



**Kovack Advisors, Inc.
2011 Wrap Fee Program Brochure**

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This Disclosure Statement provides clients with information and data that should be considered before participating in any CHOICE Program identified herein. This information has not been approved by any governmental authority. Registration with the SEC does not imply a certain level of skill or training.

This wrap fee program brochure provides information about the qualifications and business practices of Kovack Advisors, Inc. If you have any questions about the content of this brochure, please contact us at 866-564-6574 or kaigroup@kovackadvisors.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 Kovack Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov

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Material Changes

This section is used to identify any material changes since Kovack Advisors last annual update. Kovack Advisors has no material changes to report during the prior year of 2010.

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Services, Fees and Compensation

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 required and may provide financial advice to clients. The IAR will evaluate your investment needs and objectives to determine your suitability for the various programs offered through KAI.

KAI offers eight “CHOICE” account programs. These programs provide you with multiple options for working with your IAR.

1. Advisor Select

The Advisor Select program is a discretionary IAR directed account. This account structure allows your IAR to provide a hands on approach for management of your account. Fees between 0 and 3.25% may be charged for the Advisor Select program. Fees may be negotiable. IARs have sole discretion, without first contacting you, to invest and reinvest assets in your account(s) including securities, cash, bonds, money market funds and managed funds.

2. CHOICE Advisor Program

The CHOICE Advisor Account is a flexible, low-cost IAR directed platform which allows virtually any investment product to be purchased including stocks, bonds, options, and mutual funds. Fees between 0 and 3.25% may be charged for the CHOICE Select program. Fees may be negotiable.

3. CHOICE Annuity Program

The CHOICE Annuity program is designed to help you manage risk through the use of asset allocation and diversification. KAI's goal is to help you achieve higher rates of return on your investments for use with new or existing variable annuities or variable life insurance policies. KAI IARs actively manage sub accounts based on an investment questionnaire which you complete. Once the account is established, you and the IAR will receive quarterly performance reports. By making changes in asset allocation and diversification on a quarterly basis, or as needed, KAI IARs are better able to manage and control risk and return. Fees between 0 and 3.25% may be charged for the CHOICE Annuity program. Fees may be negotiable.

4. CHOICE UMA Program

The CHOICE UMA Program is an Overlay Management Program that gives you direct ownership of the securities.

This allows greater flexibility, more control and significant tax advantages over other investment vehicles. KAI uses an outside provider for this strategy. FDx Advisors uses multiple sources of data and information as input to their asset allocation, manager selection and monitoring processes. FDx Advisors is a subsidiary of FolioDynamix, an investment platform and program provided with approximately \$7 billion in assets under management. Fees between 0 and 3.25% may be charged for the CHOICE UMA program. Fees may be negotiable. You will grant discretionary authority to the Investment Manager and KAI via the CHOICE UMA agreement. All CHOICE UMA accounts are discretionary accounts and all investment decisions are made by the assigned Investment Manager and trades are placed by KAI as the Overlay Manager.

5. CHOICE Fund & ETF Programs

The CHOICE Fund & ETF programs utilize mutual funds and exchange traded funds in the wrap program. KAI uses SightLine Investments, LLC to manage this strategy. SightLine Investments, LLC uses multiple sources of data and information as input to their asset allocation, manager selection and monitoring processes. SightLine Investments, LLC is available through FDx Advisors which is a subsidiary of FolioDynamix, an investment platform and program provided with approximately \$7 billion in assets under management. Fees between 0 and 3.25% may be charged for the CHOICE Fund & ETF program. Fees may be negotiable. All CHOICE Fund & ETF accounts are discretionary accounts. The CHOICE Fund & ETF manager makes all investment decisions on your account.

6. CHOICE MSA Program

CHOICE MSA is a multi-strategy account utilizing established models designed to integrate a variety of investment strategies, products and services within a single account structure, providing you with a comprehensive unified approach to asset allocation and investment selection. KAI uses SightLine Investments, LLC to manage this strategy. SightLine Investments, LLC. uses multiple sources of data and information as input to their asset allocation, manager selection and monitoring processes. SightLine Investments, LLC is available through FDx Advisors which is a subsidiary of FolioDynamix, an investment platform and program provided with approximately \$7 billion in assets under management. All CHOICE MSA accounts are discretionary accounts. SightLine Investments, LLC makes all investment decisions. As the Overlay Manager, KAI places all trades. Fees between 0 and 3.25% may be charged for the CHOICE MSA program. Fees may be negotiable.

7. CHOICE SMA Program

The CHOICE SMA Account is a low cost, sophisticated Separately Managed Account (SMA) platform that provides you direct access to industry-leading investment managers. A CHOICE SMA account gives clients direct ownership of the securities, allowing greater flexibility, more control and significant tax advantages over other investment vehicles. This platform is ideal for clients seeking a long-term, customized, goals-driven approach to investment planning. Fees between 0 and 3.25% may be charged for the CHOICE SMA program. Fees may be negotiable. All CHOICE SMA accounts are discretionary accounts. The CHOICE SMA manager makes all investment decisions.

8. Turnkey Asset Management Programs

KAI has entered into agreements with several Turnkey Asset Management Programs (“TAMPS”) to provide additional investment services and flexibility to our clients. A list of these TAMPS will be provided to you upon request. KAI will receive a fee for referring you to these TAMPS. This fee, along with other important information, will be disclosed in documents provided by each TAMP and are available upon request. Fees between 0 and 3.25% may be charged for the Turnkey Asset Management Programs. Fees may be negotiable.

The cost of these programs to you, if provided separately with the equivalent trading activity in the client account(s), may cost more or less than purchasing such services separately. The IAR representing this program to you receives compensation as a result of participation in the program. This compensation may be more or less than the IAR would have received for other investment advice, brokerage and/or other services or investment programs. Therefore the IAR may have an incentive to recommend the program over other programs or services.

When your account purchases mutual fund or closed-end investment company shares, Kovack Securities, Inc. (KSI) may receive a proportionate share of such fees or expenses (i.e. 12b-1 or shareholder servicing fees). However if KSI receives any such compensation from a mutual fund or other issuer related to a security or other asset included in calculating the account fee, the amount of that compensation may reduce the account fee otherwise payable by you. Among the factors impacting the relative cost of a program to a particular client include 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.

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Account Requirements and Types of *Clients*

KAI follows standard compliance procedures when opening or maintaining an account. KAI offers several different investment programs each with different minimum investment amounts. Your IAR will provide this information. KAI generally 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 business.

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Portfolio Manager Selection and Evaluation

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 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.

On the KAI Investor Profile Questionnaire or Investment Policy Statement, the client will provide their financial circumstances, investment objectives and any special instructions or limits you wish KAI to follow in managing your account(s). Also, the client must notify KAI promptly of any significant change in their information. This would include any change that might affect the way account(s) should be managed such as significant changes in financial circumstances or investment objectives. The client also agrees to provide KAI with such additional information as KAI may request from time-to-time to assist in the management of the account(s).

KAI provides portfolio management services for wrap fee programs. KAI does not manage accounts other than wrap fee accounts. Clients will pay KAI a fee for portfolio and investment management services. On a discretionary basis, KAI managed \$127,900,000 as of December 31st, 2010. On a non-discretionary basis, KAI managed \$367,000,000 as of December 31st, 2010.

KAI does not charge Performance Based Fees or allow Side-By-Side Management.

KAI has a diverse business model and is affiliated with a number of IARs. The individual IAR provides investment advice. The methods of analysis and investment strategies vary dependent upon the IAR.

KAI may forward proxy solicitation materials to you for response and voting. KAI does not offer legal or tax advice. It is your responsibility to consult with a legal or tax advisor as you see fit. Unless otherwise mutually agreed in writing, KAI may respond to proxies that are solicited with respect to annual or special meetings of shareholders securities held in the account(s) on a best efforts basis.

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Client Information Provided to Portfolio Managers

KAI may forward new account documents to other investment managers that you expresses an interest. Your information will be used as needed for settling of trades, transfer of fund or securities or other information necessary to satisfy your financial activity. Updated information will be sent to the investment managers as you provide.

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Client Contact with Portfolio Managers

You may communicate with investment managers directly provided you consult with KAI prior to contacting the investment manager.

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Additional Information

KAI has had no material disciplinary events to disclose.



The owners of KAI also own KSI a full service broker/dealer registered with the Financial Industry Regulatory Authority (FINRA). Additionally, KAI is affiliated with a law firm, Brian J. Kovack, PA. Neither of these affiliations creates a material conflict of interest.

All KAI management persons are registered with (KSI). Neither KAI nor any of its management persons are registered or have an application to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of these entities.

Other investment advisors may be recommended or selected for you. KAI may receive compensation directly or indirectly from those advisors. This compensation does not create a material conflict of interest.

KAI adopted the code of ethics due to SEC rule 204A-1. You may receive a copy of the KAI code of ethics by request. All related people of KAI (partners, officers, employees and immediate family members) owe a fiduciary duty to you when conducting their personal investment transactions. They must place your interests first. Also, they must avoid activities, interests and relationships that might interfere with the duty to make decisions in your best interest. Their personal securities transactions must avoid any actual or potential conflict of interest or any abuse of your trust and their responsibility. They must conduct all personal securities transactions in compliance with all applicable federal securities laws. They must not trade in a security while in possession of material, non-public information about the issuer or the market for those securities. If a related person of KAI wants to place a trade for the same security that they have recommended to you, they must place your trade first.

KAI periodically reviews the accounts and financial plans on at least a semi-annual basis. KAI reviewers may include KAI's Executive Vice President, President, Chairman, Vice President, and Compliance Officer(s). In the initial account set-up, you will choose a general investment category that includes your risk tolerance, investment objectives, and financial objectives. KAI Personnel will review the allocations in your account against your chosen investment category.

Other factors may trigger a review of your account on an as needed basis. For example, changes to your financial condition, risk tolerance and investment objectives may trigger a review of your account. Also, suspicious activity with regards to anti-money laundering regulations may trigger a review of your account.

You will receive monthly statements of your account activity from the custodian firm for your account. You will receive a quarterly performance report of your account(s). The KAI performance reports include the market value of the account and performance versus custom and/or broad market indexes.

KAI does not receive any economic benefit from someone who is not a client for providing investment advice or other advisory services.

KAI may have relationships with unaffiliated people 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 you.



The referring party must provide you with a copy of KAI's Form ADV, Schedule H, or brochure. Also, the referring party must provide you with a copy of KAI's referring party disclosure statements and client acknowledgement.

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

KAI does not require or solicit prepayment of more than \$1200 in fees more than six months in advance. KAI has not been the subject of a bankruptcy petition at any time in the past ten years.

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Requirements for State-Registered Advisors

KAI is an SEC registered RIA.