

Name of Investment Adviser: Palo Capital, Inc.				
Address: (Number and Street)	(City)	(State)	(Zip Code)	Area Code Telephone Number
31 Ocean Heights Drive	Newport Beach	CA	92657	949 715-2126

This part of Form ADV gives information about the investment adviser and its business for the use of clients. The information has not been approved or verified by any governmental authority.

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(Schedules A, B, C, D, and E are included with Part I of this Form, for the use of regulatory bodies, and are not distributed to clients.)

Potential Persons who are not to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

1. A. Advisory Services and Fees. (check the applicable boxes) For each type of service provided, state the approximate % of total advisory billings from that service. (See instruction below.)

Applicant:

<input checked="" type="checkbox"/> (1) Provides investment supervisory services	100 %
<input type="checkbox"/> (2) Manages investment advisory accounts not involving investment supervisory services	_____ %
<input type="checkbox"/> (3) Furnishes investment advice through consultations not included in either service described above	_____ %
<input type="checkbox"/> (4) Issues periodicals about securities by subscription	_____ %
<input type="checkbox"/> (5) Issues special reports about securities not included in any service described above	_____ %
<input type="checkbox"/> (6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which client may use to evaluate securities	_____ %
<input type="checkbox"/> (7) On more than an occasional basis, furnishes advice to clients on matters not involving securities	_____ %
<input type="checkbox"/> (8) Provides a timing service	_____ %
<input type="checkbox"/> (9) Furnishes advice about securities in any manner not described above	_____ %

(Percentages should be based on applicant's last fiscal year. If applicant has not completed its first fiscal year, provide estimates of advisory billings for that year and state that the percentages are estimates.)

B. Does applicant call any of the services it checked above financial planning or some similar term? Yes No

C. Applicant offers investment advisory services for: (check all that apply)

<input checked="" type="checkbox"/> (1) A percentage of assets under management	<input type="checkbox"/> (4) Subscription fees
<input type="checkbox"/> (2) Hourly charges	<input type="checkbox"/> (5) Commissions
<input type="checkbox"/> (3) Fixed fees (not including subscription fees)	<input checked="" type="checkbox"/> (6) Other

D. For each checked box in A above, describe on Schedule F:

- the services provided, including the name of any publication or report issued by the adviser on a subscription basis or for a fee
- applicant's basic fee schedule, how fees are charged and whether its fees are negotiable
- when compensation is payable, and if compensation is payable before service is provided, how a client may get a refund or may terminate an investment advisory contract before its expiration date

2. Types of Clients -- Applicant generally provides investment advice to: (check those that apply)

<input checked="" type="checkbox"/> A. Individuals	<input checked="" type="checkbox"/> E. Trusts, estates, or charitable organizations
<input type="checkbox"/> B. Banks or thrift institutions	<input type="checkbox"/> F. Corporations or business entities other than those listed above
<input type="checkbox"/> C. Investment companies	<input type="checkbox"/> G. Other (describe on Schedule F)
<input checked="" type="checkbox"/> D. Pension and profit sharing plans	

3. Types of Investments Applicant offers advice on the following: (check those that apply)

<input type="checkbox"/> A. Equity securities	<input type="checkbox"/> H. United States governmental securities
<input type="checkbox"/> (1) exchange-listed securities	
<input type="checkbox"/> (2) securities traded over-the-counter	<input type="checkbox"/> I. Options contracts on:
<input type="checkbox"/> (3) foreign issuers	<input type="checkbox"/> (1) securities
	<input type="checkbox"/> (2) commodities
<input type="checkbox"/> B. Warrants	
<input type="checkbox"/> C. Corporate debt securities	<input type="checkbox"/> J. Futures contracts on:
(other than commercial paper)	<input type="checkbox"/> (1) tangibles
<input type="checkbox"/> D. Commercial paper	<input type="checkbox"/> (2) intangibles
<input type="checkbox"/> E. Certificates of deposit	
<input type="checkbox"/> F. Municipal securities	<input type="checkbox"/> K. Interests in partnerships investing in:
	<input type="checkbox"/> (1) real estate
<input type="checkbox"/> G. Investment company securities:	<input type="checkbox"/> (2) oil and gas interests
<input type="checkbox"/> (1) variable life insurance	<input type="checkbox"/> (3) other (explain on Schedule F)
<input type="checkbox"/> (2) variable annuities	
<input type="checkbox"/> (3) mutual fund shares	<input type="checkbox"/> L. Other (explain on Schedule F)

4. Methods of Analysis, Sources of Information, and Investment Strategies.

A. Applicant's security analysis methods include: (check those that apply)

<input type="checkbox"/> (1) Charting	<input type="checkbox"/> (4) Cyclical
<input type="checkbox"/> (2) Fundamental	<input type="checkbox"/> (5) Other (explain on Schedule F)
<input type="checkbox"/> (3) Technical	

B. The main sources of information applicant uses include: (check those that apply)

<input type="checkbox"/> (1) Financial newspapers and magazines	<input type="checkbox"/> (5) Timing services
<input type="checkbox"/> (2) Inspections of corporate activities	<input type="checkbox"/> (6) Annual reports, prospectuses, filings with the Securities and Exchange Commission
<input type="checkbox"/> (3) Research materials prepared by others	<input type="checkbox"/> (7) Company press releases
<input type="checkbox"/> (4) Corporate rating services	<input type="checkbox"/> (8) Other (explain on Schedule F)

C. The investment strategies used to implement any investment advice given to clients include: (check those that apply)

<input type="checkbox"/> (1) Long term purchases (securities held at least a year)	<input type="checkbox"/> (5) Margin transactions
<input type="checkbox"/> (2) Short term purchases (securities sold within a year)	<input type="checkbox"/> (6) Option writing, including covered options, uncovered options, or spreading strategies
<input type="checkbox"/> (3) Trading (securities sold within 30 days)	<input type="checkbox"/> (7) Other (explain on Schedule F)
<input type="checkbox"/> (4) Short sales	

5. Education and Business Standards. Yes No

Are there any general standards of education or business experience that applicant requires of those involved in determining or giving investment advice to clients?.....

(If yes, describe these standards on Schedule F.)

6. Education and Business Background.

For:

- each member of the investment committee or group that determines general investment advice to be given to clients, or
- if the applicant has no investment committee or group, each individual who determines general investment advice given to clients (if more than five, respond only for their supervisors)
- each principal executive officer of applicant or each person with similar status or performing similar functions.

On Schedule F, give the:

• name	• formal education after high school
• year of birth	• business background for the preceding five years

7. Other Business Activities. (check those that apply)

A. Applicant is actively engaged in a business other than giving investment advice.

B. Applicant sells products or services other than investment advice to clients.

C. The principal business of applicant or its principal executive officers involves something other than providing investment advice.

(For each checked box describe the other activities, including the time spent on them, on Schedule F.)

8. Other Financial Industry Activities or Affiliations. (check those that apply)

A. Applicant is registered (or has an application pending) as a securities broker-dealer.

B. Applicant is registered (or has an application pending) as a futures commission merchant, commodity pool operator or commodity trading adviser.

C. Applicant has arrangements that are material to its advisory business or its clients with a related person who is a:

<input type="radio"/> (1) broker-dealer	<input type="radio"/> (7) accounting firm
<input type="radio"/> (2) investment company	<input type="radio"/> (8) law firm
<input type="radio"/> (3) other investment adviser	<input type="radio"/> (9) insurance company or agency
<input type="radio"/> (4) financial planning firm	<input type="radio"/> (10) pension consultant
<input type="radio"/> (5) commodity pool operator, commodity trading adviser or futures commission merchant	<input type="radio"/> (11) real estate broker or dealer
<input type="radio"/> (6) banking or thrift institution	<input type="radio"/> (12) entity that creates or packages limited partnerships

(For each checked box in C, on Schedule F identify the related person and describe the relationship and the arrangements.) Yes No

D. Is applicant or a related person a general partner in any partnership in which clients are solicited to invest?...

(If yes, describe on Schedule F the partnerships and what they invest in.)

9. Participation of Interest in Client Transactions.

Applicant or a related person: (check those that apply)

- A. As principal, buys securities for itself from or sells securities it owns to any client.
- B. As broker or agent effects securities transactions for compensation for any client.
- C. As broker or agent for any person other than a client effects transactions in which client securities are sold to or bought from a brokerage customer.
- D. Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest.
- E. Buys or sells for itself securities that it also recommends to clients.

(For each box checked, describe on Schedule F when the applicant or a related person engages in these transactions and what restrictions, internal procedures, or disclosures are used for conflicts of interest in those transactions.)

Describe, on Schedule F, your code of ethics, and state that you will provide a copy of your code of ethics to any client or prospective client upon request.

10. Conditions for Managing Accounts. Does the applicant provide investment supervisory services, manage investment advisory accounts or hold itself out as providing financial planning or some similarly termed services <i>and</i> impose a minimum dollar value of assets or other conditions for starting or maintaining an account?	Yes	No
(If yes, describe on Schedule F.)	<input checked="" type="radio"/>	<input type="radio"/>

11. Review of Accounts. If applicant provides investment supervisory services, manages investment advisory accounts, or holds itself out as providing financial planning or some similarly termed services:

A. Describe below the reviews and reviewers of the accounts. **For reviews**, include their frequency, different levels, and triggers factors. **For reviewers**, include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.

The performance of each account relative to market indices is reviewed on a daily basis. The investment merit of all account positions is reviewed on an ongoing basis in response to news developments, significant price changes, or changes in Palo Capital's investment outlook. All positions that represent at least 0.2% of Palo Capital's assets under management are reviewed at least quarterly. All reviews are conducted by Kevin O'Grady with assistance in data retrieval from Clare Tonks.

B. Describe below the nature and frequency of regular reports to clients on their accounts.

Clients receive monthly reports from the custodian (who is Charles Schwab in almost all cases). Clients receive quarterly reports prepared by a third-party data vendor under contract to Palo Capital showing the status for each account position and the account performance in comparison to the benchmark index. Some clients also receive ad hoc reports based on their inquiries to the advisor.

12. Investment or Brokerage Discretion.

A. Does applicant or any related person have authority to determine, without obtaining specific client consent, the:

- | | | |
|--|-----------------------|-----------------------|
| (1) securities to be bought or sold? | Yes | No |
| | <input type="radio"/> | <input type="radio"/> |
| (2) amount of the securities to be bought or sold? | Yes | No |
| | <input type="radio"/> | <input type="radio"/> |
| (3) broker or dealer to be used? | Yes | No |
| | <input type="radio"/> | <input type="radio"/> |
| (4) commission rates paid? | Yes | No |
| | <input type="radio"/> | <input type="radio"/> |

B. Does applicant or a related person suggest brokers to clients? Yes No

For each yes answer to A describe on Schedule F any limitations on the authority. For each yes to A(3), A(4) or B, describe on Schedule F the factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commission higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for products and research services received.

13. Additional Compensation.

Does the applicant or a related person have any arrangements, oral or in writing, where it:

- | | | |
|---|-----------------------|-----------------------|
| A. is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients? | Yes | No |
| | <input type="radio"/> | <input type="radio"/> |
| B. directly or indirectly compensates any person for client referrals? | Yes | No |
| | <input type="radio"/> | <input type="radio"/> |

(For each yes, describe the arrangements on Schedule F.)

14. Balance Sheet. Applicant must provide a balance sheet for the most recent fiscal year on Schedule G if applicant:

- has custody of client funds or securities (unless applicant is registered or registering only with the Securities and Exchange Commission); or
 - requires prepayment of more than \$500 in fees per client and 6 or more months in advance
- Has applicant provided a Schedule G balance sheet? Yes No

**Schedule F of
Form ADV
Continuation Sheet for Form ADV
Part II**

Applicant: Palo Capital, Inc.	SEC File Number: 801-	Date: 01-20-2009
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(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Form ADV: Palo Capital, Inc.	IRS Empl. Ident. No.: 20-3264567
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Item of Form (identify)	Answer
Item 1.D.	<p>ADVISORY SERVICES & FEES</p> <p>Palo Capital, Inc. ("PCI") is a registered investment advisor that manages investment portfolios on a discretionary basis for individuals, pension and profit-sharing plans, estates, trusts, and not-for-profit organizations. After assessing the financial and tax situation and investment preferences of the individual client, PCI constructs client-specific portfolios ("Separately Managed Accounts") appropriate to the client's circumstances. Investments are made primarily in individual equity securities traded on U.S. exchanges, but investments may include, but are not limited to, foreign securities, exchange-traded funds (ETFs), mutual funds, options, U.S. Treasury securities, and debt issues of corporations and government entities.</p> <p>PCI does not take possession or custody of the funds or securities of any client. Client funds are deposited in either a brokerage firm or bank custodian account. PCI holds a limited power of attorney to act on a discretionary basis with client accounts. As disclosed in 12B, PCI generally recommends Charles Schwab & Co., Inc. (Schwab) to its clients as the preferred broker-dealer and custodian. PCI has an established relationship with Schwab and may in the future establish relationships with other broker-dealers.</p> <p>PCI may provide limited consultation services to its investment management clients on investment and non-investment related matters. In the event that PCI provides such consultation services, PCI generally does not charge any fee for such services other than the investment management fees described below.</p> <p><u>Investment Management Agreement.</u> PCI's investment management services are provided on the basis of a Discretionary Investment Management Agreement setting forth the terms and conditions under which PCI shall manage the client's assets, and of a separate custodial/clearing agreement which the client enters into with each designated broker-dealer/custodian.</p> <p><u>Termination of Agreements.</u> Each Discretionary Investment Management Agreement provides that: (i) the client may terminate the agreement within five business days of its effective date without paying any fees or penalties; (ii) once the initial five-day period has passed, either party to the agreement may terminate the agreement at any time by providing thirty days written notice to the other party; (iii) the agreement shall be continuous until terminated; and (iv) upon termination, it is the client's responsibility to monitor the securities in the account, and PCI will have no further obligation to act or advise with respect to those assets. If the agreement is terminated during a calendar quarter, fees will be due to the termination date on a pro-rata basis. The calculation of</p>

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I. Full name of applicant exactly as stated in Item 1A of Form ADV: Palo Capital, Inc.	IRS Empl. Ident. No.: 20-3264567
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Item of Form (identify)	Answer										
	<p>performance-based fees for terminated agreements is specified in the applicable investment management agreement.</p> <p><u>Advisory Fees.</u> In accordance with the Discretionary Investment Management Agreement entered into between the client and PCI, PCI may cause fees to be paid out of the client's account by the client's custodian. PCI provides the client a statement showing the value of assets on which fees are based and the manner in which said fees are calculated. PCI does not provide such a statement or invoice to the custodian. Clients are required to acknowledge that it is the client's responsibility to review PC's invoices to ensure that fees are correctly calculated, and that the custodian will not verify PC's fee calculation. PC's fees do not include any brokerage commissions, bank fees, margin interest, securities exchange fees, wire transfer fees, or other fees associated with securities transactions as required by law. In the event that clients' funds are invested in a mutual fund, PCI's advisory fees are in addition to the fees charged by the mutual fund.</p> <p>Advisory fees are charged either as: (i) a fee based on the total value of assets under PCI's management; or (ii) a combination of an asset-based fee and a performance-based fee (see below) that is charged in accordance with all requirements of Rule 205-3 of the Investment Advisors Act of 1940 as amended. Qualifying clients have the option of choosing between these two fee schedules. Asset-based fees are paid quarterly in arrears, based upon the average daily value of the client's assets under management during the quarter. For purposes of the tiers within fee schedules, PCI will generally allow aggregation of assets from different accounts held by members of a client's immediate family living in the same household, subject to review of the specific circumstances.</p> <p><u>Option 1: Asset-Based Fee Only.</u></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>First \$500,000</td> <td>1.30% per annum</td> </tr> <tr> <td>Next \$500,000</td> <td>1.20% per annum</td> </tr> <tr> <td>Next \$1,000,000</td> <td>0.95% per annum</td> </tr> <tr> <td>Next \$2,000,000</td> <td>0.85% per annum</td> </tr> <tr> <td>Amounts over \$4,000,000</td> <td>0.75% per annum</td> </tr> </table>	First \$500,000	1.30% per annum	Next \$500,000	1.20% per annum	Next \$1,000,000	0.95% per annum	Next \$2,000,000	0.85% per annum	Amounts over \$4,000,000	0.75% per annum
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Next \$500,000	1.20% per annum										
Next \$1,000,000	0.95% per annum										
Next \$2,000,000	0.85% per annum										
Amounts over \$4,000,000	0.75% per annum										

**Schedule F of
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Continuation Sheet for Form ADV
Part II**

Applicant: Palo Capital, Inc.	SEC File Number: 801-	Date: 01-20-2009
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(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

I. Full name of applicant exactly as stated in Item 1A of Form ADV: Palo Capital, Inc.	IRS Empl. Ident. No.: 20-3264567
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Item of Form (identify)	Answer										
	<p><u>Option 2: Asset & Performance-Based Fee.</u> Qualifying clients may elect to have fees charged based on a combination of: (i) assets under management, and (ii) performance. To qualify, clients generally must have a minimum net worth of \$1,500,000 and \$750,000 under management with PCI. Clients electing this option are charged both the Asset-Based Fee and the Performance-Based Fee shown below.</p> <p><i>Asset-Based Fee (charged in addition to Performance-Based Fee below)</i></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>First \$500,000</td> <td>0.85% per annum</td> </tr> <tr> <td>Next \$500,000</td> <td>0.75% per annum</td> </tr> <tr> <td>Next \$1,000,000</td> <td>0.55% per annum</td> </tr> <tr> <td>Next \$2,000,000</td> <td>0.45% per annum</td> </tr> <tr> <td>Amounts over \$4,000,000</td> <td>0.40% per annum</td> </tr> </table> <p><i>Performance-Based Fee (charged in addition to Asset-Based Fee above)</i></p> <p>The Performance-Based Fee equals 20% of the amount by which the total return on the account exceeds the total return for the S&P500 index (or an alternative benchmark) for the applicable time period. This fee is calculated and paid annually in arrears and is pro-rated for partial years. If the account return is negative, no performance fee is charged, even if the return is better (less negative) than the return for the benchmark index. Total return includes realized and unrealized capital gains, dividends and other income. The determination of total return on the client account is after brokerage commissions and expenses, but before income taxes and the PCI Asset-Based Fee.</p> <p>Clients electing a Performance-Based fee are required to acknowledge disclosure that: (i) the Asset & Performance-Based Fee Option may result in a higher fee in comparison to the fee that would have resulted under the Asset-Based Fee Only; and (ii) a performance-based fee may create an incentive for PCI to take additional risks in comparison to a fee based only on asset value.</p> <p><u>Reduced Fees for Cash & Money Market Assets.</u> If the average daily value of the sum of cash and money market assets of an account exceeds 20% of the account's average daily value, the asset-based fee on the portion in excess of 20% of the account value is 0.2%.</p> <p>-</p> <p>-</p>	First \$500,000	0.85% per annum	Next \$500,000	0.75% per annum	Next \$1,000,000	0.55% per annum	Next \$2,000,000	0.45% per annum	Amounts over \$4,000,000	0.40% per annum
First \$500,000	0.85% per annum										
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Next \$1,000,000	0.55% per annum										
Next \$2,000,000	0.45% per annum										
Amounts over \$4,000,000	0.40% per annum										

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(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

I. Full name of applicant exactly as stated in Item 1A of Form ADV: Palo Capital, Inc.	IRS Empl. Ident. No.: 20-3264567
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Item of Form (identify)	Answer								
Item 4.A.	<p><u>Reduced Fees for Fixed Income Accounts.</u> Accounts holding only fixed income instruments, cash, or cash equivalents are charged an asset-based fee according to the following schedule:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>First \$500,000</td> <td>0.50% per annum</td> </tr> <tr> <td>Next \$500,000</td> <td>0.40% per annum</td> </tr> <tr> <td>Next \$1,000,000</td> <td>0.35% per annum</td> </tr> <tr> <td>Amounts over \$2,000,000</td> <td>0.30% per annum</td> </tr> </table> <p><u>Fee Schedule Exceptions.</u> Exceptions to the preceding fee schedule provisions are: (i) <u>Performance-Based fees</u> and fees for accounts of \$5,000,000 or more may be negotiated; (ii) advisory fees are discounted by 25-40% for family members of PCI principals, PCI employees and their families, and for not-for-profit charitable organizations; (iii) PCI principals are not charged advisory fees; and (iv) fees for accounts moving from other advisors may be modified on a time-limited basis.</p> <p><u>Minimum Fees and Account Size.</u> The minimum quarterly fee is \$1,000, and a minimum of \$250,000 in assets is typically required. An account accepted for management by PCI that is less than the asset minimum is still subject to the minimum quarterly fee of \$1,000.</p> <p><u>Rule 260.238 Disclosure.</u> Rule 260.238 of the California Code of Regulations requires all investment advisors to disclose to their advisory clients that lower fees for comparable services may be available from other sources.</p> <p>SECURITY ANALYSIS METHODS</p> <p>PCI's analysis of securities is based primarily on analysis of financial and other fundamental data. However, because security prices are influenced more by the future than by the past, PCI employs various approaches in addition to fundamental analysis in order to develop inferences about future security prices. These approaches include but are not limited to:</p> <ul style="list-style-type: none"> ● Identification of secular and cyclical trends which may impact certain industries or companies. ● Review of holdings and transactions of company insiders and investors with a history of successful investment in certain companies or industries ● Technical analysis of price and volume trading patterns. 	First \$500,000	0.50% per annum	Next \$500,000	0.40% per annum	Next \$1,000,000	0.35% per annum	Amounts over \$2,000,000	0.30% per annum
First \$500,000	0.50% per annum								
Next \$500,000	0.40% per annum								
Next \$1,000,000	0.35% per annum								
Amounts over \$2,000,000	0.30% per annum								

**Schedule F of
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Continuation Sheet for Form ADV
Part II**

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Item of Form (identify)	Answer																		
Item 4.B.	<p>SOURCES OF INFORMATION</p> <p>In addition to the sources listed in Item 4.B., PCI also uses: (i) online securities databases and screening software; (ii) company conference calls; and (iii) personal contacts in selected industries.</p>																		
Item 4.C.	<p>INVESTMENT STRATEGIES</p> <p>PCI's investment approach is heavily oriented toward long-term holdings, especially in taxable accounts. Short-term trades, and the use of options, short sales, and margin leverage are less common, and are limited to appropriate accounts and to market conditions which in PCI's judgment favor these tactics.</p>																		
Item 5.	<p>EDUCATION & BUSINESS STANDARDS</p> <p>PCI requires that personnel involved in the review and selection of investments have a demonstrated track record of superior performance in similar investing activity as well as relevant educational background.</p>																		
Item 6.	<p>EDUCATION AND BUSINESS BACKGROUND</p> <p>Kevin F. O'Grady, President and Chief Investment Officer. Born 1950.</p> <p><u>Education</u></p> <table> <tr> <td>1972</td> <td>B.A., magna cum laude, Brown University, Providence, RI.</td> </tr> <tr> <td>1977</td> <td>M.D., Stanford University, Palo Alto, CA.</td> </tr> <tr> <td>1982</td> <td>M.S., Health Services Administration, UCLA, Los Angeles, CA.</td> </tr> </table> <p><u>Business Background</u></p> <table> <tr> <td>1981-1983:</td> <td>Research Scientist, Dept. of Economics, Rand Corporation</td> </tr> <tr> <td>1983-1988:</td> <td>Vice President, Health Data Institute, Boston, MA. Healthcare cost management firm serving Fortune 100 employers.</td> </tr> <tr> <td>1989-1998:</td> <td>President, Center for Healthcare Information, Inc. Data vendor to managed care industry.</td> </tr> <tr> <td>1999-2003:</td> <td>Chief Financial Officer, Valence Semiconductor, Irvine, CA</td> </tr> <tr> <td>2003-2005:</td> <td>Private Investor</td> </tr> <tr> <td>2005-date:</td> <td>President, Palo Capital, Inc.</td> </tr> </table>	1972	B.A., magna cum laude, Brown University, Providence, RI.	1977	M.D., Stanford University, Palo Alto, CA.	1982	M.S., Health Services Administration, UCLA, Los Angeles, CA.	1981-1983:	Research Scientist, Dept. of Economics, Rand Corporation	1983-1988:	Vice President, Health Data Institute, Boston, MA. Healthcare cost management firm serving Fortune 100 employers.	1989-1998:	President, Center for Healthcare Information, Inc. Data vendor to managed care industry.	1999-2003:	Chief Financial Officer, Valence Semiconductor, Irvine, CA	2003-2005:	Private Investor	2005-date:	President, Palo Capital, Inc.
1972	B.A., magna cum laude, Brown University, Providence, RI.																		
1977	M.D., Stanford University, Palo Alto, CA.																		
1982	M.S., Health Services Administration, UCLA, Los Angeles, CA.																		
1981-1983:	Research Scientist, Dept. of Economics, Rand Corporation																		
1983-1988:	Vice President, Health Data Institute, Boston, MA. Healthcare cost management firm serving Fortune 100 employers.																		
1989-1998:	President, Center for Healthcare Information, Inc. Data vendor to managed care industry.																		
1999-2003:	Chief Financial Officer, Valence Semiconductor, Irvine, CA																		
2003-2005:	Private Investor																		
2005-date:	President, Palo Capital, Inc.																		

**Schedule F of
Form ADV
Continuation Sheet for Form ADV
Part II**

Applicant: Palo Capital, Inc.	SEC File Number: 801-	Date: 01-20-2009
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(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Form ADV: Palo Capital, Inc.	IRS Empl. Ident. No.: 20-3264567
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Item of Form (identify)	Answer
Item 9.	<p>PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS</p> <p><u>Code of Ethics.</u> PCI and its personnel operate under a Code of Ethics that provides general ethical guidelines and specific instructions regarding PCI's duties to its clients. A copy of this Code of Ethics is available upon request.</p> <p>PCI, including its principals and employees, often invests in the same securities in which PCI invests clients' funds. While PCI believes that such investment contributes to superior investment performance, PCI recognizes that it also creates a potential for conflict of interest. PCI's Code of Ethics governs the personal investing of PCI personnel and seeks to ensure that PCI and its personnel place the interests of the firm's advisory clients first at all times and conduct all personal trading in such a manner as to avoid any conflict of interest or any abuse of PCI's position of trust and responsibility.</p> <p>Under this Code of Ethics, no PCI principal or employee may benefit, either directly or indirectly, from transactions placed on behalf of advisory accounts. Employees cannot buy or sell securities for their personal portfolios where their decision is substantially derived, in whole or part, from their employment, unless the information is also available to the investing public on reasonable inquiry. PCI monitors its employees' personal and proprietary trading activity. This activity is reviewed at least quarterly to ensure compliance with internal control policies and procedures. PCI strives to ensure that all employees act in accordance with applicable regulations governing registered investment advisory practices as applicable to the firm. Employees not in observance of this goal are subject to sanctions, including termination of employment.</p> <p>PCI commonly aggregates trades across multiple accounts in order to assure the best overall price on such transactions. When PCI is trading the same securities in both client accounts and in accounts in which PCI, its principals, or its employees have a beneficial interest ("PCI proprietary accounts"), PCI's usual practice is to place the trades for PCI proprietary accounts separately from the trades for client accounts, and to place the client account trades before the trades for PCI proprietary accounts. Although this practice is designed to protect the interests of PCI clients, it cannot guarantee that client trades will always be made at a better price than trades in PCI proprietary accounts due to the fluctuations in market prices from minute to minute.</p>

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Item of Form (identify)	Answer
Item 10.	<p>In accordance with Section 204A of the Investment Adviser's Act of 1940, PCI maintains and enforces written policies reasonably designed to prevent misuse of material non-public information by any person associated with PCI.</p> <p>CONDITIONS FOR MANAGING ACCOUNTS</p> <p>A minimum of \$250,000 in assets is typically required. An account accepted for management by PCI that is less than the asset minimum is still subject to a minimum quarterly fee of \$1,000.</p>
Item 11.A.	<p>REVIEW OF ACCOUNTS: REVIEWS & REVIEWS</p> <p>PCI's investment management process includes the review activities listed below. All reviews are conducted by PCI's Chief Investment Officer.</p> <p><u>Individual Equity Review.</u></p> <ul style="list-style-type: none"> ● On a continuous basis, all securities held in accounts under PCI management are monitored for news developments and technical activity (price and volume data) that may impact their investment appeal. Each such security is assessed against the universe of all equities followed by PCI and rated as to its relative attractiveness for buys or sells. ● On at least a quarterly basis, PCI conducts a review for each company of: (i) its fundamentals (financials);(ii) its industry outlook; (iii) its fit with PCI's investment themes and PCI's macroeconomic outlook; and (iv) whether PCI's investment thesis for the security is still intact. <p><u>Investment Strategy Review.</u></p> <ul style="list-style-type: none"> ● On a quarterly and ongoing basis, PCI conducts a review of its investment strategy. This process encompasses a review of data and third-party research on macroeconomic conditions, with a particular emphasis on liquidity issues. PCI's investment themes are reviewed in terms of market performance, economic conditions, business cycles, and technology, political, and social developments related to these themes. <p>-</p> <p>-</p> <p>-</p> <p>-</p>

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Item 11.B.	<p><u>Client Account Review.</u></p> <ul style="list-style-type: none"> ● With each client, PCI conducts an initial review of the client's financial situation, investment timeframes and risk tolerances. ● On a continuous basis but no less often than monthly, client portfolios are reviewed for investment performance, conformity to the client's investment policy statement, and the investment merits account positions. ● On an annual basis, clients are asked to update the data they have provided to PCI on their financial and investment profile. Clients are also advised that it is their responsibility to notify PCI of any changes in their financial situation as such changes occur. <p><u>Other Review Triggers.</u> In addition to the above, reviews may be triggered by client request or by economic or market events.</p> <p>REVIEW OF ACCOUNTS: REPORTS TO CLIENTS</p> <p>Clients receive the following reports directly from the broker-dealer/custodian:</p> <ul style="list-style-type: none"> ● Confirmation reports for all trades ● Monthly statements showing account positions, balances, and activity ● Annual tax statements (1099s). <p>PCI provides clients with quarterly and annual reports containing:</p> <ul style="list-style-type: none"> ● Account positions including valuation ● Account performance in comparison to benchmark indices
Item 12.	<p>INVESTMENT OR BROKERAGE DISCRETION</p> <p><u>Investment Discretion.</u> PCI manages clients' securities on a discretionary basis which typically includes specification of the securities that are to be bought or sold, as well as the amounts of such securities. Clients do not approve transactions before they are executed. However, clients receive a confirmation following each transaction from the brokerage firm and monthly statements from the custodian. Clients may limit PCI's discretionary authority through restrictions on purchase of certain securities or of securities in specific industries.</p>

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Item of Form (identify)	Answer
	<p><u>Brokerage Discretion.</u> PCI's discretionary authority typically covers choice of the brokers through which securities are to be bought or sold, and the commission rates at which securities transactions for client accounts are effected.</p> <p>PCI uses Charles Schwab & Co., Inc. ("Schwab") as its primary custodian. Through its relationship with Schwab, PCI has access to specialized electronic information downloads and batched statements, specialized institutional brokerage trading and customer service teams, and investment management software. These services enable PCI to more efficiently manage clients' accounts, and allow clients to receive a superior level of reporting services.</p> <p>While PCI may direct certain trades to brokers or dealers other than Schwab, Schwab serves as the broker-dealer for most client transactions. In selecting broker-dealers, PCI uses its good faith judgment taking into consideration:</p> <ul style="list-style-type: none"> ● Execution capabilities ● Brokerage commissions rates ● Custodial and other services that may enhance PCI's investment management capabilities ● Size and execution difficulty of the transaction ● Risk in positioning a block of securities ● Quality of the overall brokerage and customer service provided by the broker-dealer under consideration. <p>While Schwab and other brokers and dealers used by PCI offer commission rates that PC believes to be very competitive, for almost any transaction, there will be a broker-dealer offering a lower commission rate.</p>

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Item of Form (identify)	Answer
Item 13.	<p><u>No "Soft-Dollar" Research.</u> Arrangements under which an investment advisor receives research products or services in return for directing business to a broker-dealer are referred to as "soft dollar" arrangements. While such arrangements may be consistent with the best interests of the advisor's clients, PCI has no such arrangements at present.</p> <p>ADDITIONAL COMPENSATION</p> <p>Through its relationship with Charles Schwab & Co., Inc., PCI has access to specialized services which enable PC to more efficiently manage clients' accounts. These services may represent an economic benefit to PCI in that PCI is either not charged for these services or charged at a rate lower than the rate which might apply absent PCI's relationship with Schwab.</p>