

Part 2A of Form ADV: *Firm Brochure*

CALLAHAN CAPITAL MANAGEMENT

1169 HILLTOP PKWY
STEAMBOAT SPRINGS, CO 80487

Telephone: 970-870-8750
Email: DAVID@CALLAHANCAPITAL.COM
Web Address: CALLAHANCAPITAL.COM

December 2017

This brochure provides information about the qualifications and business practices of CALLAHAN CAPITAL MANAGEMENT. If you have any questions about the contents of this brochure, please contact us at 970-870-8750 or DAVID@CALLAHANCAPITAL.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 or license does not imply a certain degree of skill or training.

Additional information about CALLAHAN 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 110568.

Item 2 Material Changes

This Form ADV Part 2A and 2B, dated December 18, 2017, is our current disclosure document prepared according to the SEC's requirements and rules

You are welcome to request a current Form ADV Part 2A and copies of the 2B from the main office of Callahan Capital Management, at any time. Any Material changes to the firm will be delivered to you in an updated Form ADV Part 2A and 2B, when necessary.

Callahan Capital Management has a branch office located at 9110 East Nichols Avenue, #122, Centennial, CO, 80112. This branch is staffed by Peter C. Johnson. The activities of this office are supervised by David Shepard.

Mr. John McCollum was licensed with Callahan Capital Management, as an Investment Advisor Representative with the firm on May 25, 2017. His CRD # is 6782261. He is located at the main office in Steamboat Springs, CO and is supervised by David Shepard.

As part of a five-year succession plan, Callahan Capital Management has, as of 12/31/2012, transitioned majority ownership from Daniel E. Callahan to David B. Shepard. Daniel Callahan will continue to be fully employed for the next several or more years. His role in investment management, account review, and wealth management will continue as more responsibility shifts to David Shepard. The account management and reporting will stay the same. The account agreement stays in effect and the contract stays in effect but has been reassigned to reflect the change of ownership and control. These changes became effective January 8, 2013.

Daniel E. Callahan, terminated his relationship with Callahan Capital Management as of November 2016.

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

Item 4 Advisory Business

CALLAHAN CAPITAL MANAGEMENT is an SEC registered Investment Adviser as of April 17, 2017/, with its principal place of business located in Steamboat Springs, COLORADO. CALLAHAN CAPITAL MANAGEMENT began conducting business in 1995. The firm has one branch office located in Denver, CO.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company):

- DAVID BRUCE SHEPARD, PRES

CALLAHAN CAPITAL MANAGEMENT offers the following advisory services to our clients:

INDIVIDUAL PORTFOLIO MANAGEMENT

Our firm provides continuous asset management of client funds based, as noted on Form ADV Part 1, 5F, on the individual needs of the client. Through personal discussions in which goals and objectives based on the client's particular circumstances are established, we develop the client's personal investment policy. We 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. If a financial plan is requested by an advisory client, all of the previously mentioned data will be taken into consideration as well as any specific needs a client may have developed or may be a future part of the client financial need or objectives. As appropriate, we may 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 or non-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.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Once the client's portfolio has been established, we review the portfolio **quarterly**, and if necessary, rebalance the portfolio periodically, based on the client's individual needs.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants

- Corporate debt securities (other than commercial paper)
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- Interests in partnerships investing in real estate

Because some types of investments involve certain additional degrees of risk, they will only be [implemented **OR** recommended] when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

Callahan Capital Management utilizes MoneyGuidePro financial planning software for existing clients when requested. The company or the investment advisers do not receive any additional compensation for this service. The client is under no obligation to act upon the adviser's recommendation and if the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through Callahan Capital Management. MoneyGuidePro is an additional tool that may or may not be used in the building of a comprehensive personalized investment recommendation.

From time to time, Callahan Capital Management may offer educational seminars/workshops to clients and prospects. The adviser may charge an admission fee of no more than \$30 form each attendee or couple. Attendees are under no obligation to act on any recommendation and are under no obligation to effect any recommendation through Callahan Capital Management.

AMOUNT OF MANAGED ASSETS

As of 12/31/2016, we were actively managing \$114,952,016 client assets on a discretionary basis for 301 clients, plus \$335,746 for 7 non-discretionary clients.

Item 5 Fees and Compensation

PORTFOLIO MANAGEMENT SERVICES FEES

The annualized fee for Portfolio Management Services will be charged as a percentage of assets under management, quarterly in **advance** based on the value of the assets of the preceding calendar quarter, on the last day of the calendar quarter, and will receive a quarterly calculation of the Investment Advisory Fee. The advisory fee will be charged according to the following schedule:

Assets Under Management

Annual Fee

Up to \$500,000
\$500,000 and over

1.00% - 1.50%
Negotiable

Limited Negotiability of Advisory Fees: Although CALLAHAN 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.

The advisory fee is based on the total market value of assets under management on the first day of each quarter, or if assets are added during a quarter, on a pro rata basis on the day the funds are added. The pro rata formula is based on a 92 day quarter. Clients are billed only for the time when their assets are managed. Fees are billed at beginning of each quarter and may be deducted directly from the Clients account.

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 CALLAHAN CAPITAL MANAGEMENT for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or EFTs 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.

Wrap Fee Programs and Separately Managed Account Fees: Clients participating in separately managed account programs may be charged various program fees in addition to the advisory fee charged by our firm. Such fees may include the investment advisory fees of the independent advisers, which may be charged as part of a wrap fee arrangement. In a wrap fee arrangement, clients pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions may be executed without commission charge in a wrap fee arrangement. In evaluating such an arrangement, the client should also consider that, depending upon the level of the wrap fee charged by the broker dealer, the amount of portfolio activity in the client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. We will review with clients any separate program fees that may be charged to clients. Our involvement in a wrap fee program is limited to only recommending wrap fee programs for our clients.

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. Client advisory fees are billed quarterly in advance. Clients will designate on the Investment Advisory agreement as to their choice of fee billing, as to withdrawal from a custodial account or to make a direct payment after invoice billing from the advisor.

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

CALLAHAN CAPITAL MANAGEMENT does not charge performance-based fees.

Item 7 Types of Clients

CALLAHAN CAPITAL MANAGEMENT has no account minimum and provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans(other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above

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.

Asset Allocation. Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

Mutual Fund and/or ETF Analysis. We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund

or ETF, which could make the holding(s) less suitable for the client's portfolio.

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.

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.

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.

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. If an option strategy is applicable for an advisory client, the client must be authorized before any transaction may be made in the client advisory account. 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.

Investing in securities involves risk of loss that clients should be prepared to bear.

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.

CALLAHAN 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.

CALLAHAN CAPITAL MANAGEMENT's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. This non-public information would also include client birthdates and social security numbers.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy of the Code of Ethics by e-mail at DAVID@CALLAHANCAPITAL.COM or by calling us at 970-870-8750.

CALLAHAN CAPITAL MANAGEMENT and individuals associated with our firm are prohibited from engaging in principal transactions.

CALLAHAN CAPITAL MANAGEMENT and individuals associated with our firm are 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. This may pose a conflict of interest.

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.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics,

to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. 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. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
8. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
9. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
10. Any individual who violates any of the above restrictions may be subject to termination.

Item 12 Brokerage Practices

CALLAHAN CAPITAL MANAGEMENT requires that it be provided with written authority to determine the broker-dealer to use for client transactions and the commission costs that will be charged to our clients for these transactions.

Clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.

As a matter of policy and practice, CALLAHAN CAPITAL MANAGEMENT does not generally block client trades and, therefore, we implement client transactions separately for each

account. Consequently, certain client trades may be executed before others, at a different price and/or commission rate. Additionally, our clients may not receive volume discounts available to advisers who block client trades.

CALLAHAN CAPITAL MANAGEMENT may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although we recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. CALLAHAN CAPITAL MANAGEMENT is independently owned and operated and not affiliated with Schwab.

Schwab provides CALLAHAN CAPITAL MANAGEMENT with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Institutional. These services are not contingent upon our firm committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab Institutional also makes available to our firm other products and services that benefit CALLAHAN CAPITAL MANAGEMENT but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist us in managing and administering our clients' accounts include software and other technology that

- i. provide access to client account data (such as trade confirmations and account statements);
- ii. facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- iii. provide research, pricing and other market data;
- iv. facilitate payment of our fees from clients' accounts; and
- v. assist with back-office functions, recordkeeping and client reporting.

Schwab Institutional also offers other services intended to help us manage and further develop our business enterprise. These services may include:

- i. compliance, legal and business consulting;
- ii. publications and conferences on practice management and business succession; and
- iii. access to employee benefits providers, human capital consultants and insurance providers.

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to CALLAHAN CAPITAL MANAGEMENT. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Schwab Institutional may also provide other benefits such as educational events or occasional business entertainment of our personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

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 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: DAVID B. SHEPARD, Pres., and PETER C. JOHNSON VP.

REPORTS: In addition to the monthly statements and confirmations of transactions that Portfolio Management Services clients receive from their broker-dealer, CALLAHAN CAPITAL MANAGEMENT will provide quarterly reports summarizing account performance, balances and holdings.

Item 14 Client Referrals and Other Compensation

It is CALLAHAN CAPITAL MANAGEMENT's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is CALLAHAN 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 Form ADV

Part 2, that our firm directly debits advisory fees from client accounts, with written authorization provided to both CALLAHAN CAPITAL MANAGEMENT and the custodian of the client assets.

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 may be deemed to have constructive custody of client funds based on the three components listed above.

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 is limited to trading only and does not allow us to have access to client funds. Our trading 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.

If a client has a non-discretionary account with CCM, trading authority needs to be granted to the firm in order to place trades after the client grants approval / authorization for those recommendation and this is limited to trading only and the Advisory will not have access to client funds.

Item 17 Voting Client Securities

We may vote proxies for client accounts that have provided in writing on the Investment Advisory agreement the authority to do so; however, you always have the right to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies in your account.

CCM will not vote proxies for non-discretionary client account.

We will vote proxies in the best interests of its clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting David Shepard by telephone, email, or in writing. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact David Shepard by telephone, email, or in writing.

We vote proxies for some, but not all of our clients. Clients may, at their election, choose to receive proxies related to their own accounts, in which case we may consult with clients as requested. The client will make a choice on signing the Investment Advisory agreement as to whether they wish to have CCM vote proxies on their behalf or if they opt out of the firm voting the proxies.

We will vote those proxies in the best interests of its clients and in accordance our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting [Name] by telephone, email, or in writing. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit

copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

Securities not purchased or held for clients by CALLAHAN CAPITAL MANAGEMENT in a client's account, is done so as an accommodation to client. For accounts where we do not vote proxies, 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 do not offer any consulting assistance regarding proxy issues to clients.

You can instruct us to vote proxies according to particular criteria (for example, to always vote with management, or to vote for or against a proposal to allow a so-called "poison pill" defense against a possible takeover). These requests must be made in writing. You can also instruct us on how to cast your vote in a particular proxy contest by contacting us at Callahan Capital Management, 1169 Hilltop Pkwy., Steamboat Springs, Co. 80487.

Item 18 Financial Information

CALLAHAN 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 more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

CALLAHAN CAPITAL MANAGEMENT has not been the subject of a bankruptcy petition at any time during the past ten years.

ITEM 19 Requirement for State Advisers

- A. Education and business background of officers are supplied in Form ADV-2 Supplements.
- B. Neither officers are actively engaged in any other business.
- C. Neither Callahan Capital Management nor any officer is compensated with performance based fees.
- D. Neither officer has been involved in any arbitration claims nor have they found liable in any civil, self-regulatory organization, or administrative proceeding.
- E. Neither Callahan Capital Management nor any officer has any relationship or arrangement with any issuer of securities that is not listed in Item 10C.

F. Any and all material conflicts of interest are disclosed regarding Callahan Capital Management, its representatives or any of its employees which could reasonably be expected to impair the rendering of unbiased and objective advice.