

Cover Page

Callahan Advisors, LLC.

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03/25/11

This Brochure provides information about the qualifications and business practices of Callahan Advisors, LLC. If you have any questions about the contents of this Brochure, please contact us at 713-572-3366. 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. It has been prepared by the firm in the format mandated by the Securities and Exchange Commission.

Callahan Advisor, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about Callahan Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated February 22, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item is to discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We expect to also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we expect that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We expect to provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Additional information about Callahan Advisors, LLC is also available via the SEC’s web site www.adviserinfo.sec.gov.

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Item 4 – Advisory Business

Callahan Advisors, LLC (the firm) is an investment advisory firm specializing in the management of marketable securities including equities, fixed and variable income, and providing portfolio management. Formed in 1999, Callahan Advisors now manages over \$150 million in client assets. Callahan Advisors, LLC provides investment management services for individuals as well as for institutions, pension and profit sharing plans, non-profit corporations, and business entities. Thomas P. Callahan serves as the Chairman and CEO and is the principal owner of the firm. Callahan prefers accounts containing at least \$200,000 in assets; however, the firm may accept smaller accounts.

The firm's philosophy is based on client's financial goals, long-term horizon, portfolio diversification, low portfolio turnover, fee based compensation, and regular communication between clients and advisors. The firm's primary focus is to invest in US listed equity securities both domestic and foreign. The firm can also invest in corporate debt, government securities, exchange traded funds, or money market funds, and warrants if opportunities present. We generally attempt to accommodate investment restrictions imposed by client (for example: an aversion to defense or tobacco companies).

Brokerage Services

With few exceptions our clients use the brokerage services of Charles Schwab & Co., Inc or TD Ameritrade Inc who are FINRA-registered broker-dealers, and members of SIPC, to maintain custody of clients' assets and to effect trades for their accounts. We do not accept custody of client's assets.

We do not participate in wrap fee programs. We do not publish research reports or sell newsletters. We may work with our clients' accountants and attorneys, but do not offer legal or tax advice.

As of December 31, 2010, Callahan Advisors had approximately \$180 million under management of which approximately \$173 million were assets managed on a discretionary basis and \$7 million were assets managed on a non-discretionary basis.

Item 5 – Fees and Compensation

Fees are charged quarterly in advance and are generally as follows:

Annual fees for equities and Exchange-Traded Funds (ETF's) Except Short-Term U.S. Treasury ETF's

First \$500,000	1.00%
\$500,000 - \$1.5 million	0.80%
\$1.5 - \$2.5 million	0.65%
\$2.5+ million	0.50%

Other Securities

Annual fee of 0.20% for cash, money-market accounts, certificates of deposit, U.S. Treasury notes, U.S. Treasury bonds, and short-term U.S. Treasury exchange-traded funds (ETF's).

Annual fee of 0.45% for other (corporate, state, and local government) bonds.

Fees are negotiable and may vary from client to client. Callahan also provides investment advisory consultations with clients. These consultations are charged at a fixed rate that will vary according to the engagement.

Callahan's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, wire transfer fees, exchange fees, margin interest or other costs or fees associated with securities transactions or required by law. Callahan's fees do not include any internal fees and expenses of any money market fund.

Clients may pay Callahan's fees directly or a client may authorize the deduction of fees from the client's account, which a third party custodian maintains. If fees are deducted from the client's account, Callahan will promptly send the client an invoice showing the amount of the advisory fee due, the account value on which the fee is based, and how the fee was calculated. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

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

Callahan does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

Callahan provides portfolio management services to individuals, foundations, estates, 401-(k) plans and IRAs, banking or thrift institutions, charitable organizations, and investment club.

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

Callahan's focus is on the management of equity securities. Investing in securities involves risk of loss that clients should be prepared to bear, including loss of all or part of principal. We are not market timers, but believe that diversified equity investments have yielded significantly higher real returns (after adjusting for inflation) than have fixed rate investments when measured over reasonably long time periods.

If the markets provide opportunities in non equity investments we may buy municipal, corporate, mortgage backed bonds and treasury bonds. We do not sell insurance, annuities, commodities or futures.

We employ a wide range of sources for research activities. Along with newspapers, investment periodicals, research subscriptions and third party research, we examine annual reports, SEC filings, corporate press releases, and participate in earnings conference calls.

While we do the best we can in analyzing various equity investment opportunities, Callahan does not guarantee the future performance of the client's account or any specific level of performance, the success of any investment decision or strategy that Callahan may use, or the success of Callahan's overall management of the account. Callahan's investment decisions for the client's account are subject to various markets,

currency, economic, political and business risks. Callahan's investment decisions will not always be profitable.

Item 9 – Disciplinary Information

None.

Item 10 – Other Financial Industry Activities and Affiliations

See biographies of our principal and managing directors in the **Brochure Supplement**.

Callahan may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. or the institutional division of TD Ameritrade Inc. Both are FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although Callahan may recommend that clients establish accounts at Schwab or TD Ameritrade, it is the client's decision to custody assets with Schwab or TD Ameritrade. Callahan is independently owned and operated and not affiliated with either Schwab or TD Ameritrade. Schwab and TD Ameritrade provide Callahan with access to its institutional trading and custody services, which are typically not available to retail investors. These services are generally available to independent investment advisors on an unsolicited basis.

Schwab Institutional and TD Ameritrade Institutional also makes available to Callahan other products and services that benefit Callahan but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of Callahan's accounts, including accounts not maintained at Schwab or TD Ameritrade. Schwab and TD Ameritrade products and services that assist Callahan in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of Callahan's fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab and TD Ameritrade Institutional also offer other services intended to help Callahan manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab and TD

Ameritrade may make available, arrange and pay third-party vendors for the types of services rendered to Callahan. Schwab and TD Ameritrade Institutional may discount or waive fees it would otherwise charge for some of these services to Callahan. Schwab and TD Ameritrade Institutional may also provide other benefits such as educational events or occasional business entertainment of Callahan personnel. Callahan may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely the nature, cost or quality of custody and brokerage services provided by Schwab and TD Ameritrade, which may create a potential conflict of interest.

Callahan does not use outside solicitors to secure business. Callahan may compensate its employees for referring clients to the firm.

Item 11 – Code of Ethics

Pursuant to SEC Rule 204A-1, Callahan has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, personal securities trading procedures, avoidance of the use of material non-public information, and client protection among other things. All supervised persons at Callahan must acknowledge the terms of the Code of Ethics annually, or as amended.

Callahan anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Callahan has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Callahan, its affiliates and clients, directly or indirectly, have a position of interest. Callahan's employees and persons associated with Callahan are required to follow Callahan's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Callahan and its affiliates may trade for their own accounts in securities which are recommended to and purchased for Callahan's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Callahan will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. All employees' must provide to Callahan's chief

compliance officer, for review, a copy of a brokers' statement or its equivalent covering the employee's current holdings in reportable securities. Each employee must submit such statement no later than 10 days after the person becomes an employee and the information must be current as of a date no more than 45 days prior to the date the person becomes an employee. In addition, employees must provide such statements to Callahan's chief compliance office no later than 30 days after the end of each subsequent calendar quarter. Callahan will provide all employees with a copy of the Code and any amendments, and all employees must acknowledge receipt in writing.

Callahan does not engaging in buying, selling or trading securities with the client.

Item 12 – Brokerage Practices

Clients generally grant Callahan the full authority to execute trades on the client's behalf, and to select brokers. At the request of the client, Callahan may use another broker-dealer of the client's choosing. The firm will consider non-discretionary accounts in some circumstances. In recommending brokers, Callahan considers the range and quality of the products offered by the brokers, technical services provided by the broker, the execution capability of the broker, and the responsiveness of the broker to Callahan.

How We Select Brokers/Custodians

We seek to use a custodian/broker who will hold your assets and execute transaction on terms that are, overall, most advantageous when compared to the other available providers and their services. We consider a wide range of factors, including among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from account (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETF's], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices

- Reputation, financial strength, and stability
- Prior service to us and our other clients

Client Directed Brokerage. If the client directs that trades be executed through another broker-dealer, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by that broker-dealer. We assume no responsibility for obtaining the “best execution” of your trade.

Products and Services Available to Us from Schwab and TD Ameritrade.

Schwab Advisor Services and TD Ameritrade Institutional Services provide us and our clients with access to its institutional brokerage-trading, custody, reporting and related services – many of which are not typically available to retail customers. Schwab and TD Ameritrade also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while other help us manage and grow our business.

Services that Benefit You. Schwab and TD Ameritrade institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. Our goal is to obtain the best execution for each client transaction. The investment products available include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients.

Services That May Not Directly Benefit You. Schwab and TD Ameritrade also makes available to us other products and services that benefit us but may not directly benefit you and your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, proprietary or third party, and software and other technology that provide access to client account data, facilitate trade execution and allocate aggregate order for multiple client accounts, pricing, facilitate payment of our fees from our clients’ accounts and assist with back-office functions such as recordkeeping and client reporting.

Services That Generally Benefit Only Us. Schwab and TD Ameritrade also offer other services intended to help us manage and further develop our business enterprise. These services include educational conference and events, consulting on technology, compliance, legal needs, publications and conferences on practice management and business succession. Schwab and TD Ameritrade may provide some of these services itself or through third-party vendors. Schwab and TD Ameritrade may also discount or waive its fees for some of these services or pay all or part of a third party’s fees.

Schwab and TD Ameritrade also provide us with other benefits, such as occasional business entertainment for our personnel.

Callahan and its personnel have been beneficiaries of such services.

Item 13 – Review of Accounts

Each client account is reviewed quarterly by the CEO. Accounts may be reviewed more frequently at the client's request or because of news events, changes in market conditions, or any other factor the firm deems significant. In addition to the CEO, the managing directors review each account at least quarterly. All such reviews are then discussed to consider portfolio adjustments.

Clients receive monthly account statements from their custodians and a quarterly report of the account's performance from Callahan Advisors. In addition, clients have direct online access to their accounts held at the custodian.

Item 14 – Client Referrals and Other Compensation

CEO Thomas P. Callahan has had a distinguished professional career and belongs to several organizations. The firm has been the beneficiary of referrals that have resulted in new client relationships. The firm is grateful for referrals, but does not compensate others for referral.

Callahan may compensate its employees for referring clients to the firm. The compensation may be in the form of fee sharing arrangements.

Item 15 – Custody

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab and/or TD Ameritrade to deduct our advisory fees directly from your account or if you grant us authority to move your money to another person's account. Schwab and TD Ameritrade maintain actual custody of

your assets. Charles Schwab & Co Inc, and TD Ameritrade Inc, qualified custodians, sends account statements monthly. They will be sent to the email or postal mailing address you provided.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Callahan urges its clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Callahan usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

In our investment advisory agreement, the client grants us complete authority to make all investment decisions concerning the client's account and to make the sales, purchases, and reinvestments necessary to carry out the client's investment objectives. The advisory agreement also contains a limited power of attorney under which the client grants us the authority to trade in the client's custodial account(s).

When selecting securities and determining amounts, Callahan observes the investment limitations and restrictions for each client it advises. Clients that wish to restrict us from using their assets to invest in certain companies or types of companies should provide us with written instructions containing a list of the restricted companies.

Item 17 – Voting *Client* Securities

Each client's agreement specifies whether Callahan will vote proxies for the client's account. The following is a summary of Callahan's proxy voting policy, a full copy of which is available to clients at no charge. In the absence of specific voting guidelines from a client, Callahan will vote proxies in a manner that is in the best interest of the client, which may result in different voting results for proxies for the same issuer. Callahan shall consider only those factors that relate to the client's investment or dictated by the client's written instructions, including how its vote will economically impact and affect the value of the client's investment (keeping in mind that, after conducting an appropriate cost-benefit analysis, not voting at all on a presented

proposal may be in the best interest of the client). Callahan believes that voting proxies in accordance with the following policies is in the best interests of its clients.

Specific Voting Policies

Routine Items:

- Callahan expects to vote for the election of directors (where no corporate governance issues are implicated).
- Callahan expects to vote for the selection of independent auditors.
- Callahan expects to vote for increases in or reclassification of common stock.
- Callahan expects to vote for management recommendations adding or amending indemnification provisions in charter or by-laws.
- Callahan expects to vote for proposals that maintain or strengthen the shared interests of shareholders and management
- Callahan expects to vote for proposals that increase shareholder value
- Callahan expects to vote for proposals that will maintain or increase shareholder influence over the issuer's board of directors and management
- Callahan expects to vote for proposals that maintain or increase the rights of shareholders

Non-Routine and Conflict of Interest Items:

- Callahan expects to vote for management proposals for merger or reorganization if the transaction appears to offer fair value.
- Callahan expects to vote against shareholder resolutions that consider non-financial impacts of mergers
- Callahan expects to vote against anti-greenmail provisions.

General Voting Policy

In voting items, Callahan and its employees shall vote in a prudent and timely fashion and only after a careful evaluation of the issue(s) presented on the ballot.

In exercising its voting discretion, Callahan and its employees shall avoid any direct or indirect conflict of interest raised by such voting decision. Callahan will provide adequate disclosure to the client if any substantive aspect of foreseeable result of the subject matter to be voted upon raises an actual or potential conflict of interest. After informing the client of any potential conflict of interest, Callahan will take other appropriate action as required under its proxy voting procedures. Callahan shall keep certain records required by applicable law in connection with its proxy voting activities for clients and shall provide proxy-voting information to clients upon their written or oral request.

Item 18 – Financial Information

Callahan has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Item 19 – Requirements for State-Registered Advisers

Because we are both SEC-registered and registered in Louisiana, we are required to respond to this item. Please see Part 2B of Form ADV for information about our principal executive officers and management persons.

We are not engaged in any business other than providing investment advice.

We do not charge performance fees.

None of our management persons has ever been involved in a securities arbitration claim or been found liable in a civil action; an action by a self-regulatory organization; or an administrative proceeding.

Thomas P. Callahan, chairman of our firm, is on the board of directors of AETI, a publicly traded company. We do not buy securities of AETI for our clients' accounts.