

Part 2A of Form ADV: Firm Brochure

Item 1 Cover Page

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Prosper Financial Management, LLC (“Prosper”). If you have any questions about the contents of this Brochure, please contact us at 423-991-8401 or rpearce@prosperfm.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 Prosper may also be available on the SEC’s website at www.adviserinfo.sec.gov. You can search for Prosper on this site by using CRD number 155100.

Any statements regarding Prosper as a registered investment adviser or regarding Richard G. Pearce, Jr., Esq. as an investment adviser representative are not intended to imply any particular level of skill or training.

This brochure is dated January 10, 2013

Item 2 Material Changes

The only material changes since the last update of the Brochure, on July 28, 2012, are as follows:

Item 4 has been supplemented to list services, described as “financial consulting services”, that Prosper may perform that do not clearly fall under investment advice or financial planning.

Item 5 has been supplemented to describe the fees that Prosper may charge for financial consulting services.

Item 20, Privacy Policy, has been supplemented.

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Item 4 Advisory Business

Prosper is a registered investment adviser based in Nashville, Tennessee. It has been in business for two years. The sole owner of Prosper is Richard G. Pearce, Jr. Esq.

Prosper provides the full range of advisory services, which can be broken down into financial planning and investment advice. Financial planning involves reviewing a client's income and expenses, anticipated changes to his or her income and expenses, and future needs, including retirement, and advising the client as to the 1) proper investment vehicles; 2) the amount that needs to be saved; 3) whether the client's goals and needs can be met or whether changes need to be made to reach those goals and needs; and 4) whether the client has the proper amount and types of life, disability and other types of insurance. Investment advice involves making appropriate investment choices and adjustments to the client's investments given the client's risk tolerance, retirement goals, and the current state of the securities markets. Prosper uses fundamental and technical analysis to determine appropriate investments and has access to a significant amount of research and reports in furtherance of its analysis. Prosper evaluates common stocks, preferred stocks, bonds, convertible bonds, options, real estate investment trusts (REITs), master limited partnerships (MLPs) and other types of investments in advising its clients.

All of Prosper's services are individually suited to fit each client's present financial situation, future financial needs and goals, and risk tolerance. With regard to financial planning, Prosper's services will be adjusted based upon how close the client is to achieving his or her financial goals, in terms of suggesting, for example, increasing savings, moving savings into different investment vehicles, increasing or decreasing life insurance, and/or changing retirement expectations and anticipated retirement date. With regard to investment advice, the client's risk tolerance, investing comfort, and status towards reaching his or her investment goals all weigh heavily in determining what types of investments are appropriate for that client. In some cases, the client's portfolio will need to be focused on income, whereas in other cases on capital appreciation or often a combination of the two.

Prosper does not engage in a wrap fee program. It has no assets under discretionary authority as of January 10, 2013. Prosper has approximately \$3,000,000 of assets under advisement on a non-discretionary basis as of January 10, 2013.

Prosper may also provide financial consulting services separate from the above-described advisory services. Financial consulting services would be performed for clients who do not want to engage Prosper on a continuing basis, or in situations in which the client desires financial services that do not clearly fall under the categories of financial planning and investment advice. These services include, but are not limited to, business and individual financial consulting, such as performed by a chief financial officer (CFO), portfolio reviews, and related financial consulting services. Prosper may also give lectures or seminars on financial matters in exchange for a fee.

Item 5 Fees and Compensation

The fees for Prosper's services consist of both an initial and periodic fee. Both fees are fixed in advance and are based upon Prosper's estimate of the time required to provide the services times its hourly rate. Both fees are negotiable. Hourly fees will be charged for services outside of scope of the initial fee and periodic fee.

"Initial Fee"

The "Initial Fee" compensates Prosper for its time reviewing the client's financial information, analyzing the information, performing any necessary research, preparing a written report containing Prosper's recommendations, and meeting with the client to discuss the recommendations. The Initial Fee includes all of Prosper's costs and expenses, half of which is payable upon execution of a contract with the client and the other half of which is due upon delivery of Prosper's written recommendations. Services will not be performed by Prosper until the first half of the Initial Fee is received. The Initial Fee is based upon the expected time that it will take to perform the above-described services times an hourly rate of \$200.00. If the Client terminates its Agreement with Prosper prior to completion and delivery of the written report, Prosper will retain a pro-rata portion of the pre-paid Initial Fee, which will be based upon an hourly rate of \$200.00 times the amount of time spent working for Client until notification by Client of termination of the Agreement. Any excess amount will be promptly refunded to Client.

"Periodic Fee"

The "Periodic Fee" compensates Prosper for its time performing periodic reviews of the client's investments, research pertaining to the client's investments and general economic developments, and all communications with the client regarding these services. A Periodic Fee is only charged if such services are requested by Client. Prosper will cease to provide any services on the client's behalf during any time in which the Periodic Fee has not been paid. The Periodic Fee includes all of Prosper's costs and expenses, and is payable on a quarterly basis within thirty (30) days of invoice. The Periodic Fee will be payable every three (3) months and is based upon the expected time that it will take to perform the periodic review, any necessary research and communicate the recommendations with the client. If the Client terminates its Agreement with Prosper after the payment of a quarterly Periodic Fee but prior to completion of the work by Prosper related thereto, Prosper will retain a pro-rata portion of the pre-paid Periodic Fee, which will be based upon an hourly rate of \$200.00 times the amount of time spent working for Client until notification by Client of termination of the Agreement. Any excess amount will be promptly refunded to Client.

Clients are billed for fees incurred. If fees are charged at a rate other than a flat fee, Prosper will provide clients with itemized fee invoices to disclose the fee calculations. Clients are urged to review all fee invoices for accuracy.

Separately from fees paid to Prosper, clients will incur custodian fees and transaction costs, including but not limited to mutual fund fees and brokerage fees for purchasing and selling securities.

Prosper may offer its services at reduced rates to certain friends, family and business associates. Those individuals may or may not make referrals to Prosper, but there is no arrangement or agreement to do so.

Financial Consulting Services

Prosper may provide financial consulting services at an hourly rate, on a fixed fee, or based upon a contingency or success fee. Prosper may use a combination of these fee structures in order to meet the client's needs.

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

Not applicable.

Item 7 Types of *Clients*

Prosper's clients are currently exclusively individuals.

Prosper does not have a fixed investment strategy. Instead, Prosper will tailor the investment strategy of each client to his or her present situation, future goals and risk tolerance in light of the current state of the economy and markets. Prosper engages in both fundamental and technical analysis and has access to a wide range of research to use in supporting its own research. Financial analysis involves reviewing a company's financial statements, competitive advantages, competitors and economic factors to determine whether a security's value and risk. Technical analysis involves reviewing a company's past prices and volume to determine a security's value and risk.

It is common for Prosper to seek to maximize the benefits of three of the most important investment strategies: 1) dollar-cost averaging; 2) periodic rebalancing; and 3) cost efficiency. Dollar-cost averaging is the principle of making consistent periodic investments into the stock and/or bond market such that the client is, without intentionally timing the market, purchasing more securities when prices are low and fewer when prices are higher. Rebalancing involves, either once or twice a year, moving funds between securities to meet the client's target investment allocation. Securities that have appreciated more rapidly will be sold in part (thereby selling high) and the proceeds used to purchase securities that have lagged the market (thereby buying low). Rebalancing combines with dollar-cost averaging to create a rational, disciplined investment approach that does not rely upon frequently inaccurate market timing or other gimmicks. Finally, by recommending low cost mutual funds and exchange traded funds in most circumstances, Prosper able to achieve an appropriate level of diversity within the client's risk tolerance with a minimal amount of investment expenses.

Of course, investing in securities involves the risk of loss, which clients should be prepared to bear before investing in securities. Further, since Prosper does not engage in frequent trading strategies or attempt to "time the market", clients may hold, and be advised to continue to hold, securities that decline in value and in some cases, Prosper may encourage its clients to buy more of those securities after they have declined in value. Further, it is possible that an economic downturn or other factors will cause most or all of a client's securities to decline in value, potentially significantly.

In addition, certain investments, including but not limited to options, real estate investment trusts and master limited partnerships, carry additional risks relative to 1) unique tax consequences from holding the securities, 2) potential illiquidity of the investment, and 3) significant differences in volatility compared to the general stock or bond market.

Item 9 Disciplinary Information

None.

Item 10 Other Financial Industry Activities and Affiliations

Richard G. Pearce, Jr., Esq., Managing Member of Prosper, is a practicing attorney in Tennessee and Kentucky. Richard G. Pearce, Jr., Esq., practices at the law firm of Grant, Konvalinka & Harrison, P.C., in Chattanooga, Tennessee. There is no contractual relationship or other agreement between Prosper and Grant, Konvalinka & Harrison, P.C.

Item 11 Code of Ethics, Participation or Interest in *Client* Transactions and Personal Trading

Prosper will not purchase securities other than that it may hold, for its own account, certificates of deposit and/or money market accounts. Prosper's owner, Richard G. Pearce, Jr., owns securities for his own account, and Prosper may recommend that clients to purchase securities that Richard G. Pearce, Jr. also owns, but the transactions will in no event be between Mr. Pearce and the client. Mr. Pearce will not "front run" or otherwise engage in trading of securities recommended to a client in an effort to obtain a better price for Mr. Pearce of such securities or otherwise gain an advantage. Prosper will disclose to clients if Mr. Pearce owns any securities that Prosper recommends a client purchase in the market. Prosper's client advisory contract also notifies the client that Mr. Pearce may hold securities that Prosper recommends the client purchase in the market.

Prosper's code of ethics basically states that Prosper and its employees will a) comply with all applicable state and federal securities laws; b) will not defraud client in any manner; c) will at all times act in the client's best interest with a duty of loyalty, honesty and good faith to the client; d) will avoid, and, if unavoidable, disclose any potential or actual conflicts of interest to the client and will, as appropriate, cease providing services to the client. Prosper's code of ethics will be provided upon request.

Item 12 Brokerage Practices

Prosper may recommend that a client use a discount broker-dealer to take custody of their investments. The primary factors in determining a broker-dealer for a client are: 1) commission fees charged by the broker-dealer must be minimal; 2) the broker-dealer should have an office near the client's home or office; 3) the broker-dealer must be reputable and have an easy-to-use investment platform.

Soft Dollar Benefits: Prosper is currently contemplating entering into relationships with Scottrade, TD Ameritrade and/or Fidelity, all broker-dealers, as part of Prosper providing discretionary services to its clients. It is likely that these broker-dealers will offer "soft-dollar" benefits to Prosper, including but not limited to access to research generated by the broker-dealer as well as research provided by third-parties and made available to Prosper. It is not expected that Prosper will receive brokerage commissions based upon transactions made by Prosper's clients with broker-dealers. Prosper expects to only use free research provided by the broker-dealers. As such, the only potential conflict of interest is that Prosper will be encouraged to have clients at various broker-dealers to take advantage of each broker-dealer's free research.

Prosper will do what is best for its clients without regard to any potential conflict of interest and recommends broker-dealers based upon what is best for each client, in terms of costs and accessibility. Prosper does not require that clients use any particular broker-dealer.

Prosper does not aggregate securities transactions for its clients. Other investment advisers and broker-dealers may, under certain circumstances, obtain better prices for certain securities by aggregating securities transactions.

Item 13 Review of Accounts

Prosper performs periodic account reviews for those clients who contract with Prosper for that service and pay the Periodic Fee. Under those circumstances, Prosper will review those accounts with which it has discretionary authority periodically and other accounts as information is provided by the client, with the goal being no less often than quarterly. The account review will be to make sure that the desired portfolio allocation is still met, that macroeconomic developments do not require a change in investments, and that specific stocks have not become so overvalued or undervalued so as to necessitate making a purchase or sale.

All reviews are performed by Richard G. Pearce, Jr., Esq.

Prosper does not provide regular written reports to its clients; rather, the client's broker-dealer will provide its standard report(s). Prosper urges its clients to carefully review the reports and statements provided by the broker-dealer for accuracy. Prosper will prepare limited written reports upon request by a client. Further, Prosper can prepare comprehensive written reports on a periodic basis for certain clients, but with the exception of the initial written plan that Prosper prepares for its clients, such reports may require a fee be paid by Client.

Item 14 *Client Referrals and Other Compensation*

Not applicable.

Item 15 *Custody*

Not applicable.

Item 16 Investment Discretion

Prosper accepts discretionary authority from its clients to manage certain of their accounts. This discretionary authority usually does not extend to all of a client's brokerage accounts, but it may. Clients may place limits on Prosper's discretionary authority, including but not limited to: 1) requiring prior notice and/or approval of all trades; and 2) restricting investment to or from certain types of securities. Prior to assuming discretionary authority, Prosper must obtain client's signature to such documents as may be required by the client's broker-dealer, which may include a limited power of attorney.

Generally, when a client grants discretionary authority to Prosper, he or she authorizes Prosper to purchase and sell securities in the client's account at the client's expense. Prosper will only engage in such transactions as are agreed by the client and Prosper, but there is no limit on the type, or amount, of securities that Prosper may purchase and sell upon obtaining permission to engage in the transaction. The only exception is that Prosper will not engage in transactions on a client's behalf on margin, meaning that the client would be using money borrowed from the broker-dealer to engage in the transaction. All fees for transactions are paid by the client out of the brokerage account in which the transaction occurred.

Item 17 Voting *Client* Securities

Not applicable.

Item 18 Financial Information

Prosper is not aware of any financial condition that it believes is reasonably likely to impair its ability to meet its contractual commitments to clients.

Item 19 Requirements for State-Registered Advisers

The sole member, officer and management person of Prosper is Richard G. Pearce, Jr., Esq. Richard G. Pearce, Jr., Esq. has J.D. and M.B.A. degrees and has practiced law (tax, transactional work, business litigation, estate planning, white collar criminal defense) for almost seven years. Mr. Pearce remains an actively practicing attorney on full-time basis. Mr. Pearce obtained the Series 65 exam in October 2010.

Richard G. Pearce, Jr., Esq. is not and has not been subject to any disciplinary, regulatory, civil or bankruptcy proceedings.

Prosper is committed to safeguarding the confidentiality, integrity and security of the non-public personal information that is entrusted to us. The categories of nonpublic information that Prosper collects from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, such as credit reports.

Prosper uses this information to help you meet your personal financial goals. Prosper not provide your personal information to mailing list vendors or solicitors. Federal and state regulators may review our company records and your personal records as permitted under law.

Prosper stores your information electronically in a secure format to insure that it is not placed at unreasonable risk.

As required by law, your information will be retained during the time that you are a client, and for the required time that such records must be retained in accordance with federal and state securities laws. If you decide at some point to become an inactive client, we will continue to adhere to our privacy policies and practices with respect to your information.

Prosper may, from time to time, disclose limited information to attorneys, accountants, or other financial professionals solely for the purpose of obtaining a second opinion or to gain assistance in reviewing a specific financial question regarding your situation.

Prosper will notify you if our privacy policy is expected to materially change.

Prosper is required to deliver this Privacy Policy Statement to clients annually in writing.

If you have any questions about this Privacy Policy or to update your information with us, please contact us at 404 Lynnwood Blvd., Nashville, TN 37205, or by calling 423-991-8401.