with a written report or plan.

Unless engaged separately to do so, we will not be responsible for the implementation of the plan. You have the sole responsibility for determining whether or not to implement the recommendations made.

PFS Investment Advisor Representative Managed Programs Sponsored by Wells Fargo Advisors

PRIVATE INVESTMENT MANAGEMENT (PIM) AND ASSET ADVISOR PROGRAMS

PFS participates in the Private Investment Management (PIM) and Asset Advisor programs sponsored by Wells Fargo Advisors. PIM is a wrap-fee program so it does not bill transaction costs separately from the overall management fee. Asset Advisor is an asset allocation program so it separately bills transaction costs to the client's account from the overall management fee. Both programs allow the PFS investment advisor representative to provide on-going supervision and management services. PIM is an Advisor Directed program whereas Asset Advisor is a Client Directed program. All client accounts through the PIM and Asset Advisor program must be established through First Clearing.

The description provided in this section regarding the Wells Fargo Advisors sponsored programs we manage is intended to provide you with a brief summary of each program. Wells Fargo Advisors will provide you with a full description and disclosure document at the time you establish an account through either the PIM or Asset Advisor programs.

Third-Party Money Manager Programs – Separate Account Manager Programs Sponsored by Wells Fargo Advisors

ALLOCATION ADVISORS, MASTERS, DIVERSIFIED MANAGED ALLOCATIONS (DMA) AND WELLS FARGO COMPASS PROGRAMS, PRIVATE ADVISOR NETWORK INVESTMENT CONSULTING SERVICE (NETWORK)

PFS participates in separate account manager programs sponsored by Wells Fargo Advisors and First Clearing. Through these programs, PFS investment advisor representatives assist you in allocating your assets among one or more third-party money managers.

Currently, we participate in the following Wells Fargo Advisors sponsored wrap-fee programs:

- Allocation Advisors,
- Masters,
- Diversified Managed Allocations (DMA) and
- Wells Fargo Compass

PFS also participates in the Private Advisor Network Investment Consulting Service (Network) platform, a program sponsored by First Clearing.

Under the Masters, DMA, and Network programs, PFS investment advisor representatives assist you in determining and selecting third-party money managers who will be provided discretionary authority to select investment options to manage your assets. Under the Allocation Advisors and Compass programs, the Wells Fargo Advisory Services Group will be provided discretionary authority as it serves as the third-party money manager.

Through the Masters and DMA programs, PFS investment advisor representatives may be provided discretionary authority to select and remove underlying third-party money managers. Under this type of arrangement, your PFS investment advisor representative does not have to receive your authorization to add or remove a money manager. When you do not grant discretionary authorization to select and remove third-party money managers, you must provide us and the custodian, i.e. First Clearing, with written instructions to add or change a money manager.

The description provided in this section regarding the Wells Fargo Advisors sponsored programs we manage is intended to provide you with a brief summary of each program. Wells Fargo Advisors will provide you with a full description and disclosure document at the time you establish an account through any of the programs. In addition, you will receive a copy of all third-party money managers who manage your assets. Only third-party money managers that are registered as investment advisors or are exempt from investment advisor registration will be recommended.

Mutual Fund Wrap-Fee Programs Sponsored by Wells Fargo Advisors

CUSTOMCHOICE, FUNDSOURCE AND PATHWAYS PROGRAMS

PFS participates in three mutual fund wrap-fee programs sponsored and administered by Wells Fargo Advisors:

- CustomChoice,
- FundSource and
- Pathways.

CustomChoice is a non-discretionary client directed mutual fund wrap program. You must execute the *CustomChoice Client Agreement* to participate in this program. Accounts through this program are managed by us on a non-discretionary basis. There are approximately 1,350 no-load, load waived, and institutional share class mutual funds from which to choose. You must approve all implementation decisions made through this program.

FundSource is a discretionary mutual fund wrap program based on Wells Fargo Advisors research-driven Optimal Blends or Customized Blends. You must execute the *FundSource Program Agreement* to participate in this program. All assets are managed by Wells Fargo Advisors who is given discretionary authority to implement changes within your account based on your individualized situation and based on information provided by you to our investment advisor representative. Portfolios are comprised of mutual funds selected by Wells Fargo Advisors.

Before May 2011, Pathways was a stand-alone advisory program offered by Wells Fargo Advisors. Pathways is now an asset allocation option within the FundSource Program that allows you to allocate assets among mutual fund portfolios (Pathways Funds) which are administered by Russell Investment Company (Russell). Russell will provide a selection of optimal blends of model investment portfolios or accept instructions from you with respect to a custom blend in various funds that are operated and

administered by Russell, based on its evaluation of your financial goals, circumstances and risk tolerances. Russell is responsible for evaluating and retaining one or more investment management organizations to manage each Pathways Fund. The portfolios are designed for a specific investor. You must execute the *Pathways Program Agreement* to participate in this program.

We are not related to Russell and Wells Fargo Advisors and Russell are not related entities. A portion of the fee charged for Pathways is paid to Russell for its investment advisory services.

We provide you with consulting services when selecting optimal blend mutual fund portfolios constructed by Wells Fargo Advisors for the FundSource program and by Russell for the Pathways program. You may also create your own customized mutual fund portfolio blend.

The description provided in this section regarding the Wells Fargo Advisors sponsored programs we manage is intended to provide you with a brief summary of each program. Wells Fargo Advisors will provide you with a full description and disclosure document at the time you establish an account through any of the programs. Pathway's clients will also receive all necessary disclosure documents relating to Russell.

Advisory Services to Retirement Plans and Plan Participants Contracted by Plan Sponsor

PFS offers various levels of advisory and consulting services to employee benefit plans and/or to the participants of such plans ("Participants"). The services are designed to assist plan sponsors ("Plan Sponsors") in meeting their management and fiduciary obligations to the Participants under the Employee Retirement Income Securities Act ("ERISA") and the Pension Protection Act of 2006 ("PPA"). Generally, investment advice provided to Plan Sponsors and Participants is regulated under ERISA and the PPA. We will provide a set of services to Plan Sponsors and their Participants which may include all or some of the offerings described below. Plan Sponsors must make the ultimate decision to retain us for pension consulting and other advisory services including services at the participant level. The Plan Sponsor is free to seek independent advice about the appropriateness of any recommended services for the plan. The following services are provided for general informational purposes. Not all clients contracting for retirement plan services will receive every level of service described below. The exact scope and types of services provided will be agreed upon with each client and listed in the client agreement.

The services provided to employee benefit plans ("the Plan") and their Plan Sponsors may include the following:

Investment Policy Statement. PFS may assist with the drafting and adoption of an Investment Policy Statement (IPS) for each Plan.

Reasonableness Opinion. PFS may provide a written opinion as to the appropriateness and reasonableness of including, or continuing to include, the shares of the employer's own stock as an investment option under the Plan, in respect of the IPS.

Cash Flow Analysis. PFS may assist the Plan's oversight committees with the review of the quarterly cash flow analysis as provided by the plan provider.

Selection of Qualified Default Investment Alternative. PFS may recommend to the client an investment fund product or model portfolio meeting the definition of a "Qualified Default Investment Alternative" ("QDIA") in ERISA Regulation 2550.404c-5(e)(3). The QDIA shall be reflected in the IPS.

Investment Performance Monitoring or Analysis. PFS may assist the Plan's oversight committees with the review of the quarterly investment performance of the Plan's investment options. Under applicable

circumstances, PFS will monitor the appropriateness and continued suitability of each of the investments with a view to complying with the “broad range” requirement under ERISA Section 404(c).

Asset Allocation Analysis. PFS may assist the Plan’s oversight committees with the review of the quarterly asset allocation analysis as provided by the Plan provider.

Performance Reports. PFS may prepare reports evaluating the performance of the Plan’s investment manager(s) or investments, as the case may be, as well as comparing the performance thereof to benchmarks set forth in the IPS. The information used to generate the reports will be derived from statements provided by the client.

Education Services to Plan Committee. PFS may provide training for the members of the Plan Committee with regard to their service on the committee, including guidance with respect to fiduciary duties.

Participant Education Services. PFS may conduct in-person, group sessions and provide printed educational materials (which may include posters, payroll stuffers, and emails) to Participants, providing information to them about the investment options under the Plan and providing information on how to complete plan enrollment paperwork. Services provided under an “Eligible Investment Advice Arrangement,” as defined under the PPA, shall be governed by a separate agreement.

Expense Analysis. PFS may assist the Plan’s oversight committees with the review of the investment expense characteristics for each of the investment options.

Investment Structural Analysis. PFS may assist the Plan’s oversight committees with the review of the Investment Structural Analysis for each of the investment options.

Third Party Product or Service. Advisory services provided to retirement plans may be solely provided by advisory representatives, or in combination with third parties and their retirement plan services. PFS may use the product or service offered by a third party in providing services to a client and the Plan.

Plan Search Support. PFS may manage the preparation, distribution, and evaluation of Request For Proposals, finalist interviews, and conversion support.

Additional Services. Services as agreed upon by PFS and client.

Services for Plan Participants. Plan Sponsors may retain PFS and its advisory representatives to provide services to Participants pursuant to an “eligible investment advice arrangement,” as defined under the PPA. The scope of the services and fees are established and approved in advance by the Plan Sponsor and shall be clearly set forth in the executed agreement for services.

Advisory Representatives will meet with individual Participants to collect pertinent information regarding their financial circumstances and investment objectives. Advisory Representatives will then deliver advice either by:

- providing direct investment advisory services to the Participant (in which case the PFS fee will not vary based on the advice given to the Participant)
- generating portfolio recommendations for a Participant based on an unbiased computer model that has been certified and audited by an independent third party.

Advisory Services to Retirement Plan Participants
Not Contracted by Plan Sponsor

Participants may contract PFS and its advisory representatives to provide direct advisory services. The services and fees are set forth in the executed agreement and approved by participant in lieu of the plan sponsor.

Management of Client Assets

PFS manages assets on a discretionary and non-discretionary basis. As of June 30, 2011, PFS managed \$780,764,275.06 in client assets of which \$625,462,727.90 was managed on a discretionary basis and \$155,301,547.16 was managed on a non-discretionary basis.

ITEM 5 Fees and Compensation

Although PFS does not generally waive from these fee schedules, we reserve the right to charge you a higher or lower fee or one that may be different from the guidelines set forth in these fee schedules and which may be lower or higher than fees charged to another client with a similar account.

PFS investment advisor representatives may charge higher fees than those stated by receiving approval from Compliance. PFS investment advisor representatives must ensure clients agree to fees higher than the basic fee schedule described. You may be able to receive similar services from other financial firms for lower fees.

When fees are billed monthly, fees for the initial month and last month are not pro-rated. Therefore, you will be assessed a fee for the entire first month (upon the opening of an account) and for the entire last month (upon the closing of an account) if there is a balance remaining in your account at the end of the month. The fee will be considered earned when paid.

Either of us may end the agreement for services by providing notice to the other party. In the event you end services, termination will be effective upon our receipt of notification. We may end services by providing you with 30 days written notice. If services are ended within five (5) business days of executing the agreement, services will be ended without penalty. If services are ended after five (5) business days, your qualified and/or ERISA accounts are charged a termination fee to close the account.

In addition to the annual management fee, PFS and its investment advisor representatives may also retain 12(b)-1 fees paid by mutual funds selected in your accounts.

Fees are typically deducted directly from your Account. You must provide written authorization to have us deduct fees from the Account. The qualified custodian will send your client statements, at least quarterly, showing all disbursements for the account including the amount of the advisory fee deducted. You may direct us to pay the fee from a different account. If approved by us, you may pay advisory fees upon receipt of a billing invoice from us in lieu of having fees debited directly from the account.

You may also incur certain charges imposed by other third parties for investments made through the account, including but not limited to, mutual fund sales loads, surrender charges, IRA and qualified retirement plan fees, clearing costs, and fees required for the opening, closing or servicing of the account, including but not limited to applicable maintenance fees, exchange fees or other charges required by law. The management fees we charge are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to you. A description of these fees and expenses are available in each investment company security's prospectus. Management fees are also separate and distinct from the fees and expenses charged by the qualified custodian serving as the

clearing broker/dealer (e.g. First Clearing or NFS). We may retain or share a portion of any fees charged by a third-party if any portion of those fees is shared with us by the third-party.

Prospera Summit Advisory Program Fees

Summit clients pay an annualized fee for services provided by us, based upon a percentage of the market value of Account assets. The maximum annual fee charged for Summit program accounts shall generally not exceed 2.50% annually on the first \$500,000 and shall not exceed 3.00% annually. The annual fee on the next \$500,000 shall generally not exceed 2.00% and 1.50% on assets on the next \$1,000,000. Fees charged on assets above \$2,000,000 are negotiable.

The annual fee will be divided and billed monthly in advance based on the market value of your account assets at the end of the previous month. The actual fee charged is based on factors such as, but not necessarily limited to, the amount of assets under management, totality of services provided to you and your overall financial complexity. The specific services to be provided and fee charged will be mutually agreed upon and described in the *Summit Advisory Agreement* before commencing services.

Prospera Summit II Advisory Program Fees

Summit II clients pay an annualized fee for services provided by PFS, based upon a percentage of the market value of Account assets. The maximum annual fee charged for Summit II accounts shall generally not exceed 2.50% annually on the first \$500,000 and not exceed 3.00% annually. The annual fee on the next \$500,000 shall generally not exceed 2.00% and 1.50% on assets on the next \$1,000,000. Fees charged on assets above \$2,000,000 are negotiable.

When clients have a portion of their assets managed by a Sub-Adviser, the total advisory fee (our fee plus Sub-Advisers' fees) shall generally not exceed 3.00% of your total assets on an annual basis. Fees paid to Sub-Advisers will be calculated and deducted by the Sub-Adviser per the conditions set forth in the client agreement with each applicable Sub-Adviser.

The annual fee will be divided and billed monthly in arrears based on the market value of your account assets at the end of the previous month. The actual fee charged is based on factors such as, but not necessarily limited to, the amount of assets under management, totality of services provided to the client, and the client's overall financial complexity. The specific services to be provided and fee charged to a client will be agreed upon and described in the *Prospera Summit II Advisory Program Agreement* before commencing services.

Prospera Financial Planning Program Fees

Fees for financial planning services may be based on a fixed or hourly fee with the actual amount charged to you affected by factors such as the complexity of the services provided and the PFS investment advisor representative providing services. While fees charged will vary from client to client, the maximum hourly fee a PFS investment advisor representative may charge is \$250. The maximum fixed or flat fee that may be charged is \$5,000. Services that are anticipated to be more complex will generally warrant a higher fee amount. Less complex services may generally result in a lower fee amount.

Before providing services, the PFS investment advisor representative will provide you with an estimate of the number of hours needed to complete services or an estimated fixed fee. All fees are negotiable and are agreed upon before entering into a contract. In the event the PFS investment advisor representative requires additional time to complete services, we will obtain your approval before commencing additional services. All fees are due upon completion of financial planning services in accordance with the

parameters set forth in the written financial planning agreement. We may waive the agreed upon fee if you purchase products or enter into agreements for other services with us.

You are under no obligation to act on the financial planning recommendations of PFS investment advisor representatives. If PFS investment advisor representatives assist you in implementing any financial planning recommendations or if you elect to open an advisory account with us, we are responsible for ensuring that you receive the best execution possible.

Private Investment Management (PIM) Program Fees

Annual fees charged under these programs are billed quarterly in advance and are deducted directly from your accounts. When fees are negotiable, the negotiating factors include the complexity of your financial situation, securities positions held in the account, and the amount of assets under management. The maximum annual fee charged in PIM equity and fixed income accounts shall not exceed 3.00% annually with a minimum fee of 0.75%. The maximum fee charged on mutual fund portfolios shall not exceed 2.00% with a minimum fee of 0.75%. Fees charged on accounts are negotiable.

PIM's management fee includes up to 120 transactions per calendar year. The cost for additional transactions will be billed directly to your account.

Asset Advisor Program Fees

The maximum annual fee charged in Asset Advisor accounts shall not exceed 2.00% for portfolios containing equities with a minimum fee of 0.75%. The maximum annual fee for mutual fund portfolios shall not exceed 1.5% with a minimum fee of 0.75%. The maximum annual fee for fixed income positions shall not exceed 1.5% with a minimum fee of 0.30%. Annual fees on cash positions may be waived, but may not exceed 1.5%. Fees charged on accounts are negotiable.

Asset Advisor's management fee includes up to 120 transactions per calendar year. The cost for additional transactions will be billed directly to your account.

Allocation Advisors, Masters, Diversified Managed Allocations (DMA) and Wells Fargo Compass Program Fees

Annual fees charged under these programs are billed quarterly in advance and deducted directly from your account. When fees are negotiable, the main factor is the amount of assets under management, but other factors may include your level of service in other PFS programs and the complexity of your overall situation.

The annualized fee charged under the Allocation Advisors program typically ranges from 1.50% to 2.25% for Tactical Portfolios and 1.00% to 1.50% for Strategic Portfolios with fees negotiable on accounts above \$2,000,000 with a portion of the management fee retained by Wells Fargo Advisors. There is a minimum quarterly client fee of \$250 for the Tactical Portfolios and \$75 for the Strategic Portfolios.

The annualized fee charged under the Masters Program typically ranges from 2.00% to 2.75% with fees being negotiable on accounts above \$2,000,000. There is a minimum quarterly fee of \$375. This fee includes a portion directed to the money managers which typically ranges between 0.80% to 0.15% annually based on total aggregate client dollars with each adviser.

The annualized fee charged under the Diversified Managed Allocations (DMA) Program typically ranges from 2.00% to 2.75% for equity and balanced accounts and 1.00% to 1.50% for fixed income fees with fees being negotiable on accounts above \$2,000,000. This fee includes a portion directed to the money

managers selected in the client's account. There is a minimum quarterly fee of \$500. The annual money manager fee does not exceed one-half of the overall fee charged to you.

The annualized fee charged under the Wells Fargo Compass Advisory Program typically ranges from 1.50% to 2.50% for the Individual and Asset Allocation growth strategies, 1.00% to 2.00% for the ETF and Asset Allocation growth and income strategies and 1.00% to 1.50% for the Fixed Income strategies with fees being negotiable on accounts above \$2,000,000 with a portion of the management fee retained by Wells Fargo Advisors. There is a minimum quarterly client fee of \$250 for the Individual, Asset Allocation and ETF strategies and \$375 for the Fixed Income strategies.

Private Advisor Network Investment Consulting Service (Network) Platform Fees

Wells Fargo Advisors offers a choice of two options to compensate for Private Advisor Network services. The two options are (1) payment of a fee for Private Advisor Network services and execution charges or (2) an execution schedule for services and execution charges. The annualized fee charged under the Private Advisor Network typically ranges from 1.00% to 2.00% for equity and balanced accounts and 0.50% to 1.00% for fixed income accounts with fees being negotiable on accounts above \$2,000,000. There is a minimum quarterly fee requirement of \$375. Fees charged by money managers selected under the Network program are billed and collected separately from the annual fee retained by us. Under the Execution Schedule, you pay for Private Advisor Network services by paying commissions for each transaction in the account at the normal commission rate for such agency transactions and at the normal markup or markdown imposed on your accounts for principal transactions. You are also subject to any other fees associated with standard brokerage accounts, including postage and handling fees, transfer taxes, exchange fees, and any other fees required by law. In addition, if household assets are less than \$250,000, you may also be subject to Wells Fargo Advisors' annual account fee.

CustomChoice, FundSource and Pathways Program Fees

Fees charged under these three programs are billed quarterly in advance and are deducted directly from your account. When fees are negotiable, the main factor is the amount of assets under management, but other factors may include your level of service in other PFS programs and the complexity of your overall situation. The minimum quarterly fee charged under the FundSource, CustomChoice and Pathways programs is \$75.

The standard fee schedule under each of the programs is as follows:

- First \$500,000 of assets – 1.50%;
- Next \$500,000 of assets – 1.25%;
- Next \$1,000,000 of assets – 1.00%;
- Over \$2,000,000 of assets – Negotiable

Retirement Plans and Plan Participants Advisory Service Fees

Fees for Advisory Services to Retirement Plans and Plan Participants may be charged on either a 1) flat fee basis, 2) percentage of a plan's assets, or 3) on a combination of these methods, as agreed to between PFS and the Plan Sponsor. The exact fee charged will depend on the variables, such as the number of participants, the amount of assets in the Plan, the complexity of the situation, the location of the client, and the advisory representative providing services. The maximum flat fee generally charged for this service shall not exceed \$60,000 per year. In the event fees are charged based on the percentage of the Plan assets, the maximum fee charged will generally not exceed 1.00% annually. The fee charged for reviewing individual Participant accounts ranges between \$300 and \$1,500 and is due upon completion of a review. The exact fee charged to each individual participant is contingent upon the

amount of assets held within the accounts being reviewed and the number of accounts being reviewed. Participant fees may be paid by the Participant or the Plan Sponsor depending on the agreement between the Plan Sponsor and PFS.

Services may be provided on a one-time or on-going basis. Upon execution of a client agreement, the client will have five (5) business days to end services with no penalty (i.e. no fees due or refund of any fees paid in advance).

Fees may be charged in advance or in arrears. The annual fee may be divided and collected monthly, quarterly, or semi-annually. In the event the entire annual fee is collected in advance, the fee will be considered earned when paid. In these cases, PFS does not provide a refund if the service is ended after the initial five (5) day period.

The exact fee charged and the billing arrangements will be agreed upon before commencing services. The fee and fee arrangements will be detailed in the client agreement.

Clients shall also incur certain charges imposed by third parties other than us in connection with investments made through a Plan.

Performance-Based Fees

The following performance-based fee schedule should be used as a guideline only. All fees are subject to negotiating at the sole discretion of PFS. PFS may charge a lesser or no management fee based upon criteria such as existing financial planning client relationship, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition or negotiations with client.

<u>Quarterly Percentage Change in Net Equity</u>	<u>Quarterly Performance Percentage Assessment</u>
0.00% or less	0.00%
Greater than 0.00%	20.00%

The quarterly performance fee shall be based on the net equity increase in market value of your total assets under management with us. The quarterly net equity increase shall be understood to be the percentage difference between the net equity market value of your total assets (plus/minus additions or withdrawals) under our management on the last business day of a calendar quarter compared to the net equity market value of your total assets under our management on the first business day of that same calendar quarter.

We shall not collect a quarterly performance-based fee from you until any previous losses in your accounts have been recovered. Annual management fees shall continue to be assessed regardless of quarterly performance. No increase in our fees shall be effective without prior written notification to you.

Compensation

PFS and its investment advisor representatives licensed as securities agents may receive commissions from the execution of securities transactions. In addition, they may receive 12b-1 fees from certain mutual fund companies as outlined in the fund's prospectus. 12b-1 fees come from fund assets, therefore, indirectly from client assets. The receipt of such fees could represent an incentive for investment advisor representatives to recommend funds with 12b-1 fees over funds that have no fees or lower fees. While commissions are generally waived in connection with advisory accounts, 12b-1 fees are received in addition to the advisory fees earned by PFS. Further PFS and its investment advisor representatives licensed as securities agents may receive mutual fund sales loads, 12b-1 distribution fees, fixed income security commissions, commissions on managed futures, and variable annuity and

variable life sales commissions and trail commissions from investments placed in a PFS advisory account. In these instances, there is a conflict of interest.

ITEM 6 Performance Based Fees and Side-by-Side Management

As described above in Item 5 – Fees and Compensation, through the Summit Advisory Programs we provide services and are compensated in a way in which we accept performance fees. That is, fees based on a share of capital gains or capital appreciation of your assets. We also provide services and are compensated in a way in which we accept asset based fees. That is, fees based on the total amount of assets owned by you.

PFS faces conflicts of interest by managing these accounts at the same time. For example, the nature of a performance fee poses an opportunity for us to earn more compensation than under a stand-alone asset based fee. Thus we may favor performance fee accounts over those accounts where we receive only an asset based fee. One way we may favor performance fee accounts is that we may devote more time and attention to performance fee accounts than to accounts under an asset-based arrangement.

There are other conflicts associated with performance fees that are not as common under an asset-based fee arrangement. The nature of performance fees can encourage unnecessary speculation with your assets to earn or increase the amount of the fee. The result of riskier investments can have a positive effect in that results could equal higher returns when compared to an asset-based account. On the other hand, riskier investments historically have a higher chance of losing value. Also, since in a performance fee arrangement an advisor is compensated based on capital gains or capital appreciation, these arrangements could give an investment advisor an incentive to time transactions in a client's account on the basis of fee considerations rather than on what is necessarily in your best interests.

Performance fees can potentially cause us to engage in transactions or strategies which will increase the amount of the performance fees, but which may not increase the overall performance of your account. For example, an account may lose value during a year and no performance fee will be earned. In the following year, we may receive a performance fee for simply recouping losses from the previous year. We control this conflict of interest by using a benchmark (also known as a high-water mark) as detailed in Item 5 of this Brochure. A performance fee may also encourage us to make riskier and more speculative investments. We do not represent that the amount of the performance fees or the manner of calculating the performance fees is consistent with other performance related fees charged by other investment advisers under the same or similar circumstances. The performance fees charged by us may be higher than the performance fees charged by other investment advisers for the same or similar services.

We have established policies and procedures to address the various conflicts of interest associated with charging a performance fee:

- PFS investment advisor representatives must devote equal time to the management of performance fee accounts and asset based accounts.
- Only clients that are able to assume additional risk are solicited to engage in a performance fee arrangement. PFS provides such clients full disclosure of the additional risks associated with a performance fee arrangement.
- Performance of client accounts must reach a pre-determined and agreed upon benchmark (or high-water mark).

ITEM 7 Types of Clients

We provide the advisory services described in this Brochure to individuals, pension and profit sharing plans, trusts, estates or charitable organizations, corporations or other business entities.

Conditions for Managed Accounts

Wrap accounts sponsored by Wells Fargo Advisors require a minimum account size of \$25,000. The minimum account size for Wells Fargo Advisors separate account manager programs is \$50,000. Client directed and advisor directed accounts also require a minimum account size of \$50,000. Depending on the specific program selected by you, a higher minimum may be required. Account minimums may be waived at the discretion of PFS and/or Wells Fargo Advisors. If you contract for a Wells Fargo Advisors sponsored program, you are required to enter into a Wells Fargo Advisors client agreement and will receive a copy of the Wells Fargo Advisors sponsored program disclosure brochure.

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

Our investment advisor representatives use various methods of analysis and investment strategies. Methods and strategies will vary based on the investment advisor representative providing advice. Models and strategies used by one investment advisor representative may be different than strategies used by other investment advisor representatives. Some investment advisor representatives may use just one method or strategy while other investment advisor representatives may rely on multiple. We do not require or mandate a particular investment strategy be implemented by our investment advisor representatives. Further, we have no requirement for using a particular analysis method and our investment advisor representatives are provided flexibility (subject to supervision and compliance requirements) when developing their investment strategies. The following sections provide brief descriptions of some of the more common methods of analysis and investment strategies that are used by our investment advisor representatives.

Methods of Analysis

Fundamental approach to investment analysis is used by some of our investment advisor representatives. Fundamental analysis is a method of evaluating a company or security by attempting to measure its intrinsic value. In other words, to attempt to measure intrinsic value is trying to determine the security's true value by looking at all aspects of the business, including both tangible factors (e.g., growth rate, machinery, buildings, land, etc.) and intangible factors (e.g., patents, trademarks, "brand" names, etc.). Fundamental analysis also involves examining related economic factors (e.g., overall economy and industry conditions, etc.), financial factors (e.g., dividends, company debt, interest rates, management salaries and bonuses, etc.), qualitative factors (e.g., management expertise, industry cycles, labor relations, etc.), and quantitative factors (e.g., debt-to-equity and price-to-equity ratios).

The end goal of performing fundamental analysis is to produce a value that you can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

Cyclical analysis is an important sub-category of fundamental analysis which is used to analyze the investments sensitive to business cycles and whose performance is strongly tied to the overall economy. One of the most important cyclical considerations is whether the economy is being subjected primarily to

inflationary or deflationary forces. This consideration influences asset selections, many of which are sector plays that perform based on whether inflationary or deflationary forces are dominant. Stocks of individual companies tend to move based on cyclical factors as well. For example, cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and higher demand during upswings. Examples include the automobile, steel, and housing industries. The stock price of a cyclical company will often rise just before an economic upturn begins, and fall just before a downturn begins. Investors in cyclical stocks try to make the largest gains by buying the stock at the bottom of a business cycle, just before a turnaround begins.

While most economists and investors agree that there are cycles in the economy that need to be respected, the duration of such cycles is generally unknown. An investment decision to buy at the bottom of a business cycle may actually turn out to be a trade that occurs before or after the bottom of the cycle. If done before the bottom, then downside price action can result before any gains. If done after the bottom, then some upside price action may be missed. Similarly, a sell decision meant to occur at the top of a cycle may result in missed opportunity or unrealized losses.

In addition to fundamental and cyclical analysis, some of our investment advisor representatives use Technical and Charting methods to determine the timing for trading securities and fine-tuning their recommendations.

Technical analysis is a method of evaluating securities by reviewing statistics generated from market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical movements of stocks and markets are indications of future movements.

Charting is a technique in technical analysis in which price movements, volume, settlement prices, and other indicators are used in order to anticipate future price movements. Users of these techniques, called chartists, believe that past trends in these indicators can be used to extrapolate future trends.

Technical analysis is even more subjective than fundamental analysis in that it relies on proper interpretation of a given security's price and trading volume data. A decision might be made based on a historical move in a certain direction that was accompanied by heavy volume; however, that heavy volume may only be heavy relative to past volume for the security in question, but not compared to the future trading volume. Therefore, there is the risk of a trading decision being made incorrectly, since future trading volume is an unknown. Technical analysis is also done through observation of various market sentiment readings, many of which are quantitative. Market sentiment gauges the relative degree of bullishness and bearishness in a given security, and a contrarian investor uses such sentiment advantageously. When most traders are bullish, there are very few traders left in a position to buy the security in question so it becomes advantageous to sell it ahead of the crowd. When most traders are bearish, there are very few traders left in a position to sell the security in question so it becomes advantageous to buy it ahead of the crowd. The risk in using such sentiment technical measures is that a very bullish reading can always become more bullish, resulting in lost opportunity if the money manager chooses to act upon the bullish signal by selling out of a position. The reverse is also true in that a bearish reading of sentiment can always become more bearish, which may result in a premature purchase of a security.

Charting is likely the most subjective analysis of all since it relies on proper interpretation of candlesticks and chart patterns. The risk of reliance upon candlestick data is that the next day's data can always negate the conclusions reached from prior days' candlesticks. Also, reliance upon chart patterns bears the risk of a certain pattern being negated by a larger, more encompassing pattern that has not shown itself yet.

Given the risks inherent in each method of analysis, we may employ most of these analyses at the same time. Risk is minimized when we are able to draw the same conclusion from multiple methods of analysis.

Investment Strategies

We manage your account a portfolio of securities based on a strategy discussed with you and based on your stated investment goals and objectives. Depending on the individual circumstances of your and the PFS investment advisor representative's investment philosophy, we may use the following investment strategies.

The Investment Strategies used in the programs are long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), short sales, margin transactions, option writing including covered options, uncovered options or spreading strategies, tactical asset allocation and strategic asset allocation.

Long-term purchases: Securities are typically purchased with the idea of holding them in your account for a year or longer usually because the security is believed to be currently undervalued. This may also be done to gain exposure to a particular asset class over time, regardless of the current projection for this class. A risk in a long-term purchase strategy is that, by holding the security for this length of time, PFS may not take advantages of short-term gains that could be profitable to you. Moreover, if predictions are incorrect, a security may decline sharply in value before the decision to sell is made.

Short-term purchases: At times, securities may be purchased with the idea of selling them within a relatively short time (typically a year or less) in an attempt to take advantage of conditions believed to soon result in a price swing in the securities purchased. A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, you may be left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Other: When appropriate to your needs, we may recommend the use of short sales, margin transactions and option writing. Because these investment strategies involve certain additional degrees of risk, they will only be recommended when consistent with your stated tolerance for risk.

Short Sales: A short sale is generally the sale of a stock you do not own. Short sellers believe the price of the stock will fall. If the price drops, you can buy the stock at the lower price and make a profit. If the price of the stock rises and you buy it back later at the higher price, you will incur a loss. Short sales require a margin account.

Margin Transactions: When you buy a stock on margin, you pay for part of the purchase and borrow the rest from a brokerage firm. For example, you may buy \$5,000 worth of stock in a margin account by paying \$2,500 and borrowing \$2,500 from a brokerage firm. You cannot borrow stock from us.

Option writing including covered options, uncovered options, or spreading strategies: Options are contracts giving you the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.

Tactical asset allocation: Allows for a range of percentages in each asset class (such as Stocks = 40-50%). These are minimum and maximum acceptable percentages that permit you to take advantage of

market conditions within these parameters. Thus, a minor form of market timing is possible, since you can move to the higher end of the range when stocks are expected to do better and to the lower end when the economic outlook is bleak.

Strategic asset allocation: Calls for setting target allocations and then periodically rebalancing the portfolio back to those targets as investment returns skew the original asset allocation percentages. The concept is akin to a “buy and hold” strategy, rather than an active trading approach. Of course, the strategic asset allocation targets may change over time as your goals and needs change and as the time horizon for major events such as retirement and college funding grow shorter.

Risks

Risk of Loss: In choosing any advisory services through us, you should be aware that all investments shall be at their own risk exclusively, and must understand that **we do not guarantee any return** on the investments recommended or advised upon. There is no guarantee that the advisory services provided by us will result in meeting your goals and objectives. Investing involves risks, including the risk of loss of principal, and investment decisions made for your account may be subject to numerous risks, such as market, interest rate, currency, economic, political and business risks, among others. Past performance is no guarantee of future results.

Because of the inherent risk of loss associated with investing, we are unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities.

Market Risk: Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.

Equity (stock) market risk: Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If common stock or common stock equivalents of any given issuer are held, you would generally be exposed to greater risk than if you held preferred stocks or debt obligations of the issuer.

Company Risk: When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is a risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

Management Risk: Your investment with us will vary with the success and failure of investment strategies selected and implemented, research, analysis and determination of portfolio securities. If investment strategies do not produce the expected returns, the value of your investment will decrease.

Risk of Inconsistency: Your accounts are managed by the Investment Adviser Representative (“IAR”) you selected, who provides advice over the account and makes buy and sell decisions based on his/her judgment of market conditions and the investment merits of specific securities. Generally speaking, our IARs operate independent of each another and therefore may place trades before or after trades for other client accounts.

PFS and our IARs perform advisory, brokerage and other services for a variety of clients in similar and other types of accounts. At times, a conflict of interest may arise among clients or accounts. The advice

given and the action taken with respect to any given client's account (advisory or otherwise) may differ from advice given or the timing and nature of action taken with respect to your or another client's account, even an account with similar investment goals and objectives, due to a wide variety of factors including, for example, the overall profile of the accounts and tax considerations. Clients may have varying performance due to differences in their accounts and transactions in a specific security may not be accomplished for all client accounts or at the same time or at the same price. In addition, action taken with respect to securities in one account may adversely impact the value of securities held by another account.

Risk in the Use of Short Selling: When short selling, the losses can be unlimited. A security is not limited on how high its price can go. Thus, losses can be infinite.

Risk in the Use of Margin: When purchasing securities, you may pay for the securities in full or may borrow part of the purchase price from the broker/dealer. In order to borrow funds in connection with the account, you will be required to open a margin account, which will be carried by the broker/dealer of your account. The securities purchased in such an account are the broker/dealer's collateral for the funds loaned.

If the value of securities in a margin account decline, the value of the collateral supporting the loan also declines, and, as a result, a brokerage firm is required to take action, such as issuing a margin call and/or selling securities or other assets in client accounts to maintain necessary level of equity in the account.

You should fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any Margin Account that may be established as a part of our Investment Management Services and held by your broker/dealer. These risks include, but are not necessarily limited to, the following:

- You can lose more funds than you deposit in your margin account.
- The broker/dealer can force the sale of securities or other assets in your account.
- The broker/dealer can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your margin account that may be liquidated or sold to meet a margin call.
- The broker/dealer may move securities held in your cash account to your margin account and pledge the transferred securities.
- The broker/dealer can increase its "house" maintenance margin requirements at any time and are not required to provide you advance written notice.

You are not entitled to an extension of time on a margin call.

Risk in the Use of Options: Like other securities - including stocks, bonds, and mutual funds - options carry no guarantees, and you must be aware that it's possible to lose all of the principal you invest and sometimes more. As an options holder, you risk the entire amount of the premium you pay. But as an options writer, you take on a much higher level of risk. For example, if you write an uncovered call, you face unlimited potential loss, since there is no cap on how high a stock price can rise. However, since initial options investments usually require less capital than equivalent stock positions, your potential cash losses as an options investor are usually smaller than if you'd bought the underlying stock or sold the stock short. The exception to this general rule occurs when you use options to provide leverage: Percentage returns are often high, but it's important to remember that percentage losses can be high as well. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.

Risk in the Use of Fixed Income: When investing in bonds, there is a risk that the issuer will default on the bond and be unable to make payments. Further, if you depend on set amounts of periodically paid income you face the risk that inflation will erode your spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.

Risk in the Use of Exchange Traded Funds (ETF) and Mutual Funds: When investing in a an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing ETFs.

Risk of Full Account Liquidations: Upon proper notification to liquidate your holdings in any advisory program, we will in an orderly and efficient manner proceed with the liquidation request. You must consider that liquidating assets may result in tax consequences that should be discussed with your tax advisor. We are under no obligation to effect any transaction for you that we believe to be improper under applicable law, rule or regulation.

Factors that may affect the orderly and efficient manner (i.e., liquidation of securities) would be size and types of issues, liquidity of the markets, and market makers' abilities. Should the necessary securities' markets be unavailable and trading suspended, efforts to trade will be done as soon as possible following their reopening. Due to the administrative processing time needed to end your investment advisory services and/or communicate the instructions to your investment advisor, and/or conduct an accounting of specific holdings in your accounts, full liquidation requests received are not market orders; it may take several business days under normal market conditions to process full liquidation requests. During this time, your account is subject to market risk. We are not responsible for market fluctuations of your account from time of proper notice until complete liquidation. All efforts will be made to process the termination in an efficient and timely manner.

ITEM 9 Disciplinary Information

Item 9 is not applicable to this Disclosure Brochure because there are no legal or disciplinary actions that are material to a client's or prospective client's evaluation of our business or integrity. PFS periodically reviews legal or disciplinary events involving our firm or a supervised person to determine if the event is material or immaterial.

All legal and disciplinary events for PFS and its supervised person can be accessed on the FINRA website at www.finra.org/brokercheck or the SEC website at www.adviserinfo.sec.gov.

ITEM 10 Other Financial Industry Activities and Affiliations

PFS is not and does not have a related company that is a (1) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund), (2) futures commission merchant, commodity pool operator, or commodity trading advisor, (3) banking or thrift institution, (4) accountant or accounting firm, (5) lawyer or law firm, (6) pension consultant, (7) real estate broker or dealer, or (8) sponsor or syndicator of limited partnerships.

Other Business Activities

PFS and its principal executive officers are engaged in professions other than giving investment advice. We are dually registered as a broker/dealer, member FINRA/SIPC. The executive officers of PFS and our investment advisor representatives may also be securities agents (also referred to as registered

representatives) in our role as a broker/dealer. In these capacities, PFS and our investment advisor representatives sell securities products to clients for commissions. The receipt of commissions is separate and distinct from fees charged for PFS advisory programs. As a broker/dealer we recommend, sell and service investments such as, but not limited to, stocks, bonds, options, CDs, mutual funds, and variable annuities. All securities transactions are done through PFS in its capacity as a broker/dealer.

Other Activities and Affiliations

PFS is affiliated with Prospera Life & Annuity Services, Inc. (PLA), an insurance agency under common ownership with PFS. Prospera Holdings, LLC is the direct owner of PFS and the three owners of Prospera Holdings, Inc. directly own PLA. Some of our investment advisor representatives are insurance agents of PLA and some investment advisor representatives are independently licensed as insurance agents. In these capacities, PFS and our investment advisor representatives may recommend insurance products in connection with investment advisory services. You are not obligated to purchase any insurance products through PLA or through our investment advisor representative acting in their individual capacity as an insurance agent. However, when you do purchase such products, commissions for the sale of insurance products from various, unaffiliated, insurance companies are received. Implementing and purchasing of any insurance product is solely at your discretion.

Third Party Investment Advisors

As described in Item 4 – Advisory Business and Item 5 – Fees and Compensation, we have formed relationships with independent, third-party investment advisors. When we refer clients to a third party investment advisor through our programs, we will receive a portion of the fee charged. Therefore, we have a conflict of interest in that we will only recommend third party investment advisors available through the programs described in Item 5 of the Disclosure Brochure.

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

Code of Ethics

PFS and our supervised persons may buy or sell for their personal accounts, investment products identical to those recommended to clients. Section 204A-1 of the *Investment Advisers Act of 1940* (Act) requires us to establish, maintain and enforce a Code of Ethics, which we have done. We are considered a fiduciary according to the Act and have a fiduciary duty to our clients. As a fiduciary, it is our responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. This fiduciary duty is considered the core underlying principle for our Code of Ethics which also covers Insider Trading and Personal Securities Transactions Policies and Procedures. We require all supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. At least annually, all supervised persons will sign an acknowledgement that they have read, understand and agree to comply with our Code of Ethics. We have the responsibility to make sure that the interests of all clients are placed ahead of our interests or our supervised person's own investment interest. Full disclosure of all material facts and conflicts of interest will be provided to you before any services are conducted. We must conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty. This disclosure is provided to give you a summary of our Code of Ethics. However, if you wish to review the Code of Ethics in its entirety, a copy will be provided promptly upon request.

Participation or Interest in Client Transactions

PFS may, at its discretion and in its capacity as a broker/dealer, execute client orders for certain types of securities on a principal basis. We are not a clearing broker/dealer and do not maintain an inventory in any securities; however, when certain orders are received, we may execute the order for our proprietary account. When executing from its proprietary account, we may include a mark-up or mark-down, and subsequently bill the trade to the account of the client for which the order was executed. Any additional compensation earned by PFS from a mark-up is in addition to advisory fees charged to clients.

As a broker/dealer, PFS and our investment advisor representatives are also licensed as securities agents to sell securities products for commissions. This could present a conflict of interest in receiving both advisory fees and brokerage commissions. In most situations, the investment advisor representative will waive the brokerage commissions from recommended securities transactions enacted through an advisory program. However, when purchasing fixed-income securities still in syndication, we will receive a commission in addition to any advisory fees paid. As securities agents we may receive mutual fund sales loads, 12(b)-1 distribution fees, variable annuity and variable life sales commissions and trail commissions from investments placed in your advisory account. As a result, there is a potential conflict of interest.

PFS and our investment advisor representatives licensed as securities agents are able to effect securities transactions for separate and typical compensation for any client requesting these services. Financial planning clients are not obligated to engage us to implement the financial planning recommendations made. The decision to implement any, all or none of the recommendations is solely at the discretion of the financial planning client.

Personal Trading

PFS and our investment advisors may recommend or effect transactions for your accounts in securities in which a PFS director, officer, employee or other related person may also be invested directly or indirectly. This poses a conflict of interest to the extent that transactions in such securities on behalf of PFS clients that may advantage such related persons. However, PFS and its investment advisors are constrained by fiduciary principles to act in your best interests when managing your accounts. We monitor activity in client accounts in an effort to ensure that transactions are appropriate and any such conflicts are resolved in a manner that is fair and equitable to clients.

ITEM 12 Brokerage Practices

We do not have any formal or informal soft-dollar arrangements and do not receive any soft-dollar benefits.

PFS receives a portion of fees earned by our agents that use Wells Fargo Advisors/First Clearing and Fidelity/NFS services and programs through the PFS securities agent's independent investment advisor firm. We receive compensation from First Clearing on client debit and credit balances, i.e.: the difference between what First Clearing receives in interest and what it actually pays the client and what the client pays in interest on margin accounts and what First Clearing's actual cost is. We also retain any gains generated from trading errors, such as cancel/rebills.

Certain product sponsors, including Wells Fargo Advisors, First Clearing, Fidelity and NFS may provide us with other economic benefits as a result of sales activities directed to the sponsors, including but not limited to, financial assistance or the sponsorship of conferences and educational sessions, marketing support, incentive awards, payment of travel expenses, tools to assist us in providing various services to

you such as reporting programs and portfolio analysis and directing brokerage transactions in our capacity as a broker-dealer.

Recommendation of First Clearing, LLC

For the majority of services we offer, we require accounts be established and held through us as an introducing broker/dealer and generally cleared through First Clearing. Both accounts managed by PFS investment advisor representatives and accounts established through a Wells Fargo Advisors sponsored-program can be established at PFS and cleared through First Clearing, a registered broker/dealer, member FINRA/SIPC. However, in limited cases when First Clearing cannot accommodate your securities holdings, an account may be established at a broker/dealer selected by the client. Accounts opened through the Prospera Summit II Advisory Program will be established through Fidelity (see additional information below).

When a client directs the use of a particular broker/dealer or other qualified custodian, we may not be able to obtain the best prices and execution for the transaction. If you direct us to use of a particular broker/dealer or custodian, you may receive less favorable prices than would otherwise be the case if you had not designated a particular broker/dealer or qualified custodian. Further, clients with directed brokerage arrangements will not be able to participate in aggregate trades (i.e. block trades) and directed trades may be placed after effecting non-directed trades.

The general requirement to use First Clearing is based on the fact that we have established a clearing agreement with First Clearing as our preferred clearing broker/dealer and qualified custodian. The decision to use First Clearing is based on past experience, minimizing commissions and other costs as well as offerings or services First Clearing provides us that we and our clients may require or find valuable such as online access. You may pay commissions to us and/or First Clearing that are higher than those obtainable from other broker/dealers in return for products and services offered through us and First Clearing. Commission and fee structures of various broker/dealers are periodically reviewed to ensure clients are receiving best execution. Accordingly, while we will consider our rates competitive, they may not necessarily be the lowest possible commission rates for your account transactions.

Through the relationship with First Clearing, we receive economic and non-economic benefits. These benefits include, but are not necessarily limited to:

- a dedicated service group and a Relationship Manager dedicated to PFS accounts on the First Clearing platform,
- receipt of duplicate client confirmations and bundled duplicate statements,
- access to Online Access (through which clients may access their account information over the internet),
- availability of third-party research and technology
- access to a trading desk,
- access to block trading which provides the ability to aggregate securities transactions and allocate the appropriate the share amount to client accounts,
- the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements)
- electronic download of trades, balances and position information,
- access to InfoMax
- access to an electronic communications network for client order entry and account information.

The decision to use First Clearing is also directly related to PFS' participation in advisory programs sponsored by Wells Fargo Advisors. Wells Fargo Advisors and First Clearing are related entities.

Recommendation of Fidelity and National Financial Services

For accounts established through the Prospera Summit II Advisory Program, we use the services of Fidelity Institutional Wealth Services group. While there is no direct linkage between the investment advice you are given and our participation in the Fidelity Institutional Wealth Services Group program, we receive economic benefits which would not be received if we did not give investment advice to clients.

These benefits include:

- a dedicated trade desk that services Fidelity Institutional Wealth Services Group participants exclusively,
- a dedicated service group and an account services manager dedicated to PFS accounts on the Fidelity platform,
- access to a real-time order matching system,
- ability to “block” clients’ trades,
- electronic download of trades, balances and position information,
- access, for a fee, to an electronic interface with Fidelity Institutional Wealth Services Group’s software,
- duplicate and batched client statements, confirmations and year-end summaries,
- the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements)
- availability of third-party research and technology,
- a quarterly newsletter,
- access to Fidelity mutual funds,
- access to AdvisorChannel.com (internet access to statements, confirmation and transfer of asset status),
- access to Account View (through which clients may access their account information over the internet via Advisor’s web site),
- access to over 350 mutual fund families and 4500 mutual funds not affiliated with Fidelity, of which over 2,000 have no transaction fees,
- ability to have loads waived for our clients who invest in certain Fidelity loaded funds when certain conditions are met and maintained, and
- the ability to have custody fees waived (when negotiated by us and allowed under certain circumstances).

In addition, brokerage, custodial, administrative support, record keeping and related services will be provided that is intended to support us in conducting business and in serving the best interests of our clients. The benefits received through participation in the Fidelity Institutional Wealth Services Group program do not depend upon the amount of transactions directed to or amount of assets managed through Fidelity Brokerage Services, Inc.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity’s commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers.

PFS is not an affiliated company of NFS or Fidelity.

Aggregation of Client Orders

Transactions implemented by PFS for client accounts are generally effected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and we use it when we believe such action may prove advantageous to our clients. When we aggregate client orders, we allocate securities among client accounts on a fair and equitable basis. Typically, the process of aggregating client orders is done to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed by the PFS investment advisor representative for each client account on any given day. If an aggregated order is unable to be filled completely, the filled portion of the transaction will be re-allocated on a random basis. When PFS aggregates client orders for the purchase or sale of securities, including securities in which an associated person may invest, we will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* We do not receive any additional compensation or remuneration as a result of aggregation.

ITEM 13 Review of Accounts

PFS investment advisor representatives are charged with providing all investment advice and conducting on-going reviews of all accounts for your accounts. PFS investment advisor representatives are also in charge of selecting and/or recommending money managers to you.

Your investment advisor representative reviews your accounts no less often than quarterly. More frequent reviews may be triggered in the event of changes in market conditions, money manager personnel, management style, or fund closures. Your investment advisor representative is available to discuss the management and performance of your account and changes in your situation which may have an impact on how your account is managed. Account portfolios with individual equity securities and fixed income securities are reviewed on a more frequent, on-going basis.

Your assets that are managed by money managers are reviewed and monitored by the selected money manager. The frequency of reviews conducted by money managers will vary from manager to manager, but typically reviews are conducted at least quarterly. Triggering factors for changes to underlying portfolios within a money manager portfolio include the relative valuation changes between asset classes, deviation from management style by manager, or fund closures.

ITEM 14 Client Referrals and Other Compensation

Client Referrals

PFS and its investment advisor representatives may enter into arrangements with individuals ("Solicitors") who will refer clients that may be candidates for investment advisory services. In return, we may agree to compensate the Solicitor for the referral. Compensation to the Solicitor is dependent on the client entering into an advisory agreement with PFS. Compensation to the Solicitor may be an agreed upon percentage of the PFS investment advisory fee or a flat fee, depending on the type of advisory services PFS provides to the referred client and the agreed upon compensation arrangement between us and the Solicitor. Our referral program will be in compliance with federal and state regulations (as applicable). The solicitation/referral fee is paid pursuant to a written agreement retained by both PFS and the Solicitor. The Solicitor will be required to provide the client with a copy of our Part 2 and a Solicitor Disclosure Document at the time of solicitation. The Solicitor is not permitted to offer any investment advice on behalf of Advisor.

Additional Compensation

PFS investment advisor representatives that are also licensed as insurance agents receive commissions and other incentive awards for recommending and/or selling of annuities and other insurance products. These commissions and additional compensation create a conflict of interest, and may affect the judgment of these individuals when making recommendations.

ITEM 15 Custody

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding your funds and securities but also if we have the ability to access or control those funds or securities. Accordingly, we are deemed to have custody and to have and implement proper procedures.

The custody situations we encounter are limited to the following conditions: (1) We may deduct fees from advisory accounts, (2) funds may be issued directly from your custodian account, and (3) some PFS investment advisor representatives may have power of attorney or trustee duties for clients. For those accounts in which PFS has custody, the firm has established the following procedures to ensure compliance with the SEC's Custody Rule.

- Your funds and securities are held with a qualified custodian, such as First Clearing or National Financial Services, in a separate account in your name.
- You must direct that we establish an account for you including written awareness of the qualified custodian's name, address and the manner in which your funds or securities are maintained.
- Finally, we have contracted with an independent, third-party accounting firm to perform an annual, surprise examination verifying the location of client funds and securities. The accounting firm's report is available through the SEC's Investment Adviser Public Disclosure page at www.adviserinfo.sec.gov. You can view our information on this website by searching for "Prospera Financial Services" or searching by our firm's CRD number (10740) or our SEC number (801-65845).

You will receive statements at least quarterly from First Clearing, National Financial Services or from the selected qualified custodian at which your accounts are maintained. In addition, you may receive annual or more frequent performance reports from Wells Fargo Advisors, PFS or a third-party money manager. You should carefully review these statements and are urged to compare the statement against reports received from us or from your investment advisor representative. If you have questions about your account statements, please contact us or the qualified custodian shown as preparing the statement.

ITEM 16 Investment Discretion

Discretionary

When PFS manages a discretionary account, we require written authority to determine which securities and the amounts of securities that are bought or sold. This authority is limited by your stated investment objectives, guidelines and restrictions, and by our fiduciary obligation to act in your best interests. We monitor advisory accounts periodically for consistency with these limitations. Depending on the Wells Fargo sub-advisor program for which you contracted, PFS investment advisor representatives may also have discretionary authority to select and remove third-party investment advisors and/or money

managers. Any limitations on this discretionary authority shall be included in this written authority statement. You may change/amend these limitations in writing. Although commissions are normally waived in advisory accounts, PFS investment advisor representatives that are also securities agents have the ability to charge commissions when implementing transactions. In addition, we have the ability to set commission rates on a discretionary basis. In determining the amount of commissions that will be charged, the PFS securities agent will take into account FINRA's 5% guideline policy, the type of security involved, the availability of the security in the market, the price of the security and the amount of money involved in the transaction. PFS investment advisor representatives that are also securities agents have the discretion to determine the amount of commission that will be on products other than mutual funds, insurance products, or alternative products. In addition, the PFS investment advisor representative may be charged ticket charges when implementing transactions, the cost of which may be passed on to you at their discretion.

Non-Discretionary

If you decide to grant trading authorization on a non-discretionary basis, we will be required to contact you before implementing changes in your account. Therefore, you will be contacted and required to accept or reject our investment recommendations including:

- The security being recommended
- The number of shares or units
- Whether to buy or sell

Once the above factors are agreed upon, we will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. If your accounts are managed on a non-discretionary basis and you are unable to be reached or are slow to respond to our request, such delay can have an adverse impact on the timing of trade implementations and we may not achieve the same execution price as accounts managed on a discretionary basis.

ITEM 17 Voting Clients Securities

PFS does not vote proxies or consider any other corporate actions on your behalf. We shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held by you. You retain the authority and responsibility for, and we shall be expressly precluded from rendering any advice or taking any action with respect to, the voting of any such proxies.

You will receive proxies directly from the account custodian or investment transfer agent. Although we do not vote your proxies, feel free to contact your investment advisor representative if you have a question about a particular proxy.

ITEM 18 Financial Information

This item is not applicable to this Brochure. PFS does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, we have not been the subject of a bankruptcy petition at any time.