

Form ADV Part 2A Brochure

June 15, 2011

Terril & Company

Terril Brothers, Inc.
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This Form ADV Part 2A brochure provides information about the operations and business practices of Terril Brothers, Inc. ("Terril"). If you have any questions about the contents of this brochure, please contact us at (314) 965-0344 or e-mail Chanda@terrilco.com. The information in this brochure is not approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

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

Item 2 – Material Changes

None.

This is the first year for a narrative description of our SEC Form ADV Part 2. In the future, consistent with new SEC rules, we will use this narrative form to provide you with a summary of any new and/or updated information concerning the business practices or operations of Terril. Annual filings are due within 120 days after our March 31 fiscal year end.

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Item 4 – Advisory Business

Terril Brothers, Inc. ("Terril") is an SEC-registered investment adviser with its principal place of business in St. Louis, Missouri. John Joseph ("Joe") Terril founded the business by forming John J. Terril & Company, Inc. in Florida in 1979. He later merged that entity with Terril Lauber & Co., Incorporated in March 1982. The assets of the business were later transferred to Terril, a new Missouri corporation formed and wholly owned by Mr. Terril, on June 17, 1988. Terril offers the following advisory services to our clients:

Investment Advisory Services

Terril provides investment advisory services and occasional consulting services to its clients. Terril's investment advisory representative(s) meet one-on-one with clients to develop a portfolio strategy, based on each client's individual circumstances, goals and objectives. Terril evaluates a client's investment history, present situation and future outlook, and then creates a portfolio to meet each client's goals and objectives within such client's defined risk tolerance, risk capacity and return expectation.

Potential investments selected by Terril for clients include (i) equity securities, including exchange-listed securities, exchange-listed ETF's, exchange-listed closed-end mutual funds, exchange-listed limited and general partnerships, over-the-counter securities and/or foreign issuer securities, (ii) warrants, (iii) corporate debt securities of all types including reverse convertible and non-investment grade (junk) bonds, (iv) certificates of deposit, (v) municipal securities, (vi) investment company securities, (vii) United States government securities, (viii) cash commodities, (ix) futures contracts on tangibles and intangibles, and (x) interests in partnerships investing in real estate, oil and gas interests, (xi) investments in art and/or collectibles, (xii) money market funds denominated in multi-currencies, (xiii) private equity investments. Terril also advises clients on closely-held private business opportunities, mergers and company buyout opportunities. Clients are allowed to restrict Terril from investing in certain types of securities.

Amount of Managed Assets

As of March 31, 2011, we were actively managing \$490,000,000 of clients' assets on a discretionary basis.

Item 5 – Fees and Compensation

Terril generally provides investment advisory services for a fee based on the percentage of assets under management as follows:

| <u>Amount of Assets Under Management</u> | <u>Fee</u> |
|--|--------------------------------------|
| First \$1,000,000 | 1% of assets under management |
| Next \$2,000,000 | .75 of 1% of assets under management |
| Next \$2,000,000 | .6 of 1% of assets under management |
| Balance over \$5,000,000 | .5 of 1% of assets under management |

The above fees are guidelines only and may be negotiated with each client. Fees are payable quarterly in arrears based on the market value of invested assets on the last business day of March, June, September and December, time weighted to reflect deposits and withdrawals. We use market values received from electronic sources that we consider to be reliable, but they may differ from time to time from a custodian's valuations. Electronic pricing services generally over-value fixed income securities. Terril tends to reduce the value of bonds on their performance reports.

On a case-by-case basis, Terril may provide consulting services on an hourly fee basis, if requested by a client. Terril charges \$250 per hour payable as mutually agreed with a client.

Clients may pay fees using one of two options for our services:

- Direct debit: We will solicit your authorization for direct debit payments through a separate authorization agreement at the time we enter into an advisory agreement with you. Each quarter thereafter, we will notify your custodian of the amount of the fee due and payable to us. The custodian does not validate or check our fee.
- Check or wire transfer: Each quarter, we will issue an invoice for our services. You may pay us by check or wire transfer, promptly following receipt of our invoice.

Terril requires that all clients enter into an investment advisory agreement, which may be terminated at will upon written notice or by telephone or electronic mail by either party to the other party. Termination shall not affect any fees resulting from transactions initiated before Terril received written or telephonic notice of termination of the advisory agreement.

Additional Fees and Expenses

In addition to the advisory fees paid to us, you will pay fees or expenses to third parties, as described below, when we purchase, sell or hold securities for your account. We do not receive, directly or indirectly, any of the third-party fees described below. They are paid to your broker-dealer, custodian, mutual fund or other third party, based on the types of investments you hold.

- Brokerage commissions
- Transaction fees
- Exchange fees
- SEC fees
- Advisory fees and administrative fees charged by mutual funds and exchange traded funds
- Storage fees
- Custodial fees

- Deferred sales charges on some mutual funds
- Odd-lot differentials
- Transfer taxes
- Wire transfer and electronic fund processing fees

We believe that we have no potential conflicts of interest relating to the fees charged for the operation of our clients' portfolios because we don't accept commissions or other compensation from the sale of securities or other investment products. Terril's total compensation is derived from fees charged directly to clients, as described in this Section 5. Please see Item 12 regarding our brokerage practices.

Item 6 – Performance-Based Fees and Side-by-Side Management

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

Item 7 – Types of Clients

Terril provides investment advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Banks or thrift institutions
- Pension and profit-sharing plans
- Corporations, trusts, estates and charitable organizations or other business entities not listed above.

Terril does not require a minimum investment for investment advisory services

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

Terril carefully assesses the risks versus rewards of an investment and strives to manage risk by selecting investments that it believes have the long-term potential to return three times the reward for the risk assumed. We use mainly fundamental analysis. This is to say we look at cash flows, book values, earnings, sales, balance sheets, management and their history, order back-logs, potential new products, general level of interest rates, existing and expected rates of inflation, existing and potential cash and stock dividends, among others. We also look at some technical and cyclical methods of analysis to investigate types of potential investments on behalf of clients.

Terril constantly searches for investments with characteristics or catalysts that it believes are not appreciated by most investors. For example, in some cases, Terril believes that earnings growth is not correctly factored into the price, or that the asset value and cash generating potential of an

investment is not widely appreciated. When identifying potential investments, Terril focuses on change – be it in the economy, technology or interest rates – that could boost market value.

Terril primarily uses a long-term investment philosophy, typically waiting three years or more until the positive, long-term fundamentals of an out-of-favor investment surfaces and are rewarded by the market. Terril also balances its long-term strategy with short-term purchases of money-market funds, treasury bills, short-term corporate bonds and tax-free notes, which are intended to produce income and protect a client's principal.

Terril primarily uses publicly available sources of information to research potential investments, although Terril also relies on information obtained from analyst meetings, industry conferences, corporate conference calls, company websites and corporate visits.

In relationship to its peers, Terril manages portfolios with less diversification and more concentrated positions. In many cases, individual positions start at five percent (5%) of the portfolio and can go higher if the investment appreciates in value. Terril believes this to be a prudent approach, although other respected people in the industry can and do disagree.

Risk of Loss

All investments in securities involve a risk of loss of principal. Clients should be prepared to bear this risk of loss. The investment strategies described above are subject to market, economic and business risks that will cause securities prices to fluctuate over time, sometimes rapidly and unpredictably. In addition, as recent global and domestic events have shown, the performance of any investment is not guaranteed. Terril believes that inflation and the potential of inflation is always a major risk to client's principal.

Item 9 – Disciplinary Information

We do not have any legal, financial or other disciplinary items to report to you.

Item 10 – Other Financial Industry Activities and Affiliations

None.

Neither Terril, nor any of its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker dealer.

Neither Terril, nor any of its representatives, are registered or have an application pending to register, as a future commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

Terril does not have any relationship or arrangement that is material to its advisory business or to its clients with any related person.

Terril does not recommend or select other investment advisors for its clients.

Item 11 – Code of Ethics, Participation or Interest in Client Transaction and Personal Trading

Terril has adopted a Code of Ethics ("Code") designed to comply with and meet the requirements of Rule 204A-1 under the Investment Advisers Act of 1940, and to reflect fully a registered investment adviser's fiduciary obligations and those of its supervised persons.

Neither Terril nor any related person of Terril recommends securities for client accounts in which Terril or any related person of Terril has a material financial interest. Terril does not sell any securities that it owns to clients.

In some cases, Terril will cross-trade securities, typically short-term fixed income securities held for liquidity, between client portfolios. Terril believes that "crossing" the securities between client accounts benefits both clients, eliminating broker fees or mark-ups. Terril determines the actual price at which such securities are transferred based on bond pricing services, among other factors. A client may elect not to participate in any "crossing" transactions by giving notice to Terril.

Terril and/or representatives of Terril may buy or sell securities for their own account(s) that are also recommended to clients. Said simply, Terril and its associates, along with their family and related accounts, often invest in the same manner as Terril does for its clients. Said in slang, "we eat our own cooking." In order to deal with potential conflicts of interest with clients, Terril has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each Terril representative. Associates of Terril are not allowed to have an investment account unless it is disclosed to Terril's Chief Compliance Officer and they must pre-clear proposed transactions with Terril's Chief Compliance Officer. In addition, Terril also has a policy in place to require that client purchases and sales are executed before any Terril-related accounts, except in situations where prices are not affected by the transaction. On occasion, if a security is purchased or sold by an affiliated account of Terril, reports are sent to clients with the details of the transaction, including the date, price and reason for the transaction.

Item 12 – Brokerage Practices

We have authority to determine the broker-dealer used, the principal price paid and the commission rate, if any, charged for transactions in client accounts. We consistently seek to obtain the best overall execution for clients' trades. Best execution for the most part always means the best price for the clients. Terril uses a number of quality factors in selecting broker-dealers to execute your account's trade, including the following: commission rates, execution capability, service levels and financial condition.

Terril generally buys and sells securities in "block trades" in order to attempt to negotiate a volume discount for the securities purchased or sold on behalf of clients. Terril often uses price limits on trades to avoid driving the price of a security up or down because of Terril's buying/selling. Such price limits are arbitrarily set by Terril based on current market conditions. Because of such price limits, trades may not be completed for two to three days or more (if at all), and clients may receive different prices for the same security. To address this potential conflict of interest, Terril exercises its reasonable efforts to avoid favoring one client over

another when allocating trades at different prices. In many cases, Terril's representatives may flip a coin in order to arbitrarily determine a client's starting point on the allocation list.

Research and other Soft Dollar Benefits

We do not enter into any "soft dollar" arrangements in which client commissions are used to purchase third-party research, computer hardware or software or any other goods or services. We do, however, receive unsolicited research from broker-dealers who execute our transactions, but we have no obligation to give any broker-dealer business of any amount in return for that research. The number one priority in executing trades is to always get the best execution possible for our clients. We believe accepting research from firms provides benefits for all of our clients. This information sometimes enhances our decision-making process. We also believe that the commissions paid to the firm(s) which provide research are always competitive with others.

Item 13 – Review of Accounts

Terril continually monitors its investment portfolios and generally conducts a review of each client's account on at least a quarterly basis, although more frequent reviews are often triggered by news of a material development, such as an earnings announcement, Federal Reserve Bank rate action, a significant deposit or withdrawal by a client, or by client request.

Terril asks all investment advisory clients to please notify Terril of any changes in their investment objectives and/or financial situation including tax brackets.

Investment advisory clients receive transaction confirmation notices and regular summary account statements directly from their broker-dealer/custodian at least quarterly. Investment advisory clients also receive a quarterly performance report from Terril.

Item 14 – Client Referrals and Other Compensation

Terril does not currently have any client referral relationships. Thus, it does not pay any fee to a third party for making client referrals. Also, Terril does not direct brokerage transactions to any third party in return for client referrals.

Item 15 – Custody

Terril does not maintain custody of client assets, except as a consequence of our ability to deduct advisory fees directly from certain client accounts who have provided us written authority to do so. Terril in most cases helps clients to select a qualified custodian for client assets. The custodian generally sends to the client a quarterly, or more frequent, account statement. Clients are urged to carefully review the statements. Clients also will receive a quarterly statement from Terril. Clients are urged to compare the account statements for any potential discrepancies. The custodian statement will show any fees paid to Terril & Company or the custodian. Clients are asked to review the fees for accuracy against their written contracts with Terril and/or the custodian. If the client believes there is a discrepancy, they are asked to notify Terril immediately. Any necessary changes will be made immediately. From time to time, clients may

send checks to us payable to third parties. These checks are immediately forwarded to the third party payee.

Item 16 – Investment Discretion

Terril only accepts clients on a discretionary asset management basis. This means that Terril places trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Our discretionary authority is provided by you through a limited power of attorney that accompanies the advisory agreement that you sign with Terril. Our discretionary authority may be limited by the investment guidelines or restrictions that you place in writing on your account, if any. As an example, some accounts prohibit buying tobacco companies, alcohol companies or certain medical research companies.

Item 17 – Voting Client Securities

Unless otherwise notified, Terril has the authority to vote on proxy matters in securities held in your account and Terril has adopted policies and procedures reasonably designed to vote securities in the best interest of the client. Voting rights are exercised by Terril on issues that we believe will have an effect on the value of the security. We vote proxies in an attempt to maximize or protect the value of the security. We look at both short-term and long-term consequences of the voting matter. Terril may not vote every proxy matter if we determine in good faith that refraining from voting is in your best interest or the issue to be voted upon is insignificant.

Item 18 – Financial Information

Terril does not solicit fees of more than \$1,200 per client more than six months in advance of services rendered. Therefore, Terril is not required to include a financial statement as part of this filing. However, clients that wish a financial statement can receive one by calling Chanda at 314-965-0344 or emailing her at Chanda@terrilco.com.

Terril is a SEC licensed advisory firm that is deemed to have discretionary authority. As such, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. Terril has no financial circumstances to report under this requirement.

Terril is not now, nor has ever been the subject of a bankruptcy petition.