

Item 1 – Cover Page

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This brochure provides information about the qualifications and business practices of P38 Enterprises. If you have any questions about the contents of this brochure, please contact Quinn Sowell at 940-262-1106 or at quinn@p38enterprises.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 P38 Enterprises is also available on the Internet at www.adviserinfo.sec.gov. You can view our firm's information on this website by searching for our name P38 Enterprises or by our firm CRD number **135325**.

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

Item 2 – Material Changes

This Item 2 provides readers with a summary of material changes that have been made to this Disclosure Brochure and will always reference the date of the last annual update of the Disclosure Brochure. This February 2012 version of the Disclosure Brochure is an annual update. Prior to this version of the Disclosure Brochure, our last annual update to the Disclosure Brochure was in February 2011.

As required by the Dodd–Frank Wall Street Reform and Consumer Protection Act, midsize investment advisory firms (firms with Assets Under Management between \$25 Million and \$99 Million) are required to change their primary regulatory authority from the United States Securities and Exchange Commission to the individual states in which they do business. Due to this regulatory change P38 Enterprises is filing for registration with the Texas State Securities Board.

The substantive changes for our Disclosure Brochure dated February 2012 are related to the change from SEC to state registration and to update the amount of the firm's assets under management. Item 4 has been updated to state the amount of assets under management as of the fiscal year-end of December 31, 2011 and also to state that the firm is state-registered with the State of Texas. In addition, we have added Item 19 to this Disclosure Brochure. Item 19 requires disclosures that are unique to state registered investment advisers.

We will ensure that you receive a summary of any material changes to this and subsequent Disclosure Brochures within 120 days after our fiscal year ends. Our fiscal year ends on December 31 so you will receive the summary of material changes no later than April 30 each year. At that time we will also offer or provide a copy of the most current Disclosure Brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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Item 4 – Advisory Business

P38 Enterprises is an investment advisor registered with the State of Texas and is a corporation formed under the laws of the State of Texas.

- Quinn Sowell is the President and Chief Compliance Officer of P38 Enterprises.
- P38 Enterprises has been registered as an investment advisor with the State of Texas since February 2012. From March 2009 to February 2012, P38 Enterprises was registered as an investment adviser with the SEC. Prior to March 2009, P38 Enterprises was registered as an investment advisor with the State of Texas.

General Description of Primary Advisory Services

The following are brief descriptions of the advisory services offered by P38 Enterprises. A more detailed description of P38 Enterprises' advisory services is provided in *Item 5 – Fees and Compensation* so that clients and prospective clients can review the description of services and description of fees in a side-by-side manner.

Financial Planning Services - P38 Enterprises provides advisory services in the form of financial planning services. Financial planning services do not involve the active management of client accounts, but instead focuses on a client's overall financial situation. Financial planning can be described as helping individuals determine and set their long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning, and other areas. The role of a financial planner is to find ways to help the client understand his/her overall financial situation and help the client set financial objectives.

Asset Management Services - P38 Enterprises provides advisory services in the form of asset management services, which we refer to as financial management services. Asset management services involve providing clients with continuous and on-going supervision over client accounts. This means that P38 Enterprises will continuously monitor a client's account and make trades in client accounts when necessary.

Limits Advice to Certain Types of Investments

P38 Enterprises provides investment advice on the following types of investments:

- No-Load (i.e. no trading fee) and Load-Waived (i.e. trading fee waived) Mutual Fund Shares
- Exchange-listed securities (i.e. stocks)
- Securities traded over-the-counter (i.e. stocks)
- Fixed income securities (i.e. bonds)
- Closed-End Funds and Exchange Traded Funds (ETFs)
- Foreign Issues
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance

- Variable annuities
- United States government securities
- Options contracts on securities
- Interests in partnerships investing in real estate, oil and gas interests

P38 Enterprises does not provide advice on options contracts on commodities, futures contracts on tangibles and intangibles, or hedge funds and other types of private (i.e. non-registered) securities.

Asset allocation and investment policy decisions are made to, in P38's best judgment, help clients achieve their overall financial objectives while minimizing risk exposure. Asset allocation is a key component of our investment portfolio design. P38 Enterprises believes that the appropriate allocation of assets across diverse investment categories (stock vs. bond, foreign vs. domestic, large cap vs. small cap, high quality vs. high yield, etc.) is the primary determinant of portfolio returns and critical in the long-term success of a client's financial objectives. We may modify our investment strategy to accommodate special situations such as low basis stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles, or special tax situations.

(Please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more information.)

Tailor Advisory Services to Individual Needs of Clients

Our advisory services are always provided based on the individual needs of each client. This means, for example, that you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. We work with each client on a one-on-one basis through interviews and questionnaires to determine the client's investment objectives and suitability information.

Client Assets Managed by P38 Enterprises

The amount of clients assets managed by P38 Enterprises totaled \$46,828,380 as of December 31, 2011. \$43,938,487 of those assets are managed on a discretionary basis and \$2,889,893 are managed on a non-discretionary basis.

Item 5 – Fees and Compensation

In addition to the information provide in *Item 4 – Advisory Business*, this section provides additional details regarding our advisory services along with descriptions of each service's fees and compensation arrangements.

Advisory Services and Fees

Financial Management Services

P38 Enterprises provides financial management services defined as giving continuous investment advice to a client and making investments for the client based on the individual needs of the client. Through this service, P38 Enterprises offers a customized and individualized investment plan for clients. The clients to whom we provide financial management services are typically, but not necessarily limited to, individuals,

trusts, charities and/or small businesses. A specific investment strategy is crafted to focus on the specific client's goals and objectives.

Clients contracting for financial management services must establish an account through the Fidelity Institutional Wealth Services (FIWS) platform. Clearing, custody or other brokerage services for that platform may be provided by National Financial Services LLC (NFS), or Fidelity Brokerage Services LLC (FBS), Members NYSE, [SIPC](#). P38 Enterprises is not affiliated with FIWS, NFS or FBS. However, P38 Enterprises participates in the FIWS platform as further described below.

Upon execution of a financial management services client agreement, P38 Enterprises will be granted trading authorization on the client's account. Such authorization will be granted on either a discretionary or non-discretionary basis. Other than the ability to trade client accounts, at no time will P38 Enterprises have direct access to client funds and securities. NFS or FBS will maintain custody of all funds and securities.

P38 Enterprises charges an initial setup fee of up to \$750. A lower fee may be charged to clients depending on the complexity of the initial setup. For example, clients with assets already custodied at NFS or FBS may be charged a lower setup fee. The initial fee covers our time to transition client accounts to our program and covers management services for the first calendar quarter that such services are provided. The initial fee is due in advance at the time of executing the financial management services agreement. P38 Enterprises does not pro-rate the initial setup fee based on the date the agreement is executed.

Beginning with the second calendar quarter after the date the agreement is executed, P38 Enterprises charges a quarterly fee which is determined and listed in the agreement. The quarterly fee is based on our estimate of the number of hours needed to service the client's account each quarter. Estimates will vary from client to client depending on the complexity of the client's situation, the number of accounts being managed, the types of investments held in account(s), and other factors as determined by P38 Enterprises. Fixed fees are based on an hourly rate of \$150 and are billed quarterly in arrears. Actual fees charged by P38 Enterprises may be adjusted downward in the event we do not use the estimated number of hours. At no time will P38 Enterprises increase the quarterly fee without the client's prior written consent.

P38 Enterprises provides clients with a quarterly fee invoice. At a minimum, the fee invoice will show the amount of fees due for the quarter and any adjustments to the fee originally estimated by us. Payment is due upon client's receipt of the invoice from P38 Enterprises.

Brokerage fees and/or transaction ticket fees charged by the custodian will be billed directly to the client. P38 Enterprises will not receive any portion of such fees from the custodian or client. In addition, clients may incur certain charges imposed by third parties other than P38 Enterprises in connection with investments made through the account, including but not limited to, mutual fund sales loads, 12(b)-1 fees and surrender charges, variable annuity fees and surrender charges, and IRA and qualified retirement plan fees. Management fees charged by P38 Enterprises are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. A description of these fees and expenses is available in each investment company security's prospectus.

Either party may terminate the agreement for services at any time. If services are terminated within five (5) business days of executing the agreement, services will be terminated without penalty and a full refund of the initial setup fee will be provided. If services are terminated after the initial five day period,

any fees due will be billed to client based on the actual number of hours completed by P38 Enterprises for the period. In the event a client terminates services, termination shall be effective from the time P38 Enterprises receives written notification or such other time as may be mutually agreed upon, subject to the settlement of transactions in progress and the final payment of advisory fees. There will be no penalty charge upon termination. In the event P38 Enterprises terminates the relationship, the agreement will be terminated on the thirtieth (30) day after written notification is delivered to the client or such time as may be mutually agreed upon, also subject to the settlement of transactions in progress and the final payment of advisory fees.

Financial Planning Services

Upon execution of a client agreement, P38 Enterprises provides Financial Planning Services to individuals and families. These services may be general in nature or focused on particular areas of interest or need, depending upon each client's unique circumstances.

Financial planning advice is rendered, but not necessarily limited, in the areas of cash flow and debt management, risk management, college funding, retirement planning, estate planning, tax planning, asset allocation and investment selection. P38 Enterprises employs fundamental, long-term financial planning and investment strategies.

P38 Enterprises first conducts an initial interview and gathers data to assist the client in determining specific needs, goals, objectives and tolerance for risk. P38 Enterprises then prepares analyses of the current financial situation and possible future scenarios, when appropriate. Next, we present the analysis and a written summary of the significant observations, assumptions and recommendations for each area that P38 Enterprises was engaged to provide advice. Upon the completion of this presentation the engagement is concluded. Clients may re-engage P38 Enterprises as needed. Periodic financial check-ups are recommended and it is the client's responsibility to initiate this review.

Financial planning services are provided for an hourly fee of \$150. The exact number of hours needed to complete a financial plan depends on the complexity of the case.

P38 Enterprises may require a deposit for initial engagements in the amount of the lesser of \$500 or ½ of the lower end of the estimated fee range. The balance of fees due are payable immediately upon presentation of the plan or advice to the client. Services to be provided and the anticipated fee range are detailed in the written service agreement which must be executed by the client and P38 Enterprises prior to beginning financial planning services.

Either party may terminate an engagement upon written notice within five (5) days of signing the service agreement, at which time no fees would be due. Should client terminate the engagement after this date, the client is responsible and will be invoiced for any time incurred by P38 Enterprises in the preparation of their plan. P38 Enterprises will refund any unearned, prepaid fees within thirty days of written request from the client.

Fees paid to P38 Enterprises for financial planning services are completely separate from the fees and expenses charged by mutual fund companies and their portfolio managers. A complete explanation of these fees and expenses are provided in each mutual fund prospectus. Clients are encouraged to read the prospectus before investing. Client may also incur transaction costs or administration fees from broker/dealers, trust companies or other service providers. Clients are encouraged to obtain a complete schedule of these fees from the service provider prior to entering into any engagement. P38 Enterprises

does not receive any portion of these other fees. The only compensation received by P38 Enterprises is the hourly fees paid directly by the client.

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

Item 6 is not applicable to this Disclosure Brochure because P38 Enterprises does not charge or accept performance-based fees. Performance-based fees are fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

Item 7 – Types of Clients

P38 Enterprises generally provides investment advice to the following types of clients:

- Individuals
- High-Net Worth Individuals
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

Minimum Investment Amounts Required

There are no minimum investment amounts or conditions required for establishing an account managed by P38 Enterprises. However, all clients are required to execute an agreement for services in order to establish a client arrangement with P38 Enterprises.

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

Methods of Analysis

P38 Enterprises uses the following method(s) of analysis in formulating investment advice:

Fundamental. A method of evaluating a clients are required to execute an agreement for services in order to establish a client arrangement with P38 Enterprises security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

When providing financial management and financial planning services, the client's current financial situation, needs, goals, objectives and tolerance for risk are first evaluated. Asset allocation and investment policy decisions are then made to, in our best judgment, help the client achieve the client's overall financial objectives while minimizing risk exposure. Asset allocation is a key component of our investment portfolio design. P38 Enterprises believes that the appropriate allocation of assets across diverse investment categories (stock vs. bond, foreign vs. domestic, large cap vs. small cap, high quality

vs. high yield, etc.) is the primary determinant of portfolio returns and critical in the long-term success of a client's financial objectives.

Investment Strategies

P38 Enterprises uses the following investment strategies when managing client assets and/or providing investment advice:

Long term purchases. Investments held at least a year.

Short term purchases. Investments sold within a year.

Trading. Investments sold within 30 days.

Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from P38 Enterprises.

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

Use of Primary Method of Analysis or Strategy

P38 Enterprises employs fundamental, long-term, buy-and-hold philosophies and approaches in their investment selection and implementation strategies. Recommendations provided are based on publicly available reports, analysis, research materials, computerized asset allocation models, and various subscription services. P38 Enterprises does not routinely employ "short-swing" trading or market timing strategies, but may on occasion place a "short-swing" equity trade. We recognize that short-swing trading may not be a suitable strategy for all clients and will conduct a suitability review and provide appropriate disclosures to any clients for whose account(s) we may place any "short-swing" equity trades.

P38 Enterprises' investment strategy will always be based on the individual client's experience and goals. Although various risks including interest rate and market risk exist, P38 Enterprises recognizes that these risks must be considered and addressed as appropriate for each client.

Risk of Loss

Past performance is not indicative of future results. Therefore, you should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. You should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, P38 Enterprises is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or

declines. There are certain additional risks associated when investing in securities through our investment management program.

- Market Risk – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk. When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- ETF and Mutual Fund Risk – When investing in a an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing ETFs.
- Management Risk – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.

Item 9 – Disciplinary Information

Item 9 is not applicable to this Disclosure Brochure because there are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our business or integrity.

Item 10 – Other Financial Industry Activities and Affiliations

P38 Enterprises is **not** and does **not** have a related company that is a (1) broker/dealer, municipal securities dealer, government securities dealer or broker, (2) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund), (3) other investment adviser or financial planner, (4) futures commission merchant, commodity pool operator, or commodity trading advisor, (5) banking or thrift institution, (6) accountant or accounting firm, (7) lawyer or law firm, (8) insurance company or agency, (9) pension consultant, (10) real estate broker or dealer, or (11) sponsor or syndicator of limited partnerships.

Other Business Activities

P38 Enterprises prepares tax returns for clients and may provide representation for clients before the Internal Revenue Service. Clients that engage P38 Enterprises for tax preparation services must execute a separate client agreement for such services. P38 Enterprises charges a fee for tax preparation services that is separate from the fee charged for financial planning and financial management services. Clients are not required to use P38 Enterprises for tax preparation services and may use any other tax professional they elect.

Quinn Sowell is independently licensed to sell insurance and annuity products through various insurance companies. When acting in this capacity, Mr. Sowell receives commissions for selling insurance and annuity products.

Mr. Sowell may also receive other incentive awards for the recommendation/sale of annuities and other insurance products. The receipt of compensation and other incentive benefits may affect the judgment of Mr. Sowell when recommending products to his clients. While Mr. Sowell endeavors at all times to put the interest of his clients first as a part of P38 Enterprises' overall fiduciary duty to clients, clients should be aware that the receipt of commissions and additional compensation itself creates a conflict of interest, and may affect Mr. Sowell's decision making process when making recommendations.

Clients are never obligated or required to purchase insurance products from or through Mr. Sowell and may choose any independent insurance agent and insurance company to purchase insurance products. Regardless of the insurance agent selected, the insurance agent or agency will receive normal commissions from the sale.

Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading

Code of Ethics Summary

Section 204A-1 of the *Investment Advisers Act of 1940* requires all investment advisers to establish, maintain and enforce a Code of Ethics. P38 Enterprises has established a Code of Ethics that will apply

to all of its associated persons. An investment adviser is considered a fiduciary according to the *Investment Advisers Act of 1940*. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each client at all times. P38 Enterprises has a fiduciary duty to all clients. This fiduciary duty is considered the core underlying principle for P38 Enterprises' Code of Ethics which also covers its Insider Trading and Personal Securities Transactions Policies and Procedures. P38 Enterprises requires all of its supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and when changes occur, all supervised persons will sign an acknowledgement that they have read, understand and agree to comply with our Code of Ethics. P38 Enterprises has the responsibility to make sure that the interests of all clients are placed ahead of P38 Enterprises' or its supervised person's own investment interests. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to any services being conducted. P38 Enterprises and its supervised persons must conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

Affiliate and Employee Personal Securities Transactions Disclosure

P38 Enterprises or its associated persons may buy or sell for their personal accounts, investment products identical to those recommended to clients. This creates a potential conflict of interest. It is the express policy of P38 Enterprises that all persons associated in any manner with our firm must place the interests of our clients ahead of their own when implementing personal investments. P38 Enterprises and its associated persons shall not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of his/her employment unless the information is also available to the investing public upon reasonable inquiry. In order to minimize this conflict of interest, securities recommended by P38 Enterprises are widely held and publicly traded.

Item 12 – Brokerage Practices

Brokerage Recommendations

Clients are under no obligation to act on the financial planning recommendations of P38 Enterprises. If we assist in the implementation of any recommendations, we are responsible to ensure that the client receives the best execution possible.

Clients wishing to implement the advice of our firm's associated person are free to select any broker/dealer or investment advisor they wish and are so informed. For clients that wish to have P38 Enterprises implement its advice, clients must establish an account with FIWS. The primary factor in requiring FIWS is that the services of FIWS are provided in a cost-effective manner. Best execution of client transactions is an obligation we take seriously and is a catalyst in the decision of suggesting a broker/dealer. While quality of execution at the best price is an important determinant, best execution does not necessarily mean lowest price and it is not the sole consideration. The trading process of any broker/dealer suggested by P38 Enterprises must be efficient, seamless, and straight-forward. Overall custodial support services, trade correction services, and statement preparation are some of the other factors determined when suggesting a broker/dealer. P38 Enterprises does not have any soft dollar arrangements with any third party.

Additional Compensation

P38 Enterprises utilizes the services of FIWS. While there is no direct linkage between the investment advice given to clients and our Firm's participation in the FIWS program, economic benefits are received by P38 Enterprises which would not be received if we did not give investment advice to clients.

These benefits include: a dedicated trade desk that services FIWS participants exclusively, a dedicated service group and an account services manager dedicated to our accounts, access to a real-time order matching system, ability to "block" clients' trades, electronic download of trades, balances and position information, access, for a fee, to an electronic interface with FIWS' software, duplicate and batched client statements, confirmations and year-end summaries, a quarterly newsletter, access to Fidelity mutual funds, access to AdvisorChannel.com (internet access to statements, confirmation and transfer of asset status), access to Account View (through which clients may access their account information over the internet via Advisor's web site), access to over 350 mutual fund families and 4500 mutual funds not affiliated with Fidelity, of which over 2,000 have no transaction fees, and the ability to have loads waived for our clients who invest in certain Fidelity loaded funds when certain conditions are met and maintained. The benefits received through participation in the FIWS program do not depend upon the amount of transactions directed to or amount of assets managed through NFS or FBS.

Handling Trade Errors

P38 Enterprises has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. Consistent with its fiduciary duty, it is the policy of P38 Enterprises to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction. Depending on the specific circumstances of the trade error, the client may not be able to receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by P38 Enterprises if the error was caused by P38 Enterprises. If the error is caused by the broker-dealer, the broker-dealer will be responsible for handling the trade error. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should also receive the gains and it is not permissible for all clients to retain the gain. P38 Enterprises may also confer with a client to determine if the client should forego the gain (e.g., due to tax reasons).

P38 Enterprises will never benefit or profit from trade errors.

Block Trading Policy

Transactions implemented by P38 Enterprises for client accounts are generally effected independently, unless P38 Enterprises decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used when P38 Enterprises believes such action may prove advantageous to clients. When P38 Enterprises aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among our firm's clients in proportion to the

purchase and sale orders placed for each client account on any given day. When P38 Enterprises determines to aggregate client orders for the purchase or sale of securities, including securities in which P38 Enterprises may invest, we will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, P38 Enterprises does not receive any additional compensation or remuneration as a result of aggregation.

Item 13 – Review of Accounts

Account Reviews and Reviewers

Account reviews are provided in connection with financial management accounts. For clients participating in these programs, our President Quinn Sowell will contact clients at least annually for the purpose of reviewing their account and to determine if there have been changes in their financial situation or investment objectives. The calendar is the main triggering factor for reviews, although more frequent reviews may also be triggered by changes in the client's circumstances, client request, or changes within the market. Accounts are usually reviewed as frequently as monthly, but no less than quarterly. P38 Enterprises is responsible for rebalancing, reallocation and ongoing trading services for financial management accounts.

Our financial planning services terminate upon the delivery of the plan or the requested financial planning advice to the client. For financial planning clients, no on-going or automatic reviews are provided by P38 Enterprises. Periodic financial check-ups and portfolio reviews are recommended, and it is the client's responsibility to initiate these reviews. Clients must execute a new client agreement for additional reviews and updates.

All services and recommendations are provided by Quinn N. Sowell who is the President and Principal of P38 Enterprises.

Statements and Reports

Portfolio "Snapshot" reports are provided when P38 Enterprises is engaged to provide asset allocation reviews or financial management services. P38 Enterprises does not provide on-going performance reporting.

Clients will receive account statements directly from mutual fund companies and/or brokerage companies at which the client holds investments. These statements are typically provided on a monthly or quarterly basis and as transactions occur.

Item 14 – Client Referrals and Other Compensation

P38 Enterprises does not directly or indirectly compensate any person for client referrals.

Our President, Quinn Sowell, may receive commissions and other incentive awards for the recommendation or sale of annuities and other insurance products. The receipt of this compensation creates a potential conflict of interest between Mr. Sowell and clients when recommending products to clients.

The only compensation received from advisory services is the fees charged for providing investment advisory services as described in Item 5 of this brochure. P38 Enterprises receives no other forms of compensation in connection with providing investment advice.

Item 15 – Custody

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented. According to this definition, P38 Enterprises does not have custody of client funds or securities.

Item 16 – Investment Discretion

Through its asset management services and upon receiving written authorization from a client, P38 Enterprises will maintain trading authorization over client accounts. Upon receiving written authorization from the client, P38 Enterprises may implement trades on a **discretionary** basis. When discretionary authority is granted, P38 Enterprises will have the authority to determine the type of securities and the amount of securities that can be bought or sold for the client's portfolio without obtaining the client's consent for each transaction. However, it is the policy of P38 Enterprises to consult with the client prior to making significant changes in the account even when discretionary trading authority is granted by the client.

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

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

Once the above factors are agreed upon, P38 Enterprises will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. If your accounts are managed on a non-discretionary basis, you need to know that if you are not able to be reached or are slow to respond to our request, it can have an adverse impact on the timing of trade implementations and we may not achieve the optimal trading price.

All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our firm so long as the limitations are specifically set forth or included as an attachment to the client agreement.

Item 17 – Voting Client Securities

P38 Enterprises will not vote proxies on behalf of your account. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, we have determined that taking on the responsibility for voting client securities does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is your responsibility to vote all proxies for securities held in accounts

managed by our firm. Clients will receive proxies directly from their custodian or transfer agent and such documents will not be delivered by our firm.

Item 18 – Financial Information

Item 18 is not applicable to our Disclosure Brochure. P38 Enterprises does not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, P38 Enterprises has not been the subject of a bankruptcy petition at any time.

Item 19 – Requirements for State-Registered Advisers

Executive Officer and Management Personnel

Quinn N. Sowell

Educational Background:

University of Texas at Arlington, Arlington, TX BBA Accounting 1973

Business Experience:

ProTax, Gun Barrel City, TX
Owner, Tax Preparer
01/80 – 12/03

H. D. Vest Financial Services, Irving, TX
Registered Representative
01/93 – 12/04

P38 Enterprises, Inc., Denton, TX
President, Investment Adviser Representative, Enrolled Agent, Tax Preparer
01/04 – present

Other Business Activities

See Item 10 – Other Financial Industry Activities and Affiliations.

No Performance Based Fees

As previously disclosed in Item 6, P38 Enterprises does not charge or accept performance-based fees.

No Arbitrations

P38 Enterprises or any of its associated persons have not been the subject of any client arbitrations or similar legal disputes.