

Part 2A of Form ADV: *Firm Brochure*

Phillips Ray Capital Management, Inc.

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This brochure provides information about the qualifications and business practices of Phillips Ray Capital Management. If you have any questions about the contents of this brochure, please contact us at 817-338-4223 or bphillips@phillipsray.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 does not imply any particular level of skill or training.

Additional information about Phillips Ray Capital Management also is available on the SEC's website at 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 114408.

Item 2 Material Changes

The SEC adopted new rules and rule amendments under the Investment Advisers Act of 1940 to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result, we are no longer eligible for SEC registration. We are in the process of switching from federal to state oversight, and the transition must be complete by June 28, 2012. Once the transition is complete, our investment advisory business will be regulated by the Texas State Securities Board.

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Item 4 Advisory Business

Phillips Ray Capital Management, Inc. is an investment adviser with its principal place of business located in Texas. Phillips Ray Capital Management, Inc. began conducting business in 2002. Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Brian Michael Phillips, President, Chief Compliance Officer, Treasurer & Director
- Paul Richard Ray, Vice President and Director

Phillips Ray Capital Management offers the following advisory services to our clients:

PORTFOLIO MANAGEMENT SERVICES

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.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. Portfolios most typically will consist of individual equities (including exchange-listed securities, securities traded over-the-counter or foreign issuers), bonds (including warrants, corporate debt securities (other than commercial paper), commercial paper, certificates of deposit, municipal securities and United States governmental securities) and no load or load-waived mutual funds. However, we may provide advice with respect to any of the following securities, which may also be included in a client's portfolio, as appropriate: variable life insurance, variable annuities, options contracts on securities, and interests in partnerships investing in real estate or oil and gas interests.

We will allocate the client's assets among various investments taking into consideration the overall management style selected by the client. Mutual funds are selected on the basis of any or all of the following criteria: the fund's performance history; the industry sector in which the fund invests; the track record of the fund's manager; the fund's investment objectives; the fund's management style and philosophy; and the fund's management fee structure. Portfolio weighting between funds or other securities, as well as market sectors, will be determined by each client's individual needs and circumstances. Clients will have the opportunity to place reasonable restrictions on the types of investments which will be made on the client's behalf. Clients will retain individual ownership of all securities.

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.

PORTFOLIO CONSULTING SERVICES

For clients who do not use our Portfolio Management Services, we may provide individualized consulting services and review various investment alternatives for the client to determine which of these investment alternatives or a mix of various investments is most appropriate based on the client's individual financial circumstances, investment objectives, risk tolerances and income requirements among other factors. Under this service, we will make investment recommendations to the client as market factors and the client's needs dictate. This service is provided by Phillips Ray Capital Management on a consulting basis only. Once the investment recommendations are made, it is up to the client to implement the recommendations if he/she decides to do so. We will not accept any client's username and password or other access or authority to access any client's account to implement recommendations or otherwise.

If requested, client investments may also be reviewed or monitored quarterly or on an as needed basis. In addition, if requested, we will meet with the client at least annually to review performance, allocation of assets, tax liability issues, update the client's profile to reflect any changes in client circumstances, and review and effect any change of beneficiaries.

CONSULTING SERVICES

Clients can also receive investment advice on a more focused basis. This may include advice on 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.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

AMOUNT OF MANAGED ASSETS

As of 02/29/2012, we were actively managing \$44,977,719 of clients' assets on a discretionary basis. We do not manage clients' assets on a non-discretionary basis.

Item 5 Fees and Compensation

PORTFOLIO MANAGEMENT SERVICES

The annual fee for portfolio management services will be charged as a percentage of assets under management, according to the following schedule:

1) Growth/Conservative Growth:

<u>Assets Under Management</u>	<u>Annual Fee (%)</u>
Under \$250,000	1.6%
\$250,001 - \$500,000	1.2%
\$500,001 - \$1,000,000	0.90%
\$1,000,001 - \$1,500,000	0.70%
Over \$1,500,000	0.60%

2) Income:

0.50% of assets under management.

Clients will be invoiced or their account directly debited, as authorized, in arrears at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter.

We generally require a minimum account size of \$250,000 of assets under management for this service. This minimum account size and the above fee schedule may be negotiable under certain circumstances. As appropriate, when the client's account includes assets managed under both the Growth/Conservative and Income strategies, the fee charged on the assets under each strategy will be in accordance with the above fee schedule or as negotiated with the client.

Limited Negotiability of Advisory Fees: Although Phillips Ray Capital Management 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 will be 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 will be 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.

PORTFOLIO CONSULTING / CONSULTING SERVICES FEES

Phillips Ray Capital Management's Consulting Services fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Consulting fees will be calculated based on an hourly charge of \$250 per hour. We may quote a fixed fee based on the anticipated number of hours required to complete the service requested by the client. Consulting fees are charged on a quarterly basis in arrears, or at a time agreed upon by Phillips Ray Capital Management and the client.

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.

Mutual Fund Fees: All fees paid to Phillips Ray Capital Management for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or exchange-traded 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 directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to

assist the client in determining which mutual fund 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 our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Additional Fees and Expenses: In addition to our 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). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

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.

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

Phillips Ray Capital Management does not charge performance-based fees to any client.

Item 7 Types of Clients

Phillips Ray Capital Management provides advisory services to individuals, including high net worth individuals, pension and profit sharing plans (other than plan participants), trusts, charitable organizations, corporations or other businesses.

As previously disclosed in Item 5, our firm has established certain initial minimum account requirements, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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:

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.

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.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

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.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss.

In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

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.

Utilizing a trading strategy creates the potential for sudden losses if the anticipated price swing does not materialize. Moreover, under those circumstances, we are left with few options:

- having a long-term investment in a security that was designed to be a short-term purchase, or
- the potential of having to taking a loss.

In addition, because this strategy involves more frequent trading than does a longer-term strategy, there will be a resultant increase in brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

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.

Short selling results in some unique risks:

1. *Losses can be infinite.* A short sale loses when the stock price rises, and a stock is not limited (at least, theoretically) in how high it can go. For example, if you short 100 shares at \$50 each, hoping to make a profit but the shares increase to \$75 per share, you'd lose \$2,500. On the other hand, the price of a stock cannot fall below \$0, which limits your potential upside.
2. *Short squeezes can wring out profits.* As stock prices increase, short seller losses also increase as sellers rush to buy the stock to cover their positions. This increase in demand, in turn, further drives the prices up.
3. *Timing.* Even if we are correct in determining that the price of a stock will decline, we run the risk of incorrectly determining when the decline will take place, i.e., being right too soon. Although a company is overvalued, it could conceivably take some time for the price to come down; during which you are vulnerable to interest, margin calls, etc.
4. *Inflation.* History has shown that over the long term, most stocks appreciate. Even if a company barely improves over time, inflation should drive its share price up somewhat. In fact, short selling may not be appropriate in times of inflation for that very reason, as prices may adjust upwards regardless of the value of the stock.

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.

Our firm and our management personnel have no reportable disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

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.

Phillips Ray Capital Management 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.

Phillips Ray Capital Management'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 bphillips@phillipsray.com, or by calling us at 817-338-4223.

Phillips Ray Capital Management and individuals associated with our firm are prohibited from engaging in principal transactions. Phillips Ray Capital Management and individuals associated with our firm are also prohibited from engaging in agency cross transactions.

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.

Item 12 Brokerage Practices

Phillips Ray Capital Management does not accept the discretionary authority to determine the broker dealer to be used or the commission rates to be paid on a trade-by-trade basis. As such, clients must direct the firm regarding which broker dealer to use for trades placed in the client's account. Phillips Ray Capital Management requests that clients custody accounts at National Financial Services, LLC (NFS), an affiliate of Fidelity Brokerage Services, LLC (Fidelity) and to direct the firm to place trades through Fidelity, an unaffiliated FINRA member broker dealer. Phillips Ray Capital Management has evaluated Fidelity and believes that it will provide our clients with a blend of execution services, commission costs and professionalism that will assist Phillips Ray Capital Management in meeting its fiduciary obligations to clients.

We reserve the right to decline acceptance of any client account custodied at a firm other than NFS or for which the client directs the use of a broker other than Fidelity if we believe that this choice would hinder our ability to service the account. In directing the use of Fidelity, or any other particular broker dealer, it should be understood that Phillips Ray Capital Management will not have authority to negotiate commissions on a trade-by-trade basis or to necessarily obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to the client and those charged to other clients (who may direct the use of a different broker dealer). Clients should note, while Phillips Ray Capital Management has a reasonable belief that Fidelity is able to obtain best execution and competitive prices, Phillips Ray Capital Management will abide by the client's brokerage instructions and will not be independently seeking best execution price capability through other broker dealers on a trade-by-trade basis.

Clients should note that Phillips Ray Capital Management participates in Fidelity's platform services offered to independent investment advisers by Fidelity. As part of these services, Phillips Ray Capital Management receives benefits that it would not receive if it did not offer investment advice to clients.

Phillips Ray Capital Management will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block. Block trading allows Phillips Ray Capital Management to execute equity trades in a timelier, more equitable manner and to reduce overall commission charges to clients.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. Phillips Ray Capital Management will typically aggregate trades among clients

whose accounts can be traded at a given broker, and, if any client has directed the use of a broker other than Fidelity, we will rotate or vary the order of brokers through which it places trades for clients on any particular day. Phillips Ray Capital Management's block trading policy and procedures are as follows:

- 1) Phillips Ray Capital Management's policies for the aggregation of transactions shall be fully disclosed in this Form ADV;
- 2) Phillips Ray Capital Management will not aggregate transactions unless it believes that aggregation is consistent with its duty to seek best execution (which includes the duty to seek best price) for its clients and is consistent with the terms of Phillips Ray Capital Management's investment advisory agreement with each client for which trades are being aggregated;
- 3) No advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all Phillips Ray Capital Management's transactions in a given security on a given business day. Depending on the client's agreement with the custodian/broker, transaction costs will either be shared pro-rata based on each client's participation in the transaction or be based on the number of shares traded for each client;
- 4) Phillips Ray Capital Management will prepare, before entering an aggregated order, a written statement ('Allocation Statement') specifying the participating client accounts and how it intends to allocate the order among those clients;
- 5) If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement; if the order is partially filled, it will be allocated pro-rata based on the Allocation Statement.
- 6) Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment and the reason for different allocation is explained in writing and is approved by Phillips Ray Capital Management's compliance officer no later than one hour after the opening of the markets on the trading day following the day the order was executed;
- 7) Phillips Ray Capital Management's books and records will separately reflect, for each client account, the orders of which are aggregated, the securities held by, and bought and sold for that account;
- 8) Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the purchase or sale in question on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement;
- 9) Phillips Ray Capital Management will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation; and
- 10) Individual advice and treatment will be accorded to each advisory client and no client or account will be favored over another.

Through Fidelity's platform, Fidelity and NFS provide Phillips Ray Capital Management with a number of benefits including, among other things, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like Phillips Ray Capital Management in conducting business and in serving the best interests of our clients.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables Phillips Ray Capital Management to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers. As part of the platform services arrangement, Fidelity also makes available to our firm, at no additional charge to us, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by Phillips Ray Capital Management (within specified parameters). These research and brokerage services presently include services such as *Fidelity Insight & Outlook*, which includes market and industry analysis and outlook information and conference calls. These services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, we might be compelled to purchase the same or similar services at our own expense.

As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of Fidelity's services. We examined this potential conflict of interest when we chose to enter into the relationship with Fidelity and have determined that the relationship is in the best interests of Phillips Ray Capital Management's clients and satisfies our client obligations, including our duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received.

Item 13 Review of Accounts

PORTFOLIO MANAGEMENT SERVICES

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 one or both of the officers of the firm.

REPORTS: In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer, we provide quarterly reports summarizing account performance, activity, 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: Consulting Services clients will not typically receive reports due to the nature of the service.

Item 14 Client Referrals and Other Compensation

Currently, it is Phillips Ray Capital Management's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm. However, we reserve the right to engage such solicitors in the future.

It is Phillips Ray Capital Management'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 may directly debit 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.

Our firm does not have actual or constructive custody of client accounts.

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 not provide non-discretionary asset management services.

Item 17 Voting Client Securities

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially

owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with consulting assistance regarding proxy issues if they contact us with questions at our principal place of business.

Item 18 Financial Information

Phillips Ray Capital Management has no additional no financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$500 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Phillips Ray Capital Management has not been the subject of a bankruptcy petition at any time during the past ten years.

Item 19 Requirements for State-Registered Advisers

The following individuals are the principal executive officers and management persons of Phillips Ray Capital Management:

- Brian Michael Phillips, President, Chief Compliance Officer, Treasurer & Director
- Paul Richard Ray, Vice President and Director

Information regarding the formal education and business background for each of these individuals is provided in their respective Brochure Supplements (ADV Part 2B).

We are not engaged in any business activity other than giving investment advice.

Neither our firm nor our supervised persons are compensated for advisory services with performance-based fees.

We are required to disclose all material facts regarding certain legal or disciplinary events pertaining to arbitration awards or other civil, regulatory or administrative proceedings in which our firm or management personnel were found liable or against whom an award was granted. Our firm and our management personnel have no reportable disciplinary events to disclose.

Neither our firm nor our management personnel have a relationship or arrangement with any issuer of securities.

Part 2B of Form ADV: *Brochure Supplement*

Brian Michael Phillips
Phillips Ray Capital Management
3707 Camp Bowie Blvd., Suite 250
Fort Worth, TX 76107
817-338-4223

06/22/2012

This brochure supplement provides information about Brian Michael Phillips that supplements the Phillips Ray Capital Management brochure. You should have received a copy of that brochure. Please contact Brian Phillips if you did not receive Phillips Ray Capital Management's brochure or if you have any questions about the contents of this supplement.

Additional information about Brian Michael Phillips is available on the SEC's website at www.adviserinfo.sec.gov

Item 2. Educational, Background and Business Experience

Full Legal Name: Brian Michael Phillips **Born:** 1968

Education

- Graduated from Southern Methodist University with a BS in Economics in 1990.
- Graduated from the University of Texas with an MBA in 1992.

Business Experience

- Phillips Ray Capital Management, Inc.; President, Chief Compliance Officer, Treasurer and Director; from 5/1/2002 to Present

Item 3. Disciplinary Information

- Brian Michael Phillips has no reportable disciplinary history.

Item 4. Other Business Activities

A. Investment-Related Activities

1. Brian Michael Phillips is not engaged in any other investment-related activities.
2. Brian Michael Phillips does not receive commissions, bonuses or other compensation on the sale of securities or other investment products.

B. Non Investment-Related Activities

Brian Michael Phillips is not engaged in any other business or occupation that provides substantial compensation or involves a substantial amount of his or her time.

Item 5. Additional Compensation

- Brian Michael Phillips does not receive any economic benefit from a non-advisory client for the provision of advisory services.

Item 6. Supervision

Phillips Ray Capital Management' executive management team is responsible for the supervision of all employees and the formulation of investment advice offered to clients. The executive management team consists of the two senior executives of Phillips Ray Capital Management, including Mr. Brian M. Phillips and Mr. Paul R. Ray. The executive management team documents and oversees investment

meetings, all material investment policy changes, and conducts periodic reviews of client portfolios to ensure that client objectives and mandates are being met. Mr. Ray, Vice President and Director of Phillips Ray Capital Management and member of the firm's executive management is responsible for supervision of Mr. Phillips.

Mr. Ray can be reached at (817)-338-4223.

Item 7. Requirements for State-Registered Advisers

Mr. Phillips has never been the subject of a bankruptcy petition nor has he ever been involved in any of the following events:

1. An award or otherwise being found liable in an arbitration claim alleging damages in excess of \$2,500, involving any of the following:
 - (a) an investment or an investment-related business or activity;
 - (b) fraud, false statement(s), or omissions;
 - (c) theft, embezzlement, or other wrongful taking of property;
 - (d) bribery, forgery, counterfeiting, or extortion; or
 - (e) dishonest, unfair, or unethical practices.
2. An award or otherwise being found liable in a civil, self-regulatory organization, or administrative proceeding involving any of the following:
 - (a) an investment or an investment-related business or activity;
 - (b) fraud, false statement(s), or omissions;
 - (c) theft, embezzlement, or other wrongful taking of property;
 - (d) bribery, forgery, counterfeiting, or extortion; or
 - (e) dishonest, unfair, or unethical practices.

Part 2B of Form ADV: *Brochure Supplement*

Paul Richard Ray
3707 Camp Bowie Blvd., Suite 250
Fort Worth, TX 76107
817-338-4223

Phillips Ray Capital Management
Fort Worth, TX 76107

06/22/2012

This brochure supplement provides information about Paul Richard Ray that supplements the Phillips Ray Capital Management brochure. You should have received a copy of that brochure. Please contact Brian Phillips if you did not receive Phillips Ray Capital Management's brochure or if you have any questions about the contents of this supplement.

Additional information about Paul Richard Ray is available on the SEC's website at www.adviserinfo.sec.gov

Item 2. Educational, Background and Business Experience

Full Legal Name: Paul Richard Ray **Born:** 1970

Education

- Graduated from the University of Texas with a BS in Psychology in 1993.
- Graduated from the University of Texas with an MBA in 1998.

Business Experience

- Phillips Ray Capital Management, Inc.; Vice President and Director; from 5/1/2002 to Present.

Item 3. Disciplinary Information

- Paul Richard Ray has no reportable disciplinary history.

Item 4. Other Business Activities

A. Investment-Related Activities

- Paul Richard Ray is not engaged in any other investment-related activities.
- Paul Richard Ray does not receive commissions, bonuses or other compensation on the sale of securities or other investment products.

B. Non Investment-Related Activities

Paul Richard Ray is not engaged in any other business or occupation that provides substantial compensation or involves a substantial amount of his or her time.

Item 5. Additional Compensation

- Paul Richard Ray does not receive any economic benefit from a non-advisory client for the provision of advisory services.

Item 6. Supervision

Phillips Ray Capital Management' executive management team is responsible for the supervision of all employees and the formulation of investment advice offered to clients. The executive management team consists of the two senior executives of Phillips Ray Capital Management, including Mr. Brian M. Phillips and Mr. Paul R. Ray. The executive management team documents and oversees investment

meetings, all material investment policy changes, and conducts periodic reviews of client portfolios to ensure that client objectives and mandates are being met. Mr. Phillips, Vice President and Director of Phillips Ray Capital Management and member of the firm's executive management is responsible for supervision of Mr. Ray.

Mr. Phillips can be reached at (817)-338-4223.

Item 7. Requirements for State-Registered Advisers

Mr. Ray has never been the subject of a bankruptcy petition nor has he ever been involved in any of the following events:

1. An award or otherwise being found liable in an arbitration claim alleging damages in excess of \$2,500, involving any of the following:
 - (a) an investment or an investment-related business or activity;
 - (b) fraud, false statement(s), or omissions;
 - (c) theft, embezzlement, or other wrongful taking of property;
 - (d) bribery, forgery, counterfeiting, or extortion; or
 - (e) dishonest, unfair, or unethical practices.
2. An award or otherwise being found liable in a civil, self-regulatory organization, or administrative proceeding involving any of the following:
 - (a) an investment or an investment-related business or activity;
 - (b) fraud, false statement(s), or omissions;
 - (c) theft, embezzlement, or other wrongful taking of property;
 - (d) bribery, forgery, counterfeiting, or extortion; or
 - (e) dishonest, unfair, or unethical practices.