

**Schedule F of
Form ADV
Continuation Sheet for Form ADV
Part II**

Applicant: Palo Capital, Inc.	SEC File Number: 801-	Date: 11-04-2009
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(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Form ADV: Palo Capital, Inc.	IRS Empl. Ident. No.: 20-3264567
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Item of Form (identify)	Answer
1.D.	<p>ADVISORY SERVICES & FEES</p> <p>Palo Capital, Inc. ("PCI") is a registered investment advisor that manages investment portfolios on a discretionary basis for individuals, pension and profit-sharing plans, estates, trusts, and not-for-profit organizations. After assessing the financial and tax situation and investment preferences of the individual client, PCI constructs client-specific portfolios ("Separately Managed Accounts") appropriate to the client's circumstances. Investments are made primarily in individual equity securities traded on U.S. exchanges, but investments may include, but are not limited to, foreign securities, exchange-traded funds (ETFs), mutual funds, options, U.S. Treasury securities, and debt issues of corporations and government entities.</p> <p>PCI does not take possession or custody of the funds or securities of any client. Client funds are deposited in either a brokerage firm or bank custodian account. PCI holds a limited power of attorney to act on a discretionary basis with client accounts. As disclosed in 12B, PCI generally recommends Charles Schwab & Co., Inc. (Schwab) to its clients as the preferred broker-dealer and custodian. PCI has an established relationship with Schwab and may in the future establish relationships with other broker-dealers.</p> <p>PCI may provide limited consultation services to its investment management clients on investment and non-investment related matters. In the event that PCI provides such consultation services, PCI generally does not charge any fee for such services other than the investment management fees described below.</p> <p>Investment Management Agreement. PCI's investment management services are provided on the basis of a Discretionary Investment Management Agreement setting forth the terms and conditions under which PCI shall manage the client's assets, and of a separate custodial/clearing agreement which the client enters into with each designated broker-dealer/custodian.</p> <p>Termination of Agreements. Each Discretionary Investment Management Agreement provides that: (i) the client may terminate the agreement within five business days of its effective date without paying any fees or penalties; (ii) once the initial five-day period has passed, either party to the agreement may terminate the agreement at any time by providing thirty days written notice to the other party; (iii) the agreement shall be continuous until terminated; and (iv) upon termination, it is the client's responsibility to monitor the securities in the account, and PCI will have no further obligation to act or advise with respect to those assets. If the agreement is terminated during a calendar quarter, fees will</p>

Complete amended pages in full, circle amended items and file with execution page (page 1). PAGE 1

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	<p>be due to the termination date on a pro-rata basis. The calculation of performance-based fees for terminated agreements is specified in the applicable investment management agreement.</p> <p>Advisory Fees. In accordance with the Discretionary Investment Management Agreement entered into between the client and PCI, PCI may cause fees to be paid out of the client's account by the client's custodian. PCI provides the client a statement showing the value of assets on which fees are based and the manner in which said fees are calculated. PCI does not provide such a statement or invoice to the custodian. Clients are required to acknowledge that it is the client's responsibility to review PC's invoices to ensure that fees are correctly calculated, and that the custodian will not verify PC's fee calculation. PC's fees do not include any brokerage commissions, bank fees, margin interest, securities exchange fees, wire transfer fees, or other fees associated with securities transactions as required by law. In the event that clients' funds are invested in a mutual fund, PCI's advisory fees are in addition to the fees charged by the mutual fund.</p> <p>Advisory fees are charged either as: (i) a fee based on the total value of assets under PCI's management; or (ii) a combination of an asset-based fee and a performance-based fee (see below) that is charged in accordance with all requirements of Rule 205-3 of the Investment Advisors Act of 1940 as amended. Qualifying clients have the option of choosing between these two fee schedules. Asset-based fees are paid quarterly in arrears, based upon the average daily value of the client's assets under management during the quarter. For purposes of the tiers within fee schedules, PCI will generally allow aggregation of assets from different accounts held by members of a client's immediate family living in the same household, subject to review of the specific circumstances.</p> <p><u>Option 1: Asset-Based Fee Only.</u></p> <table border="1"> <tr> <td>First \$500,000</td><td>1.30% per annum</td></tr> <tr> <td>Next \$500,000</td><td>1.20% per annum</td></tr> <tr> <td>Next \$1,000,000</td><td>0.95% per annum</td></tr> <tr> <td>Next \$2,000,000</td><td>0.85% per annum</td></tr> <tr> <td>Amounts over \$4,000,000</td><td>0.75% per annum</td></tr> </table>	First \$500,000	1.30% per annum	Next \$500,000	1.20% per annum	Next \$1,000,000	0.95% per annum	Next \$2,000,000	0.85% per annum	Amounts over \$4,000,000	0.75% per annum
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	<p><u>Option 2: Asset & Performance-Based Fee.</u></p> <p>Qualifying clients may elect to have fees charged based on a combination of: (i) assets under management, and (ii) performance. To qualify, clients generally must have a minimum net worth of \$1,500,000 and \$750,000 under management with PCI. Clients electing this option are charged both the Asset-Based Fee and the Performance-Based Fee shown below.</p> <p>Asset-Based Fee (charged in addition to Performance-Based Fee below)</p> <table border="1"> <tr> <td>First \$500,000</td><td>0.85% per annum</td></tr> <tr> <td>Next \$500,000</td><td>0.75% per annum</td></tr> <tr> <td>Next \$1,000,000</td><td>0.55% per annum</td></tr> <tr> <td>Next \$2,000,000</td><td>0.45% per annum</td></tr> <tr> <td>Amounts over \$4,000,000</td><td>0.40% per annum</td></tr> </table> <p><i>Performance-Based Fee (charged in addition to Asset-Based Fee above)</i></p> <p>The Performance-Based Fee equals 20% of the amount by which the total return on the account exceeds the total return for the S&P500 index (or an alternative benchmark) for the applicable time period. This fee is calculated and paid annually in arrears and is pro-rated for partial years. If the account return is negative, no performance fee is charged, even if the return is better (less negative) than the return for the benchmark index. Total return includes realized and unrealized capital gains, dividends and other income. The determination of total return on the client account is after brokerage commissions and expenses, but before income taxes and the PCI Asset-Based Fee.</p> <p>Clients electing a Performance-Based fee are required to acknowledge disclosure that: (i) the Asset & Performance-Based Fee Option may result in a higher fee in comparison to the fee that would have resulted under the Asset-Based Fee Only; and (ii) a performance-based fee may create an incentive for PCI to take additional risks in comparison to a fee based only on asset value.</p> <p><u>Reduced Fees for Cash & Money Market Assets.</u> If the average daily value of the sum of cash and money market assets of an account exceeds 20% of the account's average daily value, the asset-based fee on the portion in excess of 20% of the account value is 0.2%.</p>	First \$500,000	0.85% per annum	Next \$500,000	0.75% per annum	Next \$1,000,000	0.55% per annum	Next \$2,000,000	0.45% per annum	Amounts over \$4,000,000	0.40% per annum
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	<p><u>Reduced Fees for Fixed Income Accounts.</u> Accounts holding only fixed income instruments, cash, or cash equivalents are charged an asset-based fee according to the following schedule:</p> <table border="1"> <tr> <td>First \$500,000</td><td>0.50% per annum</td></tr> <tr> <td>Next \$500,000</td><td>0.40% per annum</td></tr> <tr> <td>Next \$1,000,000</td><td>0.35% per annum</td></tr> <tr> <td>Amounts over \$2,000,000</td><td>0.30% per annum</td></tr> </table> <p><u>Fee Schedule Exceptions.</u> Exceptions to the preceding fee schedule provisions are: (i) Performance-Based fees and fees for accounts of \$5,000,000 or more may be negotiated; (ii) advisory fees are discounted by 25-40% for family members of PCI principals, PCI employees and their families, and for not-for-profit charitable organizations; (iii) PCI principals are not charged advisory fees; and (iv) fees for accounts moving from other advisors may be modified on a time-limited basis.</p> <p><u>Minimum Fees and Account Size.</u> The minimum quarterly fee is \$1,000, and a minimum of \$250,000 in assets is typically required. An account accepted for management by PCI that is less than the asset minimum is still subject to the minimum quarterly fee of \$1,000.</p> <p><u>Rule 260.238 Disclosure.</u> Rule 260.238 of the California Code of Regulations requires all investment advisors to disclose to their advisory clients that lower fees for comparable services may be available from other sources.</p>	First \$500,000	0.50% per annum	Next \$500,000	0.40% per annum	Next \$1,000,000	0.35% per annum	Amounts over \$2,000,000	0.30% per annum
First \$500,000	0.50% per annum								
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4.A.	SECURITY ANALYSIS METHODS PCI's analysis of securities is based primarily on analysis of financial and other fundamental data. However, because security prices are influenced more by the future than by the past, PCI employs various approaches in addition to fundamental analysis in order to develop inferences about future security prices. These approaches include but are not limited to: <ul style="list-style-type: none">• Identification of secular and cyclical trends which may impact certain industries or companies.• Review of holdings and transactions of company insiders and investors with a history of successful investment in certain companies or industries• Technical analysis of price and volume trading patterns.	
4.B.	SOURCES OF INFORMATION In addition to the sources listed in Item 4.B., PCI also uses: (i) online securities databases and screening software; (ii) company conference calls; and (iii) personal contacts in selected industries.	
4.C.	INVESTMENT STRATEGIES PCI's investment approach is heavily oriented toward long-term holdings, especially in taxable accounts. Short-term trades, and the use of options, short sales, and margin leverage are less common, and are limited to appropriate accounts and to market conditions which in PCI's judgment favor these tactics.	
5.	EDUCATION & BUSINESS STANDARDS PCI requires that personnel involved in the review and selection of investments have a demonstrated track record of superior performance in similar investing activity as well as relevant educational background.	

Complete amended pages in full, circle amended items and file with execution page (page 1). PAGE 5

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6.	<p>EDUCATION AND BUSINESS BACKGROUND</p> <p>Kevin F. O'Grady, President and Chief Investment Officer. Born 1950.</p> <p><u>Education</u></p> <p>1972 B.A., magna cum laude, Brown University, Providence, RI.</p> <p>1977 M.D., Stanford University, Palo Alto, CA.</p> <p>1982 M.S., Health Services Administration, UCLA, Los Angeles, CA.</p> <p><u>Business Background</u></p> <p>1981-1983: Research Scientist, Dept. of Economics, Rand Corporation</p> <p>1983-1988: Vice President, Health Data Institute, Boston, MA.</p> <p> Healthcare cost management firm serving Fortune 100 employers.</p> <p>1989-1998: President, Center for Healthcare Information, Inc</p> <p>1999-2003: Chief Financial Officer, Valence Semiconductor, Irvine, CA</p> <p>2003-2005: Private Investor</p> <p>2005-date: President, Palo Capital, Inc.</p>

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9.	<p>Michael J. Cannivet, Portfolio Manager and Senior Analyst. Born 1979.</p> <p><u>Education</u></p> <p>2001 B. A. Government, Georgetown University, Washington, DC.</p> <p><u>Business Background</u></p> <p>2001-2004: Lending Officer, SunTrust Banks</p> <p>2004-2005: Investor Relations Manager, Liolios Group</p> <p>2005-2009: Equity Research Analyst, Fisher Investments</p> <p>2009-date: Portfolio Manager/Senior Analyst, Palo Capital, Inc.</p> <p>PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS</p> <p><u>Code of Ethics.</u> PCI and its personnel operate under a Code of Ethics that provides general ethical guidelines and specific instructions regarding PCI's duties to its clients. A copy of this Code of Ethics is available upon request.</p> <p>PCI, including its principals and employees, often invests in the same securities in which PCI invests clients' funds. While PCI believes that such investment contributes to superior investment performance, PCI recognizes that it also creates a potential for conflict of interest. PCI's Code of Ethics governs the personal investing of PCI personnel and seeks to ensure that PCI and its personnel place the interests of the firm's advisory clients first at all times and conduct all personal trading in such a manner as to avoid any conflict of interest or any abuse of PCI's position of trust and responsibility.</p> <p>Under this Code of Ethics, no PCI principal or employee may benefit, either directly or indirectly, from transactions placed on behalf of advisory accounts. Employees cannot buy or sell securities for their personal portfolios where their decision is substantially derived, in whole or part, from their employment, unless the information is also available to the investing public on reasonable inquiry. PCI monitors its employees' personal and proprietary trading activity. This activity is reviewed at least quarterly to ensure compliance with internal control policies and procedures. PCI strives to ensure that all employees act in accordance with</p>

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10.	<p>applicable regulations governing registered investment advisory practices as applicable to the firm. Employees not in observance of this goal are subject to sanctions, including termination of employment.</p> <p>PCI commonly aggregates trades across multiple accounts in order to assure the best overall price on such transactions. When PCI is trading the same securities in both client accounts and in accounts in which PCI, its principals, or its employees have a beneficial interest ("PCI proprietary accounts"), PCI's usual practice is to place the trades for PCI proprietary accounts separately from the trades for client accounts, and to place the client account trades before the trades for PCI proprietary accounts. Although this practice is designed to protect the interests of PCI clients, it cannot guarantee that client trades will always be made at a better price than trades in PCI proprietary accounts due to the fluctuations in market prices from minute to minute.</p> <p>In accordance with Section 204A of the Investment Adviser's Act of 1940, PCI maintains and enforces written policies reasonably designed to prevent misuse of material non-public information by any person associated with PCI.</p> <p><u>CONDITIONS FOR MANAGING ACCOUNTS</u></p> <p>A minimum of \$250,000 in assets is typically required. An account accepted for management by PCI that is less than the asset minimum is still subject to a minimum quarterly fee of \$1,000.</p>
11.A.	<p><u>REVIEW OF ACCOUNTS: REVIEWS & REVIEWS</u></p> <p>PCI's investment management process includes the review activities listed below. All reviews are conducted by PCI's Chief Investment Officer.</p> <p><u>Individual Equity Review.</u></p> <ul style="list-style-type: none"> On a continuous basis, all securities held in accounts under PCI management are monitored for news developments and technical activity (price and volume data) that may impact their investment appeal. Each such security is assessed against the universe of all equities followed by PCI and rated as to its relative attractiveness for buys or sells.

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11.B.	<ul style="list-style-type: none"> On at least a quarterly basis, PCI conducts a review for each company of (i) fundamentals (financials); (ii) industry outlook; (iii) fit with PCI's investment themes and PCI's macroeconomic outlook; and (iv) whether PCI's investment thesis for the security is still intact. <p><u>Investment Strategy Review.</u></p> <ul style="list-style-type: none"> On a quarterly and ongoing basis, PCI conducts a review of its investment strategy. This process encompasses a review of data and third-party research on macroeconomic conditions, with a particular emphasis on liquidity issues. PCI's investment themes are reviewed in terms of market performance, economic conditions, business cycles, and technology, political, and social developments related to these themes. <p><u>Client Account Review.</u></p> <ul style="list-style-type: none"> With each client, PCI conducts an initial review of the client's financial situation, investment timeframes and risk tolerances. On a continuous basis but no less often than monthly, client portfolios are reviewed for investment performance, conformity to the client's investment policy statement, and the investment merits of account positions. On an annual basis, clients are asked to update the data they have provided to PCI on their financial and investment profile. Clients are also advised that it is their responsibility to notify PCI of any changes in their financial situation as such changes occur. <p><u>Other Review Triggers.</u> In addition to the above, reviews may be triggered by client request or by economic or market events.</p> <p>REVIEW OF ACCOUNTS: REPORTS TO CLIENTS</p> <p>Clients receive the following reports directly from the broker-dealer/custodian:</p> <ul style="list-style-type: none"> Confirmation reports for all trades Monthly statements showing account positions, balances, and activity Annual tax statements (1099s).

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12.	<p>PCI provides clients with quarterly and annual reports containing:</p> <ul style="list-style-type: none"> ● Account positions including valuation ● Account performance in comparison to benchmark indices <p><u>INVESTMENT OR BROKERAGE DISCRETION</u></p> <p><u>Investment Discretion.</u> PCI manages clients' securities on a discretionary basis which typically includes specification of the securities that are to be bought or sold, as well as the amounts of such securities. Clients do not approve transactions before they are executed. However, clients receive a confirmation following each transaction from the brokerage firm and monthly statements from the custodian. Clients may limit PCI's discretionary authority through restrictions on purchase of certain securities or of securities in specific industries.</p> <p><u>Brokerage Discretion.</u> PCI's discretionary authority typically covers choice of the brokers through which securities are to be bought or sold, and the commission rates at which securities transactions for client accounts are effected.</p> <p>PCI uses Charles Schwab & Co., Inc. ("Schwab") as its primary custodian. Through its relationship with Schwab, PCI has access to specialized electronic information downloads and batched statements, specialized institutional brokerage trading and customer service teams, and investment management software. These services enable PCI to more efficiently manage clients' accounts, and allow clients to receive a superior level of reporting services.</p> <p>While PCI may direct certain trades to brokers or dealers other than Schwab, Schwab serves as the broker-dealer for most client transactions. In selecting broker-dealers, PCI uses its good faith judgment taking into consideration:</p> <ul style="list-style-type: none"> ● Execution capabilities ● Brokerage commissions rates ● Custodial and other services that may enhance PCI's investment management capabilities ● Size and execution difficulty of the transaction ● Risk in positioning a block of securities ● Quality of the overall brokerage and customer service provided by the broker-dealer under consideration.

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	<p>While Schwab and other brokers and dealers used by PCI offer commission rates that PC believes to be very competitive, for almost any transaction, there will be a broker-dealer offering a lower commission rate.</p> <p>No "Soft-Dollar" Research. Arrangements under which an investment advisor receives research products or services in return for directing business to a broker-dealer are referred to as "soft dollar" arrangements. While such arrangements may be consistent with the best interests of the advisor's clients, PCI has no such arrangements at present.</p> <p>ADDITIONAL COMPENSATION</p> <p>Through its relationship with Charles Schwab & Co., Inc., PCI has access to specialized services which enable PC to more efficiently manage clients' accounts. These services may represent an economic benefit to PCI in that PCI is either not charged for these services or charged at a rate lower than the rate which might apply absent PCI's relationship with Schwab.</p>

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