

Horrell Capital Management, Inc.

**10 Corporate Hill Drive-Suite 165
Little Rock, Arkansas 72205**

Form ADV Part II

Brochure Updated March 15th, 2018

This brochure provides information about the qualifications and business practices of Horrell Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at:

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This brochure has not been approved or verified by the Securities & Exchange Commission or any state securities authority. Scott Horrell, the President of Horrell Capital Management, Inc. is a registered investment advisor with the Securities & Exchange Commission. Registration does not imply a certain level of skill or training. Please read both Form ADV Parts I and II to better understand the level of expertise the investment advisor possesses. Additional information about Horrell Capital Management, Inc. is also available on the SEC's website at www.advisorinfo.sec.gov.

Item 2. Material changes

Prior to this update to Form ADV Part II, dated March 15th, 2018, there have been a few material changes since our last annual update to Form ADV Part II which last occurred on March 15th, 2017.

- On November 1st, 2017, Horrell Capital Management, Inc. moved its office from 900 S. Shackleford Road-Suite 200, Little Rock, Arkansas, 72211, to 10 Corporate Hill Drive-Suite 165, Little Rock, Arkansas, 72205. All contact information remains the same.
- Assets under management for December 31st of 2018 were \$266,958,269.73 compared with assets under management of \$237,079,977.90 through December 31st, 2017. In addition, the number of Clients, Client Portfolios and Average Portfolio Value for Horrell Capital Management, Inc. has also changed (please refer to Item 4. Page 4, Paragraph 5 of the Advisory Business Section of the Form ADV Part II for greater details).

Table of Contents

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1.	Cover Page.....	1
2.	Material Changes.....	2
3.	Table of Contents.....	3
4.	Advisory Business.....	4
5.	Fees.....	5
6.	Non-Performance-Based.....	5
7.	Types of Clients.....	5
8.	Methods of Analysis, Investment Strategies and Risk of Loss.....	6-7
9.	Disciplinary Information.....	7-8
10.	Other Financial Industry Activities and Affiliations.....	8-9
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	
	a. Code of Ethics.....	9-10
	b. Participation or Interest in Clients Transactions and...	10
	c. Personal Trading.....	11-13
12.	Brokerage Practices	
	a. Soft Dollar Practices.....	13-14
	b. Client Referrals.....	14
	c. Directed Brokerage.....	14-15
	d. Trade Aggregation.....	15-16
13.	Review of Accounts.....	16
14.	Client Referrals and Other Compensation.....	16
15.	Custody.....	16
16.	Investment Discretion.....	16-17
17.	Voting Client Securities.....	17-18
18.	Financial Information.....	18
19.	Index (Not Required at Present Time)).....	18
	Form ADV Part II Brochure Supplement for Scott L. Horrell	19-20

Item 4. Advisory Business

Horrell Capital Management, Inc. (herein referred to as “HCM”) provides primarily investment supervisory services for its Clients as well as manages investment advisory accounts not involving investment supervisory services for a small percentage of our Clients. HCM manages Clients’ assets utilizing both equity and fixed income strategies. All accounts are advised and managed by Scott Horrell who has overall responsibility for policy, strategy and security selection. HCM has discretion to invest Client funds in investment company securities.

HCM does not furnish investment advice through consultations not included in its investment supervisory services at the present time. HCM does not issue periodicals about securities by subscription; does not provide special reports about securities as a part of its investment supervisory services; does not issue any charts, graphs, formulas or other devices which Clients may use to evaluate securities; does not, on more than an occasional basis, furnish advice to Clients on matters not involving securities; does not provide a timing service nor does HCM furnish advice about securities in any manner not described above.

We offer investment advisory services for:

- a percentage of assets under management,
- hourly charges if a Client requests such and
- fixed fees [not including subscription fees]

We offer advice on the following:

- Equity Securities: exchange-listed securities, securities traded over-the-counter and foreign issues
- Warrants
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- Investment company securities (mutual fund shares)
- United States government securities
- Option contracts on securities and
- ETFs

As of December 31st, 2018, HCM currently manages 101 portfolios for 50 Clients with \$266,958,269.73 in assets under management. Our average portfolio size we manage is \$2,643,151.19.

HCM consists of one Advisor, Scott Horrell, the President and owner of HCM. In addition, there is one office manager, Kim Horrell, who does not provide investment advice on behalf of HCM. Kim’s primary duties consist of answering phones, reconciling Portfolio Center daily, updating various HCM reports to the SEC such as the Form 13F-HR Report, updating the ADV Forms I and II and updating the Sudan Task Force Report for one of our accounts required to do so by the Arkansas Legislature Senate Concurrent Resolution 20 and updating and filing IARD fees. In addition, Kim’s duties include providing Clients with quarterly and year-end reports for HCM to assist Clients in comparing with their reports they receive from their chosen Custodian. In May of 2016, Brad Horrell was added to provide analyst and IT services for the Advisor. Brad does not provide investment advice on behalf of HCM.

The professional staff at HCM must have attained a bachelor’s degree or the equivalent in relevant work experience.

Item 5. Fees and Commissions

HCM's annual fee for investment supervisory services is based on assets under management as follows:

<u>Asset Value of Client Accounts</u>	<u>Annual Fee</u>
\$150,000 to \$1,000,000	1.00%
\$1,000,001 to \$2,000,000	0.90%
\$2,000,001 to \$5,000,000	0.75%
\$5,000,001 to \$10,000,000	0.50%
\$10,000,001 and over	Negotiable

The minimum fee per client is \$1,500.00. This implies a minimum account size of \$100,000.00 on a standard fee basis. This is a general condition for account acceptance; however, other factors may be considered which might allow a smaller account to be accepted at less than the minimum fee.

Only in special circumstances are fees negotiable or varied from the above chart. All fees are payable quarterly, in arrears, based on the market value of the portfolio at the end of each quarter. The quarterly fee payment is calculated at the rate of $\frac{1}{4}$ of the above percentages on the total value of a Client's funds as of the last business day of each calendar quarter.

For a time period between the date of the HCM/Client Contract is entered into and the first regular quarterly fee calculation date, an initial management fee will be computed on a pro-rata basis for that time period and billed in arrears. In the event that the Contract is cancelled by either the Client or HCM, the fee calculation shall stop on that date. The fee is automatically deducted from the Client's account by HCM quarterly, through the Client's chosen Custodian, unless otherwise agreed to in writing. Clients will receive a Fee Statement from HCM along with their quarterly HCM reports.

Cash invested in various short-term interest bearing instruments or money market funds available at the Custodian may involve fee charges by the Custodian or the fund's advisors, which may not be disclosed on the Custodian's statement. Any such charges by the Custodian or its agents would be in addition to fees paid to HCM.

Investment consultation service fees are based on services rendered and might be charged at a flat rate of \$125 an hour for one-time service or based on a percentage of the market value of the assets under consultation for continuous service. Asset based fees are negotiated on an individual Client basis.

Item 6. Performance-Based

Scott Horrell (the Advisor) does not charge performance-based fees to any of HCM's Clients.

Item 7. Types of Clients

HCM generally provides investment advice to:

- individuals;
- high net worth individuals;
- pension and profit sharing plans (but not the plan participants);
- trusts, estates, charitable organizations;
- banking or thrift institutions, as well as to
- corporations or other business entities not listed above.

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

HCM's security analysis methods include:

- charting,
- fundamental,
- technical and
- cyclical methods.

The main source of information HCM and its Advisors use include:

- financial newspapers and magazines;
- inspections of corporate activities;
- research materials prepared by others;
- ADVIZR Client individualized planning software program (new for 2018);
- corporate rating services;
- timing services;
- annual reports, prospectuses, filings with the Securities and Exchange Commission and
- Company press releases.

The investment strategies HCM uses to implement investment advice given to Clients may include:

- 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 and/or
- Option writing, including covered options, uncovered options or spreading strategies.

Frequent trading and investment performance: Frequent trading involves short holding periods. Short holding periods typically involve a wider range of performance outcomes. The objective of frequent trading is to enhance portfolio performance by taking advantage of perceived short term mispricing of targeted securities. The implication of frequent trading is also an increase in the volatility of the value and of the performance of the pertinent portfolio.

HCM employs multiple strategies for most of our Clients. Our objective is to utilize strategies that are most appropriate and suitable for each Client. Each strategy and each type of security has associated risks. Bringing together multiple strategies and asset classes into one portfolio is a generally accepted method to mitigate those risks. This is what HCM does. No Client is treated the same, because everyone's circumstances and goals are different.

HCM customizes each portfolio in terms of strategies and securities so that we can best meet the unique needs and circumstances of each Client. When we do emphasize a particular strategy, asset class or security, it is at the request of the Client. Unless otherwise directed, we use a multiple asset class, multiple investment strategy approach to manage portfolios.

Cash, held at the Client's chosen Custodian, is generally invested in various short-term interest bearing instruments or money market funds which may involve fee charges by the Custodian or the funds' advisors, which may not be disclosed on the Custodian's statement. Any such charges by the Custodian or its agents would be in addition to fees paid to HCM and are explained to our Clients upfront prior to selecting such for their portfolios. Clients are able to choose which specific short-term interest bearing instrument or money market fund they prefer when setting up their account with their chosen Custodian.

In addition, HCM has one Client which requires monitoring the cash balance of its account. Once that Client's account balance reaches an agreed upon amount, the Advisor at HCM has to re-balance this Client's account and purchase an equal number of shares for each security held by this Client to absorb that cash balance (price-weighted index fund).

In addition, each quarterly and year-end report generated for Clients contains a statement that reads, "Please contact HCM if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account."

Investment advisory accounts are reviewed periodically, and in general, no less frequently than once a week. In addition to such regular reviews, special reviews may be triggered by changes in Client objectives, changes in Client cash positions or changes in the outlook for the economy, specific industries or specific securities. At present, these accounts are being reviewed daily.

With the exception of management fees, HCM's Advisors do not withdraw funds or securities from Client's accounts. Clients may, every now and then, request HCM's Advisors' assistance on withdrawing funds from their accounts via the appropriate Custodian. In all cases without exception, these Client's requests for assistance must be in writing, from the Client, with specific requests outlined in detail. Appropriate paperwork assistance in effecting these transactions is the only assistance provided by the Advisor. All fund withdrawal requests from Clients result in a check being picked up by the Client at the appropriate Custodian's Little Rock office, or being mailed directly to the Client requesting such from the Custodian or being wired to the Client's requested bank or 3rd party requested. All third party check requests by HCM Clients must follow the same channels, must be in writing, from the Client, with specific requests outlined in detail and funneled through the Client's chosen Custodian.

Item 9. Disciplinary Information

In the past seventeen years, the Advisor, Scott L. Horrell, of HCM, has never been convicted of or plead guilty or nolo contendere ("no contest") in a domestic, foreign, or military court to any felony, nor has the Advisor been charged with a felony. The Advisor, of HCM, has not been convicted of or plead guilty or nolo contendere in a domestic, foreign or military court to a misdemeanor involving: investments or an investment-related business, or any fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion nor a conspiracy to commit any of these offenses, nor has the Advisor of HCM been charged with a misdemeanor listed.

The Advisor of HCM has not engaged in any act or omission, aided, abetted, counseled, commanded, induced, nor conspired with or failed reasonably to supervise another in doing an act and has therefore not been involved in any act of the events listed in the above paragraph.

The Security and Exchange Commission and /or the Commodity Futures Trading Commission have never had any legal or disciplinary event that affected Horrell Capital Management, Inc. HCM has not been in violation by the SEC or CFTC of ever having made a false statement or omission; has not been involved in a violation of SEC or CFTC regulations or statutes; has not been a cause of an investment-related business having its authorization to do business denied, suspended, revoked or restricted; and not had an order against HCM or any advisory affiliate in connection with investment-related activity nor had a civil money penalty imposed on HCM or any advisory affiliate, nor has HCM or any advisory affiliate been ordered to cease and desist from any activity.

No other federal regulatory agency or any foreign financial regulatory authority has ever found HCM to have made a false statement or omission, or been dishonest, unfair, or unethical; has never found HCM to have been involved in a violation of investment-related regulations or statutes; has never found HCM

to have been a cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted; HCM has not in the past 10 years, or ever had an order entered against HCM in connection with an investment-related activity; nor has HCM ever been denied, suspended or revoked of HCM's registration or license, or otherwise been prevented, by order, from associating with an investment-related business nor have HCM's activity restricted.

The Arkansas Securities Department has never found HCM to have made a false statement or omission, or been dishonest, unfair, or unethical; has never found HCM to have been a cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted, nor has it ever denied, suspended, or revoked HCM's registration or license, or otherwise prevented HCM or, by order, from associating with an investment-related business or restricted HCM's activity. On October 22, 2013, the Arkansas Securities Department did find that Ellis Sloan, who is no longer an employee of Horrell Capital Management, Inc., had inadvertently failed to register with the State of Arkansas when he moved from Lathrop Investment Management Corp to Horrell Capital Management, Inc. Sloan, a Chartered Financial Analyst ("CFA") worked at HCM in Little Rock, Arkansas from July of 2006 through May of 2015. On October 30, 2013, Sloan applied for registration in Arkansas as a representative of HCM. By agreement and with the consent of the Staff, Ellis M. Sloan, and HCM, was ordered that the registration of Ellis Sloan as a representative of HCM was approved with the execution of this order and a fine in the amount of \$5,000 was submitted to the Arkansas Securities Department with the consent to the order by Ellis Sloan.

No self-regulatory organization or commodities exchange has ever found HCM to have made a false statement or omission; has ever found HCM to have been involved in a violation of its rules (including a violation designated as a "minor rule violation" under a plan approved by the SEC); nor has HCM ever been found to have been the cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted; nor has HCM been disciplined by being expelled or suspended from membership, barred or suspended HCM from association with other members, or otherwise restricted HCM's activities.

HCM is not the subject of any regulatory proceeding from any domestic or foreign court in connection with any investment-related activity or violation of investment-related statutes or regulations nor has any domestic or foreign court ever dismissed, pursuant to a settlement agreement, an investment-related civil action brought against HCM by a state or foreign financial regulatory authority.

Item 10. Other Financial Industry Activities and Affiliations

HCM is not actively engaged in a business other than giving investment advice. HCM does not sell products or services other than investment advice to Clients.

HCM does not select or recommend other advisors for Clients.

HCM does not participate in other financial industry activities or affiliations that could have created a conflict of interest or impaired the objectivity of the Advisor's investment advice.

HCM is not registered as a securities broker-dealer, a futures commission merchant or a commodity pool operator. HCM does not have arrangements that are material to its advisory business or Clients with a related person who is a broker-dealer; investment company; other investment advisor; financial planning firm; commodity pool operator, commodity trading advisor or futures commission merchant; banking or thrift institution; account firm; law firm; insurance company or agency; pension consultant; real estate broker or dealer; or any entity that creates or packages limited partnerships

Neither HCM, nor any related person, is a general partner in any partnership in which Clients are solicited to invest.

Horrell Capital Management, Inc. contracted with The Circumference Group, LLC (“Subadvisor”) in 2015, an Arkansas limited liability company registered as an Investment Advisor with the Arkansas Securities Department, to utilize certain services of the Subadvisor.

HCM contracts with The Circumference Group, LLC (“Subadvisor”) to provide investment advisory support services to HCM in connection with our management of a particular Client’s account. These support services include guideline monitoring and verification, account monitoring, Excel spreadsheet preparations and reporting for the Client’s specific monthly and quarterly reporting needs. HCM pays The Circumference Group, LLC (“Subadvisor”) a quarterly fee, in arrears, for these services.

The Subadvisor (The Circumference Group, LLC) is a current Client of HCM’s. The Subadvisor will not be initiating the purchase or sales, or recommending for purchase or sale, any security or other asset for the Client. The Subadvisor has no custody of Horrell Capital Management, Inc.’s Client’s assets.

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

a. Code of Ethics

On September 20, 2004, HCM created and adopted a Code of Ethics Handbook. HCM expects that each of its employees will obey the law and not trade on the basis of material, nonpublic information. In addition, the Advisor discourages its employees from seeking or knowingly obtaining material, nonpublic information. The Advisor, and his supervised persons, are a fiduciary and thereby have the responsibility to render professional, continuous and unbiased investment advice. The Advisor owes his Clients a duty of honesty, good faith and fair dealing. The Advisor must act at all times in the Client’s best interest and must avoid or disclose conflicts of interest.

The Code of Ethics for HCM was designed to:

- Protect HCM’s Clients by deterring misconduct;
- Educate the current employee and future employees regarding HCM’s expectations and the laws governing their conduct;
- Remind employees that they are in a position of trust and must act with complete propriety at all times;
- Protect the reputation of HCM;
- Guard against violation of the securities laws, and
- Establish procedures for employees to follow so that the Advisor may determine whether his employee(s) are complying with HCM’s ethical principles.

The general principles regarding ethics that are to be followed at HCM are:

- It is the duty of the Advisor, Scott Horrell, and all employees of HCM to place the interest of the Client(s) first;
- It is required that all personal securities transactions be conducted in such a manner as to be consistent with the Code of Ethics and to avoid any actual or potential conflict of interest or any abuse of an employee’s position of trust and responsibility;
- It is HCM’s principle the Advisor and his personnel should not take inappropriate advantage of their position(s);
- It is HCM’s fiduciary principle that information concerning the identity of security holdings and financial circumstances of Clients is confidential;

- It is HCM's principle that independence in the investment decision-making process is paramount, and
- It is HCM's principle that business be conducted with our Clients through honesty, integrity and professionalism.

Supervised persons that are guilty of any violations of the Code of Ethics for HCM may result in any disciplinary action that the Advisor and CCO deems appropriate, including, but not limited to:

- A warning,
- Fines,
- Disgorgement,
- Suspension,
- Demotion, or
- Termination of employment.

In addition to sanctions, violations may result in referral to civil or criminal authorities where appropriate.

The Code of Ethics Handbook for HCM is, as a rule, generally updated annually to reflect any pertinent changes in rules and regulations or with the deletion/addition of old/new Client Custodians. The Code of Ethics Handbook was most recently updated and revised in December, 2017. A complete copy may be obtained by either calling Scott Horrell at (501) 975-4655, or by writing to Scott at Horrell Capital Management, Inc., 10 Corporate Hill Drive-Suite 165, Little Rock, Arkansas, 72205, and a copy will be sent to you within 3 business days of request.

b. Participation or Interest in Client Transactions

HCM, or any person associated with HCM, generally will not directly or indirectly purchase or sell for its or their account any security prior to its recommendation to Clients. Certain securities by virtue of their wide ownership and liquid markets may be held, purchased or sold prior to Client recommendations.

HCM's Advisor does buy and/or sell for itself securities that HCM's Advisor also recommends to Clients.

HCM's Advisor does not buy securities for himself from, or sell securities he owns, to any Client. HCM is neither a broker nor an agent and therefore does not affect securities transactions for compensation for any Client. HCM is a fee based investment advisory service that is only compensated by management fees from its Clients through the Client's chosen Custodian.

HCM's Advisor does not recommend to Clients that they buy or sell securities or investment products in which HCM or a related person has any financial interest.

HCM has the authority to determine, without obtaining specific Client consent, the: securities to be bought or sold; the amount of the securities to be bought or sold, the broker or dealer to be used (unless Client has made another request to use a particular Custodian); and commission rates to be paid to those Client Custodians (negotiated on behalf of one or more Clients, or a group of Clients, with the Custodian, in order to receive a preferable commission rate from that Custodian for trades executed for HCM's Clients effected by the Client's chosen Custodian).

c. Personal Trading

HCM requires that all company employees strictly comply with the firm's policies and procedures regarding personal securities transactions, including:

- **Initial Public Offerings-Prohibition:** All investment personnel and employees of HCM are prohibited from acquiring any securities in an initial public offering, in order to preclude any possibility of their profiting improperly from their positions with the Advisor. All employees of HCM are also prohibited from participating in IPOs as well.
- **Limited or Private Offerings-(Pre-Clearance):** HCM requires express prior approval of any acquisition of securities by access persons in a limited offering (e.g., private placement). The investment opportunity will first be offered to Clients of HCM and its Advisor, then to HCM employees. Any investment personnel who have been authorized to acquire securities in a private placement are required to disclose that investment when they play a part in any Client's subsequent consideration of an investment in the issuer and the decision to purchase securities of the issuer for the Client should be made either by another employee or, at a minimum, should be subject to an independent review by investment personnel with no personal interest in the issuer.
- **Blackout Periods:** HCM prohibits any access person from executing a securities transaction on a day during which any Client has a pending "buy" or "sell" order in the same (or a related) security until that order is executed or withdrawn. Company employees are exempt from the blackout period for certain types of transactions that do not present the potential for conflicts of interest.
- All employees, and the Advisor, of HCM are prohibited from trading, either personally or on behalf of others, while in possession of material, nonpublic information. All employees, and the Advisors, of HCM are also prohibited from communicating material, nonpublic information to others in violation of the law.
 - a) **Penalties:** Potential penalties for violating insider trading laws in the code itself may include civil injunctions, permanent bars from employment in the securities industry, civil penalties up to 3 times the profits made or losses avoided criminal fines, jail sentences and loss of employment.
 - b) **Material Nonpublic Information:** The term "material nonpublic information" relates not only to issuers but also to the Advisors' securities recommendations and Client securities holdings and transactions.

HCM's Code of Ethics Handbook prohibits company employees from using knowledge about pending or currently considered securities transactions for Clients to profit personally, directly or indirectly, as a result of such transactions, including by purchasing or selling such securities.

HCM prohibits investment personnel and employees from recommending, implementing or considering any securities transaction for a Client without having disclosed any material beneficial ownership, business or personal relationship, or other material interest in the issuer or its affiliates, to an appropriate designated person at HCM (Scott Horrell who also acts as the Chief Compliance Officer of HCM, herein referred to as "CCO"). If such a designated person deems the disclosed interest to present a material conflict, the investment personnel may not participate in any decision-making process regarding the securities of that issuer.

Note:

- This provision would apply in addition to HCM's quarterly and annual personal securities reporting requirements to the CCO of HCM.

- Employees of HCM are to strictly adhere to HCM's policies and procedures regarding allocation and best execution.
- Vendors and Suppliers: All HCM employees must disclose any personal investment or other interests in vendors or suppliers with respect to which the person negotiates or makes decisions on behalf of HCM. If there is a personal interest in a particular vendor or supplier, the employee with such interests is prevented from negotiating or making decisions regarding HCM's business with those companies.

HCM prohibits a supervised person from serving on a creditors committee except as approved by the Advisor and CCO as part of the person's employment duties.

All future Advisors, with the exception of Scott Horrell-the CCO, will be required to obtain pre-clearance for transactions in covered securities. Pre-clearance would require:

- Completing a standard form to be submitted by the requesting access persons or supervised persons, containing all relevant information about the proposed transaction;
- The time the pre-clearance expires;
- Designation of the CCO;
- Designation of individual responsible for authorizing transactions of the CCO or Advisor (who are the same) and
- Documentation of the authorization, including time and signature of the CCO.

All HCM employees and future Advisors, with the exception of Scott Horrell, the CCO, must submit to the CCO a report of all holdings in covered/reportable securities within 10 days of becoming an Advisor or company employee and thereafter on an annual basis. The holdings report must include:

- The title and exchange ticker symbol or CUSIP number, the type of security, number of shares and principal amount (if applicable) of each reportable security in which the employee or Advisor has any direct or indirect beneficial ownership;
- The name of any broker, dealer or bank with which the employee or Advisor maintains an account in which any securities are held for the employee(s)' or Advisor(s)' direct or indirect benefit; and
- The date the report is submitted.

All employees and future Advisors of HCM must also submit to the CCO transaction reports no later than 10 days after the end of each calendar quarter covering all transactions in covered/reportable securities during the quarter. The transaction reports must include information about each transaction involving a reportable security in which the access person had, or as a result of the transaction acquired, any direct or indirect beneficial ownership. The reports must include:

- The date of the transaction, the title and exchange ticker symbol or CUSIP number, the interest rate and maturity date (if applicable), the number of shares and the principal amount (if applicable) of each reportable security involved;
- The nature of the transaction (e.g., purchase, sale);
- The price of the security at which the transaction was effected;
- The name of the broker, dealer or bank with or through which the transaction was effected; and
- The date the report is submitted.

All transactions and holdings reports of all employees and future Advisors of HCM are held in the strictest of confidence, except to the extent necessary to implement and enforce the provisions of the Code of Ethics, or to comply with requests for information from government agencies.

Exempt Transactions: An employee of HCM or an Advisor of HCM is not required to submit any report with respect to securities held in accounts over which that employee or Advisor has no direct or indirect influence or control; a transaction report with respect to transactions effected pursuant to an automatic investment plan; a transaction report if the report would duplicate information contained in broker trade confirmations or account statements that HCM holds in its records so long as HCM receives the confirmations or statements no later than 30 days after the end of the applicable calendar quarter and any transaction or holding report if HCM has only one employee or Advisor, so long as HCM maintains records of the information otherwise required to be reported under the rule.

HCM will review future Advisors' personal securities transactions and holdings reports periodically. HCM requires that the CCO monitors personal securities transactions and trading patterns of company employees and future Advisors and consider hiring an outside firm to audit the Advisor's review of trading patterns should HCM exceed 20 employees. Reviews would include:

- An assessment of whether the HCM employee and/or future Advisor followed any required internal procedures, such as pre-clearance;
- A comparison of personal trading to any restricted lists;
- An assessment of whether the HCM employee and/or future Advisor is trading for his or her own account in the same securities he or she is trading for Clients, and if so, whether the Clients are receiving terms as favorable as the employee or Advisor takes for him or himself;
- Periodically analyzing the employee's or future Advisor's trading for patterns that may indicate abuse, including market timing; and
- An investigation of any substantial disparities between the percentage of trades that are profitable when the employee or future Advisor trades for his or her own account and the percentage that are profitable when he or she places trades for Clients.

Item 12. Brokerage Practices

a. Soft Dollar Practices

HCM does not allocate soft dollar expenses to our Clients. Neither HCM, nor its Advisor, engage in any soft dollar arrangements with any other third party/company. All revenues are derived from management fees. In addition, HCM does not obtain research or other services in return for brokerage commissions.

For HCM's Client(s)' accounts maintained in their custody, the Client(s)' chosen Custodian generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through the Custodian or that settle into custodial accounts.

Our broker-dealers/Custodians may allocate soft dollar expenses in the form of commissions to our Clients, but these charges must be made known to the Client up front, prior to trading, and the exact charges for those commissions must be disclosed to our Clients in a timely fashion via trade confirmations. These trade confirmations must be sent directly the Client of HCM immediately following the trade, and again, clearly noted in the monthly statement our Clients receive immediately following the particular trade.

The Custodians may also make available to HCM other products and services that benefit HCM but may not benefit its Clients' accounts. Some of these other products and services assist HCM in managing and administering Clients' accounts. These include software and other technology that provide access to Client account data (such as trade confirmations and account statements); facilitate trade execution (and

allocation of aggregated trade orders for multiple Clients' accounts); provide research, pricing information and other market data; facilitate payment of HCM's management fees from its Clients' accounts and assist with back-office functions, record keeping and Client reporting.

The Custodians may also make available to HCM other services intended to help HCM manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, the Custodians may make available, arrange and/or pay for these types of services rendered to HCM by independent third parties. The Custodians may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to HCM. While as a fiduciary, HCM endeavors to act in its Clients' best interests and HCM's recommendation/requirement that Clients maintain their assets in accounts at one of these Custodians may be based in part on the benefit to HCM of the availability of some of the foregoing products and services as well as on the nature, cost or quality of custody and brokerage services provided by either of the Client chosen Custodians.

b. Client Referrals

HCM does not use Client brokerage to compensate or otherwise reward brokers for Client referrals.

c. Directed Brokerage

Individual Clients may, from time to time, direct in writing, security purchases and sales, amounts to be bought or sold, brokers used and commission rates to be negotiated on transactions for their own account. Generally, HCM will have full discretionary authority to make all determinations. In determining the broker or brokers through whom securities transactions are to be executed, the applicant may pay a broker's or brokers' commissions in excess of that which another broker might have charged for effecting the same transaction in recognition of the value of brokerage or research services provided by the broker. The general selection criteria will be based on a good faith determination of the reasonableness of the cost of transactions in relation to the brokerage and research services provided either in terms of a particular transaction or account, or with respect to the HCM's overall Client base needs.

HCM may recommend/require that Clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), the Bank of New York Mellon, Ameritrade, Crews and Associates, and Stifel Financial Corporation (the old Sterne Agee) or others (herein referred to as "Custodians") to maintain custody of Client(s)' assets and to effect trades for their accounts. HCM is independently owned and operated and not affiliated with these Custodians. These Custodians may provide HCM with access to their institutional trading and custody services, which are typically not available to normal, day-to-day retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of \$10,000,000.00 of the Advisor's Clients' assets are maintained in accounts at the broker-dealer/Custodian and are not otherwise contingent upon HCM committing to any of HCM's current Custodians any specific amount of business (assets in custody or trading). HCM's Clients' Custodians may provide services which may include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. HCM may benefit in research received from these Custodians.

For HCM's Clients' accounts maintained at the various Custodians, the Custodians generally do not charge separately for custody but are compensated by account holders through commissions or other

transaction-related fees for securities trades that are executed through those appropriate custodial accounts.

The Custodians may also make available to HCM other products and services that benefit HCM but may not benefit its Clients' accounts. Some of these other products and services assist HCM in managing and administering Clients' accounts. These include software and other technology that provide access to Client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple Client accounts); provide research, pricing information and other market data; facilitate payment of HCM's management fees from its Clients' accounts; and assist with back-office functions, recordkeeping and Client reporting. Many of these services generally may be used to service all or a substantial number of HCM's accounts, including accounts not maintained at any of the Custodians.

These Custodians may also make available to HCM other services intended to help HCM manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information consulting, information technology, business succession, regulatory compliance and marketing.

In addition, these Custodians may make available, arrange and/or pay for these types of services rendered to HCM by independent third parties. The Custodians may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to HCM. While as a fiduciary, HCM's recommendation/requirements that Clients maintain their assets in accounts at one of these Custodians may be based in part on the benefit to HCM of the availability of some of the foregoing products and services as well as on the nature, cost or quality of custody and brokerage services provided by one or more of the Custodians.

d. Trade Aggregation

HCM and its Advisor will perform investment management services for various Clients. The Advisor may, at his sole discretion, aggregate purchases or sales of any security, instrument or obligation effected for Client accounts with purchases or sales, as the case may be, of the same security, instrument or obligation effected on the same day for the accounts of one or more of the Advisors' other Clients.

Although such concurrent aggregations potentially could be either advantageous or disadvantageous to all of the effected accounts, they will be affected equally.

When transactions are so aggregated:

- The actual prices applicable to the aggregated transaction will be averaged and each Client participating in the aggregated transaction will be deemed to have purchased or sold its share of the security, instrument or obligation involved at that average price, and
- All transaction costs incurred in effecting the aggregated transaction shall be shared on a pro rata basis among all accounts participating in such aggregated transaction, except to the extent that certain broker-dealers that also furnish custody services may impose minimum transaction charges applicable to some of the participating accounts.

When such concurrent aggregations occur, the objective will be to allocate the executions in a manner that is deemed equitable to the accounts involved.

Item 13. Review of Accounts

Investment advisory accounts are reviewed periodically and, in general, no less frequently than once a week. In addition to such regular review, special reviews may be triggered by changes in Client objectives, changes in Client cash positions or changes in the outlook for the economy, specific industries or specific securities.

Item 14. Client Referrals and Other Compensation

HCM does not directly or indirectly compensate any person for Client referrals.

HCM does not receive any economic benefit, including sales awards or prizes, from any person who is a non-Client of HCM's, for providing advisory services to Clients; therefore, there are no conflicts of interest for HCM's Clients.

In addition, HCM is not paid cash by nor does it receive any economic benefit (including commissions, equipment or non-research services) from a non-Client in connection with giving advice to any of its Clients.

Item 15. Custody

Neither HCM's Advisor, nor any of its employees, has custody of Client funds or securities, other than receiving HCM's management fees directly from the accounts of those Clients who have expressly authorized such, via a Custodian.

The Custodians send account statements directly to HCM's Clients monthly, quarterly and at year-end. HCM sends quarterly and year-end account statements to each of our Clients in order for our Clients to have a vehicle of "checks and balances" for their protection. HCM wants our Clients to compare statements they receive from us with the statements they receive from their Custodian(s). These reports, however, may or may not be identical since HCM uses Portfolio Center for our reporting platform and Portfolio Center shows trades as having settled the date they occurred where our Custodians show trades as having settled once they actually settle. If all trades in a Client's account are settled, these reports should match.

Item 16. Investment Discretion

Section 2. under Management Services of the HCM/Client Contract states, "HCM agrees to analyze the Client's investment portfolio, which portfolio, together with all additions, substitutions and alterations, is set forth in the attached Exhibit A and is hereinafter called the "Account". The Client hereby appoints HCM the Client's agent and attorney-in-fact with full power and authority to buy, sell or otherwise effect transactions in stocks, bonds and any other securities, for the Client's Account and in the Client's name, which authorization shall extend to all assets of the Account retained by the Client or his duly appointed custodian. (The Client, if he retains custody of the securities comprising the Account, or his duly appointed custodian is hereinafter referred to as "Custodian")."

Section 7. of the Account Application to Custodians for HCM's Clients provides for the Client to sign off and initial that they will agree to the following:

- Trading and Disbursement Authorization. I (the Client) authorize my Custodian:
 - to execute trades in my account at the direction of Advisor as provided under the Trading Authorization heading in the attached Account Application Agreement;
 - to disburse assets for investment purposes or to me personally, as instructed by Advisor;

- to remit checks, wire funds and make certain disbursements of funds held in the account as regulations permit (always requiring the Client(s)' signature/signatures and the date the Client(s) sign for the LOA) to banks, broker-dealers, investment companies or other financial institutions for credit to an account of identical registration, or to me at my address of record. This disbursement authorization does not apply to distributions or direct, ongoing electronic payments of dividends, interest and money market income. I acknowledge and agree that the Custodian cannot confirm the account registration at the receiving financial institution and will rely solely on the representations of my Advisor as to the identical registration of the receiving accounts.
- Trading Authorization. I (the Client) authorize the Custodian to execute trades in my account at the direction of Advisor as provided under the Trading Authorization heading in the attached Account Application Agreement.
- Fee Payment Authorization. I (the Client) authorize the Custodian to pay investment advisory and related fees to Advisor from my account in the amount of the Advisor's instructions.

Section 8. of the Account Application to Custodians for HCM Clients states, "If you (the Client) have granted your Advisor trading authority over your account and your Advisor exercises investment discretion for you pursuant to an advisory contract, you can appoint your Advisor to be sent certain issuer and issuer-related communications (proxies, tender offers, proposed mergers, rights offerings, exchange offers and warrants, among other things) that may require a voting decision or other action regarding investments held in your account."

Section 8. adds, "If you appoint your Advisor below, your Advisor will, regarding only those voting decisions or other action communications sent to your Advisor: (i) be requested to vote proxy ballots; (ii) be requested to provide instructions regarding corporate reorganizations and other corporate actions; and (iii) be sent certain prospectuses and annual reports and other communications. In these cases, you will be authorizing your Advisor to make all voting decisions and take all actions on your behalf. You will not be sent informational copies of these communications." "Even if you appoint your Advisor below, you may still be sent certain other issuer and issuer-related communications regarding investments held in your account. You agree that you will be responsible for providing your Custodian any applicable instructions or directions on those items."

Section 8. of the Account Application to Custodians for HCM Clients, has a section for the Client to check, "Yes, I appoint my Advisor, and I will fulfill my responsibilities, as described above". I instruct the Custodian not to disclose my name, address and securities positions to any issuer of securities held in my account".

Item 17. Voting Client Securities

HCM has created policies and procedures for ensuring that a Client's proxies are voted in the best interest of our Clients.

HCM's Advisor has power of attorney to vote proxies for all of his Clients' accounts with the exception of three Clients: One Client has trustee documents that state that the Client is to make the decision on voting his effected proxies for those trust accounts. The second Client has requested to vote his own proxies and has over 30 years of experience voting proxies. The third Client has multiple accounts with HCM but has requested to specifically vote the proxies for one of those accounts.

It is the duty of the Advisor to monitor corporate actions and vote Clients' proxies. HCM receives annual reports on all securities and funds in which its Clients have a vested interest and all others publicly traded. These reports generally include a proxy voting form, an annual report and voting

instructions. The majority of the proxy voting forms allow Internet on-line voting. The balance requires return mail submission.

The Advisor at HCM is required to read and review each Company's annual report and review their voting requests to determine what is in the best interest of his Clients and to verify that these Companies have not made any changes to their original objectives since the Client purchased shares in that Company. The Advisor then selects the "yes", "no" or "abstain" box that best reflects what is in the Client's best interest. The Advisor then votes his proxy choice manually or electronically.

Once voted, a copy of how each proxy was voted is filed under the appropriate Company's file and kept in the vault at HCM for a minimum period of five years.

The Advisor at HCM has no conflicts of interest that would impede voting in the best interests of any of HCM's Clients.

Each year in October (included with 3rd Quarter Account Statements from HCM) each HCM Client receives a copy of HCM's Proxy Voting Overview (a short document explaining how we vote each Client's proxies) and a copy of HCM's Privacy Notice.

In addition, a copy of HCM's Proxy Voting Overview and Privacy Notice to Clients is sent to all prospective Clients along with the Investment Advisory Agreement prior to their becoming a Client of HCM's.

Clients may request information on how their effected proxies were voted at any time by either calling Scott Horrell at (501) 975-4655 or writing to Scott at HCM, 900 South Shackleford Road-Suite 200, Little Rock, Arkansas, 72211, and a copy will be forwarded to the Client(s) within 3 business days.

Item 18. Financial Information

HCM does not have custody of Client's funds, nor does HCM require or solicit prepayment of more than \$1,200 in fees per Client and six months or more in advance from the Client. HCM bills Clients in arrears.

HCM does not have any financial condition reasonably likely to impair the Advisor's abilities to meet contractual commitments to Clients.

HCM has not, in the past fifteen years, been the subject of a bankruptcy petition.

Therefore, it is not required (by the SEC) that HCM provide financial information concerning HCM to our Clients at this time.

Item 19. Index---Not Required Now

**Brochure Supplement
For
Clients of Scott L. Horrell
President, Horrell Capital Management, Inc.
900 South Shackleford Road-Suite 200
Little Rock, AR 72211
Phone: (501) 975-4655**

This brochure supplement provides information about Scott L. Horrell that supplements the Horrell Capital Management, Inc. brochure. You should have received a copy of that brochure. Please contact Kim Horrell, the Office Manager for Horrell Capital Management, Inc. if you did not receive Horrell Capital Management, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Scott L. Horrell is available on the SEC's website at www.advisorinfo.sec.gov.

HORRELL, SCOTT LEE, born October 16, 1960

Educational Background:

- BSE-1984-Arkansas State University at Jonesboro, AR

Business Experience:

- President, Horrell Capital Management, Inc., October 1999 to Present
- Registered Investment Advisor, Stephens Capital Management, Stephens, Inc., October 1996 to October 1999
- Registered Representative, Stephens, Inc., October 1991-October 1999
- Registered Representative, TJ Raney/Morgan Keegan, October 1988-October 1991

Disciplinary Information: There have been no legal or disciplinary events reported for Scott L. Horrell.

Other Business Activities:

- Scott L. Horrell has served as the President, Vice-President and Secretary/Treasurer of Horrell Capital Management, Inc. since inception in October of 1999, and is sole owner of Horrell Capital Management, Inc.

Additional Compensation: Scott L. Horrell does not receive additional compensation or economic benefit (such as a sales award or other prize) from anyone, for providing advisory services.

Supervision: Scott serves as President and Chief Compliance Officer for Horrell Capital Management, Inc. Scott follows the same rules and regulations set forth for his employees under Horrell Capital Management Inc.'s Code of Ethics and Compliance Policies and Procedures Manual (a copy of either will be provided to Clients/prospective clients upon request), which he authored. In addition, in his role as Chief Compliance Officer, Scott supervises all employees of Horrell Capital Management, Inc. and has programs in place to ensure all personnel are advising their Client's in accordance with standards set forth by Horrell Capital Management, Inc.