

Item 1

Cover Page

# Grimes & Company, Inc.

SEC File Number: 801 – 57193

## Grimes & Company, Inc.

### Brochure

**Dated February 19, 2015**

Contact: Gerald S. Connolly, Chief Compliance  
Officer

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Westborough, Massachusetts, 01581  
[www.grimesco.com](http://www.grimesco.com)

**This brochure provides information about the qualifications and business practices of Grimes & Company, Inc. (the “Registrant”). If you have any questions about the contents of this brochure, please contact us at (508) 366-3883 or [jerry@grimesco.com](mailto:jerry@grimesco.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 Grimes & Company, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

References herein to Grimes & Company, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

## **Item 2           Material Changes**

There are material changes made to Grimes & Company, Inc.'s disclosure statement since the 2013 Annual Amendment. On April 1, 2014, the Registrant commenced serving as the investment adviser for the clients of David L. Witherbee & Associates, Inc. an SEC registered investment adviser located in Concord, MA. As a result, employees of Witherbee including its founder, David L. Witherbee, became employees of the Registrant, and the Registrant maintained the former Witherbee Concord, MA location as a branch office during the transition process. On December 31, 2014, the Concord, MA branch office was closed and all employees and client service functions are now maintained in the Registrant’s main office in Westborough, MA.

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## **Item 4           Advisory Business**

- A. Grimes & Company, Inc. (the “Registrant”) is a corporation formed on October 20, 1999, in the Commonwealth of Massachusetts. The Registrant became registered as an Investment Adviser Firm in January 2000. The Registrant is principally owned by Kevin

T. Grimes, Timothy J. Grimes, and the Timothy J. Grimes Dynasty Trust. Timothy Grimes and Kevin Grimes are the Registrant's Principals.

- B. As discussed below, the Registrant offers to its clients (individuals, business entities, trusts, pension and profit sharing plans, estates and charitable organizations, and state or municipal government entities.) investment advisory services. Although the Registrant does not hold itself out as providing financial planning and related consulting services, it may provide limited planning and related consulting services ancillary to the investment management process to the extent specifically requested by the client (See discussion below).

### **INVESTMENT ADVISORY SERVICES**

Grimes & Company works with each client to develop a customized investment strategy in an effort to satisfy the unique needs of each individual, family, or institution that they serve. Proprietary research and portfolio management systems are deployed to develop investment policy, implement portfolios and manage allocations and exposures.

### **MISCELLANEOUS**

**Limited Consulting/Implementation Services.** To the extent specifically requested, the Registrant may provide financial planning and related consulting services to its investment management clients on matters such as estate planning, tax planning, insurance, etc. Registrant shall not receive any separate or additional fee for any such consultation services. Neither the Registrant, nor any of its representatives, serves as an attorney, or accountant and no portion of the Registrant's services should be construed as same. To the extent requested by a client, the Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.), including representatives of the Registrant in their separate registered/licensed capacities as discussed below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Private Investment Funds.** Registrant may provide investment advice regarding unaffiliated private investment funds. The Registrant, on a non-discretionary basis, may recommend that certain qualified clients consider an investment in unaffiliated private investment funds. The Registrant's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of Registrant calculating its investment advisory fee. **Registrant's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).**

**Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Valuation.** In the event that the Registrant references private investment funds owned by the client on any supplemental account reports prepared by Registrant, the value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the fund sponsor. If no subsequent valuation post-purchase is provided by the Fund Sponsor, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date), or the current value(s) (either the initial purchase price and/or the most recent valuation provided by the fund sponsor). If the valuation reflects initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than original purchase price. The client's advisory fee shall be based upon reflected fund value(s).

#### **Other Services**

Registrant may also render discretionary investment management services to clients relative to: (1) variable annuity products that they may own, (2) their individual employer-sponsored retirement plans, or (3) 529 college savings plans. In so doing, Registrant either directs or recommends the allocation of client assets among the various subaccounts which comprise the variable annuity product or the retirement plan. For these services, Registrant's management fee is paid quarterly in arrears, based upon the market value of the assets on the last day of the previous quarter. The client assets shall be maintained at either the specific insurance company that issued the variable annuity product which is owned by the client, or at the custodian designated by the sponsor of the client's retirement plan.

**Sub-Advisory Arrangements.** The Registrant may engage sub-advisors for the purpose of assisting the Registrant with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by the Registrant. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by the Registrant. The Registrant shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions concerning the Registrant's sub-advisory arrangements.

**Independent Managers.** The Registrant may allocate (and/or recommend that the client allocate) a portion of a client's investment assets among unaffiliated independent investment managers in accordance with the client's designated investment objective(s). In

such situations, the *Independent Manager[s]* shall have day-to-day responsibility for the active discretionary management of the allocated assets. The Registrant shall continue to render investment advisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which the Registrant shall consider in recommending *Independent Manager[s]* include the client's designated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

**Please Note: Retirement Rollovers-No Obligation/Conflict of Interest:** A client or prospective client is under absolutely no obligation to engage Registrant as the investment adviser for his/her retirement account. Rather, a client can continue to self-direct his/her retirement account at his/her employer. If the client determines that he/she would like the Registrant's assistance, the Registrant shall charge a separate and additional advisory fee for its ongoing advisory services. The client will not incur this separate and additional advisory fee if he/she determines to continue to self-direct his/her account. As a result, any recommendation by the Registrant that a client engage Registrant to manage his/her retirement account presents a conflict of interest since the Registrant shall derive an economic benefit from such engagement. Again, a client is under absolutely no obligation to engage the Registrant as the investment adviser for his/her retirement account. **ANY QUESTIONS:** The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client may have regarding its prospective engagement and the corresponding conflict of interest presented by such engagement.

**Client Obligations.** In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Disclosure Statement.** A copy of the Registrant's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*.

- B. The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on the Registrant's services.
- C. The Registrant does not participate in a wrap fee program.
- D. As of December 31, 2014, the Registrant had \$1,827,477,027 in assets under management on a discretionary basis.

## **Item 5            Fees and Compensation**

- A. The client can determine to engage the Registrant to provide discretionary investment advisory services on a percentage of assets under management on a *fee* basis.

### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee* basis. Annual management fees are calculated as a percentage (%) of the market valuation of assets under management, in accordance with the following published schedule of fees. Note that multiple client accounts are aggregated for fee calculation purposes.

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Under \$500,000	1.25%
\$500,000.01- \$2,000,000	1.00%
\$2,000,000.01- \$7,000,000	0.75%
\$7,000,000.01- \$10,000,000	0.65%
Over \$10,000,000.01	0.50%

The published fee schedule is tiered in nature. Accordingly, the fee is 1.25% for the first \$500,000, 1.00% on the next \$1,500,000, 0.75% for the following \$5,000,000, etc. This annual fee shall be prorated and paid quarterly in arrears based on the market value of the assets on the last day of the previous quarter. Note that in certain situations, the specific fee paid may differ from the above published schedule if agreed to in advance.

- B. Clients shall have the Registrant's advisory fees deducted from their custodial account. Both Registrant's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. The Registrant shall deduct fees and/or bill clients quarterly in arrears, based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant shall generally recommend that Fidelity Investments ("*Fidelity*"), T.D.Ameritrade ("*Ameritrade*") or Charles Schwab and Co., Inc. ("*Schwab*"), serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Fidelity*, *Ameritrade*, or *Schwab* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).
- D. Registrant's annual investment advisory fee shall be prorated and paid quarterly, in arrears, based upon the market value of the assets on the last business day of the previous quarter. The Registrant generally requires a minimum asset level of \$500,000 for investment advisory services. The Registrant, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar

amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

The *Investment Advisory Agreement* between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, a pro-rated portion of the earned but unpaid advisory fee shall be due.

- E. **Securities Commission Transactions.** In the event that the client desires, the client can engage Registrant's representatives, in their individual capacities, as registered representatives of *Mid Atlantic Capital Corporation* ("MACC"), an SEC registered and FINRA member broker-dealer, to implement investment recommendations on a commission basis. In the event the client chooses to purchase investment products through MACC, MACC will charge brokerage commissions to effect securities transactions, a portion of which commissions MACC shall pay to Registrant's representatives, as applicable. The brokerage commissions charged by MACC may be higher or lower than those charged by other broker-dealers.
1. **Conflict of Interest:** The recommendation that a client purchase a commission product from MACC presents a *conflict of interest*, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Registrant's representatives. **The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**
  2. **Please Note:** Clients may purchase investment products recommended by Registrant through other, non-affiliated broker dealers or agents.
  3. The Registrant does not receive more than 50% of its revenue from advisory clients as a result of commissions or other compensation for the sale of investment products the Registrant recommends to its clients.
  4. When Registrant's representatives sell an investment product on a commission basis, the Registrant does not charge an advisory fee in addition to the commissions paid by the client for such product. When providing services on an advisory fee basis, the Registrant's representatives do not also receive commission compensation for such advisory services. **However**, a client may engage the Registrant to provide investment management services on an advisory fee basis and separate from such advisory services purchase an investment product from Registrant's representatives on a separate commission basis.

## **Item 6            Performance-Based Fees and Side-by-Side Management**

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

## Item 7           Types of Clients

The Registrant's clients shall generally include individuals, business entities, trusts, estates and charitable organizations, pension and profit sharing plans, and state or municipal government entities. The Registrant generally requires a minimum asset level of \$500,000 for investment advisory services. The Registrant, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. The Registrant may utilize the following methods of security analysis:
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
  - Technical – (analysis of price trends and volatility)

The Registrant may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

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

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies - Long Term Purchases and Short Term Purchases - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially



develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, the Registrant may also implement and/or recommend options transactions. This strategy has a high level of inherent risk. (*See* discussion below).

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by the Registrant shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by the Registrant is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, the Registrant primarily allocates client investment assets among various no-load and/or load-waived mutual fund classes and/or individual debt and equity securities, and, on a limited basis, independent managers, on a discretionary basis in accordance with the client's designated investment objective(s). (*See* Independent Managers in Item 4.B above).

## **Item 9            Disciplinary Information**

The Registrant has not been the subject of any disciplinary actions.

## **Item 10          Other Financial Industry Activities and Affiliations**

- A. **Registered Representative of MACC.** As disclosed above in Item 5.E, certain of Registrant's representatives are also registered representatives of *Mid Atlantic Capital Corp* ("MACC"), a FINRA member broker-dealer.
- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C.
  - 1. **Broker Dealer.** As disclosed above in Item 5.E, certain of Registrant's representatives, are registered representatives of MACC, a FINRA member broker-dealer. Clients can choose to engage certain of Registrant's representatives, in their individual capacities, to effect securities brokerage transactions on a commission basis.

8. **Licensed Insurance Agents.** Certain of Registrant's representatives, in their individual capacities, are licensed insurance agents, and may recommend the purchase of certain insurance-related products on a commission basis. As referenced in Item 4 B above, clients can engage certain of Registrant's representatives to purchase insurance products on a commission basis. The Registrant's representatives may offer insurance products in conjunction with unaffiliated licensed insurance professionals.

**Conflict of Interest:** The recommendation by certain of Registrant's representatives, that a client purchase a securities or insurance commission product presents a *conflict of interest*, as the receipt of commissions may provide an incentive to recommend investment products based on commissions received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Registrant. Clients are reminded that they may purchase securities and/or insurance products recommended by Registrant from other broker-dealers or insurance agents. **The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding the above conflicts of interest.**

- D. The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. Neither the Registrant nor any related person of Registrant recommends, buys, or sells for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest.
- C. The Registrant and/or representatives of the Registrant *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of the Registrant's clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant's "Access Persons". The Registrant's securities transaction policy requires that an Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Registrant and/or representatives of the Registrant *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant's Access Persons.

## **Item 12            Brokerage Practices**

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment management accounts be maintained at *Fidelity, Ameritrade, and/or Schwab*. Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending *Fidelity, Ameritrade, and/or Schwab* (or any other broker-dealer/custodian to clients) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee. The Registrant's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant may receive from *Fidelity, Ameritrade, and/or Schwab* (or another broker-dealer/custodian, or investment platform or product sponsor) without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at *Fidelity, Ameritrade, and/or Schwab* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *Fidelity, Ameritrade, and/or Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

The following are programs in which the Registrant is a participant:

**iRebal.** The Registrant considers a number of factors in selecting brokers and custodians at which to locate (or recommend location of) its client accounts, including, but not limited to, execution capability, experience and financial stability, reputation and the quality of services provided. In selecting TD Ameritrade Institutional ("TD Ameritrade") as the broker and custodian for certain of its current and future client accounts, Registrant takes into consideration its arrangement with TD Ameritrade as to obtaining price discounts for TD Ameritrade's automatic portfolio rebalancing service for advisors known as "iRebal". The standard iRebal annual license fee applicable to Adviser is \$65,000. That fee is subject to specified reductions (and even complete waiver) if specified amounts of client taxable assets are either already on the TD Ameritrade platform or are committed to be placed on it. Specified taxable client assets either maintained on or committed to the TD Ameritrade platform will bring fee reductions of up to \$65,000 per year for each of as many as three years or more. Should Advisor bring \$55 million in taxable net new assets to TD Ameritrade between 7/15/2010 and 6/1/2011, Advisor will qualify for a 5 year fee waiver program for iRebal. Provided that Advisor reaches this initial target, Advisor's annual license fees for each of the first 5 years will be waived contingent upon an additional \$15 million in taxable net new assets brought to TD Ameritrade during each 12-month license fee period. The non-taxable assets excluded from the maintenance and commitment levels described above are those that constitute "plan assets" of plans subject to Title 1 of the Employee Retirement Income Security Act of 1974, amended, or of plans as defined in Section 4975 of the Internal Revenue Code (which include IRAs). **Please Note:** If

Registrant does not maintain a certain level of taxable assets on the TD Ameritrade platform, Registrant may be required to make a penalty fee payment to TD Ameritrade calculated on the basis of the shortfall. Although Registrant believes that the products and services offered by TD Ameritrade are competitive in the market place for similar services offered by other broker-dealers or custodians, the arrangement with TD Ameritrade as to the iRebal service may affect Registrant's independent judgment in selecting or maintaining TD Ameritrade as the broker or custodian for client accounts. **The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

**TD Ameritrade Advisor Institutional Program.** Advisor participates in the institutional advisor program ("*Program*") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("*Ameritrade*"), an unaffiliated SEC-registered broker-dealer and FINRA member. *Ameritrade* offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the *Program*.

**The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding any of the above arrangements and any corresponding conflicts of interest.**

2. **Referral Programs:**

**Fidelity Referral Program.** The Registrant participates in the Fidelity Wealth Advisor Solutions Program (the "*WAS*" Program). Registrant's participation in the referral program may raise potential conflicts of interest, since Fidelity will most likely refer clients to investment advisors that encourage their clients to custody their assets at Fidelity. **The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

**TD Ameritrade AdvisorDirect Program.** Advisor may receive client referrals from Ameritrade through its participation in Ameritrade AdvisorDirect (the "*referral program*"). In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, Advisor may have been selected to participate in AdvisorDirect based on the amount and profitability to Ameritrade of the assets in, and trades placed for, client accounts maintained with Ameritrade. Ameritrade is a discount broker-dealer independent of and unaffiliated with Advisor and there is no employee or agency relationship between them. Ameritrade has established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. Ameritrade does not supervise Advisor and has no responsibility for Advisor's management of client portfolios or Advisor's other advice or services. Advisor pays Ameritrade an on-going fee for each successful client

referral. This fee ("Solicitation Fee") is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to Advisor. Advisor will also pay Ameritrade the Solicitation Fee on any advisory fees received by Advisor from any of the referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired Advisor on the recommendation of such referred client. Advisor will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to Ameritrade, please refer to the Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

Advisor's participation in AdvisorDirect raises potential conflicts of interest. Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at Ameritrade and whose client accounts are profitable to Ameritrade. Consequently, in order to obtain client referrals from Ameritrade, Advisor may have an incentive to recommend to clients that the assets under management by Advisor be held in custody with Ameritrade and to place transactions for client accounts with Ameritrade. In addition, Advisor has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. Advisor's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts. **The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

3. The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

**Please Note:** In the event that the client directs Registrant to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant.

**The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding any of the above arrangements and any corresponding conflicts of interest.**

- B. To the extent that the Registrant provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or “bunch” such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant’s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been 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 for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13      Review of Accounts**

- A. For those clients to whom Registrant provides investment supervisory services, account reviews are conducted on an ongoing basis by the Registrant's Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with the Registrant on an annual basis.
- B. The Registrant *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

### **Item 14      Client Referrals and Other Compensation**

- A. As referenced in Item 12.A.1 above, the Registrant may receive an indirect economic benefit from *Fidelity, Ameritrade, and/or Schwab*. The Registrant, without cost (and/or at a discount), may receive support services and/or products from *Fidelity, Ameritrade, and/or Schwab*.

Registrant’s clients do not pay more for investment transactions effected and/or assets maintained at *Fidelity, Ameritrade, and/or Schwab* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *Fidelity, Ameritrade, and/or Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**TD Ameritrade Adviser Institutional Program.** As disclosed under Item 12. above, Advisor participates in *Ameritrade’s* institutional customer program and Advisor may recommend *Ameritrade* to Clients for custody and brokerage services. There is no direct link between Advisor’s participation in the program and the investment advice it gives to

its Clients, although Advisor receives economic benefits through its participation in the program that are typically not available to *Ameritrade* retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. *Ameritrade* may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by *Ameritrade* through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and administering Client accounts, including accounts not maintained at *Ameritrade*. Other services made available by *Ameritrade* are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to *Ameritrade*. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of *Ameritrade* for custody and brokerage services

**The Registrant's Chief Compliance Officer, Gerald S. Connolly, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

- B. If a client is introduced to the Registrant by either an unaffiliated or an affiliated solicitor, Registrant *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the Registrant's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to the Registrant by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of the Registrant's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Registrant and the solicitor, including the compensation to be received by the solicitor from the Registrant.

**Participation in Fidelity Wealth Advisor Solutions®.** Advisor participates in the Fidelity Wealth Advisor Solutions Program (the "WAS" Program), through which Advisor receives referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. Advisor is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control Advisor, and SAI has no responsibility or oversight for Advisor's provision of investment management or other advisory services.



Under the WAS Program, SAI acts as a solicitor for Advisor, and Advisor pays referral fees to SAI for each referral received based on Advisor's assets under management attributable to each client referred by SAI or members of each client's household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to Advisor does not constitute a recommendation or endorsement by SAI of Advisor's particular investment management services or strategies. More specifically, Advisor pays the following amounts to SAI for referrals: For a period of 7 years from the date that client or members of client's household fund an account or accounts with Advisor, Advisor shall pay SAI an amount equal to the sum of (a) an annual percentage of 0.10% of any fixed income and cash assets in such account, and (b) an annual percentage of 0.25% of all other assets held in such accounts. These referral fees are paid by Advisor and not the client.

To receive referrals from the WAS Program, Advisor must meet certain minimum participation criteria, but Advisor may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC ("FBS"). As a result of its participation in the WAS Program, Advisor may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and Advisor may have a potential incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to Advisor as part of the WAS Program. Under an agreement with SAI, Advisor has agreed that Advisor will not charge clients more than the standard range of advisory fees disclosed in its Form ADV 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, Advisor has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when Advisor's fiduciary duties would so require; therefore, Advisor may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However, participation in the WAS Program does not limit Advisor's duty to select brokers on the basis of best execution.

## **Item 15      Custody**

The Registrant shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis in arrears. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of the Registrant's advisory fee calculation.

## **Item 16      Investment Discretion**

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming the Registrant as the client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Registrant on a discretionary basis may, at anytime, impose restrictions, **in writing**, on the Registrant's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

## **Item 17      Voting Client Securities**

- A. Unless the client directs otherwise in writing, the Registrant is responsible for voting client proxies (**However**, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits.). The Registrant shall vote proxies in accordance with its Proxy Voting Policy, a copy of which is available upon request. The Registrant shall monitor corporate actions of individual issuers and investment companies consistent with the Registrant's fiduciary duty to vote proxies in the best interests of its clients. Although the factors which Registrant will consider when determining how it will vote differ on a case by case basis, they may, but are not limited to, include the following: a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation. With respect to individual issuers, the Registrant may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters including the approval of advisory contracts, distribution plans, and mergers. The Registrant shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2(2) under the Advisers Act. Copies of Rule 206(4)-6 and 204-2(2) are available upon written request. In addition, information pertaining to how the Registrant voted on any specific proxy issue is also available upon written request. Requests should be made by contacting the Registrant's Chief Compliance Officer, Gerald S. Connolly,
- B. As set forth in Item 17.A, the Registrant votes client proxies.

## **Item 18      Financial Information**

- A. The Registrant does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

**ANY QUESTIONS:** **The Registrant's Chief Compliance Officer, Gerald S. Connolly remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**