

Cover Page

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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 Advisors, 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 is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules.

There are no material changes to our last brochure, which was dated 03/21/2012.

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 you to receive a summary of any material 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 securities, and providing portfolio management. Formed in 1999, the Firm now manages over \$200 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. The Firm prefers accounts containing at least \$200,000 in assets; however, the Firm may accept smaller accounts.

The Firm's philosophy is based on the 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 may also invest in corporate debt, government securities, including state and local government securities, exchange traded funds, and money market funds if opportunities present. We generally attempt to accommodate investment restrictions imposed by a client (for example: an aversion to defense or tobacco companies).

With few exceptions our clients use the brokerage services of Charles Schwab & Co., Inc or TD Ameritrade, Inc. who are Financial Industry Regulatory Authority (FINRA) registered broker-dealers, and members of Securities Investor Protection Corporation (SIPC), to maintain custody of clients' assets and to make 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, 2012, the Firm had \$234,924,854 million under management on a discretionary basis. We do not have non-discretionary accounts.

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. We may also provide investment advisory consultations with clients. These consultations are charged at a fixed rate that will vary according to the engagement.

The Firm's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may 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. The Firm's fees do not include any internal fees and expenses of any money market fund.

Clients may pay such 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, the Firm 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

The Firm 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

The Firm provides portfolio management services to individuals, foundations, trusts, estates, 401-(k) plans and IRAs, charitable organizations, and investment clubs and partnerships.

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

The Firm'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. Some of the general risks associated with investing in securities are the following:

- **Interest-Rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When inflation is present, a dollar today will not buy as much as a dollar next year because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.

- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Small Capitalization Stock Risk:** Small companies often have narrower markets and limited financial resources, so investments in these stocks present more risk than investments in those of larger, more established companies.
- **Value Style Investing Risk:** Companies that are thought to be under-valued may never reach their full estimated market value and value style investing may fall out of favor and underperform growth or other style investing during given periods.
- **Clients should be aware that even if we use our best efforts, our efforts may not be successful. Any security in a client's account, other than a United States Treasury instrument, could lose all or part of its value. United States Treasury instruments are the only securities that will not lose all of its value.** Many factors and events outside our control can affect the securities markets and the value of securities in your account. Examples include, but are not limited to, changes in domestic or foreign political leadership, breaking news events, natural disasters, adverse weather conditions, terrorist activity, or changes in the Internal Revenue Code. We may not be able to accurately predict the effects on the securities markets of these factors and events or how they may affect the value of securities held in clients' accounts. We do not guarantee the future performance of your account or any specific level of performance, the success of any investment decision or strategy that we may use, or the success of our overall management of your account.

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 strive to do the best we can in analyzing various equity investment opportunities, the Firm 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 the Firm may use, or the success of the overall management of the account.

Item 9 – Disciplinary Information

None.

Item 10 – Other Financial Industry Activities and Affiliations

We have no financial industry affiliations. See item 12 for brokerage discussion.

Item 11 – Code of Ethics

Pursuant to SEC Rule 204A-1, the Firm 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 the Firm must acknowledge the terms of the Code of Ethics annually, or as amended.

The Firm anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which we have management authority to affect, and will recommend to investment advisory clients or prospective clients, the

purchase or sale of securities in which the Firm's employees, directly or indirectly, have an interest. The Firm's employees and persons associated with the Firm are required to follow our Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of the Firm may trade for their own accounts in securities which are recommended to and purchased for the Firm's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of the Firm will not interfere with (i) making decisions in the best interest of our 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 the Firm's chief compliance officer, for review, a copy of a broker's statement or its equivalent covering the employees' 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 the Firm's chief compliance officer no later than 30 days after the end of each subsequent calendar quarter. The Firm will provide all employees with a copy of the Code and any amendments, and all employees must acknowledge receipt in writing.

The Firm does not engage in buying, selling or trading securities with the client directly.

Item 12 – Brokerage Practices

The Firm 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-dealers, and members of SIPC, in order to maintain custody of clients' assets and to make trades for their accounts. Although the Firm may recommend that clients establish accounts at Schwab or TD Ameritrade, it is the client's decision to have assets held with Schwab or TD Ameritrade. The Firm is independently owned and operated and is not affiliated with either Schwab or TD Ameritrade. Schwab and TD Ameritrade provide the Firm with access to their 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 make available to the Firm other products and services that benefit the Firm but may not directly benefit our clients'

accounts. Many of these products and services may be used to service all or some substantial number of the Firm's accounts, including accounts not maintained at Schwab or TD Ameritrade. Schwab and TD Ameritrade products and services that assist the Firm in managing and administering 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 our fees from our 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 us manage and further develop our business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab and TD Ameritrade may make available, arrange and pay third-party vendors for the types of services rendered to the Firm. Schwab and TD Ameritrade Institutional may discount or waive fees it would otherwise charge for some of these services to the Firm. Schwab and TD Ameritrade Institutional may also provide other benefits such as educational events or occasional business entertainment of the Firm's personnel. We may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely the nature, cost or quality of custody and brokerage services provided by Schwab and TD Ameritrade, which may create a potential conflict of interest.

We do not use outside solicitors to secure business. We may compensate our employees for referring clients to the Firm.

Clients generally grant the Firm the full authority to execute trades on the client's behalf, and to select brokers. At the request of the client, we may use another broker-dealer of the client's choosing. The Firm will consider non-discretionary accounts in some circumstances. In recommending brokers, we consider 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 us.

How We Select Brokers/Custodians

We seek to use a custodian/broker who will hold your assets and execute transactions 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:

- 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 an 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;
- Competitiveness 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; and
- 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 such trades.

Products and Services Available from Schwab and TD Ameritrade.

Schwab Advisor Services and TD Ameritrade Institutional Services provide us and our clients with access to their institutional brokerage-trading, custody, reporting and related services – many of which are not typically available to retail customers. Schwab and TD Ameritrade also make 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 make 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, proprietary or third party research, 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 conferences 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 themselves or through third-party vendors. Schwab and TD Ameritrade may also discount or waive their 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.

The Firm and its personnel have benefited from 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 certain accounts 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 the Firm. 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. Members of the Firm belong to several organizations or participate in groups which regularly discuss certain investment themes. 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 non-employees for referrals.

Item 15 – Custody

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab or TD Ameritrade to deduct our advisory fees directly from your account. Schwab and TD Ameritrade maintain actual custody of your assets. Charles Schwab & Co Inc. and TD Ameritrade, Inc. are both qualified custodians and send 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. We urge you 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

The Firm 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 generally grants us complete authority to make all investment decisions concerning their accounts and to make the sales, purchases, and reinvestments necessary to strive to meet their investment objectives. The advisory agreement also contains a limited power of attorney under which clients grant us the authority to trade in the client's custodial account(s).

When selecting securities and determining amounts, the Firm observes the investment limitations and restrictions for each client. Clients that wish to restrict us from using their assets to invest in certain companies or types of companies provide us with such instructions.

Item 17 – Voting Client Securities

Each client's agreement specifies whether we will vote proxies for the client's account. The following is a summary of our 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, we will vote proxies in a manner that we believe is in the best interest of the client, which may result in different voting results for proxies for the same issuer. We 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). We believe that voting proxies in accordance with the following policies is in the best interests of its clients.

Specific Voting Policies

Routine Items the Firm expects to vote for:

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

Non-Routine and Conflict of Interest Items the Firm expects to vote:

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

General Voting Policy

In voting items, the Firm 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, the Firm and its employees shall avoid any direct or indirect conflict of interest raised by such voting decision. We expect to provide adequate disclosure to the client if any substantive aspect or 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, we expect to take other appropriate action as required under its proxy voting procedures. The Firm keeps certain records required by applicable law in connection with its proxy voting activities for clients and provides proxy-voting information to clients upon their written or oral request.

Item 18 – Financial Information

The Firm 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 the Firm is 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 personnel have 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.