



**Section 1 - Registrant's Business and Operations**

**Item 1.01. Entry into a Material Definitive Agreement.**

On July 19, 2006, pursuant to a lease agreement with its landlord, Riderwood Associates Limited Partnership (the "Landlord"), Bay National Bank (a wholly owned subsidiary of Bay National Corporation) (the "Bank") agreed, beginning October 1, 2006, to lease 4,317 square feet of space on the first floor of a building (the "Building") located at 1122 Kenilworth Drive, Towson, Maryland. The Bank intends to use this space for its Baltimore residential mortgage operation.

Pursuant to the lease agreement, the Bank agreed to an initial lease term of five years and two months, terminating on November 30, 2011. The Bank was also provided the right to renew the lease for one additional five-year term. As part of this agreement, the aggregate rent due under the lease is \$8,454.13 monthly from December 2006 through November 2007. For each lease year thereafter, including any lease years during any renewal term, the yearly base rent will increase by three percent.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BAY NATIONAL CORPORATION

Date: July 19, 2006

By: /s/ Hugh W. Mohler  
Hugh W. Mohler, President

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