

CAPITAL INVESTMENT MANAGEMENT, INC.

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March 31, 2011

This brochure provides information about the qualifications and business practices of Capital Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at (410) 997-6755. The information in this brochure has not been approved or verified by the United Securities and Exchange Commission or by any state securities authority.

Capital Investment Management is a Registered Investment Advisor. Registration of an Investment Advisor does not imply any level of skill or training. The oral and written communications of an Advisor provide you with information about which you determine to hire or retain an Advisor.

Additional information about Capital Investment Management, Inc. is also available on the SEC's website at www.advisorinfo.sec.gov.

Item 2 Material Changes

In the previous Form ADV Part II dated 3/2/10, under Item 1, Advisory Services and Fees, Section C, Part 1, the fee scale was changed to reflect actual charges by Capital Investment Management. Capital Investment Management, Inc. charges 1.0% annually for up to \$1 million dollars in assets under management and will negotiate fees for over \$1 million dollars in assets under management annually.

Jack Baker has retired from Capital Investment Management, Inc.

Our fax number has been changed to (877) 303-5110.

On July 28, 2010, the United States Securities and Exchange Commission published "Amendments to Form ADV" which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011 is a new document prepared according to the SEC's new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year in December. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Maureen McShane, Chief Compliance Officer, at 410-997-6755 or mike@capitalmanage.com.

Additional information about Capital Investment Management is also available via the SEC's web site www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with Capital Investment Management who are registered, or are required to be registered, as investment adviser representatives of Capital Investment Management.

Item 3 - TABLE OF CONTENTS

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1	Cover Page	1
2	Material Changes	2
3	Table of Contents	3
4	Advisory Business	4
5	Fees and Compensation	5
6	Performance Based-Fees and Side-By-Side Management	7
7	Types of Clients	7
8	Methods of Analysis, Investment Strategies and Risk of Loss	7
9	Disciplinary Information	7
10	Other Financial Industry Activities and Affiliations	8
11	Code of Ethics	8
12	Brokerage Practices	11
13	Review of Accounts	13
14	Client Referrals and Other Compensation	13
15	Custody	14
16	Investment Discretion	14
17	Voting Client Securities	14
18	Financial Information	14

Item 4 - Advisory Business

Capital Investment Management was established on January 14, 1991. Lillian Mulherin is the principal owner of Capital Investment Management, Inc. Capital Investment Management Inc. has provided investment supervisory services through affiliated advisors, who are also registered representatives, by giving investment advice to their clients based on the individual needs of those clients.

Advisors may recommend and/or evaluate investments through consultations not involving investment supervisory services or portfolio management services.

Advisor furnishes advice to clients regarding insurance products.

Advisor offers and provides a financial planning approach to the evaluation and recommendation of investment programs to meet the needs of its individual clients.

In general, people associated with the applicant's advisory business in the role of professionals must have extensive experience in investments and/or portfolio management and preferably an educational background which provided them with an understanding of business and finance. Several of the investment professionals associated with the applicant has a master's degree in business or a bachelor's degree. Also, associated persons are required to have displayed a high degree of integrity and show commitment to providing quality service.

Advisor does not have an investment committee, though the compliance officer, Maureen D. McShane, is responsible for reviewing and approving recommendations made.

Maureen McShane was born in 1962. Maureen obtained a B.S. degree from Towson University in 1996. Her business background for the preceding seven years has been an affiliate and financial advisor for Capital Investment Management, Inc.

Lillian Mulherin was born in 1944. She attended the University of Maryland. She has her insurance license, Series 7 license and realtor's license. She started Capital Investment Management in 1991 and has worked there to present.

Michael Mulherin was born in 1941. His MBA is from Loyola College. His work experience spans over forty years. He has been affiliated with firms such as Legg Mason, Prudential Bache, and Smith Barney. His last nineteen years has been with Capital Investment Management.

Capital Investment Management currently manages \$28,410,939 in client assets on a discretionary basis as of 2/24/11.

Item 5 - Fees and Compensation

The fees of the Advisor are based upon a percentage of the total market value of the client's assets under management. Currently, that fee is calculated and billed on a quarterly basis with the following scale:

1.0% annually up to the first \$1 million dollars of assets under management, and negotiable fees for over \$1 million of assets under management annually.

The fees are calculated on the total market value of assets under supervision as determined as of the close of business on the date preceding the effective date of the clients' advisory agreement with the advisor. Thereafter, the fees shall be determined as of the close of business as of the last business day in each calendar quarter. The initial fee will be prorated by the number of days the account will be with the advisor in the initial quarter to the number of days within that quarter.

The specific manner in which fees are charged by Capital Investment Management is established in a client's written agreement with Capital Investment Management. Capital Investment Management will generally bill its fees on a quarterly basis as stated. Clients authorize Capital Investment Management to directly debit fees from client accounts on the first day of the quarter. Fees are payable in advance of the quarter in which advisory services are provided. Management fees shall be pro-rated for each capital contribution made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded to the client's account and any earned, unpaid fees will be due and payable. Should either advisor or client seek to terminate their advisory relationship, upon at least thirty

days prior written notice, fees paid in advance will be prorated to the date of termination, and any unused portion thereof shall be returned to the client.

Other advisor services, including investment consulting services, securities or insurance portfolio analyses are offered on an hourly fee basis, which minimum charge is currently \$150.00 per hour, payable at the time the bill is rendered for services performed.

Investment advisory services are also provided for commissions derived from the client's purchase of either securities or insurance, or the client's sale of securities. Depending upon the extent of the advisory services, the advisor may waive receipt of any other advisory fees and accept only the commissions received indirectly from those third parties to whom the client had paid commissions.

Compensation for the advisor for its services as investment advisor shall be calculated and paid in accordance with the provisions described above.

Capital Investment Management's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Capital Investment Management's fee, and Capital Investment Management shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that Capital Investment Management considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

Capital Investment Management does not charge any performance based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 - Types of Clients

Capital Investment Management provides portfolio management services to individuals and high net worth individuals. This includes trusts, estates, 401(k) plans and IRAs of individuals and their family members.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. However, Capital Investment Management has access to software tools that assist in analyzing client portfolios. Such software is based on Modern Portfolio Theory. Modern Portfolio Theory attempts to balance a portfolio's risk and return level based on a particular client's risk tolerance and investment objectives. Additional research issued in conjunction with the asset allocations software to provide clients with access to risk tolerance assessments, efficient frontier plotting, fund profiling and performance data, as well as portfolio optimization and re-balancing tools.

Capital Investment Management may also utilize the services of unaffiliated investment managers to implement Capital Investment Management's advice. Capital Investment Management analyzes individual managers based upon their performance, track record, investment strategy, public reports on and comparison of managers, onsite interviews and/or their disclosure documents.

Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your

evaluation of Capital Investment Management or the integrity of Capital Investment Management's management. Capital Investment Management has no information applicable to this Item.

Item 10 - Other Financial Industry Activities and Affiliations

Some advisors of the Advisor are registered representatives of:

H. Beck, Inc.
Member FINRA, SIPC
11140 Rockville Pike 4th Floor
Rockville, MD 20852
The Advisor is not affiliated with H. Beck, Inc.

These advisors may recommend products offered by H. Beck, Inc. If these products are purchased by the client, the registered representative will receive the usual commissions.

Some advisors of the Advisor have entered into agreement with H. Beck, Inc., a SEC registered Investment advisory firm, to provide services on behalf of H. Beck, Inc. in which the advisors may refer their clients to a third party registered investment advisor ("Service Provider") for the receipt of Investment advisory services. In such a case, the advisors will receive a portion of the fees received by H. Beck, Inc. from the Service Provider, as will be disclosed at the time the clients enter into an agreement for those services.

Item 11 - Code of Ethics

Capital Investment Management has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at

Capital Investment Management must acknowledge the terms of the Code of Ethics annually, or as amended.

Capital Investment Management anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Capital Investment Management has management to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in Capital Investment Management, its affiliates and/or clients, directly or indirectly, have a position of interest. Capital Investment Managements' employees and persons associated with Capital Investment Management are required to follow Capital Investment Managements' Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Capital Investment Management and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Capital Investment Management's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Capital Investment Management will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Capital Investment Management's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Capital Investment Management and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Capital Investment Managements' obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Capital Investment Management will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be

allocated as specifies in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

Capital Investment Management's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Maureen McShane.

It is Capital Investment Management's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Capital Investment Management will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as both broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Affiliates of Advisor, in their individual capacity of registered representatives, may receive commission from H. Beck, Inc. in connection with securities transactions effected for the accounts of the Advisor's clients maintained at or through H. Beck, Inc.

Investment recommendations made by Advisor's agents, with transactions are effected by H. Beck, Inc. or an insurance company, with which such agents are associated, will result in the receipt of either direct or indirect commission, concession, or 12b-1 fee compensation by such agents.

In the ordinary course of performing its investment advisory services and under specific conditions, applicant and its affiliates may purchase or sell for their own accounts those securities or products for which recommendations are made to advisor clients to purchase. In no case will advisor's agents directly sell or purchase from an advisory client any security so recommended.

Item 12 - Brokerage Practices

Capital Investment Management offers Portfolio Management Services to its advisory clients on a discretionary basis. Clients grant Capital Investment Management discretionary authority in the client advisory agreement. The type and amount of securities to be bought and sold in such accounts do not require client approval. This discretion includes the authority to effect the transaction of securities such as mutual funds, equities, and bonds without prior consent of, or notice to, the client. However, Capital Investment Management does not have the ability to choose the broker-dealer to be used without prior consent or to withdraw funds from client's account (other than to cause the debit of advisory fees.)

Capital Investment Management may recommend that clients establish brokerage accounts with Fidelity to maintain custody of clients' assets and to effect trades for their accounts. Capital Investment Management is independently owned and operated and not affiliated with Fidelity or Fidelity Institutional Wealth Services. Fidelity provides Capital Investment Management with access to institutional trading and custody services. Capital Investment isn't required to commit to any specific amount of business (assets in custody or trading)> FIWS and Fidelity's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. Fidelity does not charge separately for custody, but may be compensated by account holders through other transaction-related fees for securities trades executed through Fidelity or that settle into client accounts.

Fidelity Institutional Wealth Services and Fidelity also make available to Capital Investment Management other products and services that benefits Capital Investment Management but may not benefit client accounts. Some of these other products and services assist Capital Investment Management in managing and administering client accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Capital Investment Management's fees from its clients' accounts; and assist with back-office functions, record

keeping and client reporting. Many of these services may be used to service all or a substantial number of Capital Investment Management's accounts. Fidelity Institutional Wealth Services also makes available to Capital Investment Management other services intended to help Capital Investment Management further develop its business. These services may include, consulting, publications and conferences on practice management, as well as, information technology, business succession, regulatory compliance and marketing. In addition, Fidelity Institutional Wealth Services may make available, arrange and/or pay for these types of services rendered to Capital Investment Management by independent third parties. Fidelity Institutional Wealth Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to Capital Investment Management.

Because Capital Investment Management's compensation may vary depending on the broker-dealer selected, Capital Investment Management may have a conflict of interest in assisting the client in such selection. While as a fiduciary, Capital Investment Management endeavors to act in its clients' best interests, Capital Investment Management's recommendation that clients maintain their assets in accounts through Fidelity Institutional Wealth Services or at Fidelity may be based in part on the benefit to Capital Investment Management of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by these broker-dealers.

Notwithstanding such economic benefit, Capital Investment Management strives to serve the best interest of its clients. Factors considered in selecting Fidelity include the existing broker-dealer relationships with Capital Investment Management, financial strength, reputation, reporting, execution pricing and research. Capital Investment Management does not warrant or represent that commissions for transactions implemented through Fidelity are lower than commission available if clients use another brokerage firm. Further, these fees are exclusive of, and in addition to, Capital Investment Management's investment management fees. Clients also incur charges imposed at the mutual fund level (e.g. management fees, early redemption fees, and other fund expenses). Capital Investment Management believes, however, that the overall level of services and support provided to clients by Capital Investment Management outweighs the potentially lower transactions cost available under other brokerage arrangements.

Discretionary and non-discretionary agreements are offered to the client. Where discretion is granted the advisor would make investment advisory decisions without consulting with the client where securities are bought and sold for the account. The client may impose conditions in their investment objectives or instructions that they have provided the advisor. In a non-discretionary advisory service, the advisor would make recommendations to the client and the client may request the advisor place orders for the purchase or sale of securities.

Advisor has full discretion to determine the interests in investment funds to be bought or sold and the amount of such interests to be bought or sold. Advisor has full discretion as to the selection of the broker-dealer, which would primarily be used for equity purchases and sales. For these transactions, the advisor will select a broker-dealer which they consider the best execution of these transactions.

Item 13 - Review of Accounts

Capital Investment Management is in the practice of reviewing accounts with clients on at least a quarterly basis. A quarterly review is offered to the client at the initial onset of the account going forward. A written or verbal update is also offered quarterly. Capital Investment Management will review a client's account upon request and as needed.

Item 14 - Client Referrals and Other Compensation

Capital Investment Management's primary business is as an Investment Adviser. Capital Investment Management's representatives spend the majority of their time in this capacity. Some representatives of Capital Investment Management are also licensed insurance agents. In this capacity, they may receive compensation for the establishment of insurance related products in a client's portfolio. Capital Investment Management does not offer compensation for referrals.

Item 15 - Custody

Clients receive at least quarterly statements from the broker dealer or other qualified custodian that hold and maintain client's investment assets. Capital Investment Management urges you to carefully review such statements.

Item 16 - Investment Discretion

Capital Investment Management usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Capital Investment Management observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Capital Investment Management's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Capital Investment Management in writing.

Item 17 - Voting Client Securities

As a matter of firm policy and practice, Capital Investment Management does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Capital Investment Management may provide advice to clients regarding the clients' voting of proxies.

Item 18 - Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Capital Investment

Management's financial condition. Capital Investment Management has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.