

DISCLOSURE BROCHURE

THE INVESTMENT ADVISERS ACT OF 1940 RULE 204-3

Part 2A of Form ADV: Firm Brochure



Firm CRD/IARD #: 113776

Bay Capital

REGISTERED INVESTMENT ADVISOR

Cover Page

ITEM 1

3351 West Bearss Avenue
Tampa, Florida 33618

Tel: 813.286.1553
Fax: 813.286.1526

www.baycapital.com
info@baycapital.com

This Disclosure Brochure provides information about the qualifications and business practices of Bay Capital, which should be considered before becoming a client. You are welcome to contact us if you have any questions about the contents of this brochure - our contact information is listed to the right. Additional information about Bay Capital is also available on the SEC's website at www.adviserinfo.sec.gov.

The information contained in this Disclosure Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Administrator. Furthermore, the term "registered investment advisor" is not intended to imply that Bay Capital has attained a certain level of skill or training.

© eAdvisor Compliance, Inc. - Disclosure Brochure Design Layout. www.eadvisorcompliance.com

BROCHURE
DATED

1
MAY
2012



MATERIAL CHANGES

ITEM 2

There have been no material changes made to this document since the last revision date indicated on the cover of this Disclosure Brochure.



TABLE OF CONTENTS

ITEM 3

ITEM 4	Advisory Business	4
	Who We Are	4
	Our Mission	4
	What We Do	4
	How We Get to Know You	5
ITEM 5	Fees & Compensation	5
	Investment Programs	5
	Investment Program Protocols	8
ITEM 6	Performance-Based Fees & Side-By-Side Management	10
	Performance Trading	10
	Termination Provision for Performance Trading	11
	Regulatory Restrictions	11
ITEM 7	Types of Clients	11
ITEM 8	Methods of Analysis, Investment Strategies & Risk of Loss	11
	Methods of Analysis	11
	Investment Strategies	12
	Managing Risk	13
ITEM 9	Disciplinary Information	14
ITEM 10	Other Financial Industry Activities & Affiliations	14
	Brokerage & Insurance Company Activities	14
ITEM 11	Code of Ethics, Participation or Interest in Client Transactions & Personal Trading	15
	Code of Ethics	15
	Client Transactions	15
	Personal Trading	15
ITEM 12	Brokerage Practices	16
	Custodial Services	16
	12(b)-1 Distribution Fees	17
	Variable Annuities Insurance	17
ITEM 13	Review of Accounts	17
ITEM 14	Client Referrals & Other Compensation	18
	Referral Compensation	18
	Securities Transactions for Compensation	18
ITEM 15	Custody	18
	Management Fee Deduction	18
ITEM 16	Investment Discretion	19
	Securities & Amount Bought or Sold	19
ITEM 17	Voting Client Securities	19
ITEM 18	Financial Information	19
ITEM 19	Requirements for State-Registered Advisers	20
	BROCHURE SUPPLEMENTS	



ADVISORY BUSINESS

Who We Are

Bay Capital (hereinafter referred to as "Bay Capital," "the Company," "we," "us," and "our") is a full-service registered investment advisor¹ organized in March of 1992 as a Sole Proprietor. We offer a wide range of financial management services designed to assist you, our client², in achieving your financial goals.

Owners

The Company is organized as a Sole Proprietor controlled by:

Name	Title	CRD#
Stephen Mark Cooper	Owner & Chief Compliance Officer	1306622

Assets Under Management

As of December 31, 2011, our assets under management totaled:

Client Discretionary Managed Accounts.....	\$26,000,000
Client Non-Discretionary Managed Accounts.....	\$2,200,000

Our Mission

Our mission is to control investment volatility through a daily focus on risk management while selectively participating in the exceptional opportunities that the dynamic marketplace offers. Through our emphasis on risk management, preservation of capital is placed on an equal footing with investment return. It is our belief that an active execution of risk management strategies, using efficient investment vehicles, provides a superior risk/reward relationship, especially when compared to traditional, passive investment strategies.

What We Do

We manage wealth. We specialize in active asset allocation that combines a technical assessment of short- and intermediate-term market trends that are used to increase exposure in favorable markets and decrease exposure in unfavorable markets. Through multiple programs with different risk/reward characteristics, we can tailor portfolios that match a range of risk tolerances and time-frames. We believe that our approach can best:

- ❖ Take advantage of the changing economic environment
- ❖ Implement the investment strategies best suited to attain your financial goals
- ❖ Reduce the volatility of investment returns based on your risk tolerance
- ❖ Provide liquidity and access to principal that is unusual in a long-term investment

¹ The term "registered investment advisor" is not intended to imply that Bay Capital, Registered Investment Advisor has attained a certain level of skill or training. It is used strictly to reference the fact that we are "registered" as a licensed "investment advisor" with the Florida Office of Financial Regulation - and with such other State Regulatory Agencies that may have limited regulatory jurisdiction over our business practices.

² A client could be an individual, a corporation and/or small business, another fiduciary, a trust, an estate, a charitable organization and/or any other type of entity structure to which we choose to give investment advice.



Your portfolio will consist primarily of investments made in investment company products (i.e., open-end mutual funds, exchange traded funds ("ETFs"), variable annuities, and variable life insurance contracts).

You can find more information about our management fees and services under "Investment Programs" in Item 5, "Fees & Compensation" and further description of our management style under Item 8, "Methods of Analysis, Investment Strategies & Risk of Loss".

How We Get to Know You

As a new client, we will have a pre-advisory consultation with you to discuss issues such as your current income and expenses, career, personal goals, investment return expectations and prior investment experience. In addition, we will have you complete a client profile form³ to gain greater insight into your financial needs.

With the complexity of today's marketplace, it is critical for us to understand who you are and what you want to accomplish financially. We must have a clear picture of your unique financial composition and risk tolerance so that we can develop a successful investment plan. Our meetings with you to discuss your finances will help to eliminate much of the guesswork in achieving the security and independence you desire and simplify your financial alternatives. In return, we will have:

- ❖ Defined and narrowed objectives and investment options
- ❖ Identified areas of greatest distress
- ❖ Developed a strategy for achieving your long-term goals
- ❖ Enhanced peace of mind
- ❖ Created a unique picture of your overall economic personality

Once your investment parameters have been identified, we will recommend an investment strategy that is suitable for your unique investment expectations and risk tolerance.

FEES & COMPENSATION

ITEM 5

Investment Programs

Matching your defined investment parameters with a portfolio designed to meet your goals and objectives, risk tolerances and time frames is the focus of our programs. Your managed account(s) may include a combination of the following programs.

Bay Capital I & Conservative Allocation Programs

Objective: The BC I and the Conservative Allocation programs have an investment objective of conservative growth and income and are the most conservative programs offered. These programs primarily seek to invest in domestic stock and bond mutual funds and, to a lesser degree, funds representing market sectors or different asset classes including domestic and global funds, real assets, real estate, and funds that move inversely to market indexes.

³ The client profile questionnaire we use is an important tool in gathering information about your investment methodology, risk tolerance, income/tax bracket, liquidity, time horizons, etc. If you elect not to answer the questionnaire or chooses to respond with limited input, it is possible that we could operate in a handicapped capacity contrary to your investment needs. Therefore, if you desire the most effective and accurate recommendations regarding your managed account(s), you should make every effort to provide us with your detailed personal needs and objectives, along with detailed financial and tax information.



Management: The BC I and the Conservative Allocation Programs may be reallocated quarterly or more often. All BC “numbered” programs utilize short-term market signals, while the “allocation” programs intermediate and longer-term market signals. The mutual funds selected will be either no-load or front-load funds with the load waived. In cases where you elect to purchase “C” class mutual funds that pay our associates a 1% annual commission, the annual management fee may be waived. “C” class mutual funds may impose a 1%, 1-year contingent deferred sales charge, and may charge a higher annual management fee than other mutual fund classes.

Account Minimum: \$25,000

Fee Schedule:

Account Value	Annual Fee Not to Exceed		Maximum Annual 12(b)-1 Fee†
First \$1,000,000	1.00%	+	1.00%
Next \$1,000,000	0.80%	+	1.00%
Next \$1,000,000	0.60%	+	1.00%
Over \$3,000,000	Negotiable	+	1.00%

Performance Fee: Amount over \$750,000 1.00% and 20%*

Key Benefits: Bond market returns with below-average risk

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 1.00%, which could cause the fees we earn from you to approach 2.00% for the BC I and Conservative Allocation Programs. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to the 12(b)-1 Distribution Fees disclosure under Item 12, “Brokerage Practice.”

* See Item 6, “Performance-Based Fees and Side-By-Side Management” for explanation of fee structure.

Bay Capital II & Moderately Conservative Allocation Programs

Objective: The BC II and the Moderately Conservative Allocation Programs have an investment objective of moderately conservative growth. These Programs primarily seek to invest in diversified stock and bond mutual funds but may include less diversified sector mutual funds and funds that can move inversely to market indexes that are exchanged with money market funds within a mutual fund family, or variable annuity.

Management: The BC II and the Moderately Conservative Allocation Programs may be actively reallocated based on market signals. All BC “numbered” programs utilize short-term market signals, while the “allocation” programs intermediate and longer-term market signals. The mutual funds selected will be either no-load or front-load funds with the load waived. In cases where you elect to purchase “C” class mutual funds that pay our associates a 1% annual commission, the annual management fee may be waived. “C” class mutual funds may impose a 1%, 1-year contingent deferred sales charge, and may charge a higher annual management fee than other mutual fund classes.

Account Minimum: \$50,000

Fee Schedule:

Account Value	Annual Fee Not to Exceed		Maximum Annual 12(b)-1 Fee†
First \$1,000,000	1.50%	+	1.00%
Next \$1,000,000	1.25%	+	1.00%
Next \$1,000,000	1.00%	+	1.00%
Over \$3,000,000	Negotiable	+	1.00%

Performance Fee: Amount over \$750,000 1.00% and 20%*

Key Benefits: Growth & Income returns with below-average risk

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 1.00%, which could cause the fees we earn from you to approach 2.50% for the BC II and Moderately Conservative Allocation Programs. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to the 12(b)-1 Distribution Fees disclosure under Item 12, “Brokerage Practice.”

* See Item 6, “Performance-Based Fees and Side-By-Side Management” for explanation of fee structure.



Bay Capital III & Moderate Allocation Programs

Objective: The BC III and the Moderate Allocation Programs have an investment objective of moderate growth. These programs primarily seek to invest in stock, bond and sector mutual funds. Varying asset classes may be added to construct a “portfolio of portfolios”. At times, mutual funds are exchanged to money market mutual funds or an approximate market-neutral position is assumed using mutual funds that move in the opposite direction of the market.

Management: The BC III and the Moderate Allocation Programs may be actively reallocated based on market signals. All BC “numbered” programs utilize short-term market signals, while the “allocation” programs intermediate and longer-term market signals. The mutual funds selected will be no-load, level-load funds (with no entry or exit fees), or front-end load funds with the load waived.

Account Minimum: \$100,000

Fee Schedule:

Account Value	Annual Fee Not to Exceed		Maximum Annual 12(b)-1 Fee [†]
First \$1,000,000	2.00%	+	1.00%
Next \$1,000,000	1.50%	+	1.00%
Next \$1,000,000	1.00%	+	1.00%
Over \$3,000,000	Negotiable	+	1.00%

Performance Fee:

Amount over \$750,000 1.00% and 20%*

Key Benefits:

Growth return expectation with below-average risk

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 1.00%, which could cause the fees we earn from you to approach 3.00% for the BC III and Moderate Allocation Programs. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to the 12(b)-1 Distribution Fees disclosure under Item 12, “Brokerage Practice.”

* See Item 6, “Performance-Based Fees and Side-By-Side Management” for explanation of fee structure.

Bay Capital Select Advisors Moderate Growth

Objective: The BC Select Advisors Moderate Growth Program has an investment objective of moderate growth. It is a multi-manager, absolute return strategy designed to maximize risk-adjusted returns in both bull and bear market cycles and to provide a low correlation to a traditional growth portfolio.

Management: With the BC Select Advisors Moderate Growth Program, we select independent third-party managers to consult on market direction, i.e., buy/sell signals. The manager selection process is based on: (i) investment style and performance; (ii) complementary allocation with other managers in the program; (iii) volatility and the manager’s ability to perform their assigned skill within different market trends. The weighting for different managers, including the addition and removal of managers, occurs as the individual manager’s performance dictates, including the assumption of a partial cash position if necessary.

Under this program we will purchase buy/sell signals from independent managers, which we may or may not execute. The managers do not directly manage assets or have access to your account information. Each manager is compensated based on the total programs’ assets that we have allocated to the buy/sell signal we purchased from the manager, ranging between 0.50% and 1.50% of assets.

**Account Minimum:** \$250,000**Fee Schedule:**

Account Value	Annual Fee Not to Exceed		Maximum Annual 12(b)-1 Fee [†]
First \$1,000,000.....	2.50%	+	1.00%
Next \$1,000,000	2.00%	+	1.00%
Next \$1,000,000	1.50%	+	1.00%
Over \$3,000,000	Negotiable	+	1.00%
Performance Fee: Amount over \$750,000	1.00% and 20%*		

Key Benefits: Stock, bond, and sector exposure providing non-correlated returns including the ability to benefit from falling as well as rising markets with below-average risk

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 0.25%, which could cause the fees we earn from you to approach 2.75% for the BC Select Advisors Moderate Growth Program. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to the 12(b)-1 Distribution Fees disclosure under Item 12, "Brokerage Practice."

* See Item 6, "Performance-Based Fees and Side-By-Side Management" for explanation of fee structure.

Investment Program Protocols

The following protocols establish how we handle our portfolio management accounts and what you should expect when it comes to: (i) your bill for investment services; (ii) withdrawing funds from your account(s); (iii) other fees charged to your account(s); and, (iv) account termination.

Discretion

We will establish discretionary trading authority on all management accounts to execute securities transactions at anytime without your prior consent or advice.

You may however, at anytime, impose restrictions in writing, on our discretionary authority (i.e., limit the types/amounts of particular securities purchased for your account, exclude the ability to purchase securities with an inverse relationship to the market, limit our use of leverage, etc.).

Billing

Your account will be billed quarterly in arrears based on the fair market value of the assets in your account and your allocation mix between programs. Contributions to or withdraws from your account made during the calendar quarter will be prorated. For new managed accounts opened in mid-quarter, our fee will be a pro-rated calculation of the fair market value of your assets managed for the period.

The fees indicated under each of our above programs represent the annual percentage charged for portfolio management provided on an asset-based fee arrangement. The fee for a quarter will be one-fourth of the annual percentage (i.e., $2.50\% \div 4 = 0.625\%$) multiplied by corresponding market value of the assets within the tier on the last business day of the previous calendar quarter.

Fee breaks will occur as assets in your portfolio increase past the indicated tiers. We retain discretion to negotiate the management fee indicated under each of the portfolio strategies on a client-by-client basis. The overall fee charged will be weighted between the programs and within the tiers of each program. For example:

**Account Value: \$2,500,000**

Program	\$ Allocated	% Allocated	Fee % (Based on the Corresponding Account Value within the Tier)	Weighted Average Fee
BC III	\$1,600,000	55%	1.50%	0.825%
BC Select	\$900,000	45%	2.50%	1.125%
Weighted Total:				1.95%

Weighted total fees may be higher or lower based on: (i) your total account value; (ii) the amount allocated across programs; and, (iii) the tier fee-breaks within each program. This can create an incentive for us to allocate your assets in a manner that would maximize our weighted fee return. However, we base the allocation of your account based on your risk tolerance and investment goals, which you authorize and agree to. Advisory fees will be taken first from free credit balances or from any money market funds or balances. If such assets are insufficient to satisfy payment of such fees, a portion of the account assets will be liquidated to cover the fees. Such liquidation may affect the relative balances of the account.

Fee Exclusions

The above fees indicated above under each of our Investment Programs are exclusive of any charges imposed by the custodial firm including, but not limited to: (i) any Exchange/SEC fees; (ii) certain transfer taxes; (iii) service or account charges, including, postage/handling fees, electronic fund and wire transfer fees, auction fees, debit balances, margin interest, certain odd-lot differentials and mutual fund short-term redemption fees; and (iv) brokerage and execution costs associated with securities held in your managed account. There can also be other fees charged to your account that are unaffiliated with our management services.

In addition, all fees paid to us for portfolio management services are separate from any fees and expenses charged on mutual fund shares by the investment company or by the investment advisor managing the mutual fund portfolios. These expenses generally include management fees and various fund expense, such as: 12b-1 fees. Redemption fees, account fees, purchase fees, contingent deferred sales charges, and other sales load charges may occur but are the exception within managed accounts at institutional custodians. A complete explanation of these expenses charged by the mutual funds is contained in each mutual fund's prospectus. You are encouraged to carefully read the fund prospectus.

Termination of the Investment Program Services

To terminate our Investment Program services, either party (you or us) by written notification to the other party, may terminate the Investment Advisory Agreement at any time, provided such written notification is received before the close of business on any business day of the week. We have five (5) business days from the date we receive the written termination to remove you from our allocation programs. Such notification should include the date the termination will go into effect, if not immediate, along with any final instructions on the account (i.e., liquidate the account, finalize all transactions and/or cease all investment activity).

In the event termination does not fall on the last day of a calendar quarter, we will bill your account a pro-rated quarterly management fee based upon the number of days in the quarter we managed your portfolio. Once the termination of investment advisory services has been implemented, neither party has any obligation to the other - we no longer earn management fees or give investment advice and you become responsible for making all future investment decisions.



PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

Performance Trading

Should you be interested, and meet the minimum qualifications we offer an optional performance-based management fee structure for each of our programs.

Performance Fee

The Performance-based fee is based on how well the account performs over a quarterly period as follows:

- ❖ If the account value, at the close of the current calendar quarter, exceeds the prior high watermark account value, we will earn **20% of the trading profits** over the high watermark, **plus 1.00% of assets** whether the account is profitable or not.
- ❖ The “high watermark” is the portfolio account value, adjusted for deposits, withdrawals, and fees. The high watermark becomes the hurdle rate the portfolio must exceed in any future quarters. If the account value at the close of a calendar quarter exceeds the prior high watermark, that account value becomes the new high watermark hurdle rate.
- ❖ If the quarterly account value does **not** exceed the high watermark, we do **not** earn a performance fee.
- ❖ The “quarterly account value” is the value of your portfolio, adjusted for deposits, withdrawals, and fees as shown on your account statement at the close of each calendar quarter.
- ❖ An annual base portfolio management fee not to exceed 1.00% to be calculated and billed quarterly in arrears. Keep in mind, as disclosed under the BC I, BC II, and BC III Programs, we can also earn a 12(b)-1 fee. Depending on the program and the amount invested in those mutual funds that payout a 12(b)-1 fee, we have the potential to earn trail fees as high as 1.00%. We may waive or discount the 1.00% base management fee if we accept a 12(b)-1 trail.
- ❖ Performance-based fees can also be charged on the management of the underlying investments in a variable annuity. In these cases, if we earn a trail commission on the insurance product - the base management fee will be waived.

Positives and Negatives with Performance-Based Fee Accounts

A performance-based fee structure gives you the ability to pay only for performance. The benefit, in comparing the standard asset-based management fee with our performance-based fee is, if we **don't** achieve and exceed the quarterly high watermark, you would only pay the 1.00% management fee for your account while enjoying, hopefully, a moderate to neutral return. The negative to you is, if we **do** exceed the quarterly high watermark, the fee you would pay would be a share of the increased value in your account - which could be substantially higher than our standard asset-based fee structure.

Performance-Based Management Conflicts

In a performance-based fee account, we can earn a substantially higher fee based on the returns we generate in your account. This poses a potential conflict of interest, which could affect the objectivity of our advice and recommendations in the following ways:



- ❖ Such performance-based accounts create greater incentives for us to be more aggressive so as to achieve higher returns. When we do this, you absorb a greater risk of possible loss in the account while we would only lose potential performance-based management fees.
- ❖ Focus on such performance-based accounts could consume much of our time and therefore those other non-performance managed accounts could lose out on valuable time that should be devoted to all investments.

Notwithstanding such potential conflicts, we strive to serve your best interest; as well as ensuring such performance based management is in compliance with the Investment Adviser Act of 1940, Rule 275.205-3.

Termination Provision for Performance Trading

Performance-based management accounts can be terminated at any time. Upon termination, if your performance-based management account exceeds the quarterly high watermark established for your account at the beginning of the previous calendar quarter, we will bill your account our performance fee and the prorated asset-base fee due.

Regulatory Restrictions

To participate in the performance trading fee structure, you must meet the minimum requirements of SEC Rule 205-3(d)(1), which are only available to you if: (i) You fully understand the risks involved in performance-based fee management; (ii) You have at least \$1,000,000 under management with us or a net worth equal to or greater than \$2,000,000; or, (iii) You are a “qualified purchaser” under Section 2(a)(51)(A) of the Investment Company Act of 1940.

TYPES OF CLIENTS

ITEM 7

The types of clients we offer advisory services to are described above under “Who We Are” in Item 4, the “Advisory Business” section. Our minimum account size for portfolio management is disclosed above under each of the “Investment Programs” in Item 5 above in the, “Fees & Compensation” section of this Brochure.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES & RISK OF LOSS

ITEM 8

Our advisory services are designed to build long-term wealth while maintaining risk tolerance levels acceptable to you. We combine your investment objectives, time horizon, and risk tolerance to yield an effective investment allocation strategy and then match the strategy with our investment programs. All of our programs’ investments are made in investment company products (i.e., open-end mutual funds, exchange traded funds (“ETFs”), variable annuities, and variable life insurance contracts).

Methods of Analysis

In analyzing securities for inclusion in a portfolio, we will use a combination of analysis techniques to gathering information and to guide us in our management decisions.



Fundamental Analysis

Fundamental analysis considers: economic conditions, earnings, cash flow, book value projections, industry outlook, politics (as it relates to investments), historical data, price-earnings ratios, dividends, general level of interest rates, company management, debt ratios and tax benefits.

Technical Analysis

Technical analysis utilizes current and historical pricing information to help us identify trends in the broader domestic and foreign equity and fixed income markets, and in the underlying assets themselves. This may involve the use of various technical indicators, such as moving averages and trend-lines, among others.

Cyclical Analysis

Market cycles provide historic tried and true timing mechanisms to indicate turning points in future market prices. By tracking historic data through charts and graphs we can improve entry and exit strategies.

Fundamental analysis provides us with a broad long-term view of a security that begins with determining a company's value and the strength of its financials while technical analysis is short-term focusing on the statistics generated by market activity. Cyclical analysis provides us with historical data on market trends to focus our technical analysis for ideal entry/exit points.

Investment Strategies

We are not bound to a specific investment strategy or ideology for the management of your investment portfolio. We understand markets and **money made** from increased stock values has greater risk (volatility) than **money earned** from dividends (secure and stable) in income-oriented securities. Our goal is to balance making and earning money by maintaining a disciplined management approach, regardless of the strategy, so as to not sacrifice long-term goals for short term gains. Our investment strategies generally incorporate these methodologies:

Modern Portfolio Theory

Modern Portfolio Theory ("MPT")⁴ is the analysis of a portfolio of stocks as opposed to selecting stocks based on their unique investment opportunity. The objectives of MPT is to determine your preferred level of risk then construct a portfolio that maximizes your expected return for that given level of risk. Our investment methodology follows five (5) basic premises, each of which is derived from MPT.

1. You, as with all clients, are inherently risk-averse.
2. The markets are basically efficient.
3. The focus of attention is shifted away from individual securities analysis to consideration of portfolios as a whole, predicated on explicit risk-reward parameters.
4. For any level of risk that you are willing to accept, there is a rate of return that should be targeted.

⁴ Modern Portfolio Theory was developed and introduced by Harry M. Markowitz in his paper "Portfolio Selection" published in 1952 by the *Journal of Finance*.



5. Portfolio diversification is not so much a function of how many issues are involved, but more a function of the relationships and proportions of each asset to its correlating asset.

Asset Allocation

Asset allocation is the foundation of any investment strategy we will ever incorporate into a portfolio. Asset allocation is a broad term used to define the process of selecting a mix of asset classes and the efficient allocation of capital to those assets by matching rates of return to a specified and quantifiable tolerance for risk. From this there are more narrow and aggressive Asset allocation combinations and derivatives that we may use.

We have developed four model portfolio structures that are used as asset allocation guideline models in designing investment portfolios: Conservative Growth, Moderate Growth, Growth, and Aggressive Growth. Each model consists of a different “target” asset allocation comprised of six different asset classes⁵ – spreading money among a variety of investments as opposed to investing in just one – creating a more prudent approach to managing risk.

In addition to diversifying by company size, we evaluate investments based on “growth” and “value” styles. The growth style involves buying companies with the potential to grow faster than the economy and their competitors on a sustainable basis. With the value approach, companies purchased are out of favor and trade at a discount to their estimated true economic value. Employing both investment styles can reduce portfolio volatility if the market favors one style over the other.

Asset Allocation Model	Percentage of		
	Stocks	Bonds	Cash
Aggressive Growth	75% - 100%	25% - 0%	0%
Growth	50% - 80%	50% - 20%	0% - 10%
Moderate Growth	30% - 60%	70% - 40%	0% - 10%
Conservative Growth	0% - 40%	100% - 60%	10% - 20%

Such allocation guidelines are a representation of a typical account composition but should not be construed as absolute. Ultimately, the exact composition makeup and allocation of securities are determined by the client's investment parameters, which can compose a more detailed and/or complex structure.

Managing Risk

The biggest risk to you is the risk that the value of your investment portfolio will decrease due to moves in the market. This risk is referred to as the market risk factor, which is made up of four primary risks:

- ❖ **Interest Rate Risk** - Interest rate risk affects the value of bonds more than stocks. Essentially, when interest rates on bonds begin to rise, the value (bond prices) begins to drop; and vice versa, when interest rates on bonds fall, the bond values rise.
- ❖ **Equity Risk** - Equity risk is the risk that the value of your stocks will depreciate due to stock market dynamics causing one to lose money.
- ❖ **Currency Risk** - Currency risk is the risk that arises from the change in price of one currency against that of another. Investment values in international securities can be affected by changes in exchange rates.

⁵ The six different asset classes are: Large-Cap U.S. Value Stocks; Large-Cap U.S. Growth Stocks; Small-Cap U.S. Value Stocks; Small-Cap U.S. Growth Stocks; International Stocks; Fixed Income, and Cash.



- ❖ **Commodity Risk** - Commodity risk refers to the uncertainties of future market values and the size of future income caused by the fluctuation in the prices of commodities (i.e., grains, metals, food, energy, etc...).

The risk factors we have cited here are not intended to be an exhaustive list, but are the most common risks your portfolio will encounter. Other risks that we haven't defined could be political, over-concentration, and liquidity to name a few. However notwithstanding these risk factors, the most important thing for you to understand is that regardless of how we analyze securities or the investment strategy and methodology we use to guide us in the management of your investment portfolio, investing in a security involves a risk of loss that you should be willing and prepared to bear; and furthermore, past market performance is no guarantee that you will see equal or better future returns on your investment.

DISCIPLINARY INFORMATION

ITEM 9

We have no legal or disciplinary events to report.

OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS

ITEM 10

Brokerage and Insurance Company Activities

Calton & Associates, Inc.

All of our supervised persons are licensed registered representatives ("RRs") of Calton & Associates, Inc. ("C&A"), a licensed broker/dealer (member FINRA/SIPC), allowing them to sell listed/unlisted securities and investment company and variable insurance products.

Notwithstanding the fact that our supervised persons are licensed registered representatives of C&A, we are solely responsible for all investment management services rendered. The investment management services which we provide are separate and independent of C&A.

Independent Insurance Agents

Most of our supervised persons are licensed as resident life, health, and variable annuity insurance agents by the State of Florida and may be licensed as non-resident agents in other states. Each agent is licensed to sell insurance-related products and earn commissions from the sale of these products.

For further information on the potential conflicts and economic benefits from these activities, see Item 14, "Client Referrals & Other Compensation" of this Brochure. In addition, more information about our management persons who offer investment advice and their brokerage and insurance activities can be found in their individual "Brochure Supplements."



CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING

ITEM 11

Code of Ethics

As a fiduciary, Bay Capital has an affirmative duty to render continuous, unbiased investment advice, and at all times act in your best interest. To maintain this ethical responsibility, we have adopted a Code of Ethics that establishes the fundamental principles of conduct and professionalism expected by all personnel in discharging their duties. This Code is a value-laden guide committing such persons to uphold the highest ethical standards, rooted in the most elementary maxim - to do right by others. Our Code of Ethics is designed to deter inappropriate behavior and heighten awareness as to what is right, fair, just and good by promoting:

- ❖ Honest and ethical conduct.
- ❖ Full, fair and accurate disclosure.
- ❖ Compliance with applicable rules and regulations.
- ❖ Reporting of any violation of the Code.
- ❖ Accountability.

To help you understand our ethical culture and standards, how we control sensitive information and what steps have been taken to prevent personnel from abusing their inside position, a copy of our Code of Ethics is available for review upon request.

Client Transactions

We have a fiduciary duty to ensure that your welfare is not subordinated to any interests of ours or any of our personnel. The following disclosures are internal guidelines we have adopted to assist us in protecting all of our clientele.

Participation or Interest

It is against our policies for any of our personnel to invest with you or with a group of clients, or to advise you or a group of clients to invest in a private business interest or other non-marketable investment unless prior approval has been granted by Mr. Stephen M. Cooper, and such investment is not in violation of any SEC and/or State rules and regulations.

Class Action Policy

Bay Capital, as a general policy, does not elect to participate in class action lawsuits on your behalf. Rather, such decisions shall remain with you or with an entity you designate. We may assist you in determining whether you should pursue a particular class action lawsuit by assisting with the development of an applicable cost-benefit analysis, for example. However, the final determination of whether to participate, and the completion and tracking of any such related documentation, shall generally rest with you.

Personal Trading

Employees of ours are permitted to personally invest their own monies in securities, which may also be, from time to time, recommended to you. Most of the time, such investment purchases are independent of, and not connected in any way to, the investment decisions made on your behalf. However, there may be instances where investment purchases for you may also be



made in an employee's account. In these situations we have implemented the following guidelines in order to ensure our fiduciary integrity:

1. No employee acting as an Investment Advisor Representative ("RA"), or who has discretion over your account, shall buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment, unless the information is also available to the investing public on reasonable inquiry. No employee of ours shall prefer his or her own interest to that of yours or any other advisory client.
2. We maintain a list of all securities holdings for all our access employees. Our Chief Compliance Officer reviews these holdings on a regular basis.
3. We require that all employees act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to termination.

Personal trading activities are monitored by Mr. Stephen M. Cooper to ensure that such activities do not impact upon your security or create conflicts of interest.

BROKERAGE PRACTICES

ITEM 12

Custodial Services

The Company has established custodial relationships with the following financial institutions:

Trust Company of America

The Company maintains a custodial relationship with Trust Company of America ("TCA"), a commercial bank regulated by the Colorado State Banking Commission (member FDIC). TCA offers us services which include custody of securities, trade execution, clearance and settlement of transactions.

We have selected TCA as our primary custodian, based on their competitive fees (TCA charges a percentage of assets under management for all account services including transactions), their state-of-the-art trading platform (TCAdvisor II and TCAccess II), and on-line services for account administration and operational support. However, since we do not recommend, suggest or make available a selection of custodians, other than TCA, best execution may not always be achieved and you may pay higher fees. There will be no attempt by us to recommend TCA based solely on the lowest fees available. Your investment needs, their general reputation, trading capabilities, investment inventory, financial strength and our personal experience working with TCA has been considered, among other items, in suggesting TCA to you.

Calton & Associates, Inc.

The Company maintains a custodial relationship with Calton & Associates, Inc. ("C&A"), a registered broker-dealer (member FINRA/SIPC), on a fully disclosed basis through Southwest Securities, Inc (member FINRA/SIPC), because our supervised persons are licensed registered representatives with C&A. Custodial services offered through C&A are typically reserved for our least active conservative accounts. These accounts are generally the BC I and the Conservative Allocation Programs.



We are not a subsidiary of, or affiliated with, TCA or with C&A - except that our supervised persons are registered representatives of C&A. We are solely responsible for investment advice rendered, and advisory services are provided separately and independently of TCA and C&A.

12(b)-1 Distribution Fees

In addition to the management fee, some of the open-end investment company funds that we purchase for clients assess a 12(b)-1 distribution fee or an administrative or service fee of which we can collect up to an additional maximum of 1.0% annually, but generally smaller fractions of 1.00% are typical. This could theoretically increase the overall fees that we can earn to as high as 3.00%. Keep in mind, these 12(b)-1 fees are built-in costs paid by the investment company regardless of whether we collect a portion or not. Such information will be disclosed in our Investment Advisory Agreement.

Our management fee schedules have been calculated to incorporate the receipt of some additional 12(b)-1 fee income, depending on the program. However, accepting these 12(b)-1 fees creates an incentive for us to select mutual funds for our investment programs based on the highest 12(b)-1 fee and not for what is in your best interest. We recognize that by accepting 12(b)-1 fees we are creating a situation of undivided loyalty and our fiduciary duty to render continuous, unbiased investment advice may be called into question. Therefore in situations where we have the option between similar mutual funds paying 12(b)-1 fees or not paying 12(b)-1 fees, we will: (i) when allocating the investment program, document why one mutual fund has been selected over another; and (ii) retain records of these decisions for your review as well as for regulatory purposes.

Variable Annuities/Variable Life Insurance

As licensed registered representatives and insurance agents, there may be situations where a variable annuity insurance policy may be recommended to you. In that situation, the supervised person who sold the annuity would earn the normal commission on that product. In addition, the variable annuity can pay the supervised person an on-going annual trail commission of up to 1.00%.

Where we have sold a variable annuity product that we are in turn managing the underlying investment, we have reduced our management fee. Such information will be disclosed to you in our Investment Advisory Agreement.

REVIEW OF ACCOUNTS

ITEM 13

Our basic service is active portfolio management and each account is reviewed daily in the normal course of market observation by Mr. Stephen M. Cooper or the supervised person over your account. All accounts are reviewed in the context of investment objective of our Investment Programs. No individual reallocations are made except in the case of your cash needs. Reallocation is based on the objectives of the Investment Program.

You will receive monthly statements from the custodial firm where your account(s) are custodied. Each statement will summarize the specific investments currently held, the value of your portfolio and account transactions.



CLIENT REFERRALS & OTHER COMPENSATION

ITEM 14

Referral Compensation

We may directly compensate persons/firms for client referrals, provided that those persons are qualified and have entered a solicitation agreement with us. Under such arrangements, if you were referred to us by a solicitor, the solicitor will provide complete information on our relationship and the compensation that solicitor will receive should you choose to open an account. In no case will the fee that you pay be higher than it would be if you had dealt directly with us. In addition, we will adhere to each State's rules and regulations where the Solicitor resides prior to entering into any solicitation agreement with that person/firm.

Securities Transactions for Compensation

As mentioned above in Item 10, "Other Financial Industry Activities & Affiliations", our management persons are licensed RRs of C&A. As RRs, they may execute as a broker, securities transactions for you and earn sales commissions from such transactions. This can be considered a conflict of interest when giving investment advice for a fee on securities product that can be sold for a commission.

However, our supervised persons will not receive commissions based on securities transactions that occur within the accounts that we manage. In the case of "C" share mutual funds where we can earn a 1% trail commission, and the client may be subject to a 1-year contingent deferred sales charge, our management fee may be waived. Regardless, in cases where our supervised persons could receive commissions, whether from a security or an insurance product, it is our policy to fully disclose, prior to execution of such transactions, the fact that our supervised person will receive commissions. In no case do supervised persons earn fees or commissions based on routine transactions that are part of the daily management of our programs.

CUSTODY

ITEM 15

Management Fee Deduction

We do not take possession of or maintain custody of your funds or securities, but will simply monitor the holdings within your portfolio and trade your account based on your stated investment objectives and guidelines. Physical possession and custody of your funds and/or securities shall be maintained with one of the custodians (i.e.; TCA or C&A) as mentioned above in Item 12, "Brokerage Practices." We are however defined as having custody since you have authorized us to deduct our advisory fees directly from your account. To protect you as well as to protect our advisory practice, we have implemented the following regulatory safeguards:

- ❖ We report to the regulatory authority (the Florida Office of Financial Regulation) having jurisdiction over our advisory practice that we have custody.
- ❖ Your funds and securities will be maintained with a qualified custodian (TCA or C&A) in a separate account in your name.
- ❖ Authorization to withdraw our management fees directly from your account will be approved by you prior to engaging in any portfolio management services.



- ❖ At the time we notify (TCA or C&A) to withdraw our quarterly fee from your account, we will send you a quarterly notice itemizing our fee. Itemization includes the formula used to calculate our fee, the amount of assets under management the fee is based on, and the time period covered by the fee.

The custodial firm for your account is required by law to send to you, at least quarterly, brokerage statements summarizing the specific investments currently held in your account, the value of your portfolio, and account transactions. You are encouraged to compare the financial data contained in our report and/or itemized fee notice with the financial information disclosed in your account statement from the custodian to verify the accuracy and correctness of our reporting.

INVESTMENT DISCRETION

ITEM 16

Securities & Amount Bought or Sold

We execute an Investment Advisory Agreement with you, which set forth our authority to buy and sell securities in whatever amounts are determined to be appropriate for your account at our discretion.

You may, at anytime, impose restrictions, **in writing**, on our discretionary authority (i.e., limit the types/amounts of particular securities purchased for your account, exclude the ability to purchase securities with an inverse relationship to the market, limit our use of leverage, etc.).

VOTING CLIENT SECURITIES

ITEM 17

We do not vote client proxies. You understand and agree that you retain the right to vote all proxies, which are solicited for securities held in your managed accounts. Any proxy solicitations inadvertently received by us will be immediately forwarded to you for your evaluation and decision.

However if you have specific questions regarding an action being solicited by the proxy that you do not understand or you want clarification, you may contact us and we will explain the particulars. Keep in mind we will not advise you in a direction to vote, that ultimate decision will be left to you.

FINANCIAL INFORMATION

ITEM 18

We are not required to include financial information in our Disclosure Brochure since we will not take physical custody of client funds or securities or bill client accounts six (6) months or more in advance for more than \$500.

We are not aware of any financial conditions that are likely to impair our ability to meet our contractual commitments to you.



REQUIREMENTS FOR STATE-REGISTERED ADVISERS

ITEM 19

Information on each of our principal executive officers and supervised persons can be found in the attached "Brochure Supplements".

END OF DISCLOSURE BROCHURE

FORM ADV: PART 2B

BROCHURE SUPPLEMENT



Bay Capital

3351 West Bearss Avenue
Tampa, Florida 33618

Tel: 813.286.1553
Fax: 813.286.1526

www.baycapital.com
info@baycapital.com

SUPERVISION

Stephen M. Cooper
Chief Compliance Officer

Phone: 813.286.1553
e-mail: scooper@baycapital.com

Mr. Cooper is responsible for overseeing the activities of all supervised persons. Investment programs are reviewed daily. Any transactions that appear to be out of the ordinary are checked. Any changes to the investment program allocations will be handled by Mr. Cooper and the Investment Committee.

BROCHURE SUPPLEMENT
DATED

1

MAY
2012

This Brochure Supplement provides information about Stephen M. Cooper that is an accompaniment to the Disclosure Brochure for our firm, Bay Capital. You should have received both of these together as a complete disclosure packet. If you did not receive our Disclosure Brochure or if you should have questions about this Brochure Supplement for Mr. Cooper, you are welcome to contact us - our contact information is listed to the left.

Additional information about Bay Capital and Stephen M. Cooper is also available on the SEC's website at www.adviserinfo.sec.gov.

Stephen M. Cooper

CRD#: 1306622

Year of Birth: 1949

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Education

1971 - University of South Florida: Bachelor of Arts in Economics

Licenses

FINRA Exams: Series 7 - General Securities Representative
Series 24 - General Securities Principal
Series 63 - Uniform Securities Agent State Law Examination
Series 65 - Uniform Investment Advisor Law Examination
Insurance: 2-15 License - Florida Life, Health & Variable Annuity Insurance

Business Background

06/1996 - Present Calton & Associates, Inc.

Position: Branch Manager & Registered Representative

03/1992 - Present Bay Capital, Registered Investment Advisor

Position: Owner & Chief Compliance Officer

DISCIPLINARY INFORMATION

There are no legal or disciplinary events to report.

OTHER BUSINESS ACTIVITIES

Mr. Stephen M. Cooper is a registered representative of Calton & Associates and licensed independent insurance agent. He will receive the normal commissions associated with securities transactions and insurance sales. This creates an incentive for Mr. Cooper to recommend those products in which he will receive a commission. Consequently, the objectivity of the advice rendered could be subjective and create a disadvantage.

To ensure you understand the relationship Mr. Cooper has with these other business, as well as the choices and risks you have in receiving investment advice from Mr. Cooper, the following disclosures are provided to assist you with your decisions:

- Mr. Cooper will **not** receive commissions associated with any managed accounts maintained with Calton & Associates. However, there are instances where you could request separate brokerage services that are unrelated to your managed accounts. In such cases, Mr. Cooper will receive commissions associated with these separate transactions.
- As disclosed in the Disclosure Brochure under "Brokerage Practices", Mr. Cooper can accept 12(b)-1 trail fees from the sale of open-end mutual funds. Under such arrangement, Bay Capital will maintain a record should you want to review how we concluded our selection of mutual funds that payout a 12(b)-1 fee trail.
- You are under no obligation to accept Mr. Cooper's recommendation to purchase any insurance products. You are free to choose any independent insurance agent and insurance company to purchase your insurance. Regardless of the insurance agent from whom you select to purchase your insurance, he/she will earn the normal commission from the sale.

Notwithstanding such potential conflicts of interest, Bay Capital strives to act in your best interest and ensure disclosure is properly made to you in compliance with the Investment Adviser Act of 1940, Rule 275.206.

ADDITIONAL COMPENSATION

Mr. Cooper does not receive any economic benefit, sales awards, prizes or bonuses that are based on the number or amount of sales, client referrals, or from opening new accounts.

REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Mr. Cooper has not been the subject of any arbitration claim, civil litigation, self-regulatory organization/administrative proceeding, or bankruptcy petition at any time during the past ten years.

FORM ADV: PART 2B

BROCHURE SUPPLEMENT



Bay Capital

3351 West Bearss Avenue
Tampa, Florida 33618

Tel: 813.286.1553
Fax: 813.286.1526

www.baycapital.com
info@baycapital.com

SUPERVISION

Stephen M. Cooper
Chief Compliance Officer

Phone: 813.286.1553
e-mail: scooper@baycapital.com

Mr. Cooper is responsible for overseeing the activities of all supervised persons. Investment programs are reviewed daily. Any transactions that appear to be out of the ordinary are checked. Any changes to the investment program allocations will be handled by Mr. Cooper and the Investment Committee.

BROCHURE SUPPLEMENT
DATED

1

MAY
2012

This Brochure Supplement provides information about Robert D. Davis, Jr. that is an accompaniment to the Disclosure Brochure for our firm, Bay Capital. You should have received both of these together as a complete disclosure packet. If you did not receive our Disclosure Brochure or if you should have questions about this Brochure Supplement for Mr. Davis, you are welcome to contact us - our contact information is listed to the left.

Additional information about Bay Capital and Robert D. Davis, Jr. is also available on the SEC's website at www.adviserinfo.sec.gov.

Robert D. Davis, Jr.

CRD#: 722322

Year of Birth: 1955

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Education

1978 - St. Bonaventure University: Bachelors of Business Administration
1980 - Duke University: Masters of Business Administration

Licenses

FINRA Exams: Series 7 - General Securities Representative
Series 63 - Uniform Securities Agent State Law Examination
Insurance: 2-15 License - Florida Life, Health & Variable Annuity Insurance

Business Background

06/1996 - Present Calton & Associates, Inc.
Position: Registered Representative
08/1992 - Present Bay Capital, Registered Investment Advisor
Position: Associate & Investment Committee Member

DISCIPLINARY INFORMATION

There are no legal or disciplinary events to report.

OTHER BUSINESS ACTIVITIES

Mr. Robert D. Davis, Jr. is a registered representative of Calton & Associates and licensed independent insurance agent. He will receive the normal commissions associated with securities transactions and insurance sales. This creates an incentive for Mr. Davis to recommend those products in which he will receive a commission. Consequently, the objectivity of the advice rendered could be subjective and create a disadvantage.

To ensure you understand the relationship Mr. Davis has with these other business, as well as the choices and risks you have in receiving investment advice from Mr. Davis, the following disclosures are provided to assist you with your decisions:

- Mr. Davis will **not** receive commissions associated with any managed accounts maintained with Calton & Associates. However, there are instances where you could request separate brokerage services that are unrelated to your managed accounts. In such cases, Mr. Davis will receive commissions associated with these separate transactions.
- As disclosed in the Disclosure Brochure under "Brokerage Practices", Mr. Davis can accept 12(b)-1 trail fees from the sale of open-end mutual funds. Under such arrangement, Bay Capital will maintain a record should you want to review how we concluded our selection of mutual funds that payout a 12(b)-1 fee trail.
- You are under no obligation to accept Mr. Davis' recommendation to purchase any insurance products. You are free to choose any independent insurance agent and insurance company to purchase your insurance. Regardless of the insurance agent from whom you select to purchase your insurance, he/she will earn the normal commission from the sale.

Notwithstanding such potential conflicts of interest, Bay Capital strives to act in your best interest and ensure disclosure is properly made to you in compliance with the Investment Adviser Act of 1940, Rule 275.206.

ADDITIONAL COMPENSATION

Mr. Davis does not receive any economic benefit from sales award and/or other prizes, bonuses that are based on the number of amount of sales, client referrals, or from opening new accounts.

REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Mr. Davis has not been the subject of any arbitration claim, civil litigation, self-regulatory organization/administrative proceeding, or bankruptcy petition at any time during the past ten years.

FORM ADV: PART 2B

BROCHURE SUPPLEMENT



Bay Capital

3351 West Bearss Avenue
Tampa, Florida 33618

Tel: 813.286.1553
Fax: 813.286.1526

www.baycapital.com
info@baycapital.com

SUPERVISION

Stephen M. Cooper
Chief Compliance Officer

Phone: 813.286.1553
e-mail: scooper@baycapital.com

Mr. Cooper is responsible for overseeing the activities of all supervised persons. Investment programs are reviewed daily. Any transactions that appear to be out of the ordinary are checked. Any changes to the investment program allocations will be handled by Mr. Cooper and the Investment Committee.

BROCHURE SUPPLEMENT
DATED

1

MAY
2012

This Brochure Supplement provides information about Robert F. Thompson that is an accompaniment to the Disclosure Brochure for our firm, Bay Capital. You should have received both of these together as a complete disclosure packet. If you did not receive our Disclosure Brochure or if you should have questions about this Brochure Supplement for Mr. Thompson, you are welcome to contact us - our contact information is listed to the left.

Additional information about Bay Capital and Robert F. Thompson is also available on the SEC's website at www.adviserinfo.sec.gov.

Robert F. Thompson

CRD#: 700812

Year of Birth: 1942

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Education

1965 - Florida State University: Bachelor of Arts in Internal Affairs & Economics

Licenses

FINRA Exams: Series 7 - General Securities Representative
Series 63 - Uniform Securities Agent State Law Examination

Business Background

06/1996 - Present Calton & Associates, Inc.

Position: Registered Representative

03/1992 - Present Bay Capital, Registered Investment Advisor

Position: Associate & Investment Committee Member

DISCIPLINARY INFORMATION

There are no legal or disciplinary events to report.

OTHER BUSINESS ACTIVITIES

Mr. Robert F. Thompson is a registered representative of Calton & Associates. He will receive the normal commissions associated with securities transactions. This creates an incentive for Mr. Thompson to recommend those securities products in which he will receive a commission. Consequently, the objectivity of the advice rendered could be subjective and create a disadvantage.

To ensure you understand the relationship Mr. Thompson has with these other business, as well as the choices and risks you have in receiving investment advice from Mr. Thompson, the following disclosures are provided to assist you with your decisions:

- Mr. Thompson will **not** receive commissions associated with any managed accounts maintained with Calton & Associates. However, there are instances where you could request separate brokerage services that are unrelated to your managed accounts. In such cases, Mr. Thompson will receive commissions associated with these separate transactions.
- As disclosed in the Disclosure Brochure under "Brokerage Practices", Mr. Thompson can accept 12(b)-1 trail fees from the sale of open-end mutual funds. Under such arrangement, Bay Capital will maintain a record should you want to review how we concluded our selection of mutual funds that payout a 12(b)-1 fee trail.

Notwithstanding such potential conflicts of interest, Bay Capital strives to act in your best interest and ensure disclosure is properly made to you in compliance with the Investment Adviser Act of 1940, Rule 275.206.

ADDITIONAL COMPENSATION

Mr. Thompson does not receive any economic benefit, sales awards, prizes or bonuses that are based on the number or amount of sales, client referrals, or from opening new accounts.

REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Mr. Thompson has not been the subject of any arbitration claim, civil litigation, self-regulatory organization/administrative proceeding, or bankruptcy petition at any time during the past ten years.