



**Kovack Advisors, Inc.
Wrap Fee Program Brochure
March 31, 2012**

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This Disclosure Statement provides clients with information and data that should be considered before participating in any Choice Program identified herein. This information has not been approved by any governmental authority. Registration with the SEC does not imply a certain level of skill or training.

This wrap fee program brochure provides information about the qualifications and business practices of Kovack Advisors, Inc. If you have any questions about the content of this brochure, please contact us at 866-564-6574 or kaigroup@kovackadvisors.com. 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 Kovack Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov

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Material Changes

This section is used to identify any material changes since Kovack Advisors last annual update. Kovack Advisors has no material changes to report during the prior year of 2011.

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Services, Fees and Compensation

Kovack Advisors, Inc. (KAI) is registered with the U.S. Securities and Exchange Commission (SEC) as a Registered Investment Advisor. KAI may act as investment advisor for retail and institutional clients. KAI maintains contractual relationships with Investment Advisor Representatives (IAR) who are registered with the SEC and states as required and may provide financial advice to clients. The IAR will evaluate your investment needs and objectives to determine your suitability for the various programs offered through KAI.

KAI offers five “Choice” account programs. These programs provide you with multiple options for working with your IAR.

1. Choice UMA Program

The Choice UMA Program is an Overlay Management Program that gives you direct ownership of the securities. This allows greater flexibility, more control and significant tax advantages over other investment vehicles. KAI uses an outside provider for this strategy. FDx Advisors uses multiple sources of data and information as input to their asset allocation, manager selection and monitoring processes. FDx Advisors is a subsidiary of FolioDynamix, an investment platform and program provided with approximately \$7 billion in assets under management. Fees between 0 and 3.25% may be charged for the Choice UMA program. Fees may be negotiable. You will grant discretionary authority to the Investment Manager and KAI via the Choice UMA agreement. All Choice UMA accounts are discretionary accounts and all investment decisions are made by the assigned Investment Manager and trades are placed by KAI as the Overlay Manager.

2. & 3. Choice Fund & ETF Programs

The Choice Fund & ETF programs utilize mutual funds and exchange traded funds in the wrap program. KAI uses SightLine Investments, LLC to manage this strategy. SightLine Investments, LLC uses multiple sources of data and information as input to their asset allocation, manager selection and monitoring processes. SightLine Investments, LLC is available through FDx Advisors which is a subsidiary of FolioDynamix, an investment platform and program provided with approximately \$7 billion in assets under management. Fees between 0 and 3.25% may be charged for the Choice Fund & ETF program. Fees may be negotiable. All Choice Fund & ETF accounts are discretionary accounts. The Choice Fund & ETF manager makes all investment decisions on your account.

4. Choice MSA Program

Choice MSA is a multi-strategy account utilizing established models designed to integrate a variety of investment strategies, products and services within a single account structure, providing you with a comprehensive unified approach to asset allocation and investment selection. KAI uses SightLine Investments, LLC to manage this strategy. SightLine Investments, LLC. uses multiple sources of data

and information as input to their asset allocation, manager selection and monitoring processes. SightLine Investments, LLC is available through FDx Advisors which is a subsidiary of FolioDynamix, an investment platform and program provided with approximately \$7 billion in assets under management. All Choice MSA accounts are discretionary accounts. SightLine Investments, LLC makes all investment decisions. As the Overlay Manager, KAI places all trades. Fees between 0 and 3.25% may be charged for the Choice MSA program. Fees may be negotiable.

5. Choice SMA Program

The Choice SMA Account is a low cost, sophisticated Separately Managed Account (SMA) platform that provides you direct access to industry-leading investment managers. A Choice SMA account gives clients direct ownership of the securities, allowing greater flexibility, more control and significant tax advantages over other investment vehicles. This platform is ideal for clients seeking a long-term, customized, goals-driven approach to investment planning. Fees between 0 and 3.25% may be charged for the Choice SMA program. Fees may be negotiable. All Choice SMA accounts are discretionary accounts. The Choice SMA manager makes all investment decisions.

The total account fee includes the advisor representative fee, the KAI administrative costs, and KAI advisory, clearing, custody, and trading fees. You may be charged trading charges or clearing charges dependent upon the agreement with your advisor representative and the clearing firm that you choose. Review the agreement with your advisor representative and the clearing firm's fee schedule for additional information.

ERISA Plans: In this Brochure, KAI disclosed potential conflicts of interest, such as receiving additional compensation from third parties, such as 12b-1 fees, sub-transfer agent fees, and revenue sharing, for providing marketing, recordkeeping, or other services in connection with certain investments. KAI adopted policies and procedures that are designed to ensure compliance with the prohibited transaction rules under the Employee Retirement Income Security Act of 1974 (ERISA), as amended. For example, KAI addresses the potential conflict of interest of advisors who receive compensation for services provided to ERISA plans with the following steps.

- First, the advisor representative negotiates the compensation with ERISA plan sponsors or participants and the compensation is either an annual fee for ongoing services based on a percentage of assets under management, a flat fee, or an hourly rate.
- Second, to the extent that an advisor receives additional compensation from a third party, the advisor representative must report it to KAI to enable the additional compensation to be offset against the fees that the ERISA clients would otherwise pay for the advisor representative's services.
- Third, KAI has established a policy not to influence any advisor representative's advice or management of assets at any time or for any reason based on any compensation that KAI or the advisor representative might receive from third parties. KAI does not allow advisor representatives to provide advice or manage assets for ERISA clients if they have conflicts of interest that KAI believes are prohibited by ERISA.

U.S. Department of Labor created new regulations on fee disclosures, effective July 16, 2011, for covered service provider to ERISA plans. Since KAI and its advisor representatives may be considered covered service provides KAI and its advisor representatives will disclose the following:

- Direct compensation received from ERISA clients,
- Indirect compensation such as 12b-1 fees received from third parties, and
- Transaction-based compensation such as commissions or other similar compensation shared with related parties servicing the ERISA plan.

KAI will make these fee disclosures before entering into, renewing, or extending the advisory service agreement with the ERISA client.

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Account Requirements and Types of *Clients*

KAI follows standard compliance procedures when opening or maintaining an account. KAI offers several different investment programs each with different minimum investment amounts. Your IAR will provide this information. KAI generally provides investment advice to the following types of clients: individuals, high net worth individuals, bank or thrift institutions, pension and profit sharing plans, charitable organizations, corporations or other business.

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Portfolio Manager Selection and Evaluation

KAI provides client's access to many different types of portfolio managers. As part of our ongoing due diligence process KAI will compare portfolio managers against their peers using a portfolio manager database. In addition to peer comparison KAI gathers material information from each available portfolio manager and periodically review this information for any material changes. KAI requires all portfolio managers to report any material change as soon as the change has occurred. Our IAR's make all client recommendations and will recommend the replacement of a portfolio manager based on the client's financial needs and risk tolerance.

Performance for all client accounts is calculated in accordance with Global Investment Performance Standards (GIPS). KAI reviews portfolio manager performance on a quarterly basis.

The services provided by KAI include financial planning services, portfolio management for individuals and/or small businesses, portfolio management for businesses or institutional clients other than investment companies, and a selection of other advisors. KAI does not specialize in a particular type of advisory service and does not provide investment advice limited to specific types of investments.

The individualized advice from your advisor representative is largely based on the information that you provide. On the KAI Investor Profile Questionnaire or Investment Policy Statement, the client will

provide their financial circumstances, investment objectives and any special instructions or limits you wish KAI to follow in managing your account(s). Also, the client must notify KAI promptly of any significant change in their information. This would include any change that might affect the way account(s) should be managed such as significant changes in financial circumstances or investment objectives. The client also agrees to provide KAI with such additional information as KAI may request from time-to-time to assist in the management of the account(s).

In the review, analysis, and approval of Money Managers for the CHOICE Fund, CHOICE ETF, and CHOICE SMA programs, KAI performs due diligence in line with the policies and procedures at that time. KAI will generally consider the following: investment strategy and discipline, regulatory history and disciplinary history, experience, Firm/Product standards, ADV Part I and II, marketing material, trading capabilities, and reporting capabilities.

KAI provides portfolio management services for wrap fee programs. KAI does not manage accounts other than wrap fee accounts. Clients will pay KAI a fee for portfolio and investment management services. On a discretionary basis, KAI managed \$330,800,000 as of December 31st, 2011. On a non-discretionary basis, KAI managed \$283,700,000 as of December 31st, 2011.

KAI does not charge Performance Based Fees or allow Side-By-Side Management.

KAI has a diverse business model and is affiliated with a number of IARs. The individual IAR provides investment advice. The methods of analysis and investment strategies vary dependent upon the IAR.

KAI may forward proxy solicitation materials to you for response and voting. KAI does not offer legal or tax advice. It is your responsibility to consult with a legal or tax advisor as you see fit. Unless otherwise mutually agreed in writing, KAI may respond to proxies that are solicited with respect to annual or special meetings of shareholders securities held in the account(s) on a best efforts basis.

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Client Information Provided to Portfolio Managers

KAI may forward new account documents to other investment managers that you expresses an interest. Your information will be used as needed for settling of trades, transfer of fund or securities or other information necessary to satisfy your financial activity. Updated information will be sent to the investment managers as you provide.

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Client Contact with Portfolio Managers

You may communicate with investment managers directly provided you consult with KAI prior to contacting the investment manager.

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Additional Information

KAI has had no material disciplinary events to disclose.

The owners of KAI also own KSI a full service broker/dealer registered with the Financial Industry Regulatory Authority (FINRA). Additionally, KAI is affiliated with a law firm, Brian J. Kovack, PA. Where permitted by law, KSI and its representatives may receive mutual fund 12b-1 fees, services fees, due diligence fees, marketing reimbursements, or other payments relating to a client's investment. KAI, as the investment advisor, sponsor, or other service provider to your investment advisory program, receives compensation for its services. You should be aware that these fees, payments, and other compensation may present a conflict of interest because KAI/KSI and its advisor representatives may have a greater incentive to recommend those products or programs that provide additional compensation to KAI/KSI or your advisor representative.

All KAI management persons are registered with (KSI). Neither KAI nor any of its management persons are registered or have an application to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of these entities.

Other investment advisors may be recommended or selected for you. KAI may receive compensation directly or indirectly from those advisors. You should be aware that this compensation may create a material conflict of interest because KAI or its advisor representatives may have a great incentive to recommend those products or programs that provide additional compensation.

KAI adopted the code of ethics due to SEC rule 204A-1. You may receive a copy of the KAI code of ethics by request. All related people of KAI (partners, officers, employees and immediate family members) owe a fiduciary duty to you when conducting their personal investment transactions. They must place your interests first. Also, they must avoid activities, interests and relationships that might interfere with the duty to make decisions in your best interest. Their personal securities transactions must avoid any actual or potential conflict of interest or any abuse of your trust and their responsibility. They must conduct all personal securities transactions in compliance with all applicable federal securities laws. They must not trade in a security while in possession of material, non-public information about the issuer or the market for those securities. If a related person of KAI wants to place a trade for the same security that they have recommended to you, they must place your trade first.

KAI periodically reviews the accounts and financial plans on at least a semi-annual basis. KAI reviewers may include KAI's Executive Vice President, President, Chairman, Vice President, and Compliance Officer(s). In the initial account set-up, you will choose a general investment category that includes your risk tolerance, investment objectives, and financial objectives. KAI Personnel will review the allocations in your account against your chosen investment category.

Other factors may trigger a review of your account on an as needed basis. For example, changes to your financial condition, risk tolerance and investment objectives may trigger a review of your account. Also,



suspicious activity with regards to anti-money laundering regulations may trigger a review of your account.

You will receive monthly statements of your account activity from the custodian firm for your account. You will receive a quarterly performance report of your account(s). The KAI performance reports include the market value of the account and performance versus custom and/or broad market indexes.

KAI does not receive any economic benefit from someone who is not a client for providing investment advice or other advisory services.

KAI may have relationships with unaffiliated people that refer clients to KAI for a fee. All referring parties sign an agreement with KAI. The referring parties will not provide investment advisory or supervisory services to you. The referring party must provide you with a copy of KAI's Form ADV, Schedule H, or brochure. Also, the referring party must provide you with a copy of KAI's referring party disclosure statements and client acknowledgement.

The referring party may receive a referral fee that is a portion of the annual investment advisory fee that you pay KAI. The fee to you is not greater than it would have been without a referring party.

KAI does not require or solicit prepayment of more than \$1200 in fees more than six months in advance. KAI has not been the subject of a bankruptcy petition at any time in the past ten years.

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Requirements for State-Registered Advisors

KAI is an SEC Registered Investment Advisor.