

Marathon Capital Management, LLC

4 North Park Drive
Suite 106
Hunt Valley, MD 21030

Phone: 410.329.1522

Fax: 410.329.1518

Website: www.insidemarathon.com

Part 2A of Form ADV: Firm Brochure

This brochure provides information about the qualifications and business practices of Marathon Capital Management, LLC (referenced to throughout this brochure as “Marathon” “our” “we” and “us”), an independent investment advisory firm registered with the United States Securities and Exchange Commission (“SEC”). Registration with the SEC is required for firms like Marathon, and does not imply a certain level of skill or training.

If you have any questions about the contents of this brochure, please contact us at 410.329.1522. The information in this brochure has not been approved or verified by the SEC or by any state securities authority. Additional information about Marathon also is available on the SEC’s website: www.adviserinfo.sec.gov.

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Advisory Business

Company

Marathon was established in 1998 as a sole proprietorship by James G. Kennedy to provide investment advisory services. It was originally registered with the State of Maryland due to the amount of assets under management. It changed its corporate structure to a Limited Liability Corporation (LLC) in early 2002, and as assets under management passed \$30 million, it became a registered adviser with the SEC.

Marathon is owned by its two primary principals, James G. Kennedy (majority owner), and Angus M. Burton (minority owner).

Services

Marathon provides investment management services to both individuals and organizations. It creates an Investment Profile for each client that summarizes the objectives and overall structure of the portfolio(s). There are four basic categories identified for portfolio management—Income, Growth and Income, Growth, and Aggressive Growth. After discussions and meetings with prospective clients, we establish an Investment Profile that is signed by the client and becomes the general guideline for establishing and managing the portfolio(s).

Marathon is what is traditionally known as a “buy and hold” investment manager. We like to tell clients that if we buy something and sell it in less than a one-year timeframe, we’ve either made a mistake or the investment has exceeded our expectations. There will always be exceptions to the rule, but our focus is on long-term appreciation of capital, not short-term trading profits.

Marathon manages advisory accounts on a discretionary basis only. Clients can place reasonable restrictions on the type of investments bought on their behalf.

Assets Under Management

As of December 31, 2010, the total amount of client assets under management by Marathon is approximately \$149,400,000. These assets are managed on a discretionary basis.

Fees and Compensation

Marathon charges a fee based on a percentage of assets under management. The following table details our fee structure:

<u>Assets Under Management</u>	<u>Maximum Annual Fee (%)</u>
• Up to \$2,000,000	1.25
• Over \$2,000,000 but less \$4,000,000	.75
• \$4,000,000 and above	.50

These are cumulative fees which means that the first \$2,000,000 will be billed at 1.25%, the next \$2,000,000 at .75%, and amounts over \$4,000,000 at .50%. Clients are billed in advance at the beginning of each calendar quarter based upon the market value (as defined and presented by your independent custodian) at the end of the previous quarter.

Clients may select to have our fees deducted directly from their account or be sent an invoice. The vast majority of our clients elect to have the fee deducted directly from their account. If an account is established or terminated during a calendar quarter, the fee will be adjusted pro rata to reflect such event. In the event of a termination, the pro rata fee refund is sent directly to the client from Marathon. Details of our fee structure and charges are more fully described in the advisory agreement entered into with each client.

Marathon uses a select group of outside money managers to manage assets for a small number of clients. This asset management approach is the result of some legacy account relationships that Angus Burton had when he joined Marathon in 2006, as well as diversification needs of some very large accounts. In these instances the client pays a reduced fee to Marathon, in addition to the outside money manager fee.

Marathon money management fees are non-negotiable, but we retain the right to modify or eliminate fees on a client-by-client basis.

In addition to money management fees, clients are directly responsible for transaction fees charged by broker dealers associated with the purchase and sale of securities. To date, we have not experienced custodians charging for custody services, but in the event of such charges, the client would be responsible for these charges. Please see the "Brokerage Practices" section on page 12 of this brochure for additional information on brokerage and other transaction costs.

Should we purchase mutual fund shares in an account, the client is responsible for any management fees, transaction costs and other fund expenses associated with said mutual fund. These charges are separate and distinct from Marathon fees and are typically deducted directly from the fund itself by the custodian and/or mutual fund manager. While our primary focus is on individual securities, we will use mutual funds and other types of investment vehicles to obtain access to certain areas of the markets where it is either more efficient or in the client's best interest to use such investments. In almost all circumstances, clients could purchase these funds directly from mutual fund companies or other brokers not affiliated with Marathon. We receive no compensation from the providers of such funds and services.

Performance-Based Fees and Side-by-Side Management

Marathon does not accept performance-based fees.

Types of Clients

Marathon provides investment advisory services to individuals, trusts, estates and charitable organizations. We require new clients to have a minimum account of \$500,000, but we retain the right to waive such minimum.

Before engaging the services of Marathon, prospective clients are encouraged to understand our investment philosophy (see next section titled Methods of Analysis, Investment Strategies and Risk of Loss), as well as thoroughly discuss their risk tolerance, investment objectives and timeframes. It is the client's responsibility to notify us in a timely manner of any changes in these areas.

Methods of Analysis, Investment Strategies and Risk of Loss

Marathon's core investment philosophy is "growth at a reasonable price," commonly referred to as GARP. At the heart of this philosophy is a discipline that focuses on investments that are attractively priced today, based on a future expectation of growth. This growth can come in many forms (e.g., cash flow, earnings, assets, market share, margins, etc.) and requires us to make judgments about whether or not it will materialize in the form and fashion anticipated, within a reasonable timeframe, and is attractively priced in today's marketplace. We apply this philosophy and discipline across all asset classes.

Because we take a long-term view of markets, clients should note that we are not "market timers" and do not buy and sell securities because we think the markets in general are undervalued or overvalued. Our primary focus is on individual securities and their prospects over multi-year periods.

Although we have an "all-cap" (i.e., large, medium and small size companies) approach to equity investing, we place particular emphasis on the small company sector, often referred to as "small or micro-cap." We believe that this particular sector offers attractive long-term investment opportunities, but it also tends to be one of the most volatile sectors in the short run. Investors often equate volatility with risk, so investing in this sector requires patience and a long-term perspective.

The opportunity and risk inherent in the small company markets is a two-sided coin. On the risk side, among other factors, resides a lack of Wall Street research, limited access to capital, small management teams, reliance on fewer products and services than most large companies, limited liquidity in the equity markets, and a minefield of less than reputable offerings. On the opposite side is an inefficient market due to this lack of research, and other factors, that affords the diligent and patient investor the ability to invest in attractive situations. We attempt to manage such risk through a disciplined investment approach that places particular emphasis on management pedigree, balance sheet discipline and attractive end markets.

Investing in any type of security involves risk and the potential for permanent loss of capital. Risk comes in many forms, but the two most common among equity investors are systemic and equity-specific risk. Systemic risk is general market and economic activity that every investor must accept as part of the investment landscape. For example, if the overall markets (e.g., S&P 500) are heading lower and/or there are adverse economic events (e.g., banking crisis), in most cases your portfolio of stocks (and possibly bonds) will experience a decline in value. Equity-specific risk relates directly to the security you own. For example, if a company has a bad earnings report or loses a key contract, or its industry is experiencing difficulty, the value of your holding in that security will more than likely decline.

In addition to systemic and equity-specific risk, income-oriented investors face inflation and interest rate risk. In general, a fixed-income investment (e.g., corporate bonds and treasury securities) will decline in value as interest rates rise. It does not necessarily mean that your principal is at risk, but you might have to accept a loss if you were to sell the security before maturity. Additionally, fixed-income investments can come under pressure if inflation heads higher. Again, this does not necessarily mean your principal is at risk, but you may experience a loss selling such security before maturity.

As globalization takes hold, investors should also be aware of currency risk. Investing in markets outside the United States (be it via a mutual fund, individual security domiciled outside the U.S., or a U.S.-based company doing business internationally) involves exposure to currencies other than the U.S. dollar. There can be large fluctuations and/or valuation differences between currencies. This can be either positive or negative depending on the currency in question. Although this falls under the heading “systemic risk,” investors should be aware of such fluctuations.

Disciplinary Information

Marathon nor its employees have been subject to any legal or disciplinary action since our founding in 1998.

Other Financial Industry Activities and Affiliations

As an independently owned and operated investment advisory, Marathon does not have any other financial industry affiliations. Our day-to-day investment management activities include interaction and relationships with various broker-dealers, custodians and third party administrators. Marathon has neither a financial investment nor ownership position in any such entity.

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

Marathon has adopted a Code of Ethics that recognizes its fiduciary responsibility to clients, adherence to federal securities laws, and promotes a culture of honesty, integrity and professionalism among its employees and owners. At all times, Marathon places its clients interests above its own (see personal trading discussion below). Clients and prospective clients can obtain a free copy of our Code by Ethics by calling our office and requesting such.

Clients and perspective clients should understand that “we eat what we cook.” The owners and employees of Marathon will frequently own the same securities as clients, particularly in the small company space. In general, our risk tolerance is much higher than that of our clients. Consequently, our portfolios tend to be more concentrated and volatile than those of our clients. We may not own all of the securities that our clients own, but investors should be aware that the potential for conflict exists.

We have a few simple rules that govern our participation in client-owned securities.

- We make every attempt to get clients a similar or better price on the purchase or sale of a security.
- When we identify an acquisition candidate for client portfolios, we refrain from personal trading in the security until we have established initial positions for clients.
- We may buy or sell at the same time as clients, but only when we are accepting a similar or lower price, respectively.
- When the decision is made to sell all of one security (i.e., Marathon no longer thinks the security meets the investment objectives of clients) client positions will be sold first, with owners’ and employees’ positions liquidated last. There may be some exceptions to this rule (e.g., a client may want to hold the security longer for tax or other purposes, in which case, partners and employees would still be able to liquidate their position ahead of this particular client) but our overriding commitment is to put the client’s interest first in all transactions.

As a result of partners and employees accepting higher levels of risk and having concentrated portfolios, there are two other portfolio management activities that clients should understand. The first is our willingness to accept more risk than our clients which may result in us taking personal positions in companies that are deemed too risky for client portfolios. These same securities may be purchased at a later date in client portfolios if it is determined that the level of

risk has become acceptable and company fundamentals meet our requirements as GARP investors. The second activity relates to managing concentrated portfolios. The partners and employees of Marathon reserve the right to add to, reduce or eliminate positions in any securities in their portfolios for purposes of raising cash, reducing position size or investing in new ideas. These securities may or may not overlap with client holdings. In any event, as noted above, once it has been decided to eliminate a security across all accounts at Marathon, client interests come first.

Brokerage Practices

All Marathon client assets are maintained in an account at a qualified custodian (generally a broker-dealer or bank). Although clients can choose which custodian to use, the vast majority of our assets under management are custodied at Charles Schwab & Co., Inc., a registered broker-dealer, member SIPC. Custodians will hold your assets in a brokerage account and buy and sell securities when we instruct them to do so. Marathon is independently owned and operated and is not affiliated with any custodian.

As discussed under the “Fees and Compensation” section, clients are responsible for all brokerage transaction costs and fees. As a general rule, the custodian of your assets (e.g., Charles Schwab & Co.) has a set schedule of transaction costs and fees that are non-negotiable. Some custodians offer lower transactions costs for larger accounts, but these discounts are determined by the custodians, not Marathon. If your custodian does not offer to Marathon such transaction capabilities, we will use other broker-dealers to complete your trades.

In all transactions on behalf of clients, we seek what is referred to as “best execution.” The SEC defines this as the execution of securities transactions for clients in such a manner that the client’s total costs or proceeds in each transaction is the most favorable under the circumstances. The key phrase here is “under the circumstances.” As discussed above, Marathon does not have discretion over the costs and fees charged by your custodian, therefore you will pay such charges according to the related schedules of such custodians. Under those circumstances where we do have discretion over transaction costs and fees (see Prime Broker discussion below), we evaluate a wide range of criteria in seeking best execution for client accounts. Such criteria includes, but is not limited to, broker-dealer trading costs, access to securities with limited liquidity, access to large quantities of securities that may not be available in the course of a trading day on the open market, efficiency of execution, research capabilities, financial strength and stability, perceived value of various financial industry conferences held by such broker-dealer, and prior experience in working with such broker-dealer. Under such circumstances, clients should think of “best execution” as not necessarily the best “price,” although in some situations it is, but rather a confluence of factors that allow Marathon to seek the best way of doing business on behalf of its clients.

Many custodians allow Marathon to buy securities from other broker-dealers and have them delivered into client accounts. As such, Marathon has established what are referred to as “Prime Broker” relationships with a multitude of broker-dealers. When buying or selling through such broker-dealers, clients will pay the related costs and fees charged by such entities, which often results in higher transaction costs and fees to the client. We use such services for three primary reasons: access to blocks of stock (i.e., large quantities of stock that are not generally available in the open market on a day-to-day basis); accumulation or disposition of large quantities of stock in the open market; and access to industry conferences, research products and analyst opinions. Under such circumstances, costs and fees are somewhat negotiable, but typically

adhere to the prevailing norms within the industry. At this time, clients will generally pay between \$.01 and \$.03 per share in such transactions. More times than not, these rates are quantity and price driven, so clients may experience higher or lower costs than noted above. Additionally, some custodians charge a fee to have the shares delivered into your account from the outside broker-dealer (e.g., Charles Schwab charges \$25 per transaction).

While these Prime Broker relationships are important for the reasons cited, the majority of our trading will take place via your custodian according to their rate schedule. It should also be noted that Marathon does not receive any remuneration from such broker-dealer relationships, but does benefit from attending sponsored conferences and having access to research analyst opinion.

Although clients may choose any custodian that is willing to do business with Marathon, the majority of our client assets are custodied at Charles Schwab & Co. (Schwab). Since its founding in 1998, Marathon has had a relationship with Schwab and has benefited from its extensive back-office capabilities, institutional trading platform, compliance publications and electronic communications network, as well as other expertise and services. We are required to maintain a minimum aggregate level of client assets with Schwab to avoid quarterly service fees. We have so since 1998, and feel that Schwab has served both Marathon and its clients in a complementary manner. Marathon receives no remuneration from Schwab other than access to its products and services and the benefits derived therein.

With respect to the allocation of securities purchased and sold, it is Marathon's objective to distribute such transactions in a fair and equitable manner. Due to the number of specific client factors considered in each allocation (e.g., available cash, tax implications, risk tolerance, portfolio holdings, size of transaction, continuing trade availability, multiple account overlap, etc.) accounts with the same investment objectives may vary in terms of quantity of securities purchased and sold, as well as average price paid or derived for such transactions, respectively.

Due to a wide variety of factors including those discussed throughout this document, the individual investment performance of your account will more than likely vary from other Marathon clients with the same investment goals. We provide investment performance statistics to clients upon request, and as a general rule, do not publish or promote aggregate Marathon performance figures.

Review of Accounts

Client accounts are reviewed at least biweekly to monitor liquidity levels for upcoming or ongoing distributions and to review the asset allocation within the portfolios. Individual securities are reviewed continuously as part of our research-intensive investment process.

Jim Kennedy, Angus Burton and Ralph Kruger are responsible for managing and reviewing accounts. Our research activities require travel throughout the country on a periodic basis, so clients should feel free to contact any of us to discuss their account.

Client Referrals and Other Compensation

Although Marathon has a website, we do not actively solicit new business. Since our founding in 1998, most clients have joined us via a referral from other clients or via industry contacts. This latter group represents a small number of clients. In some such instances we will pay qualified broker-dealer employees and other qualified parties a mutually acceptable percentage of the investment management fee charged to clients referred by such persons. These payments for referrals do not increase the advisory fees charged to clients referred by such persons. The client is informed of such arrangements and has the option to disallow these payments if so desired.

Custody

Clients can choose to have assets custodied at any qualified custodian. As discussed earlier in this brochure, a majority of our clients have chosen Charles Schwab & Co. for custody of their assets. Marathon does not have physical custody of any assets held for clients, but most clients permit us to deduct advisory fees directly from the account, request checks to be issued to the account holder and sent to the address of record, and in some instances transfer funds between like-titled accounts at the same custodian. In addition to these services, clients authorize us to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investments for the client's account.

Clients receive directly from their custodian at least quarterly a statement showing security positions, account balances and all transactions occurring in this account during the time period covered by the statement. Marathon does not produce nor provide such statements. Clients are encouraged to carefully review their custodian's statements, as well as any trade confirmations or statements from other broker-dealer entities.

Investment Discretion

Since Marathon is a discretionary investment manager, clients provide written authority (e.g., limited power of attorney) for us to conduct account management services as defined in our investment management contract and your independent custodian agreement/contract. Any limitations of such authority are included in these written and signed agreements/contracts.

Voting Client Securities

Marathon does not vote proxies on behalf of its clients. Since clients retain this right, it is their responsibility to solicit, receive, evaluate and vote on such matters. This includes class action lawsuits or similar settlements involving securities owned by the client.

Financial Information

Because Marathon does not require prepayment of management fees six months or more in advance, we are not required to include our balance sheet with this disclosure brochure. Since our founding in 1998, we have not been the subject of a bankruptcy petition at any time.

Education and Business Background

Jim Kennedy, Angus Burton and Ralph Kruger manage client accounts at Marathon. Together, we have over 50 years of industry experience. Jim and Angus are full-time Marathon partners, while Ralph splits his time between Marathon and his hedge fund, which is focused on investments in India. Marathon has no ownership or financial interest in this fund.

Clients can contact any of us for information or account service needs.

James G. Kennedy

Jim established Marathon in 1998. Prior to founding Marathon, he was Vice President and portfolio manager at D. F. Dent & Company, a Baltimore-based investment management firm. Jim has a BA from the University of Maryland and an MBA from Loyola University.

Angus M. Burton

Angus joined Marathon in 2006. Prior to joining Marathon, he was a Senior Vice President at RBC Capital and part of an experienced investment management team. He has held various positions within the industry since graduation from Hobart College in 1981.

Ralph Kruger

Ralph joined Marathon in 2003. Prior to joining Marathon, he was an Account Executive at Chapin, Davis, a Baltimore-based investment firm. Ralph established Arcstone Capital in 2005 to invest in India. He has a BA from the State University of New York and an MBA from Columbia University.

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