

## **Part 2A of Form ADV: *Firm Brochure***

### **Potomac Asset Management Company, Inc**

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02/29/2012

This brochure provides information about the qualifications and business practices of Potomac Asset Management Company, Inc. If you have any questions about the contents of this brochure, please contact us at 3016959229 or cweir@potomacinvestments.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. Registration with the Securities and Exchange Commission does not imply any level of skill or training.

Additional information about Potomac Asset Management Company, Inc also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 105730.

### **Item 2 Material Changes**

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 02/29/2012, is our new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new 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. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## **Item 4 Advisory Business**

Potomac Asset Management Company, Inc is an SEC-registered investment adviser with its principal place of business located in Maryland. Potomac Asset Management Company, Inc (PAMCO) began conducting business in 1980.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Goodloe Edgar Byron Jr, President

Potomac Asset Management Company, Inc offers the following advisory services to our clients:

### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax

considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Interests in partnerships investing in real estate
- Other:

PAMCO serves as investment manager to Potomac Energy Fund, L.P., a Delaware limited partnership formed in 2008 (hereinafter "the Fund"). Potomac Energy GP, LLC, an entity related to PAMCO by virtue of common ownership and control, is the General Partner to the Fund. Interests in the Fund are offered in reliance upon various exemptions available under the securities laws for transactions in securities not involving a public offering. PAMCO manages the Fund on a discretionary basis in accordance with the terms and conditions of the Fund's Private Placement Memorandum and organizational documents.

The Fund is a multi-stage, private equity fund that invests in clean technology companies. The Fund requires an initial minimum investment of \$5,000,000. This minimum investment requirement may be lowered in the sole discretion of General Partner.

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

### **CONSULTING SERVICES**

Clients can also receive investment advice on a more focused basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2011, we were actively managing \$234,553,386 of clients' assets on a discretionary basis.

## **Item 5 Fees and Compensation**

### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT FEES**

Our annual fees for Investment Supervisory Services are based upon a percentage of assets under management and generally range from 0.05% to 2.00%.

MANAGEMENT FEE:

#### **I. PEF**

PAMCO will receive an annual fee equal to 2.0% of the total capital commitments of the partners. This fee will be payable in quarterly installments, in advance.

After 100% of each Limited Partner's investment and a preferred return on its unreturned capital is distributed to such Limited Partner, the General Partner and/or PAMCO will receive 20% of the aggregate distribution amounts.

Prospective investors in the Fund should refer to the Private Placement Memorandum for additional information regarding fees and restrictions.

## II. SEPARATELY MANAGED ACCOUNTS:

### MANAGEMENT FEE:

Unless otherwise agreed to, advisory fees are charges quarterly in arrears, based upon the market value of the account assets at the end of each quarter.

#### **Large/Mid Cap Equity and Balanced Positions**

\$0 - \$2,000,000.00 1.000%

\$2,000,001.00 - \$3,000,000.00 0.750%

\$3,000,001.00 - \$5,000,000.00 0.625%

\$5,000,001.00 - \$10,000,000.00 0.500%

Balance over \$10,000,000.00 0.500%

#### **Fixed Income Portfolios and Mutual Funds**

\$0 - \$5,000,000.00 0.500%

Balance over \$5,000,000.00 0.400%

## III. QPAM Accounts

Each client fee is negotiated on a case by case basis ranging from 0.50% to 2.00% of annual aggregate value, billed quarterly in arrears and/or negotiated with client at close of initial assignment. These accounts may also be charged performance fees if certain agreed upon thresholds are outperformed by PAMCO.

Under certain circumstances a lower fee structure may be negotiated.

Mutual Funds/ETFs may compose a portion of a portfolio handled by PAMCO. All fees paid to PAMCO for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds/ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund/ETF directly, without the services of PAMCO. In that case, the client would not receive the services provided by PAMCO which are designed, among other things, to assist the client in determining which mutual fund/ETF or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and the fees charged by PAMCO to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided. PAMCO receives no commission/12-B-1 fees for recommending or not recommending various mutual funds/ETFs.

In addition to PAMCO's advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s).

#### IV. FINANCIAL PLANNING/CONSULTING:

##### FEES:

Fees are the lesser of hourly charges at \$230 per hour or the dollar amount based on assets under advisement in the schedule below:

\$5,000 per annum on first \$600,000 in assets  
0.75% per annum on the next \$400,000 of assets  
0.40% per annum on the next \$4 million of assets  
0.30% per annum on the next \$5 million of assets  
0.25% per annum on amounts in excess of \$10 million

Consulting and financial planning fees are payable either quarterly in arrears on the basis of average assets in each quarter for ongoing retainer relationships, which may be pro rated for partial periods, or upon delivery of financial or investment reports for one-time investment consulting or financial planning projects. The planning fee is reduced from 0.75% to 0.50% per annum on the second tier of \$400,000 of assets and is waived thereafter for accounts that are also under discretionary asset management of PAMCO.

Fees for any of the above-enumerated services are negotiable for accounts with assets greater than \$20 million. The fee during the first year of ongoing accounts is based on minimum hours that need to be expended to set up such accounts, charged at an hourly rate of \$230.

For more limited consultations, fees are \$230 per hour. Fixed price fees for a consulting or planning project or series of projects are subject to negotiation based on the nature and scope of the assignments. Fees for limited consultations are payable quarterly in arrears, or upon completion of the project, whichever is sooner.

**Limited Negotiability of Advisory Fees:** Although Potomac Asset Management Company, Inc has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

#### **GENERAL INFORMATION**

**Termination of the Advisory Relationship:** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. [As disclosed above, certain fees are paid in advance of services provided.] Upon termination of any account, any prepaid, unearned fees will be promptly refunded. [In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.]

**ERISA Accounts:** Potomac Asset Management Company, Inc is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. . As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Potomac Asset Management Company, Inc may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset Potomac Asset Management Company, Inc's advisory fees.

**Advisory Fees in General:** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

**Limited Prepayment of Fees:** Under no circumstances do we require or solicit payment of fees in excess of \$1200 more than six months in advance of services rendered.

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

### **PERFORMANCE-BASED FEES**

As we disclosed in Item 5 of this Brochure, our firm accepts a performance-based fee from the client. Such a performance-based fee is calculated based on a share of capital gains on or capital appreciation of the assets of the client. To qualify for a performance-based fee arrangement, a client (or Fund investor, as applicable) must either demonstrate a net worth of at least \$1,500,000 or must have at least \$750,000 under management immediately after entering into a management agreement with us.

Clients should be aware that performance-based fee arrangement may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Furthermore, as we also have clients who do not pay performance-based fees, we have an incentive to favor accounts that do pay such fees because compensation we receive from these clients is more directly tied to the performance of their accounts.

Since we endeavor at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

- We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and its employees to earn more compensation from advisory clients who pay performance-based fees;
- We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- Our management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- We have implemented policies and procedures for fair and consistent allocation of investment opportunities among all client account;
- We periodically compare holdings and performance of all accounts with similar strategies to identify significant performance disparities indicative of possible favorable treatment;
- We periodically review trading frequency and portfolio turnover rates to identify possible patterns of "window dressing," "portfolio churning," or any intent to manipulate trading to boost performance near the reporting period.
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients and equitable treatment of all clients, regardless of the fee arrangement.

## **Item 7 Types of Clients**

Potomac Asset Management Company, Inc provides advisory services to the following types of clients:

- High net worth individuals
- Pension and profit sharing plans(other than plan participants)
- Other pooled investment vehicles(e.g., hedge funds)
- Other

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

## METHODS OF ANALYSIS

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Charting.** In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse.

**Fundamental Analysis.** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Technical Analysis.** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

**Cyclical Analysis.** In this type of technical analysis, we measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.

**Risks for all forms of analysis.** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## INVESTMENT STRATEGIES

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Long-term purchases.** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

**Short-term purchases.** When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

**Trading.** We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

**Short sales.** We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

**Margin transactions.** We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

**Option writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

**Risk of Loss.** Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

## **Item 9 Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

The following are disciplinary events relating to our firm and/or our management personnel:

Our firm does not have any reportable legal or disciplinary history material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

## **Item 10 Other Financial Industry Activities and Affiliations**

### ***FIRM Registrations:***

In addition to Potomac Asset Management Company, Inc being a registered investment adviser, our firm is affiliated with a FINRA member broker-dealer. A list of affiliated broker-dealers is specifically disclosed in Section 7.A. on Schedule D of Form ADV, Part 1, which can be accessed by following the directions provided on the Cover Page of this Firm Brochure.

### ***MANAGEMENT PERSONNEL Registrations:***

Management personnel of our firm are separately licensed as registered representatives of Potomac Capital Markets, LLC, an affiliated FINRA member broker-dealer. The Management personnel whom are registered representatives with Potomac Capital Markets are as follows: Goodloe E. Byron, Jr., Christopher A. Weir, Kevin G. Quinn, Matthew Gelfand, Chase Tydings.



While Potomac Asset Management Company, Inc and these individuals endeavor at all times to put the interest of the clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

***Other pooled investment vehicle(s):***

Management personnel of Potomac Asset Management Company, Inc may also be managing member(s) of limited liability companies (LLCs) and/or general partner(s) to limited partnerships (LPs) formed for investment purposes. As appropriate, our advisory clients may be solicited to invest in such LLCs and/or LPs. These related persons of our firm do not receive investment advisory compensation in relation to these investments, but do have a conflict of interest in soliciting client investments.

Because investment in these types of entities may involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

Related persons of our firm may spend as much as 75% of their time on these related activities.

A list of these affiliated entities is specifically disclosed on Schedule D of Form ADV, Part 1 at Item 7.B. Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Firm Brochure.

Clients interested in investing in the partnership/company should refer to the partnership's/ company's private placement memorandum for more information specific to the partnership/ company.

Potomac Asset Management Company, Inc and/or Management personnel of Potomac Asset Management Company, Inc are related, through common ownership and control, to Potomac Energy Fund, a company formed to create and package limited partnerships (or similar pooled investment vehicles hereinafter referred to as "entities") for investment purposes. Potomac Asset Management Company, Inc or one or more of our related persons also act as general partner or manager of these entities. A list of these affiliated entities is specifically disclosed on Schedule D of Form ADV, Part 1 at Item 7.B. (Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Firm Brochure.)

In addition, our firm serves as the investment adviser to such entities. Advisory clients of our firm are solicited to invest in these entities; however, because investment in these types of entities may involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability. Clients are under no obligation to invest in any of the above described entities or to implement any advisory recommendations.

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

Investments in the Fund may be recommended to advisory clients for whom a partnership investment may be more suitable than would a separate advisory account managed by our firm. Clients who invest in the Fund are not charged any additional advisory fees other than the advisory fee allocated to the limited partners of the Fund.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Potomac Asset Management Company, Inc and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Potomac Asset Management Company, Inc's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [cweir@potomacinvestments.com](mailto:cweir@potomacinvestments.com), or by calling us at 3016959229.

Potomac Asset Management Company, Inc and individuals associated with our firm are prohibited from engaging in principal transactions.

Potomac Asset Management Company, Inc and individuals associated with our firm are prohibited from engaging in agency cross transactions.

The principals of Potomac Asset Management Company, Inc are also the principals of Potomac Energy Fund GP, LLC, the GP or Managing Member of Potomac Energy Fund, GP (the Fund). The General Partner has designated Potomac Asset Management Company, Inc as having primary responsibility for investment management and administrative matters, such as accounting tax and periodic reporting, pertaining to the Fund. Potomac Asset Management Company, Inc and our members, officers and employees will devote to the Fund as much time as we deem necessary and appropriate to manage the Fund's business. Potomac Asset Management Company, Inc and our affiliates are not restricted from forming additional investment funds, entering into other investment advisory relationships or engaging in other business activities, even though such activities may be in competition with the Fund and/or may involve substantial time and resources of our firm and our affiliates. Potentially, such activities could be viewed as creating a conflict of interest in that the time and effort of our management personnel and employees will not be devoted exclusively to the business of the Fund, but could be allocated between the business of the Fund and other of our business activities and those of our affiliates.

The Fund is not required to register as an investment company under the Investment Company Act of 1940 in reliance upon an exemption available to funds whose securities are not publicly offered. Potomac Asset Management Company, Inc manages the Fund on a discretionary basis in accordance with the terms and conditions of the Fund's offering and organizational documents.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees 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.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting

from transactions placed on behalf of advisory accounts.

As disclosed in the preceding section of this Brochure (Item 10), related persons of our firm are separately registered as securities representatives of a broker-dealer. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

## **Item 12 Brokerage Practices**

Potomac Asset Management Company, Inc does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

As a matter of policy and practice, Potomac Asset Management Company, Inc does not generally block client trades and, therefore, we implement client transactions separately for each account. Consequently, certain client trades may be executed before others, at a different price and/or commission rate. Additionally, our clients may not receive volume discounts available to advisers who block client trades.

## **Item 13 Review of Accounts**

### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

**REVIEWS:** While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by: Goodloe E. Byron, Jr., President

**REPORTS:** In addition to the quarterly statements and confirmations of transactions that clients receive from their broker-dealer, we provide quarterly reports summarizing account performance, balances and holdings.

### **CONSULTING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account representative.

**REPORTS:** These client accounts will receive reports as contracted for at the inception of the advisory engagement.

## **Item 14 Client Referrals and Other Compensation**

It is Potomac Asset Management Company, Inc's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is Potomac Asset Management Company, Inc's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing

all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on a quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

As previously disclosed in Item 4 of this brochure, our firm does provide discretionary asset management services.

## **Item 17 Voting Client Securities**

We vote proxies for all client accounts; however, you always have the right to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies in your account.

We will vote proxies in the best interests of its clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Goodloe E. Byron, Jr. by telephone, email, or in writing. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact Goodloe E. Byron, Jr. by telephone, email, or in writing.

You can instruct us to vote proxies according to particular criteria (for example, to always vote with management, or to vote for or against a proposal to allow a so-called "poison pill" defense against a possible takeover). These requests must be made in writing. You can also instruct us on how to cast your vote in a particular proxy contest by contacting us at Goodloe E. Byron, Jr.

## **Item 18 Financial Information**

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. Potomac Asset Management Company, Inc has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Potomac Asset Management Company, Inc has not been the subject of a bankruptcy petition at any time during the past ten years.