An SEC Registered Investment Advisor

Kovack Advisors, Inc.
Form ADV Part 2A Appendix 1
Wrap Fee Program Brochure
March 29, 2018

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This brochure provides information about the qualifications and business practices of Kovack Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (866) 564-6574. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Kovack Advisors, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov The searchable IARD/CRD number for Kovack Advisors, Inc. is 140808.

Kovack Advisors, Inc. is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

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Material Changes

This section is used to identify any material changes since the Kovack Advisors last annual update. There have been no material changes.

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Services, Fees and Compensation

Established in March 2004, Kovack Advisors, Inc. is based in Fort Lauderdale, Florida and was founded by Ronald and Brian Kovack. They are the principal owners of the firm.

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

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

The individualized advice from IARs is largely based on the information provided by the client through client completion of account opening documents and IAR consultation with the client. Information regarding their financial circumstances, investment objectives, and any special instructions or limits that should be followed in managing the account(s) is gathered. In addition, clients are advised to notify KAI promptly of any significant change in their information that might affect the way account(s) should be managed. These include changes such as material changes in financial circumstances or investment objectives. Clients must also agree to provide KAI with such additional information as KAI may request from time-to-time to assist in the management of the account(s). Clients may impose restrictions on investing in certain securities or types of securities (such as a product type, specific companies, specific sectors, etc.) by providing a signed and dated written notification.

Account Options

KAI offers the following CHOICE Program Wrap Account options to clients:

- CHOICE Advisor accounts held at National Financial Services, Pershing, TD Ameritrade and Fidelity's Institutional Wealth Services (IWS). These accounts can be discretionary (where the IAR is authorized by the client to place trades on behalf of the client) or non-discretionary.

- CHOICE Unified Management Accounts (UMA) are discretionary accounts held at National Financial Services, Pershing, TD Ameritrade and Fidelity's Institutional Wealth Services (IWS). The IAR will recommend to a client portfolio strategies managed by independent, third party money managers. KAI will execute transactions on behalf of the client that follow the manager's strategy. CHOICE UMA accounts include CHOICE Mutual Fund and CHOICE ETF accounts.

- CHOICE Separately Managed Accounts (SMA) are held at National Financial Services, Pershing, TD Ameritrade and Fidelity's Institutional Wealth Services (IWS). The IAR will recommend to a client portfolio strategies managed by independent, third-party money managers. The account is managed by the money manager, who has discretionary trading authority, while remaining a KAI client.

- CHOICE Annuity allows IARs to manage the sub-accounts held in variable annuities. The account is held at the insurance carrier's custodian, and the IAR manages the assets on a discretionary basis.

- Turnkey Asset Management Programs ("TAMP") Accounts offer client access to independent third-party money managers. Based on the client's financial objectives and risk tolerance, IARs may recommend a TAMP portfolio managed by an independent strategist. The accounts are managed on a discretionary basis by third-party money managers, who are unaffiliated registered investment advisors that KAI has approved to recommend. KAI does not manage or trade these accounts. The client's IAR may be considered a solicitor for referring to the TAMP. The IAR will then receive an on-going solicitor's fee for referring the client based on their financial profile, and for providing oversight on the introduced client's account. In these instances, a Solicitor's Disclosure Document will be signed by the client disclosing the allocation of the advisory fee to KAI as well as the TAMP. With a few TAMPs, the IAR will provide more services and may receive advisory fees.

KAI may offer the services above as Wrap Fee Program accounts, as well as Non-Wrap Fee Program accounts. A "wrap fee program" is a program under which investment advisory and brokerage execution services are provided for a single "wrapped" fee that is not based on the transactions in a client account. KAI will assist clients in determining the suitability of a Wrap Fee Program vs. Non-Wrap Fee Program for the client. The client's advisory fee may be higher in a Wrap Fee Program account than in a Non-Wrap Fee Program account, since the fee includes transaction costs. For providing services, KAI will receive a portion of the Wrap Fee charged to the client. Clients are advised to consult with their IAR, as well as referring to KAI's Wrap Fee Program Brochure, for more detailed information on KAI's programs.

Generally, all KAI account options are available as Wrap Fee Programs if the account is held at Pershing. Other custodians may charge additional charges transactional fees, so the account options may not be available as a Wrap Fee Program account. For example, NFS charges a $0.75 transaction fee; this fee is retained in full by NFS.

Fees and Compensation

KAI's fee for its CHOICE portfolio and investment management services is generally directly debited from the account(s) for which KAI is providing management services. The account(s) will be debited quarterly in advance on approximately January 1st, April 1st, July 1st, and October 1st. Clients may request that the fee be charged to one of their other KAI/KSI accounts. Fees for investment advisory services between 0% and 3.00% may be charged. The initial quarterly fee will be prorated based on the number of billing days in the initial quarter. Fees may be negotiable. A client may terminate an advisory agreement without being assessed any fees or expenses within five (5) days of entering into the contract. Additionally, if the advisory contract is terminated before the end of the billing period, any unearned fees resulting from the advance fee will be returned, prorated by number of days where financial services will not be performed.

In calculating the value of the account for purposes of computing the account fee, KAI generally includes all assets invested in the account. The account fee does not include the following:

- Underwriting or dealer concessions or related compensation in connection with securities acquired in underwritten offerings.
- Certain odd-lot differentials, transfer taxes, transaction fees mandated by the Securities Act of 1934, postage and handling fees, and charges imposed by law with regard to transactions in the client's account(s).
- Advisory fees and expenses of mutual funds including money market funds, closed-end investment companies or other managed investments if any are held in the account(s).
- Account maintenance and custodial charges such as postage, IRA fees, bank wire costs, transfer charges, costs associated with transactions in foreign securities and/or exchanging foreign currencies, etc.
- For CHOICE Annuity accounts, all fees associated with the costs of the variable annuity and advisory fees and expenses of the sub-accounts.

The client may pay some or all of these fees. The total client program fees may vary from client to client.

The cost of these programs to the client, if provided separately with the equivalent trading activity in the account(s), may cost more or less than purchasing such services through the KAI programs. In addition, some investments can be purchased directly from the issuer, such as many mutual funds, and some mutual funds are offered without a sales charge. The IAR representing KAI programs receives compensation as a result of participation in the program. This compensation may be more or less than the IAR could have received for other investment advice, brokerage and/or other services or investment programs.

For clients investing in mutual funds, KAI requires that clients purchase the share class most beneficial to the client, generally the advisory share class. In some cases this class is not made available by the sponsor fund. Here, KAI will seek a comparable, similar mutual fund that provides an advisory share class, and offer the fund and share class to the client. If no comparable fund with an advisory share class is available, the client may pay higher fees that include 12b-1 fees.

Most KAI IARs are also Registered Representatives (RRs) of KAI's affiliated broker-dealer firm, Kovack Securities, Inc. These IARs/RRs have the ability to recommend to clients advisory or non-advisory accounts, which are chiefly brokerage accounts and investments held directly with the issuer. Non-advisory accounts compensate RRs with commissions, which may or may not be greater than the compensation received on an advisory account.

The factors impacting the relative cost of a program to a particular client include the following:

- The size of the account(s),
- The type of account(s) (such as equity or fixed income),
- The size of the assets devoted to a particular strategy, and
- The manager(s) selected.

In Non-Wrap Programs, clients are charged for transactions in addition to advisory fees. KAI pays transaction charges in Wrap Accounts, so the management fee is included in the advisory fee charged to the client. Non-Wrap Program accounts will pay transaction charges separately.

The Wrap Fee may be higher than if the client paid for the transaction costs separately. These fees vary by broker dealer and/or custodian. Additionally, for any mutual funds purchased, the client may pay their proportionate share of the funds' distribution, internal management, investment advisory and administrative fees. Such fees are not shared with KAI and are compensation to the fund manager. Clients are urged to read the mutual fund prospectus prior to investing.

On a discretionary basis, KAI managed $1,657,484,570 as of December 31st, 2017. On a non-discretionary basis, KAI managed 536,165,290 as of December 31st, 2017.

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

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

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

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

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

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Account Requirements and Types of Clients

Generally, KAI provides investment advice to the following types of clients:

- Individuals
- High net worth individuals
- Bank or thrift institutions
- Pension and profit sharing plans
- Charitable organizations
- Corporations or other businesses

KAI CHOICE Programs generally have account minimums that range from $10,000 to $100,000, depending on the account option selected. Household accounts can be aggregated to meet minimums, and the minimums can be waived at the firm's discretion. TAMP accounts may have different minimums, or no minimums.

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Portfolio Manager Selection and Evaluation

The IAR may act as the portfolio manager for KAI's Wrap Fee Program accounts, or the IAR may recommend the Wrap Program of a third-party money manager. There are no conflicts of interest with either arrangement. If the IAR acts as portfolio manager, either with or without trading discretion, the client chooses the IAR. The client will review account activity and performance with the IAR, as will KAI.

KAI provides access to independent, third-party portfolio managers that KAI has evaluated and approved for firm IARs to offer. Managers are evaluated using data and information from several sources, including but not limited to, a review of the manager's disclosure documents, investment strategy and philosophy, regulatory and disciplinary history, management experience and performance, trading and reporting capabilities, marketing materials and any other information deemed material by KAI. In addition, KAI may utilize third party due diligence and information from other independent sources. KAI's on-going reviews includes, but it not limited to, comparing manager performance against their peers by using a portfolio manager database. At its discretion, the firm may remove a manager based on its continuing due diligence. Performance for client accounts is calculated in accordance with Global Investment Performance Standards (GIPS) by FolioDx, an independent firm. KAI does not calculate or verify performance returns, and relies on the returns provided by third-party sources or the manager. KAI generally reviews third-party manager performance on a quarterly basis.

Performance-Based Fees and Side By Side Management

KAI does not charge performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or appreciation of the assets of a client. Fees are calculated as described in Fees and Compensation section above, and are not charged on the basis of performance of your advisory account.

Methods of Analysis, Investment Strategies, and Risk of Loss

KAI's methods of analysis and investment strategies incorporate the client's needs and investment objectives, time horizon, and risk tolerance. The firm is not bound to a specific investment strategy for the management of investment portfolios, and instead considers the risk tolerance range of each portfolio and the risk level of each level when the account is opened. Examples of methodologies that investment strategies may incorporate include:

Asset Allocation – Asset Allocation is a broad term used to define the process of selecting a mix of asset classes and the efficient allocation of capital to those assets by matching rates of return to a specified and quantifiable tolerance for risk. Asset Allocation has the potential of all the risks listed below.

Dollar-Cost Averaging – Dollar-cost averaging is the technique of buying a fixed dollar amount of securities at regularly scheduled intervals, regardless of the price per share. This will gradually, over time, decrease the average share price of the security. Dollar-cost averaging lessens the risk of investing a large amount in a single investment at the wrong time. Dollar-Cost Averaging has the potential of all the risks listed below.

Technical Analysis – involves studying past price charts, patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks. Technical Analysis has the potential of all the risks listed below.

Long-Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year. Long-Term Purchases have the potential of all the risks listed below.

Short-Term Purchases – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short term price fluctuations. Short-term Purchases primarily have the potential of Market Risk, Business Risk, and Liquidity Risk as listed below.

Strategies and investments may have unique and significant tax implications. Regardless of account size or other factors, the firm strongly recommends continuous consultation with a tax professional prior to investing, and throughout investing.

Principal Risks:

Investing in securities involves risk of loss that clients should be prepared to bear. Although client portfolios are managed with strategies and in a manner consistent with risk tolerances, there can be no guarantee that the firm's efforts will be successful. A client may lose all, or some, of their investment.

All investments involve the risk of loss, including, but not limited to, loss of principal, loss of earnings (including interest, dividends, and other distributions), and loss of other opportunities. Regardless of the methods of analysis or strategies suggested for particular investment goals, risks that may be associated with each investment or strategy should be carefully considered. Below is a non-inclusive explanation of risks clients may face:

Market Risk. The prices of securities in which clients invest may decline in response to certain events taking place around the world, including those directly involving the companies whose securities are owned by the client or an underlying fund; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations. Investors should have a long-term perspective and be able to tolerate potentially sharp declines in market value.

Management Risk. KAI's investment approach may fail to produce the intended results. If our perception of the performance of a specific asset class or underlying fund is not realized in the expected time frame, the overall performance of client's portfolio may suffer.

Equity Risk. Equity securities tend to be more volatile than other investment choices. The value of an individual mutual fund or ETF can be more volatile than the market as a whole. This volatility affects the value of the client's overall portfolio. Small- and mid-cap companies are subject to additional risks. Smaller companies may experience greater volatility, higher failure rates, more limited markets, product lines, financial resources, and less management experience than larger companies. Smaller companies may also have a lower trading volume, which may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.

Fixed Income Risk. The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation. If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return. As nominal interest rates rise, the value of fixed income securities is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate.

Municipal Securities Risk. The value of municipal obligations can fluctuate over time, and may be affected by adverse political, legislative and tax changes, as well as by financial developments that affect the municipal issuers. Because many municipal obligations are issued to finance similar projects by municipalities (e.g., housing, healthcare, water and sewer projects, etc.), conditions in the sector related to the project can affect the overall municipal market. Payment of municipal obligations may depend on an issuer's general unrestricted revenues, revenue generated by a specific project, the operator of the project, or government appropriation or aid. There is a greater risk if investors can look only to the revenue generated by the project. In addition, municipal bonds generally are traded in the "over-the-counter" market among dealers and other large institutional investors. From time to time, liquidity in the municipal bond market (the ability to buy and sell bonds readily) may be reduced in response to overall economic conditions and credit tightening.

Investment Company and ETF Risk. When a client invests in open end mutual funds or ETFs, the client indirectly bears its proportionate share of any fees and expenses payable directly by those funds. Therefore, the client will incur higher expenses, many of which may be duplicative. In addition, the client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives). ETFs are also subject to the following risks: (i) an ETF's shares may trade at a market price that is above or below their net asset value; (ii) the ETF may employ an investment strategy that utilizes high leverage ratios; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally. KAI has no control over the risks taken by the underlying funds.

Derivatives Risk. Funds in a client's portfolio may use derivative instruments. The value of these derivative instruments derives from the value of an underlying asset, currency or index. Derivative investments by mutual funds or ETFs in which the client invests involve the risk that the value of the underlying fund's derivatives may rise or fall more rapidly than other investments, and the risk that it may lose more than the amount that it invested in the derivative instrument itself. Derivative instruments also involve the risk that other parties to the derivative contract may fail to meet their obligations, which could cause losses.

Foreign Securities Risk. Funds in which clients invest may invest in foreign securities. Foreign securities are subject to additional risks not typically associated with investments in domestic securities. These risks may include, among others, currency risk, country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability, currency devaluations and policies that have the effect of limiting or restricting foreign investment or the movement of assets), different trading

practices, less government supervision, less publicly available information, limited trading markets and greater volatility. To the extent that underlying funds invest in issuers located in emerging markets, the risk may be heightened by political changes, changes in taxation, or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.
Investing in securities involves risk of loss that clients should be prepared to bear. Although KSI manages client portfolios with strategies and in a manner consistent with your risk tolerances, there can be no guarantee that the firm's efforts will be successful. Clients must be prepared to bear the risk of loss.

Voting Client Securities

KAI does not vote proxies on behalf of Client advisory accounts. At the Client's request, the firm may offer the Client advice regarding corporate actions and the exercise of proxy voting rights. If the Client owns shares of common stock or mutual funds, the Client is responsible for exercising the right to vote as a shareholder.

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Client Information Provided to Portfolio Managers

KAI may directly provide the portfolio management services for the Wrap Fee Program accounts, or these services may be obtained through a third party money manager. The firm gathers information about clients through client completion of account opening documents and through consultation with the client. Should the client notify the IAR that their information has changed, the IAR will work with the client to update their account documents. The IAR will also provide this information, if needed, to the portfolio manager.

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Client Contact With Portfolio Managers

There are no restrictions placed on client ability to contact and consult with their portfolio managers.

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Additional Information

Disciplinary Information

KAI or its Principal Executive Officers have not had any reportable disclosable events in the past ten years.

Other Financial Industry Activities and Affiliations

The owners of KAI also own Kovack Securities, Inc. (“KSI”) and Kovack International Securities, Inc. (“KIS”), both full service broker/dealers registered with the Financial Industry Regulatory Authority (“FINRA”), and Kovack International Advisors (“KIA”) an SEC Registered Investment Adviser. Additionally, KAI is affiliated with a law firm, Brian J. Kovack, PA. KSI and its Registered Representatives, who also may be KAI IARs, may receive mutual fund 12b-1 fees, services fees, due diligence fees, marketing reimbursements, or other payments relating to a client's investment. KAI, as the investment advisor, sponsor, or other service provider to investment advisory programs, receives compensation for its services. Clients should be aware that these fees, payments, and other compensation may present a conflict of interest since KAI/KSI and its IARs may have a greater incentive to recommend those products or programs that provide additional compensation to KAI/KSI or to IARs. To address this potential conflict of interest, KAI and KSI review accounts and transactions for account type suitability, in addition to investor suitability. Additionally, this conflict is mitigated by the fact that IARs with KAI have a fiduciary responsibility to place the best interest of the client first, and the clients are not required to purchase any services or products through KAI. Clients have the option to purchase these products through another company of their choosing. All KAI management persons are registered with KSI.

In addition, IARs of KAI may be independent insurance agents for various companies, tax professionals, or have other financial related businesses not affiliated with KAI or KSI. These practices represent conflicts of interest because it gives the IAR an incentive to recommend products based on the compensation amount received from their other business activity. This conflict is mitigated by the fact that IARs with KAI have a fiduciary responsibility to place the best interest of the client first and the clients are not required to purchase any other services. Clients have the option to purchase these products through another company of their choosing for insurance, tax, or other financial related services.

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

KAI’s Code of Ethics includes guidelines for professional standards of conduct for the firm’s Associated Persons pursuant to SEC Rule 204A-1. KAI’s goal is to protect client interests at all times and to demonstrate commitment to fiduciary duties of honesty, good faith, and fair dealing. All of KAI’s Associated Persons are expected to strictly adhere to these guidelines. Persons associated with KAI are also required to report any violations to the Code of Ethics. Additionally, the firm maintains and enforces written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about clients or client accounts by persons associated with the firm.

KAI and its employees may buy or sell securities that are also held by clients. It is KAI’s express policy that no person employed by the firm purchase or sell any security prior to the transaction being implemented for an advisory account so as to prevent employees from benefiting from transactions placed on behalf of the advisory clients.

The advisor may have an interest or position in a certain security, which may also be recommended to the client. As these situations may present a conflict of interest, the advisor has established the following restrictions in order to ensure its fiduciary responsibilities:

1. A director, officer or employee of KAI shall not buy or sell a security for their personal portfolio(s) where their decision is substantially derived, in whole or part, by reason of his or her employment, unless the information is also available to the investing public. No owner/employee of KAI shall prefer their own interest to that of the client.
2. IARs are required to have duplicate confirms and statements submitted for all brokerage accounts holding stocks and bonds. These confirms are cross-checked against IAR clients trades on an as-needed basis, and monthly statements are reviewed.
3. KAI requires that all employees must act in accordance with all applicable Federal and State regulations governing registered investment advisors.
4. KAI ensures that clients are not at a disadvantage if KAI blocks personal trades with those of clients, and allocates the trades in a like manner.

KAI's Code of Ethics is available upon request by contacting the Chief Compliance Officer at (954) 782-4771.

Review of Accounts

KAI periodically reviews client accounts. KAI reviewers may include KAI's Executive Vice President, President, Chairman, Vice President(s), and Compliance Officer(s). At account opening, clients will choose a general investment category that reflects their risk tolerance, investment objectives, and financial objectives. KAI personnel will review the allocations in the account against the chosen investment category.

Other factors may trigger an account review. For example, significant changes to a client's financial condition, risk tolerance or investment objectives may trigger an account review. Additionally, activity that raises concerns with regards to anti-money laundering regulations will also result in an account review.

No less than quarterly, clients receive statements of account activity from the account's custodian firm.

Client Referrals and Other Compensation

KAI may have relationships with unaffiliated persons that refer clients to KAI for a fee. All referring parties sign an agreement with KAI. The referring parties will not provide investment advisory or supervisory services to clients. The referring party must provide the potential client with a copy of KAI's WRAP Fee Program Brochure (this document), along with a copy of KAI's solicitor disclosure statements and client acknowledgement.

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

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

Financial Information

This section is used to disclose certain financial information if KAI requires clients to pay advisory fees six months or more in advance. KAI prohibits prepayment of more than $1200 in fees more than six months in advance. KAI has no financial condition that would impair KAI's ability to meet contractual commitments to clients.

Form ADV, Part 2A Appendix 1, Item 10

Requirements for State-Registered Advisers

This section is not applicable as KAI is an SEC Registered Investment Advisor.