

**Part 2A of Form ADV: Firm Brochure**

**Item 1 Cover Page**

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**This brochure provides information about the qualifications and business practices of Luxor Capital Group, LP. If you have any questions about the contents of this brochure, please contact us at (212) 763-8000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Luxor Capital Group, LP also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Any reference to Luxor Capital Group, LP as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.**

**Item 2 Material Changes**

*Not applicable.*

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**Item 4 Advisory Business**

- A. Luxor Capital Group, LP ("Luxor") is a Delaware limited partnership that was formed in October 2002. Luxor is principally owned by Christian Leone.
- B. Luxor provides discretionary investment advice to private investment funds and certain separately managed accounts. Luxor generally trades in a wide variety of securities and financial instruments, domestic and foreign, of all kinds and descriptions, whether publicly traded or privately placed.
- C. Under certain circumstances, Luxor will contract with a client to adhere to limited risk and/or operating guidelines imposed by such client. Such arrangements are negotiated on a case by case basis. (See Item 16 "Investment Discretion.")
- D. *Not applicable.*

- E. As of December 31, 2011, Luxor's regulatory assets under management were approximately \$8.5 billion, all of which are managed on a discretionary basis.

#### Item 5 Fees and Compensation

- A. The fees and compensation to Luxor are described in the advisory contracts with its clients. All clients are "qualified purchasers" (as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "1940 Act")).
- B. Luxor generally deducts management fees from client accounts quarterly in advance. Generally, Luxor or its affiliates receives performance-based fees or allocations from client accounts on an annual basis in arrears and upon redemptions by investors in the private investment funds managed by Luxor.
- C. Clients that are private investment funds generally bear (i) all expenses associated with the organization and ongoing administration of such private investment funds, including legal and accounting fees, printing and mailing expenses and government filing fees, (ii) all expenses incurred in connection with communications with investors and the ongoing offer and sale of interests in the private investment funds, (iii) all third party administration, accounting, tax preparation, audit, bookkeeping, governmental fees and taxes and legal and compliance fees and expenses of, or relating to, the private investment funds, (iv) all expenses incurred for the benefit of the private investment funds related to the maintenance and procurement of information technology and data related services, systems and equipment, valuation services, proxy voting services and insurance, (v) all direct and incidental expenses relating to research and due diligence of existing and potential investments (including, without limitation, the use of consultants and attorneys) and research materials purchased or subscribed for by Luxor, and (vi) all trading and investment related costs and expenses (e.g., brokerage commissions, margin interest, expenses related to short sales, custodial fees and clearing and settlement charges). (See Item 12 "Brokerage Practices" below.)

The expenses that are charged to separately managed accounts are determined on a case by case basis.

Luxor may also allocate a portion of certain clients' capital to (i) money market funds or exchange-traded funds or (ii) private investment funds and accounts that are managed by other investment managers, including investment managers in which Mr. Leone has an economic interest (such private investment funds and accounts, "Third-Party Funds"). In addition to the fees and expenses discussed above, investors will indirectly incur similar fees and expenses if Luxor invests client's capital in such money market funds, exchange traded funds or Third-Party Funds, as these funds in turn pay similar fees to their investment managers and other service providers. Luxor and its affiliates will waive the management fees and performance-based allocations with respect to each direct investment by such client account in Third-Party Funds; provided, however, that Luxor and its affiliates are entitled to charge and receive management fees and performance-based allocations with respect to any purchase of an interest in a Third-Party Fund by certain client accounts via a secondary market transaction. Further, Mr. Leone and his affiliates shall waive, rebate, or otherwise pay-over to a client account any fees that Mr. Leone or his affiliates receive with respect to such account's pro rata interest in each Third-Party Fund that Mr. Leone or his affiliates would otherwise receive.

- D. Management fees to Luxor are generally paid quarterly in advance. Generally, the management fees are not refundable in the event that the advisory contract is cancelled prior to the end of a quarter.
- E. *Not applicable.*

#### **Item 6 Performance-Based Fees and Side-By-Side Management**

Luxor or its affiliates receive annual performance-based fees or allocations from the private investment funds and separately managed accounts managed by Luxor or its affiliates, which are based on a percentage of the capital appreciation of client assets.

The terms of the performance-based fees and allocations to Luxor and its affiliates may differ among the various private investment funds and the separately managed accounts managed by Luxor and its affiliates. This may result in a conflict of interest when Luxor and its affiliates allocate trade opportunities among these accounts because Luxor and its affiliates will have an incentive to favor accounts that have higher performance-based fees and allocations. To avoid such a conflict of interest Luxor generally follows documented procedures in allocating trades among such accounts, which does not take into account the performance-based fees and allocations to which such accounts are subject (*see Item 12, Section A.4, "Allocation of Investment Opportunities" below*).

As the management fees and performance-based fees and allocations made to Luxor and its affiliates are based directly on the net asset value of the client accounts, Luxor will have a conflict of interest in valuing the assets held in the accounts. Luxor will follow its documented valuation policies and consult with the third-party administrator to the accounts in order to mitigate this risk.

#### **Item 7 Types of Clients**

Luxor primarily provides investment advice to clients who are private investment funds (either through a fund-vehicle or a separately managed account). Investors in such private investment funds are generally institutional investors that qualify as "qualified purchasers" (as defined under the 1940 Act). The minimum investment in the private investment funds is generally \$10,000,000. The minimum investment for any separately managed account will be determined on a case by case basis but is generally expected to be at least \$250 million.

#### **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

##### **A. *Methods of Analysis and Investment Strategies Generally***

Luxor utilizes a fundamentally driven research effort and an opportunistic approach that allows it to use multiple strategies to invest across the capital structures of U.S. and non-U.S. companies. Situations to which Luxor may allocate capital may be characterized in a number of ways, including, without limitation, as event driven, value equity, credit arbitrage, structural arbitrage, relative value, distressed, commodity related, activist and special situation. Underlying this opportunistic approach is a commitment to preserving capital and to uncovering market inefficiencies. While market conditions will inevitably impact returns, Luxor seeks to achieve returns that will not be closely correlated to

market indices, and it will not allocate capital to situations where it believes that a positive return can be generated only if certain broader market conditions prevail.

Luxor makes use of multiple trading strategies and is generally authorized to alter any trading policy or strategy as deemed appropriate from time to time in its discretion without obtaining approval from clients or investors. Luxor will generally include reviews of environmental, social and/or governance issues relating to an issuer as part of its fundamental research process. The significant strategies used by Luxor are set forth below.

- Long Positions. Luxor trades in publicly traded equity securities or other instruments with equity-like characteristics such as distressed debt, convertible bonds or preferred (including convertible preferred) equity securities. Luxor may purchase securities for client accounts when it believes that such securities are trading notably below their intrinsic value as determined by Luxor through fundamental analysis of the underlying business. Luxor normally analyzes certain financial measures before buying or selling a company's securities, such as the company's cash position, gross and net working capital, tangible book value, historical and expected cash flows, historical and projected earnings growth, valuation relative to growth and to that of its industry, and forecasts and projections for the relevant industry group. As part of its research process, Luxor will at times gather information about a company from consultants, analysts, competitors, suppliers and customers.
- Credit Arbitrage. Luxor may focus on finding situations where market volatility and/or market inefficiency will allow it to purchase and short-sell different securities of the same issuer in order to achieve what it believes to be an outsized return with respect to the probability of permanent capital loss. An example of such a trade would be to purchase the senior obligations of a given issuer and simultaneously short-sell the subordinated obligations of that same issuer.
- Short-Selling. Luxor may engage in short-selling to hedge long positions, as part of various arbitrage strategies and in order to profit from an expected decline in the price of a security. Situations in which Luxor may take an unhedged short position include, but are not limited to, those in which it identifies: (i) negative tangible book value; (ii) temporary overvaluation due to short-term market euphoria for a sector; (iii) a faulty business model; (iv) poor earnings; (v) questionable accounting practices; (vi) deteriorating fundamentals; or (vii) weak management unable to adapt to changes in technology, regulation or the competitive environment.
- Options. Luxor may purchase and write put and call options that are traded on national securities exchanges or over-the-counter markets, as well as on electronic communications networks (ECNs). Options may be used, among other reasons, to increase market exposure (*i.e.*, for purposes of leverage), to reduce overall market exposure (*i.e.*, for hedging purposes), to increase the portfolio's current income, or to reduce the cost basis of a new position. Luxor may also utilize certain options, such as various types of index or "market basket" options, in an effort to hedge against certain market related risks.
- Commodities, Futures, Derivative Securities and Foreign Exchange Transactions. Luxor may effect trades in commodities, futures contracts, options on futures and commodities, currencies, foreign exchange transactions, and derivatives (including,

without limitation, credit default and other swaps). Luxor may seek to hedge against, currency, commodity and interest rate risks through the use of such instruments. Luxor may also use these instruments for non-hedging purposes.

- Leverage. Luxor may increase the number and extent of a client's "long" positions by borrowing (e.g., by purchasing securities on margin). Other trading strategies, including the use of options, futures, certain derivative instruments and short selling may also be deemed to increase the leverage of a client's assets.
- Short-Term Investments. Luxor may trade in government obligations, certificates of deposit, commercial paper and other money market instruments, including repurchase agreements with respect to such obligations, to enable it to make trades quickly and to serve as collateral with respect to certain of its acquisitions. If Luxor believes that a defensive position is appropriate because of expected economic or business conditions or the outlook for security prices, or when it determines that opportunities for trading are unattractive, a greater percentage of client assets may be allocated to such obligations. Luxor may also engage in securities lending activities on behalf of client accounts. From time to time, cash balances in the clients' brokerage accounts may be placed in a money market fund.

**Investing in securities involves risk of loss that clients and investors should be prepared to bear.**

**B. Certain Risks Associated with Luxor's Methods of Analysis and Investment Strategies**

Luxor's trading activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by Luxor. Such factors include a wide range of economic, political, competitive and other conditions which may affect investments in general or specific industries or companies. In recent years, the securities markets have become increasingly volatile, which may adversely affect the ability of Luxor to realize profits for its clients' accounts. As a result of the nature of Luxor's trading activities, it is possible that the financial performance of its client's accounts may fluctuate substantially from period to period. Although Luxor most often does not take an active role in the affairs of the companies in which it invests client assets, Luxor's policy is to take such steps as are necessary to protect its clients' economic interests, including seeking a role on the board of directors of a company in which its clients have a position. Taking a seat on the board of directors will restrict Luxor's ability to transact in the securities of the company.

The following is a list of certain material risks associated with Luxor's significant methods of analysis and investment strategies.

Competition. The securities industry and the varied strategies and techniques to be engaged in by Luxor are extremely competitive and each involves a degree of risk. Luxor will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.

Market Volatility. The profitability of Luxor's trading activities substantially depends upon Luxor correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities and the movements of interest rates. Luxor cannot guarantee that it will be successful in accurately predicting price and interest rate movements.

Accuracy of Public Information. Luxor selects investments for its clients' accounts, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to Luxor by the issuers or through sources other than the issuers. Although Luxor evaluates all such information and data and ordinarily seeks independent corroboration when Luxor considers it is appropriate and when it is reasonably available, Luxor is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.

Leverage. Subject to applicable regulations, Luxor may use leverage in its trading program when it deems appropriate, including the use of borrowed funds and investments in certain types of derivatives and options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent Luxor purchases securities for client accounts with borrowed funds, such clients' assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the return of client accounts. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the use of leverage would result in a lower rate of return than if the accounts were not leveraged.

Convertible Securities. The market value of convertible securities, as with all fixed income securities, tends to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus, may not decline in price to the same extent as the underlying common stock. If a convertible security held by a client account is called for redemption, Luxor will be required to permit the issuer to redeem the security, convert it into the underlying stock or sell it to a third party. Any of these actions could have an adverse effect on the account's performance.

Short Sales. Luxor may sell securities short for client accounts. Short-selling involves the sale of a security that the client does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. Selling securities short risks losing an amount greater than the proceeds received. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. A client may have losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

Derivatives Generally. Derivative instruments, or "derivatives," include options, swaps, futures, structured securities and other instruments and contracts that are derived from or the value of which is related to one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of

the cost of investing in the underlying asset. There is no assurance that derivatives that Luxor wishes to acquire for a client account will be available at any particular times upon satisfactory terms or at all.

The value of a derivative is frequently difficult to determine and depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the account to the possibility of a loss exceeding the original amount invested. Over-the-counter derivatives generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. In most instances, the over-the-counter market for derivatives is relatively illiquid.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) enables the U.S. Commodity Futures Trading Commission (the “CFTC”) and the SEC to enact new regulations on certain over-the-counter derivatives. Under the Dodd-Frank Act, certain over-the-counter derivatives contracts will be regulated through regulated clearing houses and subject to regulation by the SEC and the CFTC. The type and number of derivatives contracts subject to the clearing requirement, the regulations governing swaps clearing organizations and exchanges, the scope of the swaps dealer and major swap participant definitions, and the capital and margin requirements imposed on such entities, await regulatory action. The Dodd-Frank Act creates a regulatory framework rather than a set of detailed requirements. The ultimate impact of the Dodd-Frank Act on the derivatives market is unclear and will depend in large part on the regulations that the SEC and CFTC promulgate.

Options. Luxor may use a number of option strategies for client accounts. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price.

If a put or call option purchased by Luxor for a client account were permitted to expire without being sold or exercised, its premium would be lost by such account. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold to the client at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold by the client at a lower price than its current market value. Purchasing and writing put and call options and, in particular, writing “uncovered” options are highly specialized activities and entail greater than ordinary investment risks.



Credit Default Swaps. Luxor may purchase and sell credit derivatives contracts – primarily credit default swaps – both for hedging and other purposes for client accounts. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. Luxor may also purchase and sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, a client account is subject to certain risks. In circumstances in which a client account does not own the debt securities that are deliverable under a credit default swap, such account is exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the account would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, a client incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, a client will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the client following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the client.

Purchase of Distressed Securities, Etc. Luxor may purchase securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganizations and liquidation proceedings for client accounts. Although such investments may produce significant returns, they involve a high degree of risk over a potentially lengthy period of time, as well as less liquidity than many other investments. Investment in these types of securities requires sophisticated analysis, and there can be no assurance that Luxor will accurately predict various factors that could affect the prospects of a successful restructuring. Many of these investments ordinarily remain stagnant until the company reorganizes and/or emerges from bankruptcy proceedings, and, as a result, may have to be held for an extended period of time.

The Dodd-Frank Act establishes the Orderly Liquidation Authority (the “OLA”), a new insolvency regime for large, interconnected financial companies, including broker-dealers, whose failure poses a significant risk to the financial stability of the United States. Luxor may invest client capital in such large, interconnected financial companies and therefore such clients may face losses if such financial companies are put into receivership and then liquidated upon a determination by the FDIC and the board of governors of the Federal Reserve. If a financial company becomes liquidated by the OLA, Luxor’s investments in such a financial company could be adversely affected. Unlike bankruptcy proceedings, creditors, shareholders and contract counterparties will

not have any input into or advanced notice about the liquidation or reorganization of the financial company. Many of the procedural rules for the OLA have not yet been written, and it is unclear how financial companies that become subject to liquidation proceedings would be affected.

Foreign Securities. Luxor may invest a portion of its clients' assets in securities of companies domiciled or operating in one or more foreign countries. Investing in foreign securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the U.S., including instability of some foreign governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, foreign currency risk, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of foreign tax laws (*e.g.*, the imposition of withholding taxes on dividend or interest payments) or confiscatory taxation may also affect investment in foreign securities. Higher expenses may result from investment in foreign securities than would from investment in domestic securities because of the costs that must be incurred in connection with conversion between various currencies and foreign brokerage commissions that may be higher than in the U.S. Foreign securities markets also may be less liquid, more volatile and subject to less governmental supervision than in the U.S., including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

Currency Transactions. Client accounts may incur costs in connection with conversions between various currencies. Foreign currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to a client account at one rate, while offering a lesser rate of exchange should the account desire immediately to resell that currency to the dealer. Luxor will conduct its currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward contracts to purchase or sell non-U.S. currencies.

Foreign Currency Counterparty Risk. Contracts in the foreign exchange market are not regulated by a regulatory agency, and such contracts are not guaranteed by an exchange or its clearing house. Consequently, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank-traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which a client account has a forward contract. Although Luxor intends to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligations could expose client accounts to unanticipated losses.

Commodity Trading. The prices of commodities and all derivative instruments, including futures and options prices, are highly volatile. Price movements of commodities, futures and options contracts are influenced by, among other things, changing supply and demand relationships, domestic and foreign governmental programs and policies, national and international political and economic events, interest rates and governmental monetary and exchange control programs and policies. Moreover, commodity exchanges limit fluctuations in commodity futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits."

During a single trading day, no trades may be executed at prices beyond the daily limit. Commodity futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent Luxor from promptly liquidating unfavorable positions and subject it to substantial losses. In addition, the Dodd-Frank Act significantly expands the CFTC's authority to impose broader aggregate position limits.

Luxor is currently not registered with the CFTC as a commodity pool operator or commodity trading advisor. Therefore, unlike a registered commodity pool operator or commodity trading advisor, Luxor is not required to deliver a disclosure document, periodic account statements, or an annual report to clients. As a result of recent regulatory changes, Luxor may not be eligible for certain exemptions from registration with the CFTC on which it currently relies, as of December 31, 2012. As a result, Luxor may determine to rely on a different exemption from registration with the CFTC, in which case it will be permitted to trade only a *de minimis* amount of commodity futures, or Luxor may determine to register as a commodity pool operator and/or commodity trading advisor with the CFTC instead. Notwithstanding any such registration, Luxor expects that it will remain exempt from complying with most of the substantive regulations of the CFTC.

Significant Positions; Shareholder Activism. Portfolio companies in which Luxor may invest client assets could have a relatively small aggregate number of outstanding shares, so that a client account, or a client account together with other accounts managed by Luxor, may acquire (i) more than five percent (5%) of a class of securities of a single issuer which would require the filing of a Schedule 13D or 13G statement with the SEC, or (ii) more than ten percent (10%) of a class of securities of a single issuer (which would impose certain limitations on the account's ability to trade in such securities, including the restrictions of Section 16 of the Securities Exchange Act of 1934, as amended). At times Luxor may engage in proxy contests, takeover bids, shareholder class actions or other litigation, or other activity which may place Luxor and client accounts in a high-profile position which is adverse to issuer management and/or other security holders. Client accounts may, as a result of such techniques or otherwise, obtain a controlling or other substantial position in any public or private company. Client accounts may become subject to regulatory proceedings or other litigation.

Luxor's ability to realize value from certain of its client's positions may depend upon the ability of Luxor to influence the management of a portfolio company to take certain actions, including, for example, a recapitalization, restructuring, spin-off, sale of the business or change in management. If Luxor is incorrect in its assessment of the impact such action will have on the value of the portfolio company, or if it is unsuccessful in persuading the portfolio company's management to take the desired action, its clients' accounts may sustain a loss on their positions.

Small-Cap Issuers. Luxor may invest a substantial portion of its client assets in small and/or unseasoned companies. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification, and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, Luxor may have to sell portfolio holdings at discounts from quoted prices or may have to

make a series of small sales over an extended period of time due to the trading volume of smaller company securities.

Risk of Default or Bankruptcy of Third Parties. Luxor intends to engage in transactions for client accounts in securities and financial instruments that involve counterparties. Under certain conditions, such client accounts could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, such client accounts could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which Luxor does business, or to which securities have been entrusted for custodial purposes. For example, if one of the account's prime brokers or custodians were to become insolvent or file for bankruptcy, such account could suffer significant losses with respect to any securities held by such firm.

C. *Not applicable.*

### Item 9 Disciplinary Information

*Not applicable.*

### Item 10 Other Financial Industry Activities and Affiliations

A. *Not applicable.*

B. *Not applicable.*

C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related *person* listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.

1. **broker-dealer, municipal securities dealer, or government securities dealer or broker**

*Not applicable.*

2. **investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)**

Luxor and its related persons manage a number of pooled investment vehicles which are deemed to be related persons of Luxor. These vehicles include Luxor Capital Partners, LP; Luxor Capital Partners Offshore, Ltd.; Luxor Capital Partners Offshore Master Fund, LP; Luxor Spectrum, LLC; Luxor Spectrum Offshore, Ltd.; Luxor Spectrum Offshore Master Fund, LP; Luxor Wavefront, LP; LCG Private Investment 1, LLC; and LCG Private Investment 2, LLC (collectively, the "Affiliated Funds").

The management of multiple pooled investment vehicles may result in conflicts of interests when Luxor and its related persons allocate their time and investment opportunities among the Affiliated Funds and other clients. In addition, the

compensation earned by Luxor and its related persons from each of the Affiliated Funds may differ from one another and other clients. Luxor and its related persons will generally follow documented procedures in allocating trades among such Affiliated Funds and other clients (*see Item 12, Section A.4, "Allocation of Investment Opportunities" below*).

Subject to applicable law, Luxor may effect transactions (generally for rebalancing purposes and to correct misallocations of trades) among its clients (including the Affiliated Funds) in which one client account will purchase securities from or sell securities to another client account (including Affiliated Funds in which Luxor or its related persons may have a significant interest). This may result in a conflict of interest because a potential transaction may result in benefits to one transacting party that may be greater than the benefits to the other transacting party. In order to mitigate such conflicts, such transactions shall be effected only when Luxor believes that such transactions are in the best interest of the applicable clients. Such transactions shall be effected for cash consideration, generally at the closing price of the particular security, and no brokerage commission or transfer fee shall be paid to Luxor or its related persons in connection with any such transaction.

In addition, except for cross trades to correct misallocations of trades among the Accounts and for cross trades that are exempt from the prohibited transaction rules under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Internal Revenue Code of 1986, as amended (the "Code"), as provided by the Pension Protection Act of 2006, Luxor shall not effect any cross trades on behalf of any Account that constitutes "plan assets" under ERISA or the U.S. Internal Revenue Code of 1986, as amended.

Mr. Leone (and/or other related persons) may have a greater portion of his personal assets invested in certain of the Affiliated Funds than in the others. As a result, Luxor may have a conflict of interest in allocating investment opportunities among the Affiliated Funds. Luxor and its related persons will generally follow documented procedures in allocating trades among such Affiliated Funds. (*See Item 12, Section A.4 "Allocation of Investment Opportunities" below.*)

**3. other investment adviser or financial planner**

LCG Holdings, LLC and LCG Private MM, LLC, each a Delaware limited liability company, are also principally owned and controlled by Mr. Leone. These entities serve as the general partner or managing member to certain of the private investment funds managed by Luxor. There are no material conflicts of interest resulting from the relationship between Luxor and these other investment advisers other than any conflicts described in Item 10, section C.2 above.

Luxor may also allocate a portion of a client's capital to private investment funds and other accounts in which Mr. Leone and his affiliates may have an economic interest (*see Item 5 "Fees and Compensation" above*).

**4. futures commission merchant, commodity pool operator, or commodity trading advisor**

*Not applicable.*

5. **banking or thrift institution**

*Not applicable.*

6. **accountant or accounting firm**

*Not applicable.*

7. **lawyer or law firm**

*Not applicable.*

8. **insurance company or agency**

*Not applicable.*

9. **pension consultant**

*Not applicable.*

10. **real estate broker or dealer**

*Not applicable.*

11. **sponsor or syndicator of limited partnerships.**

*Not applicable.*

- D. Luxor may allocate a portion of a client's capital to private investment funds and other accounts in which Mr. Leone and his affiliates may have an economic interest (*see Item 5 "Fees and Compensation" above*).

**Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

- A. Luxor has adopted a Code of Ethics (the "Code of Ethics"). Luxor's Code of Ethics provides that Luxor is committed to conducting business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, Luxor recognizes that it has a fiduciary duty to the investors in the private investment funds and other accounts managed by Luxor, and that all employees must conduct their business on behalf of Luxor in a manner that enables Luxor to fulfill this fiduciary duty. In this regard, Luxor has developed policies and procedures in its Code of Ethics that are premised on fundamental principles of openness, integrity, honesty and trust. In addition, among other things, the Code of Ethics governs all personal investment transactions by Luxor's employees, Luxor's policies with respect to gifts and entertainment, compliance with applicable federal securities laws, the manner in which violations of the Code of Ethics are to be reported, and certain other outside activities of Luxor's employees. Luxor will provide a copy of its Code of Ethics to any client or prospective client upon request.
- B. Luxor recommends that prospective clients invest in the private investment funds managed by Luxor. Mr. Leone and other management persons have significant personal

investments in these funds. In addition, Luxor and its affiliates receive performance-based fees and allocations from these funds.

Subject to applicable law, Luxor may effect transactions between client accounts (generally for rebalancing purposes and to correct misallocations of trades) whereby one client account will purchase securities from or sell securities to another client account (*see Item 10, Section C.2 above*).

In the event that Luxor effects a cross trade between an account in which it or its controlling persons own more than twenty five percent (25%) and another client account, such transaction may be deemed to be a principal transaction under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Such transactions may create a conflict of interest for Luxor because Luxor may put its or its control persons’ interests in such accounts before the interests of its clients in the other account. In order to mitigate this conflict of interest, Luxor monitors the interests of the principals of Luxor, their immediate family members and their affiliates in its accounts, as well as the interests in the accounts of Luxor’s employees, on a monthly basis, and Luxor will not effect any cross trades between accounts if it believes that such trade would result in a principal transaction unless:

- 1) Luxor believes that such transaction is in the best interest of the clients participating in the transaction; and
  - 2) Luxor obtains the consent of the applicable clients as required by the Advisers Act.
- C. Under the Code of Ethics, Luxor generally prohibits personal securities trading by all personnel, other than investing in registered open-end investment companies (*i.e.*, mutual funds), direct obligations of the Government of the U.S., bankers’ acceptances, bank certificates of deposit, commercial paper, short-term, high quality debt securities, including repurchase agreements, and such other money market or investment instruments as may be authorized by Luxor’s Chief Compliance Officer from time to time.

Notwithstanding the foregoing, Luxor’s personnel may, subject to black-out periods, (i) unwind positions acquired prior to their joining the firm or the implementation of Luxor’s no-trading policy and (ii) purchase or sell interests in exchange-traded funds (ETFs) and private investment funds, in each case, upon receiving prior written approval from Luxor’s Chief Compliance Officer. Additionally, Luxor personnel may transact in securities through non-discretionary accounts, provided that any such non-discretionary account has been approved by Luxor’s Chief Compliance Officer.

If there is limited availability to participate in an investment in a private investment fund in which Luxor personnel and one or more Luxor client accounts wish (and are able) to participate, the Luxor client accounts will be allocated the investment (subject to their respective investment mandates, risk and/or operating guidelines and available capacity and Luxor’s allocation policy – *see Item 12, Section A.4 “Allocation of Investment Opportunities” below*) before Luxor personnel will be permitted to participate in the investment.

- D. Luxor may buy or sell securities for one client at the same time that it or its related persons buys or sells the same security for one or more other clients (including the Affiliated Funds which are related persons of Luxor). This will typically happen when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. This may create a conflict of interest if one account may benefit from making the trade before or after the other account. Luxor will generally aggregate trades, subject to best execution, to avoid any such conflict of interest (*see Item 12, Section B "Aggregation of Orders"*).

Luxor personnel are generally subject to a no-trading policy, however they may be permitted to unwind existing securities positions (*see Item 11 Section C above*). In order to prevent Luxor personnel from selling securities at the same time that Luxor is buying or selling the same securities for its clients' accounts, such personnel must receive the prior approval of Luxor's Chief Compliance Officer and generally will not be permitted to:

- 1) engage in "front-running" of client accounts, which is a practice generally understood to be personally trading ahead of client accounts; or
- 2) sell a security that has been sold by a client account within the preceding three (3) days.

## **Item 12 Brokerage Practices**

### **A. Selection of Brokers**

In placing portfolio transactions for its clients, Luxor seeks to obtain the best execution for its clients' accounts, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying Luxor's selection criteria.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Luxor will not commit to provide any level of brokerage business to any broker, and actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above.

On a quarterly basis, Luxor's trading review committee (which includes Luxor's Chief Operating Officer, Chief Compliance Officer and representatives of the trading and operations teams) periodically evaluates the execution performance of the broker-dealers it uses to execute its client transactions. The trading review committee also evaluates, and seeks to resolve, any conflicts of interest that Luxor may have in selecting brokers to execute client transactions.



1. Research and Other Soft Dollar Benefits

Luxor enters into soft dollar arrangements with brokers. Soft dollar arrangements arise when an investment adviser obtains products and services, other than securities execution, from a broker in return for directing client securities transactions to the broker. Soft dollar arrangements pose a conflict of interest for Luxor in that such arrangements allow Luxor to pay with client commissions expenses that would otherwise be borne by Luxor. When Luxor uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Luxor receives a benefit because it does not have to produce or pay for the research, products or services. Luxor believes that this conflict is mitigated because clients will generally pay for research as a “hard dollar” expense pursuant to their respective investment management agreements. Luxor may have an incentive to select a broker based on Luxor’s interest in receiving the research or other products or services offered by such broker, rather than on its clients’ interest in receiving most favorable execution.

When engaging in soft dollar transactions, Luxor complies with the safe harbor requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended. Under this provision, in exercising its discretionary authority to select or arrange for the selection of brokers for execution of transactions for its clients, and, subject to its duty to obtain best execution, Luxor may consider the value of research and brokerage products and services (collectively, “Research”) provided by such brokers. Research may include, among other things, proprietary research from brokers, which may be written or oral. Research products may include, among other things, databases and quotation services. Research services may include, among other things, research concerning market, economic and financial data, a particular aspect of economics or on the economy in general, statistical information, pricing data and availability of securities, financial publications, electronic market quotations, performance measurement services, analyses concerning specific securities, companies, industries or sectors, market, economic and financial studies and forecasts, appraisal services, and invitations to attend conferences or meetings with management or industry consultants. Accordingly, if Luxor determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, a client may pay commissions to such broker in an amount greater than the amount another broker might charge.

Research provided by such brokers may be used to service all client accounts and not exclusively in connection with the management of the client account that generated the particular soft dollar credits.

Where a product or service obtained with client commission dollars provides both research and non-research assistance to Luxor, Luxor will make a reasonable allocation of the cost which may be paid for with client commission dollars.

Luxor’s prime brokers provide Luxor with front and back office services, including trading, securities lending, clearing, reporting, and settlement for equities, fixed income, foreign currency and options, among others. Subject to applicable law, prime brokers may also provide Luxor with capital introduction services.

Luxor executes securities transactions on behalf of client accounts with broker-dealers that provide Luxor with access to proprietary research reports (such as standard investment research and credit reports). To the best of Luxor's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to Luxor on an unsolicited basis and without regard to the rates of commissions charged or paid by client accounts or the volume of business that Luxor directs to such broker-dealers.

During Luxor's last fiscal year, Luxor and its affiliates acquired with client brokerage commissions (or markups or markdowns) (i) research, such as proprietary research from brokers, which may be written or oral; (ii) research products, such as databases and quotation services; and (iii) research services, such as research concerning market, economic and financial data; a particular aspect of economics or on the economy in general; statistical information; pricing data and availability of securities; financial publications; electronic market quotations; performance measurement services; analyses concerning specific securities, companies, industries or sectors; market, economic and financial studies and forecasts; appraisal services; and invitations to attend conferences or meetings with management or industry consultants.

During Luxor's last fiscal year, Luxor has taken into account the quality, comprehensiveness and frequency of available research services and products considered to be of value provided by brokers when directing client transactions to a particular broker. Luxor directed transactions to such brokers only consistent with best execution. Brokers sometimes suggest a level of business they would like to receive in return for the research services and products they provide, however Luxor has not committed to provide any level of brokerage business to any broker. Luxor's trading review committee also evaluated, on a quarterly basis, the execution performance of the broker-dealers it uses to execute its client transactions and resolved any conflicts of interest that Luxor may have had in selecting brokers to execute client transactions.

2. Brokerage for Client Referrals

Subject to applicable law, Luxor may direct some client brokerage business to brokers who refer prospective investors to the private investment funds managed by Luxor, consistent with best execution. Because such referrals, if any, are likely to benefit Luxor but will provide an insignificant (if any) benefit to clients, Luxor will have a conflict of interest with its clients when allocating client brokerage business to a broker who has referred investors to a private investment fund managed by Luxor. To prevent client brokerage commissions from being used to pay investor referral fees, Luxor will not allocate client brokerage business to a referring broker unless Luxor determines in good faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to the client account.

3. Directed Brokerage.

*Not applicable.*

#### 4. Allocation of Investment Opportunities

Luxor generally allocates investment opportunities so that each security held by the accounts is held on a pari passu basis. In certain circumstances, Luxor may allocate securities among client accounts on a different basis. In such cases, the factors that Luxor may consider when determining which securities to allocate to each client account include, but are not limited to, the investment objectives and restrictions of each client account; the overall portfolio composition of the client accounts; relative capital available for investment in the applicable client account; liquidity of the security; market capitalization and/or enterprise value of the underlying credit; position size; industry exposure; market exposure; gross, net, long and short exposure; and applicable tax considerations. New issues (as defined by FINRA rule 5130) are allocated to client accounts in accordance with the criteria set forth above.

#### 5. Trade Error Policy

Subject to applicable law, Luxor will reimburse the applicable client account(s) for net losses that occur as a result of trade errors resulting from Luxor's gross negligence or willful misconduct. Notwithstanding the foregoing, Luxor reserves the right, with the approval of its Chief Compliance Officer, to reimburse the applicable account(s) for net losses that result from trade errors that fall within certain parameters established by Luxor from time to time.

Luxor may correct misallocations of trades among client accounts by re-allocating the applicable trade using the intended allocation methodology prior to the trade's settlement date. If an erroneous allocation cannot be corrected prior to or after settlement, Luxor may, if appropriate and subject to applicable law, correct such erroneous allocation by effecting a cross trade between client accounts at the price at which the initial trade was effected.

#### B. Aggregation of Orders

Luxor will generally aggregate client trades, subject to best execution. Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for Luxor generally arise when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. In such event, securities purchased or sold will generally be allocated among client accounts on an average price basis. When an aggregated order is only partially filled, Luxor will allocate the investment opportunity as described in Item 12, Section A.4 above.

Luxor may also aggregate subsequent orders for the same security entered during the same day with any previously filled orders. This determination may take into consideration changes in the market price of the security and differences in allocations among accounts.

**Item 13 Review of Accounts**

- A. Client portfolios are reviewed daily, and their performance analyzed, by Luxor's investment professionals, including, but not limited to, Christian Leone (Portfolio Manager), Adam Miller (Chief Operating Officer), Michael Conboy (Director of Research) and members of the trading team. Client portfolios are also reviewed by members of the operations team and the Chief Operating Officer to monitor compliance with the applicable trading mandate and any applicable risk and/or operating guidelines. The Chief Compliance Officer is also involved in the review of trading activity and account allocations. Client investments are evaluated based on performance, company fundamentals, news and press releases, analyst reports, general market conditions and such other considerations as Luxor deems appropriate.
- B. *Not applicable.*
- C. Luxor may, in its discretion, furnish investors in the private investment funds that it manages with periodic written unaudited performance reports on a monthly basis. On an annual basis, investors receive a copy of the relevant fund's annual audited financial statements and, where applicable, a statement of taxable income (form K-1).

Luxor and its affiliates may provide certain investors access to more frequent and/or more detailed information regarding the private investment funds' securities positions, performance, finances, and management and/or other information about the private investment funds or Luxor (including, notification of the commencement of certain disciplinary actions, legal proceedings, investigations or similar matters against a fund, Luxor and/or its personnel, or of redemptions from a fund by Luxor and/or its personnel), possibly enabling such investors to better assess the prospects and performance of the funds.

Luxor provides the owners of the separately managed accounts managed by it with periodic unaudited reports at such times as the owners of such accounts and Luxor agree. The custodians of such accounts send account statements to the owners of such accounts no less frequently than monthly. In addition, since a managed account investor directly owns the positions in its separately managed account, such investor may have full, real-time transparency as to all transactions and holdings in such account, and may be better able to assess the future prospects of a portfolio that is substantially similar to the portfolios of the private investment funds managed by Luxor. The investors in such separately managed accounts may have the right to withdraw all or a portion of their capital from such managed accounts on shorter notice and/or with more frequency than the terms applicable to an investment in the private investment funds managed by Luxor.

**Item 14 Client Referrals and Other Compensation**

*Not applicable.*

**Item 15 Custody**

As noted above in Item 13, Section C, owners of the separately managed accounts managed by Luxor will receive account statements no less frequently than monthly from the custodians of such accounts. Clients should carefully review these statements that are received from the custodians of such accounts.

**Item 16 Investment Discretion**

Luxor has discretionary authority to manage securities accounts on behalf of its clients. The investors in the private investment funds managed by Luxor generally may not place any limits on Luxor's authority beyond the limitations set forth in the offering and governing documents of such private investment funds. On a case by case basis, owners of the separately management accounts managed by Luxor may negotiate certain risk and/or operating guidelines that Luxor will adhere to when exercising its discretionary authority over such accounts.

**Item 17 Voting Client Securities**

Luxor generally has voting discretion over securities held in its clients' accounts. Clients are generally not able to direct their votes in a particular situation. Luxor will exercise its discretion in the best interests of its clients. In fulfilling its obligations to clients, Luxor will act in a prudent and diligent manner intended to enhance the economic value of the securities. Luxor has adopted a proxy voting policy which is summarized below.

Luxor has retained Institutional Shareholder Services ("ISS") to provide research, vote execution, reporting, recordkeeping and reconciliation services. Luxor generally follows the voting guidelines established by ISS. Authorized investment management personnel, however, may override ISS recommendations on a case-by-case basis, provided that Luxor does not face a conflict of interest in voting such securities.

While ISS has been retained to assist in voting the proxies of U.S. and non-U.S. issuers, it should be noted that voting proxies of foreign companies may involve a number of logistical problems that may have a detrimental effect on Luxor's ability to vote such proxies, *e.g.*, restrictions on a foreigner's ability to exercise votes or requirements to vote proxies in person. When facing logistical issues, Luxor will vote proxies on a best-efforts basis and may conduct a cost-benefit analysis to determine whether it is worth the cost involved to vote shares in such circumstances.

Luxor has adopted the voting guidelines of ISS. In votes determined by such guidelines, Luxor will generally follow the recommendations made by ISS, but retains the right to depart from such recommendations if it believes in a particular case that a vote in accordance with such guidelines would not be in the best interests of Luxor's clients. With respect to matters not determined by the voting guidelines and requiring case-by-case analysis, *e.g.*, mergers and corporate restructurings, Luxor will review the research and recommendations provided by ISS, but may independently perform research and reach its own conclusions as to what is in the best interests of Luxor's clients.

Luxor will maintain a "Proxy Conflicts Watch List" containing the names of issuers with respect to which Luxor has identified a conflict of interest. Such conflicts may arise, for example, from the following relationships:

- 1) the issuer is an investor in a fund or account managed by Luxor;
- 2) the issuer has a material business relationship with Luxor;
- 3) the proponent of a proxy proposal has a business relationship with Luxor (*e.g.*, the proponent is a pension plan for which Luxor manages money);

- 4) Luxor has material business relationships with candidates for director in a proxy contest; or
- 5) an employee of Luxor has a personal interest in the outcome of a particular matter.

This list provides examples of possible conflicts of interest and is not meant to be comprehensive. Each employee must notify Luxor's Chief Compliance Officer of any potential conflicts of interest of which he or she is aware, and the Chief Compliance Officer shall make a determination as to whether an item should be added to the Proxy Conflicts Watch List.

If Luxor is authorized to vote a proxy with respect to an issuer or a person or entity that appears on the Proxy Conflicts Watch List, Luxor shall rely exclusively on the recommendation of ISS.

Special considerations may apply in cases of conflicts of interest involving ERISA clients. Luxor will confer with appropriate ERISA counsel in such cases.

Clients and the investors in the private investment funds sponsored by Luxor may obtain a copy of Luxor's proxy voting policies upon request by contacting Luxor's Chief Compliance Officer. Further, separately managed account clients and the directors, general partners and managing members of the private investment funds sponsored by Luxor may obtain information regarding how Luxor voted the securities in the applicable client's account by contacting the Chief Compliance Officer.

#### **Item 18 Financial Information**

*Not applicable.*

#### **Item 19 Requirements for State-Registered Advisers**

*Not applicable.*