

Part 2A of Form ADV: *Firm Brochure*

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This brochure provides information about the qualifications and business practices of McDonald Capital Management (hereinafter “MCM” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (806) 744-8617 or at emcdonald@mcdcap.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 MCM 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. The CRD number for MCM is 114531.

Item 2. Summary of Material Changes

On July 21, 2010, the U. S. Securities and Exchange Commission (the "SEC") unanimously adopted changes to Form ADV, Part II. All fifty states have also adopted the new format, with some additional state-specific disclosures mandated. The new Part 2, also known as the "Brochure" has 18 separate items that our firm must address (19 for state-registered advisers), each of which requires disclosure on a distinct topic, and answers must be presented in the order of the items in the form, using the headings in the form. Our goal is to provide you with easy-to-understand "plain-English disclosure," using an easy-to-read format and definite, concrete, everyday words.

Our current (updated) Form ADV, Part 2 will be available to our existing and prospective clients 24 hours a day through the Investment Adviser Public Disclosure website. Additionally, we will annually and within 120 days of the end of our fiscal year, provide you either: (i) a copy of our Form ADV, Part 2 that includes or is accompanied by a summary of material changes; or (ii) a summary of material changes that includes an offer to provide a copy of the current Form ADV, Part 2. We urge you to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to our advisory services, fee structure, business practices, conflicts of interest, and disciplinary history.

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Item 4. Advisory Business

MCM is a fee-only SEC-registered investment adviser (SEC File Number 801-61327) with its principal place of business located in Lubbock, Texas. Our firm has been in business since 1990, with Eric Craig McDonald as majority owner.

Discretionary assets under our firm's management were \$108,370,000 as of December 31, 2010.

We do not currently have any non-discretionary assets under management.

Portfolio Management Services

MCM is in the business of managing individually tailored investment portfolios. Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy or investment plan and create and manage a portfolio based on that policy or plan. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. We may also review and discuss a client's prior investment history, as well as family composition and background.

We will manage advisory accounts on a discretionary basis only. For these discretionary accounts, we will implement transactions without seeking prior client consent.

Account supervision is guided by the stated objectives of the client (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.

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

- "No-load" or "load-waived" mutual funds
- Equity securities
- Fixed income securities
- Closed-end mutual funds

Occasionally, we may also recommend the following instruments:

- Warrants
- Commercial paper
- Certificates of Deposit
- Municipal securities
- US government securities
- Option contracts on securities

Consulting Services

Clients can also receive investment advice on a more limited basis. This may include advice on only an isolated area(s) of concern such as retirement planning, reviewing a client's existing portfolio, or any other specific topic. Additionally, we provide advice on non-securities matters. Generally, this is in connection with the rendering of estate planning, insurance, and/or annuity advice. We also provide administrative services if requested by a client.

Services in General

We tailor all of our portfolio management and consulting recommendations to the individual needs of each client. All such recommendations are tailored based on information gathered through client questionnaires, electronic communications, telephone and in-person discussions.

Item 5. Fees and Compensation

Portfolio Management Services

For this service, we charge an annual fee based on a percentage of assets under our management, in accordance with the following schedule:

<u>Assets Under Management (\$)</u>	<u>Annual Fee (%)</u>
Up to \$1,000,000	1.00%
Above \$1,000,000	0.75%

As an alternative to the above fee structure, clients may opt for an annual rate of 0.50% of assets under management and a performance-based fee of 20% over a contractually-specified index benchmark.

We will generally directly debit client custodial accounts for portfolio management fees.

Portfolio management fees are billed quarterly in arrears at the end of each calendar quarter, based upon the portfolio value on the last day of that calendar quarter, pro-rated for additions and withdrawals.

Consulting Services

Clients receiving consulting services are billed at an hourly rate of \$250. Consulting services fees are due and payable once we deliver the contracted-for work product to the client.

Fees in General

Fees and account minimums for all services are negotiable based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, competitive considerations, etc.). Discounts, not generally available to our advisory clients, may be offered to family members and

friends.

We may group certain related client accounts for the purposes of determining the account size and/or annualized fee.

Certain legacy client agreements may be governed by fee schedules different from those listed above.

Any legacy holdings that are deemed to be unsupervised by our firm may be included in the client reporting package and client will not pay a management fee on those assets.

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.

Account Termination

Clients will have a period of five (5) business days from the date of signing the agreement to unconditionally rescind the agreement and receive a full refund of all fees. Thereafter, the client may terminate the agreement by providing us with a 30-day written notice at our principal place of business. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Mutual Fund and ETF Fees and Expenses: All fees paid to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund or and ETF directly, without the services of our firm. In that case, the client would not receive the services provided by us which are designed, among other things, to assist the client in determining which mutual fund or funds or ETFs are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and ETFs and the fees charged by us to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Brokerage and Custodial Fees

In addition to advisory fees paid to our firm, clients will also be responsible for all transaction, brokerage, trade-away and custodial fees incurred as part of their account management. Please see Item 12 of this Brochure for important disclosures regarding our brokerage practices.

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

As we disclosed in Item 5 of this Brochure, our firm accepts a performance-based fee from certain clients. Such a performance-based fee is calculated based on a share of capital gains on or capital appreciation of the assets of the account. To qualify for a performance-based fee arrangement, a client must either demonstrate a net worth of at least \$1,500,000 or must have at least \$750,000 under management immediately after entering into a management agreement with us.

Clients should be aware that performance-based fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Furthermore, since we also have clients who do not pay performance-based fees, we may have an incentive to favor accounts that do pay such fees because compensation we receive from these clients is more directly tied to the performance of their accounts. Since we endeavor at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

1. We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and its employees to earn more compensation from advisory clients who pay performance-based fees;
2. We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
3. Our management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
4. We have implemented policies and procedures for fair and consistent allocation of investment opportunities among all client account;
5. We periodically compare holdings and performance of all accounts with similar strategies to identify significant performance disparities indicative of possible favorable treatment;
6. We periodically review trading frequency and portfolio turnover rates to identify possible patterns of "window dressing," "portfolio churning," or any intent to manipulate trading to boost performance near the reporting period; and
7. We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients and equitable treatment of all clients, regardless of the fee arrangement.

Performance-based fees will only be charged in accordance with the provisions of Rule 205-3 of the Investment Advisers Act of 1940 and/or applicable state regulations. The fees will not be offered to any client residing in a state in which such fees are prohibited.

The client must understand the performance-based fee method of compensation and its risks prior to entering into a management contract with us.

Item 7. Types of Clients

Our firm generally provides advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

We generally impose a minimum relationship size under the respective client service segments.

- *Separately Managed Accounts.* The minimum relationship size is \$250,000 and/or a minimum annual fee of \$2,500 as of March 1, 2009. However, no client's fee will exceed 3% of assets under management per annum.
- *Retirement Plan Services.* There is no current minimum relationship size for this client group. Under no circumstance will a client's fee exceed 2% per annum or exceed a fee amount governed by retirement plan provision.
- *Consulting Clients* There is currently no minimum relationship size or minimum annual fee for these clients.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Our firm employs the following types of analysis to formulate client recommendations.

Fundamental Analysis: Fundamental analysis of a business involves analyzing its income statement, financial statements and health, its management and competitive advantages, and its competitors and markets. Fundamental analysis school of thought maintains that markets may mis-price a security in the short run but that the "correct" price will eventually be reached. Profits can be made by trading the mis-priced security and then waiting for the market to recognize its "mistake" and re-price the security. Traditional measures of value such as dividend yield, market price to sales, book, cash flow and earnings are examined in our investment process. However, 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. Therefore, unforeseen market conditions and/or company developments may result in significant price fluctuations that can lead to investor losses.

Mutual fund and/or ETF analysis: We evaluate 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 other funds 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 fund or ETF less suitable of the client's portfolio.

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 to potentially predict future price movement.

Charting: In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict when how long the trend may

last and when that trend might reverse. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Risks for all forms of analysis: Our securities analysis method relies 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.

MCM uses publicly available information from a variety of sources including but not limited to: company reports and SEC filings, financial press, trade journals and other third-party research in the investment process.

Our firm employs the following investment strategies to implement investment advice given to clients:

Long-term purchases: We mostly purchase securities with the idea of holding them in the clients account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the short-term 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: At times, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Trading: We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

A risk in a short-term purchase is the potential for sudden losses if the anticipated price swing does not materialize. Moreover, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

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. We then sell the shares we have borrowed. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling on based on our determination that the stock will go down in price after we have borrowed the shares. If the stock has gone down since we purchased the shares from the original owner, we keep the difference.

One risk in selling short is that losses are theoretically unlimited; we are obligated to repurchase the stock no matter how much the price has climbed. In addition, even if we are correct in determining that the price of a stock will decline, we run the risk of incorrectly determining when the decline will take place. Short selling may not be appropriate in times of inflation, as prices may adjust upwards regardless of the value of the stock.

Margin transactions: We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

A risk in margin trading is that, in volatile markets, securities prices can fall very quickly. If the value of the securities in your account minus what you owe the broker falls below a certain level, the broker will issue a “margin call”, and you will be required to sell your position in the security purchased on margin or add more cash to the account. In some circumstances, you may lose more money than you originally invested.

Option writing: We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.

A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to “hedge” a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use “covered calls”, in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

A risk of covered calls is that the option buyer does not have to exercise the option, so that if we want to sell the stock prior to the end of the option agreement, we have to buy the option back from the option buyer, for a possible loss.

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.

A risk of spreading strategies is that the ability to fully profit from a price swing is limited.

Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal that a client should be prepared to bear.

Item 9. Disciplinary Information

Our firm has no reportable disciplinary events to disclose.

Item 10. Other Financial Industry Activities and Affiliations

Neither our firm nor our employees engage in any other financial industry activities or have any other financial industry affiliations.

Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading

Code of Ethics Disclosure

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. 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 provides for oversight, enforcement and recordkeeping provisions. A copy of our Code of Ethics is available to our advisory clients and prospective clients upon request to Becky Lynn Jones, Chief Compliance Officer, at the firm’s principal office address.

Our firm or individuals associated with our firm may buy or sell securities identical to those recommended to or purchased for customers for their personal accounts. 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 practice results in a potential conflict of interest, as we may have an incentive to manipulate the timing of such purchases to obtain a better price or more favorable allocation in rare cases of limited availability.

To mitigate these potential conflicts of interest and ensure the fulfillment of our fiduciary responsibilities, we have established the following restrictions:

- 1) No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No principal or employee of our firm may prefer his or her own interest to that of the advisory client;
- 2) It is the expressed policy of our firm that no person employed by us may purchase or sell any reportable security immediately prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts;
- 3) In cases of partial order fills, clients receive first allocation priority;
- 4) We maintain a list of all securities holdings for our firm and anyone associated with this advisory practice with access to advisory recommendations;
- 5) We emphasize the unrestricted right of the client to decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
- 6) All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- 7) Any individual not in observance of the above may be subject to disciplinary action or termination.

Item 12. Brokerage Practices

We do not have any formal soft-dollar arrangements and do not contract with any broker dealer to receive soft-dollar benefits. This means that we do not receive research or gain access to industry analysts or conferences in return for paying higher commissions for client trades to a particular broker dealer.

We do not request or accept the discretionary authority to determine the broker dealer to be used for client accounts. Clients must direct us as to the broker dealer to be used for all client securities transactions. In directing the use of a particular broker or dealer, it should be understood that we will not have authority to negotiate commissions among various brokers, and best execution may not be achieved, resulting in higher transaction costs for clients. For clients in need of brokerage or custodial services and depending on client circumstances and needs, we may recommend the use of one of several broker dealers (including, but not limited to Charles Schwab & Co., Inc (hereinafter “Schwab”) and Fidelity Brokerage Services, LLC (hereinafter, “Fidelity”)), provided that such recommendation is consistent with our fiduciary duty to the client. *Not all advisers require their clients to direct brokerage.*

Our firm participates in the Fidelity Institutional Wealth Services Program (hereinafter, “FIWS”) sponsored by Fidelity. Clients in need of brokerage and custodial services will have Fidelity recommended to them. While there is no direct linkage between the investment advice given to clients

and our firm's participation in the FIWS program, we receive economic benefits which would not be received if we did not give investment advice to clients. These benefits include: A dedicated trading desk that services FIWS participants exclusively, a dedicated service group and an account services manager dedicated to our firm's accounts, access to a real-time order matching system, ability to 'block' client trades, electronic download of trades, balances and positions, access, for a fee, to an electronic interface with FIWS' software, duplicate and batched client statements, confirmations and year-end summaries, the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements), availability of third-party research and technology, a quarterly newsletter, access to Fidelity mutual funds, access to AdvisorChannel.com (internet access to statements, confirmations and transfer of asset status), access to Account View (through which clients may access their account information over the internet via our website), access to over 350 mutual fund families and 4,500 mutual funds NOT affiliated with Fidelity, of which over 2,000 have no transaction fee, ability to have loads waived for our clients who invest in certain Fidelity loaded funds, when certain conditions are met and maintained and the ability to have custody fees waived (when negotiated by the adviser and allowed under certain circumstances).

The benefits we receive through participation in the FIWS program may depend upon the amount of transactions directed to, or amount of assets custodied by, Fidelity.

Our firm also participates in the Schwab Institutional (SI) services program offered to independent investment advisers by Schwab. Clients in need of brokerage and custodial services will have Schwab recommended to them. As part of the SI program, our firm receives benefits that it would not receive if it did not offer investment. These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk serving SI participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client account; access, for a fee, to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors.

The benefits received through participation in the SI program may or may not depend upon the amount of transactions directed to, or amount of assets custodied by, Schwab.

Participation in the FIWS and SI programs results a potential conflict of interest for our firm, as the receipt of the above benefits creates an incentive for us to recommend Fidelity and Schwab.

Nonetheless, we have reviewed the services of Fidelity and Schwab and recommend their services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients. While, based on our business model, we will not seek to exercise discretion to negotiate trades among various brokers on behalf of clients, we will, however, periodically attempt to negotiate lower commission rates for our clients with Fidelity and Schwab.

Directed Brokerage

If a client, when undertaking an advisory relationship with our firm, already has a pre-established relationship with a broker and instructs us to execute all transactions through that broker, it should be understood that under those circumstances, we will not have the authority to negotiate commissions, obtain volume discounts and best execution may not be achieved. In addition, under these circumstances a disparity in commission charges may exist between the commissions charged to other clients since our firm may not be able to aggregate orders to reduce transaction costs or the client may receive less favorable prices.

We reserve the right to decline acceptance of any client account for which the client directs the use of a broker if we believe that this choice would hinder its fiduciary duty to the client and/or our ability to service the account.

Trade Aggregation

We may aggregate client trades when doing so is advantageous to our clients. Mostly, we will batch client transactions to receive volume discounts and to obtain better and more uniform pricing across client accounts. If we determine that aggregation of trades in a certain situation will be beneficial to our clients, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed from each client account on any given day. Any exceptions from the pro-rata allocation procedure will be carefully explained and documented. Such exceptions may occur due to varying cash availability across accounts, divergent investment objectives and existing concentrations, and desire to avoid “odd lots,” (an amount of a security that is less than the normal unit of trading for that particular security).

Item 13. Review of Accounts

Securities are continuously reviewed by the firm's Portfolio Manager, Eric McDonald. Smaller, mutual fund accounts are reviewed on a weekly basis for valuation purposes and on a monthly basis for rebalancing and asset allocation changes. Larger accounts are reviewed on a weekly basis for valuation purposes and cash reconciliation and monthly for asset allocation changes. Underlying securities that make up the accounts are reviewed on a daily basis for changes in fundamental and technical status. Triggering factors for changes in account profiles include but are not limited to changes in: monetary conditions, inflation expectations, government policy, company fundamentals, and investment company management. Eric McDonald personally reviews each account for possible adjustments based on established client objectives as stated in the client's investment policy statement or investment plan.

Clients are able to determine the depth of reporting they wish to receive. Clients are sent quarterly portfolio appraisals by our firm that include historical cost, current market value, quantity of position and name of security owned. Clients have the ability to request additional reports that include but are not limited to: income and expense, realized gains/losses, performance percentages and changes in market values. Clients may receive more frequent statements if so desired. Client reports are sent to clients as soon as possible after each period.

Item 14. Client Referrals and Other Compensation

Our firm does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

Item 15. Custody

Custody is defined as any legal or actual ability by our firm to access client funds or securities. Since all client funds and securities are maintained with a qualified custodian, we don't take physical possession of client assets. However, under the current SEC rules, our firm is deemed to have constructive custody of client assets because we directly debit client fees from their custodial accounts. Therefore, we urge all of our management clients to carefully review and compare their quarterly reviews of account holdings and/or performance results received from us to those they receive from their custodian. Should you notice any discrepancies, please notify us and/or your custodian as soon as possible.

Item 16. Investment Discretion

For clients granting us discretionary authority to determine which securities and the amounts of securities that are to be bought or sold for their account(s), we request that such authority be granted in writing, typically in the executed advisory agreement.

Should the client wish to impose reasonable limitations on this discretionary authority, such limitations shall be included in this written authority statement. Clients may change/amend these limitations as desired. Such amendments must be submitted to us by the client in writing.

Item 17. Voting Client Securities

Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive proxies related to their own accounts, in which case we may consult with clients as requested. (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 Becky Jones, Chief Compliance Officer, by telephone, electronic mail, or in writing.

When we have discretion to vote proxies for our clients, we will vote those 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 Becky Jones directly. 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.

Item 18. Financial Information

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.

Part 2B of Form ADV: *Brochure Supplement*

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02/28/2011

This brochure supplement provides information about Eric McDonald that supplements the McDonald Capital Management brochure. You should have received a copy of that brochure. Please contact Eric McDonald, Managing Member, if you did not receive our brochure or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

Eric Craig McDonald, CFA

Year of Birth: 1963

Education:

Mr. McDonald graduated from the University of Texas at Austin, Texas with a B.B.A. degree in Finance in 1985 and from Texas Tech University at Lubbock, Texas with an M.B.A. in Finance in 1987.

Business Background:

Managing Member, Chief Investment Officer, Islay Capital Management dba McDonald Capital Management from 1990 to present

Professional Designations:

Mr. McDonald has earned the Chartered Financial Analyst (CFA) designation in 1993. The CFA designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA charterholder candidates must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.

Item 3. Disciplinary Information

Mr. McDonald does not have any history of reportable disciplinary events.

Item 4. Other Business Activities

Mr. McDonald serves on the Board of Trustees of the Texas Teachers Retirement Fund (TRS). TRS is the largest public retirement system in Texas in both membership and assets. Mr. McDonald spends up to 5% of his time on this non-advisory activity.

Item 5. Additional Compensation

Mr. McDonald does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

Item 6. Supervision

As the Managing Member of MCM, Eric McDonald is responsible for all employee supervision and general business strategy of the firm. He can be reached at (806) 744-8617. Mr. McDonald is also

responsible for formulation and monitoring of investment advice offered to client, documenting investment meeting deliberations, overseeing all material investment policy changes, conducting periodic testing to ensure that client objectives and mandates are being met and the implementation and monitoring of our compliance program, including the collection and review of all employee personal securities transactions on a quarterly basis.

Part 2B of Form ADV: *Brochure Supplement*

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Lubbock, TX 79424

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02/28/2011

This brochure supplement provides information about Jeffrey Mercer that supplements the McDonald Capital Management brochure. You should have received a copy of that brochure. Please contact Eric McDonald, Managing Member if you did not receive our brochure or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

Jeffrey Michael Mercer, Ph.D.

Year of Birth: 1962

Education:

Mr. Mercer graduated from the University of Wyoming with a B.S. degree in 1986 and from Texas Tech University with a Masters of Science (MS) degree Finance in 1987 and a Ph.D. in Finance in 1992; Supporting fields: Economics and Statistics.

Business Background:

Member & Investment Adviser Representative, Islay Capital Management, LLC dba McDonald Capital Management, 03/2005-present

I. Wylie and Elizabeth Briscoe Chair in Finance, Texas Tech University, 2010-present

Professor, Texas Tech University, 2009-present

Lubbock Bankers Association Professor, Texas Tech University, 2005-present

Director, Institute for Banking and Financial Studies, Texas Tech University, 2003-present

Associate Professor, Texas Tech University, 2002-2009

Acting Associate Dean, College of Business, Northern Illinois University, 2000-2001

Consultant, Ibbotson Associates, Chicago, 2000-2002

Vice President and Director of Research, Ibbotson Associates, Chicago, 2000

Interim Department Chair, Dept. of Finance, Northern Illinois University, 1998-2000

Founding Director and Instructor, The Northern Illinois Chartered Financial Analyst® Review Course, 1997-2003

Associate Professor, Northern Illinois University, 1998-2002

Assistant Professor, Northern Illinois University, 1992-1998

Item 3. Disciplinary Information

Mr. Mercer does not have any history of reportable disciplinary events.

Item 4. Other Business Activities

Mr. Mercer is currently employed as an Associate Professor of Finance at Texas Tech University. He may dedicate up to 90% of his time to this non-advisory activity.

Item 5. Additional Compensation

Mr. Mercer does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

Item 6. Supervision

As the Managing Member of MCM, Eric McDonald is responsible for all employee supervision and general business strategy of the firm. He can be reached at (806) 744-8617. Mr. McDonald is also responsible for formulation and monitoring of investment advice offered to client, documenting investment meeting deliberations, overseeing all material investment policy changes, conducting periodic testing to ensure that client objectives and mandates are being met and the implementation and monitoring of our compliance program, including the collection and review of all employee personal securities transactions on a quarterly basis.

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02/28/2011

This brochure supplement provides information about John Toles that supplements the McDonald Capital Management brochure. You should have received a copy of that brochure. Please contact Eric McDonald, Managing Member if you did not receive our brochure or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

John Holland Toles, Ph.D., CFA

Year of Birth: 1961

Education:

Mr. Toles graduated from West Texas State University with a B.B.A. degree in Economics in 1984, from Texas Tech University with a Masters of Science (MS) in Finance in 1986 and from Texas Tech University with a Ph.D. in Finance in 1993 with supporting fields in Economics and Statistics.

Business Background:

Consultant, Islay Capital Management, LLC dba McDonald Capital Management, 1997 to present

Senior Lecturer, 2006-present; Assistant Professor, 1998-2006, Texas State University-San Marcos

Professional Designations:

Mr. Toles has earned the Chartered Financial Analyst (CFA) designation in 1996. The CFA designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA charterholder candidates must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.

Item 3. Disciplinary Information

Mr. Toles does not have any history of reportable disciplinary events.

Item 4. Other Business Activities

Mr. Toles is currently employed as a Senior Lecturer at Texas State University. He may spend up to 90% of his time on this non-advisory activity.

Item 5. Additional Compensation

Mr. Toles does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

Item 6. Supervision

As the Managing Member of MCM, Eric McDonald is responsible for all employee supervision and general business strategy of the firm. He can be reached at (806) 744-8617. Mr. McDonald is also

responsible for formulation and monitoring of investment advice offered to client, documenting investment meeting deliberations, overseeing all material investment policy changes, conducting periodic testing to ensure that client objectives and mandates are being met and the implementation and monitoring of our compliance program, including the collection and review of all employee personal securities transactions on a quarterly basis.