

Part 2A of Form ADV: Firm Brochure

Item 1 Cover Page

CAPITAL & SECURITY MANAGEMENT, INC.
34 West Miner Street
West Chester, PA 19382

David G. Dorsett, President

Phone: 610-692-4794

Email: csm.inc@att.net

Website: capsecman.com

Dated: J u n e 1 5 , 2012

This brochure provides information about the qualifications and business practices of Capital & Security Management. If you have any questions about the contents of this brochure, please contact us at the telephone number and/or email address listed above. The information in this brochure has not been approved or verified by the Pennsylvania Securities Commission.

Item 2 Material Changes

Since our last annual update of December 31, 2010, Capital & Security Management, Inc. now manages assets of \$69,998,980 on a discretionary basis, and \$1,197,915 in assets on a non-discretionary basis.

In compliance with the Dodd-Frank Act signed into law on July 21, 2010, Capital & Security Management, Inc., a mid-sized advisor, is now required to register with the Pennsylvania Securities Commission as a state registered advisor in the Commonwealth of Pennsylvania. Capital & Security Management, Inc. anticipates terminating registration with the U.S. Securities and Exchange Commission in June of 2012.

<i>Table of Contents</i>		<i>Page</i>
<i>Item #1 ~ Cover</i>	<i>Page</i>	<i>1</i>
<i>Item #2 ~ Material Changes</i>		<i>2</i>
<i>Item #3 ~ Table of Contents</i>		<i>3</i>
<i>Item #4 ~ Advisory Business</i>		<i>4</i>
<i>Item #5 ~ Fees and Compensation</i>		<i>5</i>
<i>Item #6 ~ Performance Based Fees and Side by Side Management</i>		<i>6</i>
<i>Item #7 ~ Types of Clients</i>		<i>7</i>
<i>Item #8 ~ Methods of Analysis, Investment Strategies and Risk of Loss</i>		<i>8</i>
<i>Item #9 ~ Disciplinary Information</i>		<i>9</i>
<i>Item #10 ~ Other Financial Industry Activities or Affiliations</i>		<i>10</i>
<i>Item #11 ~ Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</i>	<i>11</i>	
<i>Item #12 ~ Brokerage Practices</i>		<i>12</i>
<i>Item #13 ~ Review of Accounts</i>		<i>13</i>
<i>Item #14 ~ Client Referrals and Other Compensation</i>		<i>14</i>
<i>Item #15 ~ Custody</i>		<i>15</i>
<i>Item #16 ~ Invest Discretion</i>		<i>16</i>
<i>Item #17 ~ Voting Client Securities</i>		<i>17</i>
<i>Item #18 ~ Financial Information</i>		<i>18</i>
<i>Item #19 ~ Requirements for State-Registered Advisors</i>		<i>19</i>

Item 4 Advisory Business

Capital & Security Management provides highly personalized wealth management services to a limited number of clients. Located in West Chester, Pennsylvania, we are an investment counselling firm that offers asset management services to individuals, families, foundations, endowment funds, IRA rollovers, and institutions. Founded in 1984, by David G. Dorsett, President, and principal owner, the firm is presently registered with the U.S. Securities and Exchange Commission and as a Notice Filer with the Pennsylvania Securities Commission. In accordance with recent changes of the Dodd-Frank Act, however, Capital & Security Management has made application with the Pennsylvania Securities Commission to be a state registered advisor. The firm anticipates terminating registration with the U.S. Securities and Exchange Commission in June of 2012.

The firm files an annual amendment to Form ADV that is updated at least annually through the IARD system. Since our last annual update of December 31, 2010, Capital & Security Management, Inc. now manages assets of \$69,998,980 on a discretionary basis and \$1,197,915 in assets on a non-discretionary basis as of December 31, 2011.

Capital & Security Management provides two complementary services: Investment Management and Portfolio Analysis and assists clients in the establishment of their investment objective and their portfolio's asset mix. Capital & Security Management does not provide financial planning. Our clients avoid the exorbitant charges and hidden fees often found in mutual funds. Because we are objective fee-only investment managers, we avoid the *conflicts of interest* that are inherent in the typical stock brokerage relationship. The firm's success is entirely dependent on successfully meeting the client's long-term financial goals. All of the firm's fees are derived from a percentage of the assets under management. Investment Management is the firm's only business. We sell no products or services other than investment management to clients.

Capital & Security Management does not provide financial planning, but tailors each portfolio to attain an individual client's needs and assists them in the establishment of their investment objective and their portfolio's asset mix. All of the firm's fees are derived from a percentage of the assets under management. In our management agreements, clients can impose restrictions on investing in certain securities and/or types of securities.

Item 5 Fees and Compensation

Investment Management: Under a contractual arrangement, Capital & Security Management assumes the responsibility for the ongoing management of a client portfolio based upon predetermined objectives. The minimum sized account normally accepted is \$500,000, but smaller accounts will be managed under certain circumstances. Payment for these services is according to the following annual fee schedule:

1% per annum on the first \$ 500,000 of principal. 3/4 of 1% per annum on the next \$ 1,500,000 of principal. Negotiated thereafter.

To cover solicitation, opening, and setup costs for all administration, operational and investment functions necessary to successfully assume the management responsibility for the account, the first year fee may include an additional 25 basis points above the stated fee schedule. If this additional fee is charged, after the first year the fee is reduced to 1% on the first \$500,000 and 3/4 of 1% on the next \$1,500,000, etc.

The firm recognizes that there are asset classes that are best invested in by using mutual funds that not only have the diversification, but also the special management expertise in those areas. Clients should realize that mutual fund fees are in addition to the firm's management fees. For further information, please see Item #12, Brokerage Practices.

Fee on Fixed Income Accounts: Accounts invested entirely in fixed income securities are entitled to a 30% discount from scheduled rates.

Minimum Fees: \$5,000 per annum for Consulting Advisory Accounts; \$3,750 per annum for Discretionary Management Accounts.

Clients are billed quarterly on the total Market Value of the portfolio as of the last business day of the quarter. Management fees are calculated on the tiered fee structure stated in the client's individual Investment Management Agreement. All invoices are due/payable within thirty days upon receipt.

Written invoices are provided to each client on a quarterly basis itemizing the fee, which includes the formula used to calculate the fee, the stated period covered by the fee and the amount of assets under management on which the fee is based.

Capital & Security Management possesses written authorization from each client who chooses to deduct management/advisory fees from their account as stated in the Investment Management Agreement and/or the client's qualified Custodian account application.

Written notice of the amount of the fee is provided to qualified custodians for those clients who authorized deductions from their custodian accounts. All invoices are due/payable within thirty days upon receipt.

Item 5 *Fees and Compensation* (continued)

Client's initial invoice shall be prorated from the date of execution of the Management/Advisory Agreement through the date of the first quarter-end billing. The client's final invoice for services shall be prorated from the date of the last quarter-end billing through the date of client's written notice of termination of services.

Additional Fees; Your custodian, whether Bank or Brokerage firm, may have fees charged either on a monthly, quarterly or annual basis, in addition to transaction costs for purchases and sales of securities.

Portfolio Analysis: Periodically, we are requested to prepare a portfolio analysis, which entails an hourly fee. Capital & Security Management will, on a one time basis, review an existing portfolio or security and make recommendation in writing as to the suitability of the holdings or holding dependent upon the client's investment goals. The charge for this service will vary from \$100 to \$150 per hour, depend upon the complexity of the portfolio and the research needed to complete analysis. The minimum charge for this service is \$500 and invoices are payable within thirty days upon receipt of invoice.

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

Capital & Security Management does not assess any performance-based fees.

Item 7 Types of *Clients*

Capital & Security Management has a diverse client base, which includes individuals, families, foundations, trusts, Endowment Funds, IRA rollovers, and institutions. The firm's fee schedule and minimum account size is discussed above.

Capital & Security Management designs a uniquely tailored portfolio balanced between individual fixed income securities and individual common stocks. Every account is managed separately and would typically include:

- a) Common Stock traded on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ.
- b) Fixed Income issues which would include U.S. Government Securities, corporate and municipal bonds and certificates of deposit.
- c) Money Market mutual funds are used to provide liquidity.
- a) Mutual funds and/or Exchange Traded Funds are also used to gain diversified exposure in international markets, and small and/or mid capitalization sectors.

Common stocks seek long-term capital appreciation and dividend growth, while capital preservation and a higher level of current taxable and/or tax-free income is characteristic of the bond component. Superior long-term performance is sought by careful common stock selection and by the ongoing rebalancing of common stock and bond allocations based on anticipated changes in economic fundamentals and market valuation levels. Since stock prices can fluctuate, you should be prepared to experience market value losses over a period of time.

The cornerstone of our portfolio management philosophy begins with a top-down fundamental economic analysis and a top-down technical common stock market analysis. The firm develops a macroeconomic forecast of key business indicators - gross domestic product, consumer price index, federal funds, and the interest rate level for the 10-year Treasury note. These indicators project an investment framework for the relative attractiveness of stocks and bonds. Concurrently, technical analysis focuses on investor psychology and valuation levels to provide overall common stock attractiveness. By uniquely combining these two disciplines, we determine whether common stocks are over-or undervalued in relationship to bonds and money market funds. Accordingly, we then modestly rebalance the allocation of those assets to enhance long-term capital appreciation or to preserve capital.

Capital & Security Management for many years was a low turnover long-term investor, holding securities for at least a year. While this is still our goal, the heightened volatility of the stock and bond market has necessitated more activity to capture profits in our effort to improve performance. We do not implement short sales, or margin, or options transactions.

Item 9 Disciplinary Information

There are no legal or disciplinary events that are material to your evaluation of Capital & Security Management's advisory business or the integrity of our management strategies.

Item 10 Other Financial Industry Activities and Affiliations

The firm is not registered as a securities broker-dealer and it receives no commission for client transactions. There are no financial arrangements of any kind with other firms such as accounting or law firms. Capital & Security Management is not involved in any product or service in which a client would be solicited to invest. Investment management is the firm's only business. We sell no products or services other than investment management to clients.

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

To avoid all possible conflict of interest, and to demonstrate aligning our goals with those of the clients, all personal transactions, if, and when they are made in personal portfolios will be executed at the same time transactions are made in our equity composite performance accounts. Any exception must be authorized in writing by the CCO.

In this way, the principal investment managers will research and agree on any and all transactions executed personally and for composite performance accounts. An additional benefit is that personal accounts and transactions need not be reviewed separately since they will be similar to composite portfolios.

The firm's Code of Ethics is based on the principal that all employees of Capital & Security Management have a fiduciary responsibility to place the interest of their clients before their own. The Code further outlines 1) avoiding taking inappropriate advantage of our position; and 2) conducting all personal securities transactions in full compliance with the Code, including both pre-clearance and reporting requirements. Other duties include confidentiality, gifts, company opportunities, undue influence, reporting, record keeping, and sanctions.

In accordance with compliance regulations, a copy of the firm's Annual Updating Amendment, ADV Part 2-A, (Firm Brochure) Privacy Principles, Code of Ethics are offered to clients on an annual basis. Supplemental Brochures are sent with first quarter reports and commentaries.

Item 12 *Brokerage Practices*

Although Capital & Security Management has several local banks as custodian for its client's accounts, the majority of our existing accounts are at Charles Schwab. We recommend that our clients and prospective clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member of SIPC, as the qualified custodian because of its reputation, financial strength, stability, operating efficiencies, sophisticated reporting system, statements and online trading capability at an extremely low commission rate.

Capital & Security Management is independently owned and operated and is not affiliated with Schwab, nor any other custodian. Schwab, or the custodian of your choice, will hold your assets in a brokerage account, and buy and sell securities when we instruct them to. While we recommend that you use Schwab as custodian/broker, you will decide whether or not to do so, and you may decide to choose another custodian. You will open your account with your custodian by entering into an account agreement directly with them. We do not open the accounts for you, but we may assist you in doing so. Even though your account is maintained by a particular custodian, we can still use other brokers to execute trades for your account. We encourage our prospective clients to select a custodian that demonstrates our concept of best execution of trades. Best execution means the most favorable terms for a transaction based on relevant factors, such as: competitiveness of price of trade; capability to execute, clear and settle trades; ability to facilitate transfers and payments; and the breadth of available investment products and availability of investment research and other resources, products and services.

Capital & Security Management does not maintain custody of your assets that we manage, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account. Your assets must be maintained in an account at a “*qualified custodian*,” generally a broker-dealer or bank. For our clients' accounts that Schwab maintains, Schwab generally does not charge separately for custody services, but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Commissions have been set by Charles Schwab at \$8.95 for accounts over \$1,000,000 or who receive their statements and confirmations via email and \$19.95 for accounts under \$1,000,000 or who prefer paper statements.

We determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors.

Item 13 Review of Accounts

Capital & Security Management reviews all individual assets and accounts on a continuous basis by receiving investment research from sources listed in Sources of Information. Individual assets will be reviewed based on quality, current valuation and prospects. Changes in valuation ratings will trigger review of the asset for all portfolios holding assets.

All accounts are reviewed quarterly, unless circumstances that occur regarding individual issues may prompt more frequent reviews. All client accounts are assigned to Grant Clark, Portfolio Manager and David Dorsett, President & CCO jointly for review

Clients receive a monthly statement where Schwab serves as custodian and a monthly or quarterly statement if a bank serves as custodian. These statements include a list of assets, transactions and income / disbursements. Clients also receive a quarterly letter and Market Commentary from Capital & Security Management, summarizing our economic outlook and investment strategy. Each client is given the choice of selecting quarterly, semi-annual or annual statements from our firm. Other reports, such as interim economic outlook, stock and bond strategy, etc. will be available at varying intervals.

Item 14 Client Referrals and Other Compensation

Capital & Security Management does not directly or indirectly compensate anyone for client referrals, or benefit in any way from commissions or fees on transactions. The firm is not registered as a securities broker-dealer and it receives no commission for client transactions. There are no financial arrangements with other firms such as accounting or law firms. Capital & Security Management is not involved in any product or service in which a client would be solicited to invest.

Item 15 *Custody*

The custodian of your choice maintains actual custody of your assets. Under government regulations, however, we are deemed to have custody of your assets if, for example, you authorize us to instruct your custodian to deduct our advisory fees directly from your account, or if you grant us authority to move your money out of your account. For example: to transfer or wire funds to another account you own; or to transfer or journal funds or securities for annual gifting to family, beneficiaries, or for charitable contributions, or for IRA Required Minimum Distributions. You will receive account statements directly from your custodians, from Schwab on a monthly basis, and from most other custodians on a monthly or quarterly basis. Statements are sent to the Email or postal mailing address you provided to the custodian when you opened your account. You should carefully review the statements promptly when you receive them. We also urge our clients to compare their custodians' account statements to the periodic account statements/portfolio reports they receive from Capital & Security Management.

Item 16 Investment Discretion

With few exceptions, Capital & Security Management manages only discretionary portfolios. The client receives confirmation or email notification of transactions after the fact and can also choose to have the capability to view their accounts on line. Once the portfolio's investment goal is established and the appropriate asset mix between stocks and bonds is determined, we can identify the number of stocks and bonds to meet the guidelines of a diversified portfolio. A balanced portfolio will typically hold between 20 and 30 stocks and between 5 and 10 bond positions.

Item 17 Voting Client Securities

Capital & Security Management does not have the authority to vote corporate proxies on the common stocks held in your portfolio. You can elect to receive your proxies or other solicitations directly from your custodian. In some custody agreements, you can grant the custodian the authority to vote proxies on your behalf. Capital & Security Management welcomes any of your questions regarding any of the issues outlined in the proxies. In general, however, since we purchased a common stock for your portfolio, we have faith in the company's management ability and more often than not would vote in their favor on any particular issue.

Clients, through their brokerage firms or custodians have the capacity to receive or not to receive all Shareholder Communications with regard to Corporate Reorganizations and all other Corporate Actions. We recommend that clients grant Capital & Security Management discretionary authorization to handle Corporate Actions.

Item 18 Financial Information

A statement of Financial Condition has been submitted to the Pennsylvania Securities Commission in accordance with Regulation Section 303.042.

Under Section 301 of the Act 70 PS. Section 1-301, Capital & Security Management is an investment advisor who has discretionary authority over client funds or securities, but not custody. Accordingly, Capital & Security Management has submitted a Balance Sheet as of the end of its fiscal year with the Pennsylvania Securities Commission. The balance sheet is not audited but prepared in accordance with generally accepted accounting principles with a representation by the investment advisor that it is true and accurate.

Item 19 Requirements for State-Registered Advisers

The following documents have been submitted to:

Pennsylvania Securities Commission
ATTN: Division of Licensing
1010 N. Seventh Street
Eastgate Bldg, 2nd Floor
Harrisburg, PA 17102-1410

A Statement of Financial Condition, which meets the requirements of Commission Regulation 303.042.

Specimen copies of all forms of contracts and/or agreements to be used by the Applicant for its investment advisory clients.

Specimen copies of the solicitor's agreement and disclosure statement are not applicable to our firm.

Capital & Security Management is an IARD participant and has IARD entitlement. All Investment Advisor Representatives have been properly registered. Initial applications for registration as an IAR ("RA designation") together with all renewals for Investment Advisor Representatives were filed electronically through IARD and the Pennsylvania IAR filing fee deducted from Capital & Security Management's Daily Account.

A completed Pennsylvania Securities Commission Certification has been provided on behalf of each individual/IAR attesting to the fact that he/she has reviewed the 1972 Act and its regulations.

