

## **ITEM 1 — COVER PAGE**

First City Capital Management, Inc.  
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3/31/2012

This Brochure provides information about the qualifications and business practices of First City Capital Management, Inc. (FCCM). If you have any questions about the contents of this brochure, please contact us at 912.233.5492 or [asarabia@fccm.us](mailto:asarabia@fccm.us). 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.

First City Capital Management, Inc. is an SEC registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about First City Capital Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

First City Capital Management, Inc. will be referred to as FCCM in this document.

## **ITEM 2 — MATERIAL CHANGES**

In 2010 the SEC required significant content and format changes to ADV Part 2 (now known as The Brochure). FCCM's Brochures are now prepared according to these new requirements thus replacing the format of all previous Form ADV Part II. This current brochure dated 3/31/2012 includes no material changes regarding the business practices of the firm.

## ITEM 3 — TABLE OF CONTENTS

Item 1 – Cover Page	
Item 2 – Material Changes.....	1
Item 3 - Table of Contents.....	2
Item 4 – Advisory Business.....	3
Item 5 – Fees and Compensation.....	4
Item 6 – Performance-Based Fees and Side-By-Side Management.....	5
Item 7 – Types of Clients.....	5
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9 – Disciplinary Information.....	6
Item 10 - Other Financial Industry Activities and Affiliations.....	6
Item 11 – Code of Ethics.....	6
Item 12 – Brokerage Selection Practices.....	8
Item 13 – Review of Accounts.....	11
Item 14 – Client Referrals and Other Compensation.....	12
Item 15 – Custody.....	14
Item 16 – Investment Discretion.....	14
Item 17 – Voting Client Securities.....	15
Item 18 – Financial Information.....	15
Item 19 – Requirements for State-Registered Advisers.....	15

## **ITEM 4 — ADVISORY BUSINESS**

First City Capital Management was founded in 1976. Edgar L.T. Gay, CFA, President and E. Lane Curlee III, CIO, SVP are the principals. FCCM provides investment management services as well as occasionally furnishing subjective business and financial advice to clients. We handle supervisory and administrative responsibilities for trusts and estates and we prepare tax returns for a limited number of clients. Our clients include individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, trusts, estates, corporations and other business entities.

FCCM offers advice in the following areas:

- Equities
- Exchange-listed securities, OTC Securities, Foreign Issuers
- Warrants
- Corporate Debt Securities (other than commercial paper)
- Commercial Paper
- Certificates of Deposit
- Municipal Securities
- Mutual Fund Shares
- US Government Securities
- Options on Securities
- Exchange Traded Funds

FCCM ascertains a client's specific financial situation and investment goals through one on one meetings with our investment managers. Since each client's situation is unique we do not mirror portfolios, we structure a portfolio that reflects and addresses their individual needs. For example, we consider a client's particular tax issues, risk profile, and level of investing experience in order to help guide the asset allocation process. All clients are free to choose which brokerage firm they wish to use as well as requesting certain restrictions on investing in any types of securities.

We encourage clients to call us with any questions or to request a meeting to discuss their concerns at their convenience.

FCCM does not participate in wrap fee programs.

FCCM's Assets Under Management (AUM) as of 12/31/11: \$301,785,204 on behalf of 495 accounts, 100% of which are discretionary

## **ITEM 5 — FEES AND COMPENSATION**

FCCM's fees are billed quarterly or monthly as per individual advisory contracts and are based on the value of assets under management:

<u>Rate</u>	<u>Assets Under Management</u>
1% on the first	\$1,000,000
0.90% on the next	\$1,000,000
0.80% on the next	\$1,000,000
0.70% on the next	\$1,000,000
0.60% on the next	\$1,000,000
0.50% on all assets over	\$5,000,000

Accounts that are less than one hundred thousand dollars will be charged a twenty-five dollar a quarter administrative fee. In special circumstances fees may be negotiated.

Clients are billed quarterly or monthly in arrears each based on the account value at the end of the prior quarter. Clients may elect to be billed by invoice or to authorize FCCM to directly debit fees from their accounts. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

As of 2011 trust accounts are billed at the statutory rate or at a rate negotiated between FCCM and the client.

FCCM'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 FCCM's fee, and FCCM shall not receive any portion of these commissions, fees, and costs. Item 12 below (pages 9-10) further describes the factors that FCCM 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 & SIDE-BY-SIDE MANAGEMENT**

FCCM does not charge any performance-based fees (i.e. fees based on a share of capital gains on or capital appreciation of the assets of a client).

Side-by-side management of accounts with different fee structures is not applicable to FCCM.

## **ITEM 7 — TYPES OF CLIENTS**

FCCM provides portfolio management services to individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, trusts, estates, corporations and other business entities.

The average investment management account size across all client relationships as of 12/31/2011 was about \$1.4 million.

## **ITEM 8 — METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Edgar L.T. Gay, President and E. Lane Curlee, SVP and Chief Investment Officer work together to analyze and structure portfolio accounts for clients. Sources of information include a number of institutional brokerage research departments, Bloomberg, Morningstar, annual reports, prospectuses, financial news media. In addition FCCM uses Dorsey Wright, a technical research firm and StarMine which is an

institutional research aggregator that provides quantitative valuation models in several areas.

First City Capital manages both equity and fixed income portfolios. However, for most clients we emphasize a balanced approach. We allocate assets among stocks, bonds, and cash reserves on a discretionary basis in accordance with the client's designated investment objectives.

Our equity style focuses primarily on growth at reasonable prices (GARP). Special emphasis is placed on analyzing a company's financial strength, its operating exposure to international markets, as well as its long term strategic goals. Of equal importance is the competence and integrity of the company's management.

At FCCM the role of fixed income management is primarily to satisfy income requirements and to reduce overall portfolio risk and volatility. Our approach is value oriented with issue selection focusing upon the identification of inefficiencies in the market sectors, as well as inconsistencies along the yield curve. In implementing this strategy, we maintain a strong preference for quality and liquidity.

#### **Please Note — General Investment Risks**

FCCM cautions all prospective clients that investment in securities involves a risk of loss and it should not be assumed that future performance of any specific investment strategy, including those undertaken by FCCM, will be profitable or attain any specific performance level.

FCCM's methods of analysis and investment strategies are basically conservative. The majority of our clients have balanced portfolios. However, results can be negatively impacted by a number of different market risks and other factors. FCCM analyses are based on current market information, the dissemination of which FCCM has no control,

therefore FCCM may unknowingly compile analyses with outdated market information. FCCM selects investments based on information provided by issuers to regulators, analysts, and the financial media and thus may not always be able to confirm the completeness or accuracy of such information which could result in losses.

Because accurate market analysis can only produce a forecast of the direction of market values, there can be no assurances that a forecasted change in market value will materialize into a profitable investment opportunity.

**Other Risks** — The following are elements that can also negatively affect a portfolio's value:

**Economic:** Inflation and downturns in the national or global economy can have negative effects on the portfolio's value as can fluctuations in currency.

**Stock Market:** Markets rise and fall over time and there is a possibility they will decline over a short term. Volatility is an issue as company, sector, or overall market prices can experience sharp swings in a short period of time.

**Interest Rates:** Bonds experience market changes due to interest rate fluctuations; as the rates rise the bond prices fall and vice versa. Longer maturity bonds fluctuate more than short term bonds.

**Credit Risk:** A company or sector may see a change in credit quality or availability, causing change in the value of their stock.

**Liquidity Risk:** Having too much of the portfolio represented in assets that cannot be sold quickly.

**Non-Diversification risk:** Having too many assets in one economic sector or having too much money in one particular company or investment vehicle.

## **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 FCCM or the integrity of FCCM's management. FCCM has no

information applicable to this Item.

## **ITEM 10 — OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

FCCM prepares income tax returns for some investment advisory clients and offers business advice to a few professional clients who are also investment advisory clients. The combined revenue for these services represents approximately 2.5% of FCCM's revenue.

## **ITEM 11 – CODE OF ETHICS**

FCCM 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, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, among other things. All supervised persons at FCCM must acknowledge the terms of the Code of Ethics quarterly and are required to follow its provisions.

FCCM's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting our office at 912.233.5492

### **Participation or Interest in client transactions**

FCCM anticipates that in appropriate circumstances consistent with a client's investment objectives FCCM will sometimes sell or purchase securities in which FCCM has a position of interest.

Subject to the Code of Ethics and applicable laws, employees of FCCM may trade for their own accounts in securities which are recommended to and/or purchased for FCCM's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of

FCCM 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.

Certain FCCM accounts may trade in the same securities with client accounts on an aggregated basis when consistent with FCCM's 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. FCCM will retain records of the trade order specifying each participating account and its allocation. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order. As a rule, when buying or selling individual securities those trades involving FCCM and related parties' portfolios will be placed last behind the clients' trades.

From time to time FCCM may place short term trades for the firm or related parties which may result in sales or purchases contrary to holdings in client accounts. This could represent a conflict of interest. However, the liquidity (size of trading volume, and whether it would have an impact on the market) is of our top concern. If we believe the trading actually could be detrimental (even short term) we would not place the trade. In general, we do not do short term trading for clients.

Occasionally, FCCM will execute cross trades between clients. This occurs when we are asked or need to raise funds by or for a client. FCCM uses securities firms as counterparties to establish an offer price as well as a bid price. The midpoint of that level is then established as a sale and the markup or mark down by the brokerage firm is added or subtracted.

## ITEM 12 – BROKERAGE SELECTION PRACTICES

### Brokerage Selection

FCCM does not have the authority to determine the broker or dealer to be used or the commission rates paid to these brokers. The decision to use a particular custodian is left to the client and FCCM currently does business with a number of different firms. Clients are made aware that their desire to use a particular broker may limit FCCM's ability to achieve best execution, negotiate commissions with their brokers on the client's behalf, or limit the client's participation in block trading. Clients may direct FCCM to negotiate with brokers they know, but to whom they do not necessarily want to pay full commission. In this case FCCM will negotiate the best rate possible.

If the client does not have a particular brokerage firm in mind, FCCM may recommend that the client establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), a registered broker dealer, member SIPC, to maintain custody of client's assets and to effect trades for their accounts. FCCM is independently owned and operated and not affiliated with Schwab. Schwab provides FCCM with access to its discounted institutional trading rates and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them as long as a total of at least \$10 million of the adviser's clients' assets is maintained in accounts at Schwab Institutional, *and are not otherwise contingent upon Advisor committing to Schwab any specific amount of business (assets in custody or trading)*. Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available to institutional investors or would require a significantly higher minimum initial investment.

Although FCCM is aware of the attributes of other discount brokers like Ameritrade, E-Trade, Fidelity, Scott Trade, Pershing and others, selecting a broker is not solely an

issue of commission but also of back office efficiency, support personnel and other factors that make for an overall satisfactory relationship between the client, the advisor and the broker. All things considered, FCCM has found that Schwab historically and from our experience offers the best value for our clients and Schwab custodies the majority of FCCM's client's assets.

FCCM manages each client's portfolio based on their particular cash flow needs, risk tolerance, age, sophistication, low cost basis stocks, as well as other goals and concerns. As a result, we primarily buy and sell individual holdings in each separate account. However, we do use the trade blotter occasionally to aggregate orders for both fixed income and equities holdings. In cases where FCCM is going to sell an entire position it is our practice to sell the entire position as a block trade resulting in clients receiving equal execution price.

We regularly place trade orders that are not aggregated although aggregation in some cases may reduce broker commission rates. Because our equity trades are primarily placed at the client's custodial firm, their commission rates are already set and will not be affected by aggregation or lack thereof.

### **Trade Errors**

Schwab, who custodies the majority of FCCM's assets, takes financial responsibility for all trade errors up to \$100 regardless of whether the error is Schwab's or FCCM's. FCCM will be responsible for the entire dollar amount of the error if it exceeds \$100. FCCM will be responsible for all errors made at custodians other than Schwab.

### **Soft Dollars**

FCCM currently has a soft dollar agreement in which Schwab provides a portion of one year of StarMine, a division of Reuters, which is an institutional research aggregator and provides quantitative valuation models in several areas. These

services are used to benefit FCCM's clients including those not maintained at Schwab Institutional. This type of soft dollar arrangement falls within Section 289(e) or the Exchange Act which allows advisers to use client commissions to pay for certain brokerage and research services under certain circumstances without breaching their fiduciary duty.

Schwab provides this research in recognition of which FCCM will, on a best effort basis consistent with our fiduciary duties to our clients and to seek best execution, place equity transactions with Schwab, which will generate commissions to defray the costs of providing this research. Such transactions will be effected solely in view of the clients' needs and goals and not by any desire to generate these commissions.

There is no preset amount of commission business that FCCM has to do with Schwab and they will review the arrangement periodically to determine if FCCM is meeting levels that warrant continuation. In addition, Schwab commission rates have continued to decline over time.

### **ITEM 13 – REVIEW OF ACCOUNTS**

FCCM reviews client's investments on an ongoing basis by monitoring market action of the majority of equity holdings on a screen setup on our quote machines. FCCM is updated with research from Thomson Reuters StarMine service, a research aggregator that pulls real time reports from numerous brokerage firms and provides qualitative and quantitative rankings as well as investment recommendations. In addition we use technical services, financial periodicals, online security commentary, and other investment subscriptions.

E.L.T. Gay and Lane Curlee, III review securities regularly to determine whether any new information about the client's holdings has occurred. FCCM uses outsourcing services and portfolio management reports to update valuations for reviews on a bi-monthly basis.

Quarterly, each client receives a portfolio summary and appraisal showing investment holdings, asset allocation, cost basis per share, current market values, the income generated by holdings, and unrealized gains and losses. A letter accompanies these reports with comments on the economy and securities markets.

Clients receive monthly or, at a minimum, quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Any trusts, estates, or other accounts under FCCM custody for which the firm handles bill payments receive monthly cash accounting reports from FCCM.

We urge our clients to carefully review all statements and compare these official custodial records to the account statements that FCCM provides. FCCM quarterly statements may vary from custodial statements due to accounting procedures, reporting dates, valuation methodologies of certain securities and matrix values of individual bond holdings. Clients are urged to call FCCM at 912.233.5492 with any questions.

#### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

FCCM does not pay fees to anyone in connection with the referral of clients.

#### **ITEM 15 –CUSTODY**

FCCM's clients receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains the client's investment assets in addition to the quarterly reports sent from FCCM. FCCM urges clients to carefully review and compare such official custodial records to the account statements that FCCM provides. Our statements may vary from custodial statements due to accounting procedures, reporting dates, valuation methodologies of certain securities, and matrix values of individual bond holdings. Clients are urged to call FCCM at 912.233.5492 with any questions.

## **ITEM 16 – INVESTMENT DISCRETION**

FCCM has discretion regarding the identity and amount of securities to be bought or sold. We receive this authority from the client at the outset of an advisory relationship upon signing FCCM's internal advisory agreement and the appropriate forms required from the custodian.

This discretionary authority is occasionally subject to limitations and restrictions set by the client such as prohibiting transactions in certain securities, companies or industries. These guidelines and restrictions, if any, are provided for verbally or in writing in the advisory agreement.

FCCM is not restricted to how much is invested in any one security. However, we usually put no more than 2-3% into any initial equity position unless directed otherwise by the client. In the fixed income area, FCCM bases the size of the positions on whether the bonds are government backed or corporate backed.

## **ITEM 17 – VOTING CLIENT SECURITIES**

FCCM's policy is to not vote proxies on behalf of advisory clients and has no authority to take any action or render any advice with respect to the voting of proxies solicited by issuers of securities held in a client's account. If FCCM becomes uncomfortable with what management is doing the stock will be sold. Clients retain the responsibility for voting proxies for any and all securities maintained in their portfolios.

FCCM does not advise or act for clients in class actions or bankruptcies. However, as a courtesy, if a client asks for historical trade information and provides us with the appropriate signed forms we will research the records needed for them and mail the form in the envelope provided.

## **ITEM 18 – FINANCIAL INFORMATION**

FCCM has no financial liability that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## **ITEM 19 – REQUIREMENTS FOR STATE REGISTERED ADVISERS**

This item is not applicable; FCCM is an SEC registered adviser.