

First Quarter 2013 Results Summary

Attached are 1st Quarter updates and communications from various departments of Private Client Services, LLC. The 2nd Quarter is under way and is always an extremely busy quarter for both our Associates and Home Office staff. PCS is excited about our results and glad you are a part of our organization.

During the 1st Quarter of 2013 the firm enjoyed significant sales results and resulting profits, thanks to Associates and Managing Principals and their organizations affiliated with Private Client Services. Assets under management continue to grow due to increased sales and asset growth attributable to market advances. Private Client Services, LLC distributed record level compensation to our Associates in the 1st Quarter of 2013 and surpassed all previous quarter results in the company's history.

During the quarter, we completed our annual filings with the Securities and Exchange Commission, FINRA and SIPC. Our annual audited financials by our public accounting firm was completed for 2012 and Private Client Services, LLC is pleased PCS enjoyed a net profit for the year based upon GAAP cash basis accounting for 2012.

Private Client Service, LLC is required to be examined by FINRA this year and we have been preparing diligently in anticipation of the examination. Keep in mind the FINRA announced business plan to visit Associates' branch offices as part of the FINRA broker dealer examination process. PCS has contracted with a seasoned and experienced auditor to conduct our own branch office exams as required by FINRA. Vic Shier, brings years of experience to our field Associates and Managing Principals as he helps fulfill our own regulatory responsibility to conduct robust audits for regulatory purposes.

PCS completed its' work on our "2013 Business Plan" and updates to our "5 Year Plan". Like most successful businesses, it is important to plan each year in advance for revenues, expenses, marketing plans and staffing needs, etc. PCS has several new Home Office employees joining the firm during the coming weeks and months and we believe you will be pleased to know we have been successful in attracting additional experienced professionals to join the firm.

One such person is Mary Westcott, who is leaving Hilliard Lyons to join our firm. Mary was an operations manager for several years in their back office and most recently has been a Vice President with Hilliard Lyons working on projects involving operations and compliance. Mary also spent 11 years at AEGON USA in a variety of roles.

Kevin Collins has joined our firm. Kevin recently has been registered with LPL and has been working with Old National Bank, bringing both banking and wire house channel experience to our firm. Kevin has nearly 30 years of industry and management experience and will be working

with Associates to grow and expand their business as well as to fulfill the firm oversight from a required supervisory prospective.

PCS has been focusing on expansion during the past few quarters Todd Kost leads this extremely important effort in the Home Office region. If you know of someone you think is ideally suited for our firm let me know and I will personally contact them and have Todd follow-up to make certain they receive complete assistance on our firm's onboarding process. If you desire to expand your business by adding a sales assistant, Associate or junior partner, etc. please let us know in order that we may offer assistance in your efforts.

On the technology front, John Tobias has been busy with PCS initiatives reviewing Artison, Redtail, Laser App, Investego, and Money Guide Pro and Finance Logix. Financial Profiles will be replaced by Money Guide Pro and Finance Logix effective July 1st, thus if you use Financial Profiles you need to save whatever data you will need for your records. PCS will most likely contract with several of these other providers of technology during the coming months. Our new back office system has been unavoidably delayed due to problems Paul Ohlin encountered with the vendor and we will replace them with a new vendor in the coming weeks.

Cheryl Cravens and John Taylor Jones have been busy protecting our firm and I want to thank them for the fine job they have been doing to support everyone's efforts to live up to their complex regulatory responsibilities. Cheryl completed work on our SEC Exam from last year and the final updates to our SEC required filings for our Registered Investment Advisory platform required annually. John continues to improve and update many procedures and forms to reflect input from our Associates, new and ever changing regulatory requirements. The dedication and experience of Cheryl and John are very evident as a result of their work and progress the firm is making.

During the past several months, PCS has enjoyed reports on the reorganization which took place in our back office, the pleasantness of the Home Office staff and their willingness to help process "not in good order business". Megan, Tess, Sarah and Mary have been doing an excellent job and PCS appreciates their efforts and professionalism.

PCS recognizes the need to expand our ever growing fee based platform and has chosen Chuck McCurdy to assist in this endeavor. Chuck is a CFA (Chartered Financial Analyst) and co-founded a well-known Louisville based asset management firm. Under his leadership, the firm grew assets under management to 2.7 billion. Chuck started his career working in the trust departments of local banks as a portfolio manager and research analyst. Please welcome Chuck to our firm.

Private Client Services, LLC has been executing our business plan to hire qualified personnel and dynamic executive leadership to help grow and expand our firm, to support our Associates and Managing Principals. Our goal is to have in place during the coming year's additional leadership that will sustain the firm well into the future for another generation.

Pershing announced a fee increase affecting brokerage accounts to reflect the added cost of providing clearing services to your customers. Paul Ohlin will communicate these changes and the PCS website will be updated. Private Client Services, LLC continues to waive fees outlined in our published fee schedule relating to direct business mutual funds to accommodate smaller accounts not held at Pershing, LLC. Most Associates employ Pershing brokerage accounts for customers and manage their financial services business. PCS encourages Associates to use Pershing, LLC brokerage accounts when appropriate to build, expand and efficiently manage their money management business.

Insite2013 is the Pershing, LLC annual meeting billed as “The Premier, must-attend industry event for success-minded investment professionals and registered investment advisors”. PCS encourages all Associates and Managing Principals to attend. You can find details of the event on NetX360 or Google it. Top industry speakers, economist and vendors are on the agenda and/or are sponsors again this year.

Private Client Services, LLC will host a dinner at Insite2013 and we encourage anyone planning on attending to contact Megan in order to be included in The Private Client Services, LLC sponsored dinner. Private Client Services, LLC has arranged to pay for the registration fees for select PCS attendees this year. PCS plans to expand the meeting which concludes each year on Friday and piggyback it with an over the weekend retreat primarily focusing on practice management, marketing and expansion of Associates and Managing Principal’s business.

As you can see, PCS has been extremely busy during the 1st quarter of 2013. Private Client Services, LLC appreciates the efforts and results of our Associates, Managing Principals, and dedicated Home Office employees.

Ernest A. Sampson
Chief Executive Officer

First Quarter Technology Update

This quarter, PCS Technology took steps to focus on the security of the network and protect your data. To ensure this we have done three things:

1. Increased Endpoint Security on the Servers

In the early days of the internet, the biggest worries were viruses and the occasional “worm” that caused moderate damage to data and files. Now, cyber threats and attacks are more sophisticated and savvy such as hiding themselves in legitimate files and updates which allows the “attacker” to bypass standard protection points and safeguards.

So to make the network safer, we upgraded to Symantec Security Endpoint Protection 2013. It is now installed on every server of PCS and designed to seek out these new “Cyber anomalies.”

2. Filtering Web Content on the PCS VPN Network

To help speed up the network and make it more secure, web pages have been limited to business selections only. Because many “personal” or non-business pages, such as shopping and social networking, may contain files that add malware, tracking software and “phishing” devices, these sites are no longer accessible through the PCS network. Also, with limiting certain webpages, the network runs faster which is good for your day to day business. If you do navigate to a page that is blocked and want to view it you can:

- Exit the PCS VPN Network, we cannot filter beyond it.
- Send email to PCSHelpdesk@pcsbd.net requesting the site be reviewed for granting access.

3. A more aggressive posture against SPAM

PCS Technology is now stopping SPAM at the firewall so it never enters the network and infects the network with possible viruses and malware. We also have the ability to refuse spam from known sources and remove it before it gets to us. If you are a subscriber to KFG/PCS e-mail, you might have already seen a reduction in SPAM and Malicious email.

If you do get an email and you think it is SPAM, do not open it. Place it in the junk folder or delete immediately.

John Tobias
IT Director

From the Principal Review Desk

The Principal Review process has had a busy first quarter reviewing submitted business, and we appreciate the efforts made by PCS associates to submit complete business applications. We have seen a nice flow of applications, and want to see that flow continue. In order to assist with timely review please take note of the following helpful hints:

- Review all paperwork prior to submitting to Operations for processing. Small errors such as not entering a specific date for Time Horizon, entering a product provider instead of the product being purchased, forgetting marital status or date of birth, and missing the institutional account checkbox will delay the review process.
- Financial information on the New Account Form should be representative of the client's financial position and holdings **prior** to the submitted transactions/application. Suitability review requires an accurate financial picture at the time the application is taken. Remember, corrections to page 2 of the New Account form require client initials which can significantly delay review and can be embarrassing for you when you have to go back to the client for revised information.
- Avoid entering the same justification information for multiple clients. Each client situation is unique and should be presented accordingly. Many reps utilize the same product for multiple clients and get caught in the habit of simply providing the same explanations in the comments section of the Purchase Form. This is a dangerous practice since PCS and regulators look for patterns such as these and may identify them as red flags.
- From time to time you will encounter an intricate case that requires additional information in order to detail the investments being submitted. In these instances you should prepare a memo that can be submitted with the application. The more detailed information you provide with the application the easier it is for the review principal to understand the client's need and the recommendations made by the representative. Documentation is invaluable, especially when related to older clients, variable product replacements, alternative investment allocations, and/or detailed investment strategies.

We look forward to continuing to assist with the success of your business.

Compliance Update

1st Quarter 2013

Action Required

- **New UIT Point of Sale form**

A new Point of Sale form has been developed for use when selling Unit Investment Trusts. The new form replaces the PCS Purchase Form for UIT sales only. Please review the attached form, and begin using the form in conjunction with the PCS New Account Form for all new UIT sales. The form is available on the PCS Network forms library and PCS website.

- **Timely Order Entry**

All customer orders should be entered immediately. If the internet is down, it is the representative's responsibility to call the trade into Pershing. The same applies to orders received from a client that are delayed entry due to the representative waiting for a check to clear in a brokerage account. If you want to wait for funds to clear in a brokerage account, tell the client you are waiting for available funds and that you will re-confirm any orders with the client prior to entry. If the representative delays inputting the trade and the customer is harmed (doesn't get the best price), the trade will be busted, a corrected confirm will be issued, the representative will be responsible for paying for the difference, and may be subject to disciplinary action.

Prohibited Practices

Recent disciplinary actions taken by FINRA are good reminders of the ramifications associated with engaging in prohibited practices in our industry. Examples are listed below:

- **Obtaining Signed, Blank Securities-Related Customer Forms**

FINRA settled a matter involving a registered representative who obtained and maintained blank securities-related forms that clients had previously signed, and securities-related documents containing photocopied client signatures and dates. The representative secured at least six clients' signatures on blank securities-related business forms and retained the documents in his office. The registered representative also photocopied customer signatures and dates onto securities-related customer business records. The representative's firm discovered a folder in the representative's desk that contained 17 blank pre-signed client securities-related business forms, five securities-related business documents that contained a photocopy of clients' signatures, and six securities-related business documents that contained a photocopy of the clients' signatures and dates. The registered representative's firm prohibited its staff from obtaining or retaining documents that had been pre-signed by a customer or using a photocopied customer signature as an original signature. FINRA concluded that the representative's conduct violated FINRA Rule [2010](#) (ethical standards). As such, FINRA *suspended the representative in all capacities for 90 days and fined him \$7,500.*

- **Improperly Exercising Time and Price Discretion**

FINRA settled a matter involving a registered representative who exercised time and price discretion in two customers' accounts beyond the limited allowable scope of discretion and without his employer firm's acceptance of the accounts as discretionary. The registered representative utilized time and price discretion in two customer accounts beyond the end of the business days for which the customers had granted time and price discretion. Neither customer had extended his grant of discretion, nor had the firm accepted either account for discretionary trading beyond the end of the business day. FINRA concluded that the representative's conduct violated NASD Rule [2510](#) (discretionary accounts) and FINRA Rule [2010](#) (ethical standards). FINRA *suspended the representative from associating in any capacity with a member firm for 10 business days and fined him \$2,500.*

Reminders

- **Disbursement Fraud**

FINRA has seen an increasing number of incidents of fraudulent transfer instructions emailed to firms from compromised customer email accounts. In many cases, the instructions direct the firm to transfer customer funds to third parties or to addresses that are not the address of record for the account. Last year, FINRA published [Regulatory Notice 12-05](#), which highlighted some of the risks associated with accepting instructions to transmit or withdraw funds via email and recommended that firms review their policies and procedures for protecting customer accounts from such risks. In light of the continued high volume of such incidents, FINRA reiterates the guidance contained in Regulatory Notice 12-05.

Representatives are reminded to never accept disbursement instructions or trade instructions via email. All transactions and disbursement instructions must be verified with the client telephonically or in-person prior to processing / order entry.

- **Complaints**

Representatives are reminded that they must forward any written customer complaint to their Managing Principal immediately upon receipt, who in turn must notify Compliance and Senior Management immediately.

- **U4 Registration Information**

Representatives are reminded that all registration information must remain current at all times. This includes information related to changes to name, address (business or personal), marital status, outside business activity, financial status such as liens, judgments, compromise with creditors, garnishments and other court orders, tax levies, wage withholdings, bankruptcies, etc. Any updates should be brought to the attention of your Managing Principal and the Compliance Department.

- **AML Customer Identification**

Representatives are reminded that when opening a new account with multiple account holders, all persons identity must be verified. For example, if you open a joint account with three owners, all owners must provide Patriot Act identification information, and the information must be listed on the new account form. This also applies to corporate accounts with multiple control persons listed, and any other multiple owner account.

Accounts involving minors (UTMA, UGMA, 529, etc.) require the custodian (adult) only provide the required identity verification information.

- **Blotter - Order Receipt Time**

To help securities regulators more efficiently determine whether certain individuals are engaged in sales practice violations, Rules 17a-3(a)(6) and 17a-3(a)(7) were amended to require that order tickets identify the time the order was received, even if subsequently executed, the identity of each associated person responsible for the account, if any, and any other person who entered or accepted the order on behalf of the customer, or, if applicable, a notation that a customer entered the order on an electronic system. PCS utilizes our daily transaction blotters as our “order ticket” and represents our original order entry record.

Additional information is available within the attached article:

<http://www.proskauer.com/files/uploads/broker-dealer/Recently-Expanded-Broker-Dealer-Books-Records-Requirements.pdf>

- **Manual Updates**

The “Variable Products / Suitability” section of the online NRS Registered Representative Manual has been recently updated, and all representatives are advised to review the changes.

The online NRS Written Supervisory Procedures Manual has also been updated with material changes specifically related to customer communications. What was previously identified by FINRA as “Advertising and Sales Literature” has been changed to “Retail Communication.” Please review the revised sections.

- **Anti-Virus Software**

All PCS associated persons are required to maintain updated anti-virus software on all computers used to access the PCS network and/or customer information. This requirement includes updating the software for the latest definitions. If you are unaware whether your current anti-virus software is up to date or approved by PCS, please contact the PCS IT Helpdesk.

- **Representative Designations – Senior / Retirement Titles**

Based on regulatory guidance and as a best practice, no PCS associate should use the words “senior” or “retirement” in their title, as it could be misleading under FINRA Rule 2210, unless they possess an industry related Retirement Certification conferring unique expertise in this area, are current with applicable CE requirements and in good standing with the issuing organization, and are included in FINRA’s database noted below:

<http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p125092.pdf>

- **Privacy / Security**

The front doors to the PCS home office located at 2225 Lexington Road should remain secured (i.e., closed) at all times and should not be propped open. This applies both during regular business hours, and after-hours. When you have non-client guests in the office (including wholesalers) they should sign in/register and sign-out at the front-office with the receptionist, and always be escorted by a PCS associated person, and not permitted to move freely throughout the office. They should wear a Guest Tag clearly indicating their name. This practice is required to safeguard client information.

Managing Principal Information

- **Branch Office Registration / Changes**

Managing Principals are responsible for reviewing, minimally on an annual basis, all off-site locations to make a determination as to whether any of the currently exempt locations have begun to function in such a manner as to require Form BR registration. Managing Principals must advise Senior Management and/or Licensing & Registration Staff if the exemption under Rule 3010(g)(2) becomes unavailable due to changes in activity or other exemptive parameters. Managing Principals should also determine if currently registered branch office locations are eligible for exemption from registration due to any change in function or business.

Documentation as to such reviews will be maintained indicating date of review, scope of review, findings and actions taken. Refer to NRS WSP Manual section entitled, “Branch Office Definition” for additional information.

- **FINRA Rule 2210 Retail Communication (Formerly Advertising and Sales Literature)**

FINRA Rule 2210 became effective February 4, 2013 (FINRA Regulatory Notice 12-29 provides additional information). Managing Principals are responsible to train their designated Representative’s on the new rule. Although certain “communications with the public” go through the Montoya system for OSJ review and Compliance review, Managing Principals are responsible for supervising all communications with the public, including but not limited to electronic communications and seminars. Although a seminar script may be pre-approved for use, it is the responsibility of the Managing Principal to attend the seminar to ensure the script is actually followed, the attendee list is maintained for books and records, etc.

- **Written Supervisory Manual Updates**

PCS's Compliance Program is "evergreen," requiring ongoing review of WSP throughout the year. Due to numerous recent regulatory changes, the BD WSP were recently updated as follows;

1. New Sections Added (Communications With The Public-FINRA Rule 2210 Overview, Communications With The Public: Bond Mutual Fund Volatility Ratings, Communications With The Public: Collateralized Mortgage Obligations, Communication With The Public: Investment Companies Rankings in Retail Communications).
2. Amended Sections (Communications With The Public: Advertising Regulation Electronic Files/AREF, Communication With The Public: Electronic Messages, Communication With the Public: FINRA Approval, Communication With The Public: Independently Prepared Reprints, Communication With The Public: Institutional Communications, Communications With The Public: Public Appearances, Communications With The Public: Recommendations/FINRA Rule 2210, Correspondence, Retail: Incoming, Correspondence, Retail: Outgoing, Customer Accounts: Consolidated Financial Account Reports, Margin Accounts, OATS (Order Audit Tracking System), Regulation Form Filing, Retirement Plans: ERISA Rule 405a-5, Senior Investors: High-Pressure Sales Seminars Aimed at Seniors, Senior

Investors: Senior Designations and Credentials, Trade Report: "ACT", and Variable Products: Cash and Non-Cash Compensation.

3. Eliminated Sections (Communications With The Public: Sales Literature/Promotional Materials Overview, Communications With The Public: Seminars and Sales Meetings, Communication With The Public: Telemarketing Scripts, and Correspondence: Group E-Mail and Form Letters. PCS Managing Principals are responsible for providing training related to the updates.

- **Product Provider Presentations**

Vendor provided product training may not always be balanced in terms of full disclosure of advantages and disadvantages/risks. It is the responsibility of designated Supervisor to ensure that representatives understand vendor-provided product training limitations, and ensure that representatives are fully trained on product features, disadvantages/risks and suitability.

- **AML Red Flags**

Managing Principals are reminded that they are responsible for monitoring for AML Red Flags, including wash sales identified on the transaction blotter, email review, and/or low price securities trading review. Managing Principals should monitor for wash sales of identical securities transactions that occur in the same account and the trading activity after the initial deposit of shares to compare that activity with the representations made by customers on the PCS New Account opening documentation. Managing Principals should also consider whether the liquidation activity engaged in by the client occurred in conjunction with other red flags of distributions and market manipulations, including potentially "related- accounts" trading in the same security, or third-party transfers of shares.