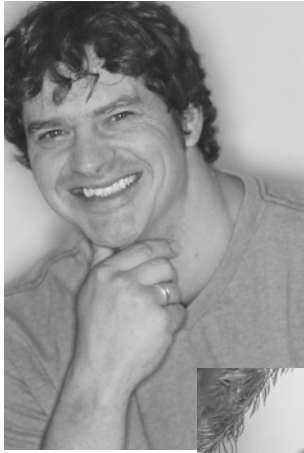


# THE FIRST AFFIRMATIVE APPROACH

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FAFN ADV Disclosure



*In compliance with Advisors Act Rule 204-3, this brochure provides information about First Affirmative Financial Network as an Advisory organization and its business. This document includes all information found in Form ADV Part II of the Uniform Application for Investment Adviser Registration filed with the Securities and Exchange Commission (SEC).*



**First  
Affirmative  
Financial  
Network, LLC**

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## Welcome to First Affirmative

The ways we save, spend and invest can dramatically influence both the fabric and consciousness of society. At First Affirmative Financial Network, we understand that many investors are looking for a different type of relationship with their financial adviser. Clients who choose to invest with First Affirmative make a conscious choice to put their money to work for a dual purpose—to provide for a secure retirement, for example, while working for a better, more socially just and environmentally sustainable future for all. Investors can make a meaningful difference by consciously directing their investments toward enterprises that contribute to a clean, healthy environment, treat people fairly, embrace equal opportunity, produce safe and useful products, and support efforts to promote world peace.

To provide the close, mutually beneficial relationship our clients seek, we support a nationwide network of qualified investment professionals prepared to assist you in achieving your financial goals. First Affirmative's innovative approach combines:

**Service.** Your First Affirmative affiliated adviser will assist you in developing an investment portfolio based on your current needs, financial goals and personal values. Our network includes specialists in financial planning, investment advice, taxation, estate planning, insurance and many other areas critical to your financial health. Our administrative systems provide reports that are timely and accurate. We believe it is important that you are able to clearly understand how your investments are performing and how your actual results compare to your plan.

**Selection.** One size does not fit all. First Affirmative offers a wide variety of fee-based investment options, each designed to best meet the needs of specific types of clients.

**Objectivity.** Network advisers are paid to provide you with objective, professional advice and prompt service. Fees are generally based on your assets under management. As a result, your interests and those of your adviser and First Affirmative are closely related. Everyone involved is motivated to help you achieve your investment goals.

**Social Responsibility.** Members of the First Affirmative Financial Network specialize in meeting the needs of socially conscious investors. First Affirmative affiliated advisers are committed to both professional development and to the practice of socially responsible investing. They receive on-going training and participate in annual conferences that focus on industry trends, strategies and techniques designed to serve you.

**Reasonable Cost.** Through special arrangements with Charles Schwab & Co., Inc., FOLIO*fn*, and other select service providers, First Affirmative clients receive low cost custodial and transaction services. Our fees are competitive and easy to understand.

**Access.** Through First Affirmative, you have access to a broad range of investment managers, research organizations and socially screened mutual funds. As a nationwide network providing unique services to socially conscious investors, we take pride in our collaborative relationships with other leading organizations within the social investment industry.

## Fee-Based Investment Services

First Affirmative Financial Network creates unique relationships with clients by combining fee-based investment advisory services and advanced financial technologies with sustainable and responsible investment strategies. Our fees are flexible and clearly understandable, allowing you to estimate your total costs in advance. Both traditional quantitative analysis as well as qualitative social research are available to you.

As a First Affirmative client, you receive specialized portfolio management and a choice of service levels and investment options designed to meet your specific needs. Our operating systems, provided in partnership with select administrative service organizations, allow us to closely monitor client assets and performance. Summary Reports make it easy for you to know your progress at any point in time. In many cases, you will have on-line access to account information.

You have a wide range of choices as to the services you can receive and the ways in which you choose to compensate your network adviser. (Please note that not all services are available from every adviser—since First Affirmative works with representatives of many different broker-dealers and advisory firms, each of those firms has the prerogative to offer only certain of our services.) All investment management services offered by First Affirmative, excluding the basic service plan, provide quarterly performance reports. The basic service plan provides semi-annual performance reports. First Affirmative provides an Investment Policy Statement to each client with a portfolio managed with discretion by First Affirmative. Direct Management Service plans may provide an Investment Policy Statement upon request.

*First Affirmative realizes that the quality of your future is dependent on more than simply how much money you have.*

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## Sustainable Investment Solutions™

First Affirmative believes that in addition to the benefits of ownership, investors bear responsibility for the impact their money has in the world. We believe that integrating money with values can be both prudent and competitive. We have combined these core beliefs with many years of custom portfolio management expertise. The result is a unique investment process called Sustainable Investment Solutions™.

The process begins with a network adviser recognizing a client's interest in a socially responsible approach to investing. A confidential client questionnaire is used to gather information on financial goals, time horizon, comfort with risk and societal priorities. An asset allocation strategy is tailored to meet the client's needs and an Investment Policy Statement is developed to guide discretionary management of the client account. Client assets may be invested in one or more of First Affirmative's four proprietary managed account programs, briefly described below.

Clients must grant discretionary authority to First Affirmative for Efficiencies, Dynamics, Fairways and Generations solutions. This authority is limited to decisions First Affirmative considers appropriate in accordance with the client's stated investment objectives and risk tolerance.

**Efficiencies** is a strategic asset allocation solution utilizing socially responsible mutual funds as the underlying investments. Designed for investors with a long-term orientation, Efficiencies emphasizes efficient diversification by blending multiple asset classes, investment styles and money managers. We call it

“Three-Dimensional Diversification.” Managed and administered by First Affirmative, Efficiencies features fundamental analysis of available socially screened mutual funds, ongoing comparison to appropriate benchmarks, and periodic rebalancing. Efficiencies account recommended minimum: \$50,000. Small model minimum: \$15,000.

**Dynamics** is a tactical asset allocation solution utilizing socially responsible mutual funds as the underlying investments. Dynamics managers seek to overweight client portfolios in the asset classes that show the best potential for superior performance and to invest in the top performing funds in each asset class. Day-to-day management of Dynamics portfolios is handled under a sub-advisory arrangement by Omaha, Nebraska-based Clarke Lanzen Skalla (CLS). Dynamics account recommended minimum: \$50,000.

**Generations** is a Unified Managed Account (UMA) solution for socially conscious investors. Generations allows for ownership of up to seven model folios in a single account, each of which can hold up to 100 individual stocks and/or mutual funds. Generations is customizable to meet client-specific social screening and tax management needs. Generations is based on the totally online, virtually paperless FOLIO<sup>fn</sup> custody and trading platform. Generations account recommended minimum: \$100,000.

**Fairways** is an investment management consulting solution designed to meet the needs of high net worth individuals and institutions. Fairways features third-party SRI-capable separate account managers who are selected in accordance with guidelines comparable to those utilized by the most sophisticated institutional investors. Clients take personal ownership of each security, allowing for specific social screening, tax management, shareholder advocacy, and other custom portfolio management strategies. Fairways account recommended minimum: \$1 million.

**Direct Management Services.** Under certain specifically approved circumstances, some First Affirmative Investment Advisor Representatives (IARs) may provide personal asset management services, as opposed to the solutions described above. Such services may be appropriate for the client who has too few assets to meet the minimums of our third party separate account managers, but has screening, tax, income or other financial planning needs not adequately addressed by Efficiencies and Dynamics solutions. Within the Direct Service program, we offer two tiers of pricing: a Basic Service Plan and a Personalized Service Plan. In this program, First Affirmative IARs will offer investment advice. These advisers are supervised by George R. Gay, CFP, AIF, CEO of First Affirmative. In some cases, a First Affirmative IAR may act as a consultant to clients who wish to make a majority of the investment decisions themselves.

**Other Personalized Planning Services.** Certain First Affirmative IARs may provide services on an hourly basis for developing a financial plan or another specific engagement. Some clients prefer a quarterly, semi-annual or annual retainer relationship. Some advisers may offer personal financial coaching, budget assistance, tax advice, retirement planning, estate planning or other specialized services. In all cases, compensation will be clearly disclosed in advance and a specific agreement will identify the work to be done.

## Explanation of Asset Management Fees

Each fee presented represents a combination of fees retained by First Affirmative—for portfolio management, account administration, and other services—and of fees shared with the adviser or solicitor via his/her supervising organization. The adviser may, at his/her discretion, choose to discount or otherwise

negotiate their portion of the fee. On larger accounts, the entire fee may be negotiated. Other fee structures may be used to accommodate specific circumstances. The fees applicable for any given account are identified in the Investment Advisory Services Agreement signed by the client.

The default fee structure for accounts opened on or after January 1, 2006<sup>1</sup> is as follows. Please see Note 1 on Pages 15-16 for the default fee schedules that applied to Dynamics, Efficiencies, Fairways and Generations accounts prior to January 1, 2006.<sup>1</sup>

**Fee Schedule: Mutual Fund, Unified Managed Account and Separate Account (Equity) Solutions**

		Maximum Fee to Client
On the First	\$200,000	1.55%
On the Next	\$300,000	1.50%
On the Next	\$500,000	1.35%
On the Next	\$1,000,000	1.20%
On the Next	\$1,000,000	1.10%
On the Next	\$2,000,000	1.00%
On the Next	\$5,000,000	0.80%
On the Next	\$10,000,000	0.70%
Over	\$20,000,000	Negotiable to 0.45%

**Fee Schedule: Fixed Income Solutions**

		Maximum Fee to Client
On the First	\$200,000	1.00%
On the Next	\$300,000	1.00%
On the Next	\$500,000	0.80%
On the Next	\$1,000,000	0.80%
On the Next	\$1,000,000	0.70%
On the Next	\$2,000,000	0.70%
On the Next	\$5,000,000	0.70%
On the Next	\$10,000,000	0.70%
Over	\$20,000,000	Negotiable to 0.45%

**Fee Schedule for Direct Management Services: Maximum fee to client**

	On the first \$50,000	On the next \$150,000	On the next \$300,000	On the next \$500,000	Minimum Annual Fee
Direct: Basic Service	0.65%	0.55%	0.45%	0.35%	\$200.00
Direct: Personalized	1.30%	1.10%	0.90%	0.70%	\$200.00

**Fee Schedule: Trading, Custody and Clearing<sup>2</sup>**

First Affirmative currently retains either Charles Schwab & Co. or FOLIO<sup>fn</sup> as custodians of client accounts. Custody and clearing fees will vary based on what type of solution the client chooses and where the client's assets are custodied. These fees are separate from and are charged in addition to the asset management and service fees disclosed above. Neither First Affirmative nor your adviser receives any share of any fees charged by the custodians, or any share of any fees received by them from any product sponsor. The client will be charged a monthly fee based on assets in the account (ABP Fee, see below) or fees based on transactions in the account (TBP Fees). First Affirmative will recommend the fee structure most beneficial to the client based on the type of account established for the client. For a full disclosure of custody fees see Exhibit A and Exhibit B to the Investment Advisory Services Agreement. Custodians may change, add or eliminate transaction or administration fees at any time at their discretion.

**Charles Schwab & Co. ABP Fee** (annual fees charged per account calculated and collected monthly by Schwab)

On the First	\$250,000	0.25% (.0025 of account value)
On the Next	\$750,000	0.10% (.0010 of account value)
On the Next	\$1,000,000	0.08% (.0008 of account value)
Above	\$2,000,000	0.03% (.0003 of account value)

**Only** Fairways accounts pay Schwab ABP fees, and **only** if the adviser/client elects ABP instead of TBP.

**FOLIO*fn* ABP Fee** (annual fees charged per account calculated and collected quarterly by FOLIO*fn*)

On the First	\$200,000	0.25% (.0025 of account value)
On the Next	\$300,000	0.17% (.0017 of account value)
Above	\$500,000	0.12% (.0012 of account value)

FOLIO*fn* ABP fees are charged on **all** Generations accounts. Each account will be charged the above fees, or an annualized fee of \$150 per year, whichever is greater. FOLIO*fn* does **not** household for the purpose of aggregating ABP fees for breakpoints.

**General Fee Disclosures.** Fees are billed retroactively to the client's account(s) on a quarterly basis, beginning the third month after the establishment and funding of the account. Fees are due for services rendered in the previous quarter and are therefore not refundable. Fees shown above are per annum and are calculated as a percentage of the account value as of the record date for the invoice. The published fee schedule for new accounts may change from time to time. However, no client's service fees will be increased without the client's written consent.

**Fee Sharing.**<sup>3</sup> In addition to sharing fees with the adviser and his/her supervising organization (normally a registered broker-dealer firm or a Registered Investment Advisor), First Affirmative may also share fees as follows. The sharing of these fees is more completely described in the Investment Advisory Services Agreement signed by each client.

- Clarke Lanzen Skalla Investment Firm, Omaha, Nebraska (CLS) receives a share of fees for serving as subadvisor responsible for the day-to-day management of Dynamics solutions. A wholly owned subsidiary of CLS may receive a share of the fee for administration and reporting services.
- One or more independent portfolio managers may be retained to manage model folios at FOLIO*fn* and receive a share of the asset management fee on Generations solutions.
- One or more independent portfolio managers may be retained as subadvisors to client accounts held at Charles Schwab & Co. and receive a share of the asset management fee for Fairways solutions. Outside organizations may under certain circumstances receive a share of the fee for providing various administration and reporting services.

**Mutual Fund Fees.** Frequently, mutual funds are used to implement a client's investment plan. Clients should be aware that all mutual funds have internal expenses, such as portfolio management, legal and accounting, printing, marketing, trading costs and other administrative expenses. Fund expenses are more fully disclosed in the prospectus that each investor receives from the fund company. These expenses are accounted for and charged internally by the mutual funds and are not shared with First Affirmative or your adviser.

**Consulting and Financial Planning Fees.** Certain network advisers may have their own Registered Investment Advisory firm for consulting and financial planning engagements. If so, they are required to provide clients with certain disclosure and engagement information. Investment Advisor Representatives of First Affirmative Financial Network, LLC may charge hourly fees. Hourly fees are negotiable with the individual adviser and depend on the complexity of services provided and the professional education and experience of the adviser. Hourly fees may range from \$90 to \$250 per hour. All fees are due immediately following the consultation and are payable to "First Affirmative Financial Network, LLC," not the adviser.

Fees for written financial plans may range from \$250 to \$5,000 and are based on the education and experience of the adviser and the complexity of the client's financial situation. Fees are due and payable to "First Affirmative Financial Network, LLC" upon delivery of the financial plan, and are not contingent upon the client's implementation of the plan.

Retainer fees are a variation of consulting and financial planning fees. Such fees may be negotiated based on the expected volume and complexity of work. Retainer fees may be payable on either a quarterly, semi-annual or annual basis in arrears. Payment is made to "First Affirmative Financial Network, LLC," not to the individual adviser.

## Review of Accounts

Client accounts are reviewed and supervised in a variety of ways:

**Client.** For months in which activity occurs in the client account, the client will receive monthly statements detailing deposits, withdrawals, purchases, sales, dividends, interest, fees deducted from the account and any other activity, from the custodian of the account. The client will receive separate confirmations of every trade made in the account, which should be saved for tax purposes. First Affirmative or its service providers will provide quarterly performance reports to clients receiving Dynamics, Efficiencies, Fairways, Generations and Personalized Direct Management Services. First Affirmative will provide semi-annual reports to clients receiving Basic Direct Management Services.

**Adviser.** Each First Affirmative affiliated adviser has electronic access to view all positions and activities in their client account(s) and receives copies of all reports provided to the client if arranged by their broker-dealer or RIA firm, or if the adviser is an Investment Advisory Representative of First Affirmative Financial Network, LLC. Account information is always available to your adviser directly from First Affirmative. Your adviser is expected to review activity in your account, to periodically discuss the account with you, and to ensure the suitability of the investment service provided for your specific situation.

**Supervising Broker-Dealer or Registered Investment Advisor.** Each broker-dealer and/or Registered Investment Advisory firm with which First Affirmative maintains a selling or solicitor's agreement is responsible for developing its own, independent procedures to review client accounts and supervise the activities of its representatives.

**Subadvisor.** Subadvisors managing portions of Dynamics and Fairways accounts are responsible for ongoing review, supervision and transactions in client accounts. First Affirmative employees perform these duties for all accounts invested in Efficiencies and Generations solutions.

**First Affirmative Senior Management.** The First Affirmative Investment Committee provides both periodic reviews and various systematic samplings of accounts to provide supervision and compliance with investment policy. First Affirmative's Investment Committee comprises the following personnel: George R. Gay, CFP, AIF; R. Kevin O'Keefe, CFP, AIF, CIMA and Johann A. Klaassen, PhD, AIF.

## Your Money: Many Choices

Your money represents many things: years of hard work, college for your children, a secure retirement and/or financial security to your organization, employees or beneficiaries. For many First Affirmative clients, money also represents an opportunity to influence corporate behavior and change society for the better.

First Affirmative is uniquely qualified to provide financial planning and investment advice aimed at ensuring that your money works in harmony with personal or organizational values and goals. Since 1988, First Affirmative has been a leader in providing investment services to socially conscious investors, business owners, trusts and nonprofit organizations.

**Research.** A socially responsible approach to investing involves taking the basics of investing to a logical conclusion. First Affirmative embraces the idea that investors have both the benefit of ownership as well as responsibility for the impact their money is having on the world. Each of our clients approves an Investment Policy Statement that guides management of the client account. Both financial and non-financial factors are considered in the portfolio management process. Information is gathered from many sources:

Quarterly Reports	Corporate Rating Services	SRI Research Organizations	Prospectuses
Annual Reports	Company Press Releases	SRI Books and Newsletters	KLD Research & Analytics
SEC Filings	General Financial Press	Independent Research Reports	IW Financial
Timing Services	Personal Inspections		

Depending on the type of account and your needs, First Affirmative may use many methods to determine appropriate advice, such as fundamental and technical analysis, charting of cyclical trends, demographic analysis and modern portfolio theory focusing on asset allocation strategies. In each case, final recommendations will be based on your expressed values and needs.

**Investment Philosophy.** Our experience suggests that the financial planning and investment needs of most socially conscious investors can be met while providing competitive investment returns and without increasing risk. We believe that the appropriate investment strategy for most people is to take a long-term, diversified approach. Although we do not offer recommendations concerning commodities, futures or short selling, we do offer tactical investment strategies appropriate for some investors. First Affirmative affiliated advisers can help you integrate your personal values into various aspects of your financial life:

Mutual Funds	Insurance	Credit Cards	Unit Investment Trusts
Stocks and Bonds	Community Loan Funds	Charitable Giving	Real Estate
Certificates of Deposit	Limited Partnerships	Venture Capital	Community Banks
Corporate Bonds	Government Agency Securities	Shareholder Advocacy	

**Social Screening.** Clients may wish to support or avoid investments for many reasons. While recommended investments will always be reviewed for suitability from a financial standpoint, you may want to consider an investment's exposure, impact or policies in many areas, including the following:

Affordable Housing	Consumer Protection	Human Rights	Religious Values
Alcohol	Education	Labor Practices	Sexual Orientation
Alternative Energy	Elderly	Minority Concerns	Tobacco
Animal Welfare	Environmental Quality	Nuclear Power	U.S. Treasuries
Charitable Giving	Equal Opportunity	Polluters	Weapons
Child Care	Gambling	Product Quality	Women's Issues
Community Involvement	Health Care		

**Proxy Voting.** Owners of company stock and mutual fund shares have a right to be heard on matters put before shareholders for a vote. Shareholder voting is the primary means by which shareholders can influence a company or mutual fund's operations, its corporate governance, and other activities that may fall outside of financial considerations.

First Affirmative contracts with Institutional Shareholder Services (ISS) to vote proxies for Dynamics, Efficiencies and Fairways accounts when authorized to do so. Clients can also choose to have their outside money manager vote their proxies, or they can choose to vote their own proxies. For accounts that are managed either under a Client-Directed contract or are Rep-Managed, First Affirmative does not typically accept delegation of proxy voting authority and clients often should vote their proxies themselves. For Generations accounts and other accounts not described above, First Affirmative staff votes the proxies using the ISS proxy research to make voting decisions. Records of the ISS data and proxy votes cast are stored on the First Affirmative's internal server. Voting records are reviewed by management on a quarterly basis to ensure that the firm's proxy voting guidelines are being followed. First Affirmative's Proxy Voting Policy is published on the company website.

## Working with First Affirmative

You have many options in working with First Affirmative. We know that offering our clients the current range of responsible investment options is just the beginning of the service you deserve.

**Business Relationships and Professional Standards.** In order to offer the most comprehensive financial services available, First Affirmative Financial Network, LLC has developed some important business relationships. Since 1988, we have worked in cooperation with Co-op America, a national nonprofit organization of socially and environmentally concerned consumers and businesses. We have been an active member of the Social Investment Forum (SIF), the nonprofit trade association representing the social investment industry, and members of senior management have served on the Forum board of directors for many years.

Through our years of work with the SIF, we have developed close relationships with the leaders whose work has shaped the socially responsible investment industry. In fact, First Affirmative produces and hosts the annual industry conference, SRI in the Rockies. We were one of the first signatories of the CERES Principles, pledging environmentally responsible business conduct.

First Affirmative has agreements with other investment advisors including some Investment Advisor Representatives of First Affirmative Financial Network, LLC, broker-dealer firms and research companies that specialize in socially responsible investing, Charles Schwab & Co. and FOLIO*fn*. Each of these agreements provides for certain benefits to First Affirmative, such as marketing support, research, computerized account tracking and reporting, internet services and other functions related to providing accurate, cost-effective services to our clients.

First Affirmative offers member services at three levels to investment advisers. These levels include a Subscriber Level membership, a Selling Level membership, and a membership level exclusively for First Affirmative's Investment Advisor Representatives. Members at each level pay a subscription fee for their specified membership benefits.

First Affirmative affiliated advisers and First Affirmative staff have a wide variety of experience, specialized knowledge and business skills. Professional designations and continuing education beyond industry requirements are strongly encouraged. In addition to providing investment advice, financial planning, securities and insurance sales, certain First Affirmative affiliated advisers have other business specializations, such as real estate, tax preparation, law, accounting and business consulting.

First Affirmative requires each of its Investment Advisor Representatives to obtain and maintain the ACCREDITED INVESTMENT FIDUCIARY designation<sup>4</sup> within six (6) months of registration, at least five (5) years of registration with First Affirmative or, if less than five (5) years, the CFP<sup>5</sup>, CPA, CIMA, ChFC, EA or PhD in a related field. Accounting and tax advising functions by advisers of First Affirmative with the CPA, ChFC or EA designations may be performed outside the parameters of their First Affirmative registration. They may sell secondary limited partnerships only under the guidelines of their broker-dealer firms, if applicable.

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*First Affirmative is committed to the essential service of helping people prepare for their financial security while supporting the development of a more progressive, just, sustainable and peaceful society.*

**Code of Ethics.** First Affirmative has adopted a Code of Ethics for the purpose of instructing its personnel in their ethical and fiduciary obligations to clients. The Code of Ethics also provides rules and requirements regarding the personal securities trading practices of First Affirmative's

Investment Advisor Representatives. First Affirmative and its personnel owe a duty of loyalty, fairness and good faith toward their clients and are obligated to adhere not only to the specific provisions of the Code but to the general principles that guide the Code. The Code of Ethics covers a range of topics that include the following: general ethical principles, reporting of personal securities trading, exceptions to reporting securities transactions, reportable securities, initial public offerings and amendments to Form ADV and supervisory procedures. First Affirmative will provide a copy of the Code of Ethics to any client or prospective client upon request.

**Business Continuity Plan.** First Affirmative's business continuity plan is focused on responding to a significant business disruption (SBD) by safeguarding employees' lives and firm property, making a financial operational assessment, quickly recovering and resuming operations, protecting all of the firm's books and records and allowing our clients to transact business. Our Business Continuity Plan anticipates two kinds of SBDs, internal and external. An internal SBD, such as a fire in the building, affects our ability to communicate and do business. We anticipate a return to operational status from an internal SBD in no more than 24 hours. An external SBD, such as terrorist attack, a city flood or a wide-scale regional disruption, may prevent the operation of the securities markets or a number of firms. Our response to an external SBD relies more heavily on other organizations and systems, especially on the capabilities of our clearing firms. First Affirmative's plan anticipates a return to operational status, dependent upon the nature of the external SBD, within 48 hours with our first priority being our ability to communicate with our investment advisor representatives, vendors, service providers and clients. Our plan intends to rely heavily on the telephone, e-mail and internet service providers with whom we currently do business. If a client were, for any reason, unable to reach us, their procedure for contact should begin with their adviser and then the custodian of their assets. Schwab Institutional Alliance Team: 800.515.2157. FOLIO<sup>fn</sup>: 877.877.2023.

**Securities.** Certain network advisers may also be registered securities representatives with a registered broker-dealer firm. This relationship must be adequately disclosed to clients. All securities transactions are conducted through and supervised by the broker-dealer. An adviser may recommend other securities transactions beyond the scope of First Affirmative services. For these transactions, the adviser may receive compensation in the form of commissions.

Your adviser may occasionally buy and sell securities for his/her own accounts. These securities are all widely held and publicly traded. First Affirmative senior management reviews all personal securities transactions of its employees and investment advisor representatives on a quarterly basis to insure compliance with applicable regulations. Supervising broker-dealers may, from time to time, act as selling group members for products in which they have a financial interest. First Affirmative Financial Network, LLC does not participate in such selling groups.

First Affirmative may utilize the services of independent solicitors who refer clients to First Affirmative. Use of solicitors does not impact the fees paid by the client in any way.

No commissions are received or paid in connection with the First Affirmative asset management services described on Pages 3-4. However, the custodian may charge the client a ticket or clearing charge, which is not shared with First Affirmative or your adviser. (See your Investment Advisory Services Agreement for details of fee arrangements and schedules of fees.)

**Insurance.** First Affirmative affiliated advisers may be licensed to sell insurance and may offer insurance deemed to be appropriate to meet the needs of their clients. Advisers may receive commissions from insurance companies for marketing insurance products. First Affirmative does not participate in this activity, does not supervise it, and receives no share of any commissions generated.

**Fees for Service.** Fee-based work may be available on an hourly schedule for a specific task such as creating a financial plan, on a retainer basis for a specific time period, or on the basis of a percentage of assets placed under professional management. You also may choose to have First Affirmative prepare an asset allocation report that will analyze your existing portfolio by illustrating the level of risk assumed to meet a targeted average annual return. This report may also include a performance comparison utilizing historical data and may propose an optimal portfolio designed with the objective of providing the highest return relative to the amount of risk assumed. First Affirmative can also provide reports on the social and ethical issues associated with a portfolio of specific common stocks.

## Potential Conflicts of Interest

You should be aware that there is the possibility of conflict of interest between yourself and your adviser. Such conflicts are potentially present whenever commission-based compensation is involved. Fee-based compensation tends to reduce or change the possibility of conflicts of interest, but cannot eliminate them entirely. While it is our intent to always offer advice that is in the best interest of the client, it is the client's responsibility to evaluate that advice and determine if it is appropriate before taking action. You are under no obligation to accept any recommendation, and you are free to implement any transaction with the broker, planner or adviser of your choice.

First Affirmative Financial Network, LLC is owned by its employees, many of its affiliated investment advisers and by some key organizations within the social investment industry. Employees own 58.2% of the company. Twenty-three (23) individual advisers own 9% of the company with no one adviser owning more than 1.4%. Seven organizations that offer investment products that First Affirmative may recommend own 22.3% of the company, with no one organization owning over 5%. The other 10.4% is owned by persons or organizations with whom First Affirmative has other relationships. Except for George Gay, CEO and Steven Schueth, President, who respectively own approximately 23.5% and 28.5% of the company, and James Lincoln, who controls entities that own approximately 6.9% of the company, no person or business owns more than 5% of the company. Due to the ownership structure, there is a possibility of conflict of interest in making investment recommendations. This possibility is considered slight. Supervisory and due diligence processes are designed to mitigate potential conflicts.

At this time, First Affirmative requires that all client accounts be established (custody and clearing) either at Schwab Institutional or FOLIO<sup>fn</sup>. First Affirmative analyzes other options for custody of client accounts on an ongoing basis.

Schwab Institutional provides First Affirmative with access to its institutional trading and operations services that are typically not available to Schwab retail investors. These services are generally available to independent investment advisors at no charge to them so long as a total of at least \$10 million of the advisor's client account assets are maintained at Schwab Institutional. Schwab Institutional services include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab Institutional also makes available to First Affirmative other products and services that benefit First Affirmative but may not benefit its client accounts. These products and services assist First Affirmative in managing and administering client accounts. These include software and other technology services that provide access to client account data (such as trade confirmations and account statements) facilitate trade execution, provide research, pricing information and other market data, facilitate payment of First Affirmative's fees collected from client accounts, and assist with back-office support, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of First Affirmative accounts, including accounts not maintained at Schwab Institutional. Schwab Institutional may also provide First Affirmative with other services intended to help First Affirmative manage and further develop its business enterprise. These services may include, but are not limited to, consulting, publications and presentations on practice management, information technology, business succession and regulatory compliance. The availability to First Affirmative of the foregoing products and services is not contingent upon First Affirmative committing to Schwab Institutional any specific amount of business either through assets in custody or trading volume.

*Massachusetts residents may obtain information on disciplinary history and registration of advisor and its associated persons by contacting the Public Reference Branch of the US Securities and Exchange Commission at 202.942.8090 or by writing to Massachusetts Securities Division, One Ashburton Place, 17th Floor, Boston, Massachusetts 02108.*

## Key Personnel

**George R. Gay**, CFP, AIF is Chief Executive Officer of First Affirmative Financial Network, LLC and chairs the First Affirmative Investment Committee. He serves on the board of directors of the Social Investment Forum, with prior service from 1993 to 2000, and has produced and hosted the annual SRI in the Rockies Conference since 1990. He was the recipient of the industry's 1997 "SRI Service Award."

Mr. Gay earned his CERTIFIED FINANCIAL PLANNER designation in June 1984 and completed a range of securities examinations covering the practice and supervision of securities business. He has held Series 24 (Registered Principal), 7 (Registered Representative), 65 (Uniform Investment Advisor), 53 (Municipal Bond Principal) and 63 (Uniform Securities Agent) licenses. He earned his AIF designation in November 2003.

Mr. Gay joined the company that was to become First Affirmative Financial Network as a financial planner in November 1986. He assumed the position of Chief Operating Officer of First Affirmative in 1989 and managed the sale of the company to Walnut Street Securities, Inc., in 1995. Mr. Gay served as President of the First Affirmative division of Walnut Street Advisers and as Vice President of Walnut Street Advisers (May 1, 1995–June 30, 1999). He became CEO of the newly independent First Affirmative Financial Network, LLC on July 1, 1999 when the company again became independent.

Born September 13, 1952 in Monroe, Michigan, Mr. Gay is a 1974 graduate of the United States Military Academy at West Point; he served on active duty for nine years in various command, staff and faculty assignments as an Armor officer. His final assignment on active duty, and then for three years as a civilian, was in the Resource Management Division, Directorate of Personnel and Community Activities at Fort Carson, Colorado. As division chief, Mr. Gay was responsible for the financial management of most business operations on the installation, ranging from the Golf Course and Bowling Center, to the Club Systems and Child Care operations. Upon his departure, he was awarded the Department of the Army "Commander's Award for Civilian Service."

**Steven J. Schueth** is President and Chief Marketing Officer of First Affirmative Financial Network, LLC. He served as a Director of the Social Investment Forum from 1992 to 2003, and served as Chair and President of the organization from 1993 to 2002. He has been a director of the Council for Responsible Public Investment, a director of People, Planet, Profit: P3 Colorado, and currently serves as a director of the Alliance for a Sustainable Colorado. He received the social investment industry's "SRI Service Award" in 1998.

Mr. Schueth worked from 1989 to 1997 for Calvert where he specialized in promoting the concept and practice of socially responsible investing with the public and press. His efforts significantly enhanced Calvert's reputation as a leader in the field, while the firm's socially screened mutual fund assets more than tripled. He led a product development group that created the first global socially screened mutual fund in the U.S. and was involved in launching four other new Calvert funds designed for socially aware investors. Mr. Schueth managed Calvert's national sales organization from 1994 to 1997. As President of Calvert Distributors, Inc., he oversaw the company's relationships with over 2,000 broker-dealer firms and grew the assets of Calvert's 35 money market, bond and equity mutual funds. Mr. Schueth achieved these accomplishments with a team-oriented management style and a path-breaking initiative that reoriented sales into customer-focused teams working with a values-based selling process.

Born August 27, 1954 and raised in New Hampton, Iowa, his father owned a hardware store where Steve worked, meeting the needs of retail customers, from the age of ten. He graduated from Marquette University in 1976 with a BA degree in Journalism/Communications. He has held NASD Series 24 (Registered Principal), 7 (Registered Representative) and 63 (Uniform Securities Agent) licenses. Prior to his association with Calvert, he served for three years as a major gifts officer and Director of Development at the Wharton School, University of Pennsylvania.

**Kathleen J. Sutherland** is Vice President, Chief Compliance Officer, and Director of Operations for First Affirmative Financial Network, LLC. She has held Series 7 (Registered Representative) and 24 (Registered Principal) licenses.

Ms. Sutherland joined First Affirmative Financial Network in 1990 as an administrative assistant. Combining administrative skills and knowledge of the business, she quickly assumed a much larger role and broader responsibilities, first as Operations Manager and then Assistant Branch Manager of the Walnut Street Securities, Inc. branch office. These duties included the conversion of client accounts to the First Affirmative division of Walnut Street Advisers, Inc. following the sale of First Affirmative. As Assistant Branch Manager, Ms. Sutherland assumed a majority of the compliance supervision responsibilities for the First Affirmative field force while the company operated as a wholly owned subsidiary of Walnut Street (1995-1999).

Born June 24, 1963 in Grand Rapids, Michigan, her father is a retired United Methodist Minister and her mother is a psychologist. She graduated from the University of Colorado at Colorado Springs in 1986 with a Bachelor of Arts degree in English, specializing in Medieval Literature. Ms. Sutherland was named Chief Compliance Officer in March 2004.

**R. Kevin O'Keefe**, CFP, AIF, CIMA is the Company's Chief Investment Officer, a member of First Affirmative's Investment Committee and is responsible for due diligence for all managed account programs offered by First Affirmative. He has held Series 7 (Registered Representative), 63 (Uniform Securities Agent) and 65 (Uniform Investment Advisor) licenses and is a member of the Investment Management Consultants Association.

Mr. O'Keefe has been an investment advisory representative with First Affirmative since 1991. From 1996 to 1999 he was with Reber/Russell Company (concurrent with his First Affirmative responsibilities), a firm affiliated with Frank Russell Investment Management Company and highly regarded for their expertise in asset allocation, rigorous manager evaluation and consulting services to some of the world's largest pools of capital, particularly institutional investments. Mr. O'Keefe was responsible for serving several dozen clients whose aggregate assets exceeded \$100 million.

Upon leaving Reber/Russell Company in early 1999, he expanded his role at First Affirmative. In collaboration with George Gay, he developed a strategic asset allocation program based on the investment management principles used by Russell, designed to meet the needs of the social responsibility oriented investors. This program is called "Efficiencies" in recognition of its fundamental strengths: efficient use of risk in pursuit of investment returns; cost efficiency; and tax efficiency.

Mr. O'Keefe was born May 7, 1952 in Chicago Illinois. He graduated from Chicago's Loyola University in 1974 with a degree in psychology and went on to complete his master's degree in counseling psycholo-

gy at Loyola in 1976. He worked for EF Hutton, specializing in retirement planning, throughout the 1980s. He earned his AIF designation in November 2003.

**Johann A. Klaassen**, PhD, AIF is Vice President of Managed Account Programs and a member of the First Affirmative Investment Committee. He joined First Affirmative in mid-2001, and is responsible for program support to network advisers for both the Fairways and Efficiencies programs. He has held Series 6 (Investment Company Products/Variable Contracts Representative), 63 (Uniform Securities Agent) and 65 (Uniform Investment Advisor) licenses.

Before joining First Affirmative, Mr. Klaassen worked as an Investor Services Representative with T. Rowe Price. Previously, he served on the faculties of the University of Central Arkansas, Webster University, Millikin University, University of Idaho and Washington University in St. Louis, including teaching courses in environmental ethics and bio-medical ethics. He currently serves on the adjunct faculty of Regis University's Professional MBA program, teaching an online course for the "MBAs for MDs" program entitled "Ethical and Legal Issues in Healthcare." Mr. Klaassen's scholarly articles have appeared in such journals as *Philosophy and Literature*, *Journal of Social Philosophy*, and *Journal of Value Inquiry*; he has presented papers to international conferences in Helsinki, Las Vegas and Tampa, among others.

Born January 24, 1970, Mr. Klaasen spent most of his youth in the forests of western Washington state and now volunteers his time to local environmental causes, educational institutions and social justice organizations. He earned a BA in liberal arts (the Great Books Program) from St. John's College in Santa Fe, New Mexico and a PhD in ethics and social philosophy from Washington University in St. Louis. He earned his AIF designation in October 2003.

## Notes

1. The default fee structure for accounts opened prior to January 1, 2006 appears below. Other fee structures may have been used to accommodate specific circumstances. The fees applicable for any given account are identified in the Investment Advisory Services Agreement signed by the client. Clients whose accounts originally fell under the following fee schedules are welcome to inquire if their account would incur lower fees by converting to the structure listed on Page 5-6.

### Fee Schedule prior to January 1, 2006

	On the first \$50,000	On the next \$150,000	On the next \$300,000	On the next \$500,000	Minimum Annual Fee
Efficiencies Program	1.50%	1.40%	1.10%	0.75%*†	\$200.00
Dynamics Program	1.75%	1.75%	1.55%	1.00%*§	\$700.00
Direct: Basic Service	0.65%	0.55%	0.45%	0.35%	\$200.00
Direct: Personalized	1.30%	1.10%	0.90%	0.70%	\$200.00

	On the first \$250,000	On the next \$250,000	On the next \$500,000	On the next \$1,000,000	On the next \$1,000,000	Above \$3,000,000
Fairways Program	1.95%	1.85%	1.60%	1.40%	1.20%	Negotiable to 0.75%
Schwab ABP <sup>2</sup>	0.25%	0.10%	0.10%	0.08%	0.03%	0.03%

	On the first \$200,000	On the next \$300,000	On the next \$500,000	On the next \$1,000,000	On the next \$1,000,000	Above \$3,000,000
Generations Program	1.55%	1.50%	1.35%	1.20%	1.10%	Negotiable to 0.75%
FOLIO <sup>fn</sup> ABP <sup>2</sup>	0.25%	0.17%	0.12%	0.12%	0.12%	0.12%

\* *The fee is negotiated for accounts greater than \$750,000.*      † *Negotiable to 0.20%*      ‡ *Negotiable to 0.85%*

2. First Affirmative's asset management fees are per client relationship. By contrast, asset-based trading and custody (ABP) fees—which are charged in addition to the basic asset management fee—are per account. On accounts custodied at Charles Schwab & Co., commission or transaction fees can be selected in lieu of ABP fees on each securities trade. There is no transaction-based pricing option available at FOLIO<sup>fn</sup>. Neither First Affirmative nor the adviser share in any fees or commissions charged by Charles Schwab & Co or FOLIO<sup>fn</sup>.
3. First Affirmative has solicitation agreements with various investment advisors, broker-dealers and other solicitors who may or may not share in the fees paid to solicitors of First Affirmative. First Affirmative's solicitors agreements are in compliance with federal regulations as set out in 17CFR Section 275.260(4)-3. The solicitor/referral fee is paid pursuant to a written agreement retained by both the Investment Advisor and the solicitor. This document is provided to the client prior to or at the time of entering into any investment advisory contract. No additional compensation is paid for bringing accounts to First Affirmative.
4. The Center for Fiduciary Studies owns the marks Accredited Investment Fiduciary™, AIF® and AIFA®, which it awards to individuals who successfully complete initial and ongoing accreditation requirements.
5. The certification mark CFP® is owned by the Certified Financial Planner™ Board of Standards, Inc. and is awarded to individuals who successfully complete the CFP Board's initial and ongoing certification requirements.



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First Affirmative Financial Network, LLC is an independent Registered Investment Advisor registered with the Securities and Exchange Commission able to serve clients in all 50 states.