

Firm Brochure

(Part 2A of Form ADV)

COMPUTATIONAL MANAGEMENT, INC.

2317 SW Vista Ave

Portland, OR 97201

Phone: 503-297-5097

Fax: 425-955-1377

Email: info@cmi-advisory.com

This brochure provides information about the qualifications and business practices of COMPUTATIONAL MANAGEMENT, INC.. If you have any questions about the contents of this brochure, please contact us at: 503-297-5097, or by email at: info@cmi-advisory.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.

Additional information about COMPUTATIONAL MANAGEMENT, INC. is available on the SEC's website at www.adviserinfo.sec.gov

March 9, 2011

Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 503-297-5097 or by email at: info@cmi-advisory.com.

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Advisory Business

Firm Description

COMPUTATIONAL MANAGEMENT, INC. was founded in 2001.

COMPUTATIONAL MANAGEMENT, INC. provides personalized confidential investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and small businesses.

COMPUTATIONAL MANAGEMENT, INC. is strictly a fee-only investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

COMPUTATIONAL MANAGEMENT, INC. does not act as a custodian of client assets. The client always maintains asset control. COMPUTATIONAL MANAGEMENT, INC. places trades for clients under a limited power of attorney.

Principal Owners

Jay Barry Epperson, Jr. is 100% shareholder.

Types of Advisory Services

COMPUTATIONAL MANAGEMENT, INC. provides specialty investment management services primarily related to the use of equity and equity index options for portfolio risk management purposes.

As of March 9, 2011, COMPUTATIONAL MANAGEMENT, INC. manages approximately \$348,000,000 in assets for five sub-advisory clients through a single master client. The assets are managed on an entirely discretionary basis coordinated with the master client.

Tailored Relationships

The goals and objectives for each client are documented in our client relationship management system. Investment policy statements are created that reflect the stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

Types of Agreements

The following agreements define the typical client relationships.

Advisory Service Agreement

Most clients choose to have COMPUTATIONAL MANAGEMENT, INC. manage their assets in order to obtain ongoing in-depth advice. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis. The scope of work and fee for an Advisory Service Agreement is provided to the client in writing prior to the start of the relationship.

Although the Advisory Service Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

Investments may include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through COMPUTATIONAL MANAGEMENT, INC..

Termination of Agreement

A Client may terminate any of the aforementioned agreements at any time by notifying COMPUTATIONAL MANAGEMENT, INC. in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If the client made an advance payment, COMPUTATIONAL MANAGEMENT, INC. will refund any unearned portion of the advance payment.

COMPUTATIONAL MANAGEMENT, INC. may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, COMPUTATIONAL MANAGEMENT, INC. will refund any unearned portion of the advance payment.

Fees and Compensation

Description

COMPUTATIONAL MANAGEMENT, INC. bases its fees on a percentage of assets under management. Currently its fees are a fixed percentage of fees charged by its master client to several sub-advisory clients.

Fees are at all times negotiable.

Fee Billing

Investment management fees are billed quarterly, in arrears meaning that we invoice you after the three-month billing period has ended. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Other Fees

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

COMPUTATIONAL MANAGEMENT, INC., in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to COMPUTATIONAL MANAGEMENT, INC..

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

Past Due Accounts and Termination of Agreement

COMPUTATIONAL MANAGEMENT, INC. reserves the right to stop work on any account that is more than 60 days overdue. In addition, COMPUTATIONAL MANAGEMENT, INC. reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in COMPUTATIONAL MANAGEMENT, INC.'s judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days.

Performance-Based Fees

Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

COMPUTATIONAL MANAGEMENT, INC. does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

Types of Clients

Description

COMPUTATIONAL MANAGEMENT, INC. generally provides investment advice to individuals, banks or thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities, or other investment advisors.

Client relationships vary in scope and length of service.

Account Minimums

The minimum account size is \$500,000 of assets under management.

COMPUTATIONAL MANAGEMENT, INC. has the discretion to waive the account minimum. Accounts of less than \$500,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$500,000 within a reasonable time. Other exceptions will apply to employees of COMPUTATIONAL MANAGEMENT, INC. and their relatives, or relatives of existing clients.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Investment Strategies

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time.

Strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.

- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Disciplinary Information

Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

Other Financial Industry Activities and Affiliations

(None)

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

The employees of COMPUTATIONAL MANAGEMENT, INC. have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

COMPUTATIONAL MANAGEMENT, INC. and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the COMPUTATIONAL MANAGEMENT, INC. *Compliance Manual*.

Personal Trading

The Chief Compliance Officer of COMPUTATIONAL MANAGEMENT, INC. is Jay Epperson. He reviews all employee trades each quarter. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment.

Brokerage Practices

Selecting Brokerage Firms

COMPUTATIONAL MANAGEMENT, INC. does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. COMPUTATIONAL MANAGEMENT, INC. recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

COMPUTATIONAL MANAGEMENT, INC. recommends discount brokerage firms and trust companies (qualified custodians), such as Knight Direct.

COMPUTATIONAL MANAGEMENT, INC. does not receive fees or commissions from any brokerage arrangements.

Best Execution

COMPUTATIONAL MANAGEMENT, INC. reviews the execution of trades at each custodian each quarter. The review is documented in the COMPUTATIONAL MANAGEMENT, INC. *Compliance Manual*. Trading fees charged by the custodians is also reviewed on a quarterly basis. COMPUTATIONAL MANAGEMENT, INC. does not receive any portion of the trading fees.

Soft Dollars

COMPUTATIONAL MANAGEMENT, INC. does not have soft dollar arrangements in place with any brokerage firm.

Order Aggregation

Most trades are aggregated in such a way that all client accounts receive the same execution price.

Review of Accounts

Periodic Reviews

Account reviews are performed monthly by Jay Epperson. Account reviews are performed more frequently when market conditions dictate.

Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

Regular Reports

Clients have online access to account positions and receive monthly reports from their custodians. COMPUTATIONAL MANAGEMENT, INC. also independently prepares monthly account reports.

Client Referrals and Other Compensation

Incoming Referrals

COMPUTATIONAL MANAGEMENT, INC. has been fortunate to receive many client referrals over the years. The firm does not compensate referring parties for these referrals.

Referrals Out

COMPUTATIONAL MANAGEMENT, INC. does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Custody

Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by COMPUTATIONAL MANAGEMENT, INC..

Investment Discretion

Discretionary Authority for Trading

COMPUTATIONAL MANAGEMENT, INC. accepts discretionary authority to manage securities accounts on behalf of clients. COMPUTATIONAL MANAGEMENT, INC. has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, COMPUTATIONAL MANAGEMENT, INC. consults with the client prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

The client approves the custodian to be used and the commission rates paid to the custodian. COMPUTATIONAL MANAGEMENT, INC. does not receive

any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades that you have approved.

Voting Client Securities

Proxy Votes

COMPUTATIONAL MANAGEMENT, INC. does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, COMPUTATIONAL MANAGEMENT, INC. will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

Financial Information

Financial Condition

COMPUTATIONAL MANAGEMENT, INC. does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because COMPUTATIONAL MANAGEMENT, INC. does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

Business Continuity Plan

General

COMPUTATIONAL MANAGEMENT, INC. has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up and archived offsite.

Alternate Offices

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

Loss of Key Personnel

COMPUTATIONAL MANAGEMENT, INC. has a Business Continuation Agreement with another financial advisory firm to support COMPUTATIONAL MANAGEMENT, INC. in the event of Jay Epperson's serious disability or death.

Information Security Program

Information Security

COMPUTATIONAL MANAGEMENT, INC. maintains an information security program to reduce the risk that your personal and confidential information may be breached.

Privacy Notice

COMPUTATIONAL MANAGEMENT, INC. is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

Brochure Supplement (Part 2B of Form ADV)

Education and Business Standards

COMPUTATIONAL MANAGEMENT, INC. requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of portfolios management. Examples of acceptable coursework include: an MBA, a CFP®, a CFA, a ChFC, JD, CTFA, EA or CPA.

Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

Certified Financial Planner (CFP): Certified Financial Planners are licensed by the CFP Board to use the CFP mark. CFP certification requirements:

- Bachelor's degree from an accredited college or university.
- Completion of the financial planning education requirements set by the CFP Board (www.cfp.net).
- Successful completion of the 10-hour CFP® Certification Exam.
- Three-year qualifying full-time work experience.
- Successfully pass the Candidate Fitness Standards and background check.

Chartered Financial Analyst (CFA): Chartered Financial Analysts are licensed by the CFA Institute to use the CFA mark. CFA certification requirements:

- Hold a bachelor's degree from an accredited institution or have equivalent education or work experience.
- Successful completion of all three exam levels of the CFA Program.
- Have 48 months of acceptable professional work experience in the investment decision-making process.
- Fulfill society requirements, which vary by society. Unless you are upgrading from affiliate membership, all societies require two sponsor statements as part of each application; these are submitted online by your sponsors.
- Agree to adhere to and sign the Member's Agreement, a Professional Conduct Statement, and any additional documentation requested by CFA Institute.

Enrolled Agent (EA): Enrolled Agents are enrolled by the Internal Revenue Service and authorized to use the EA designation. EA enrollment requirements:

- Successful completion of the three-part IRS Special Enrollment Examination (SEE), or completion of five years of employment by the IRS in a position which regularly interpreted and applied the tax code and its regulations.
- Successfully pass the background check conducted by the IRS.

Jay Barry Epperson, Jr., Ph.D., CFA

Educational Background:

- Date of birth: 02/05/1962
- B.S. in Mathematics University of Michigan 1984, Ph.D. in Mathematics Princeton University 1988.

Business Experience:

- 1998 – 2000 Pacific Income Advisers, Senior Investment Officer
- 2001 – 2002 Duke Energy Corporation, Director, Equity Portfolio Management
- 2002 – present Computational Management, Inc., President

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision:

(self)