

PART 2A FORM ADV
FIRM BROCHURE
RELATING TO THE STRUCTURED EQUITY STRATEGY

Levine Leichtman Capital Partners, Inc.

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Here are a few important details before you begin.

This brochure provides information about the qualifications and business practices of Levine Leichtman Capital Partners, Inc. If you have any questions about the contents of this brochure, please contact Steven Hartman at 310-275-5335 and/or info@llcp.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Levine Leichtman Capital Partners, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Being a “registered investor adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.

**THIS BROCHURE IS NOT AN OFFER TO SUBSCRIBE FOR OR PURCHASE ANY
SECURITIES.**

Item 2. Material Changes

In 2011, Levine Leichtman Capital Partners, Inc. (“**LLCP**”) established two advisory subsidiary entities, as well as two additional private funds. Certain affiliated general partners or managing members of private funds and co-investment vehicles sponsored by LLCP, as well as certain subsidiary advisers, perform services for LLCP. While these entities have historically been subject to the supervision and control of LLCP and, accordingly, subject to the firm’s compliances policies and procedures, as a result of recent changes in law, these entities are now technically relying on LLCP’s registration with the SEC as an investment adviser.

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THIS BROCHURE RELATES SOLELY TO THE FIRM'S STRUCTURED EQUITY STRATEGY. A SEPARATE BROCHURE HAS BEEN PREPARED FOR THE FIRM'S DEEP VALUE STRATEGY. PLEASE SEE ITEM 4.B FOR ADDITIONAL INFORMATION.

Item 4. Advisory Business

A. Organization and Ownership

Levine Leichtman Capital Partners, Inc. (“**LLCP**” or the “**Firm**”) is a California corporation that was organized in 1984 and has been registered with the SEC as an investment adviser since July 2006. The owners of LLC are Arthur E. Levine and Lauren B. Leichtman.

In addition, LLC has established various affiliated entities, including general partners or managing members of certain funds and co-investment vehicles as well as certain subsidiary advisers, that are relying on the registration of LLC with the SEC as an investment adviser.

B. Advisory Services

LLC currently serves as the investment adviser to eleven private equity funds (each, a “**Fund**” and together, the “**Funds**”), as well as certain alternative investment vehicles established by the Funds to make portfolio investments on behalf of one or more investors in such Funds (the “**Alternative Investment Vehicles**”). The Funds have also established vehicles formed for the purposes of making certain co-investments with the Funds (the “**Co-Investment Vehicles**”). The Firm generally pursues two distinct strategies: (i) a structured equity strategy (described in more detail below) and (ii) a deep value strategy. This brochure describes the Firm’s structured equity strategy and the seven Funds (collectively, the “**Structured Equity Funds**”) that generally pursue this strategy as described in more detail in **Item 4.C** below. A separate brochure has been prepared for the deep value strategy and the Funds that pursue such strategy (namely, Levine Leichtman Capital Partners Deep Value Fund, L.P., Levine Leichtman Capital Partners Deep Value Amicus Fund, L.P., Levine Leichtman Capital Partners Deep Value Fund II, L.P. and Levine Leichtman Capital Partners Deep Value II Parallel Fund, L.L.C. (collectively, the “**Deep Value Funds**”)).

The Firm’s primary investment focus is on middle-market companies located in the United States. On behalf of the Structured Equity Funds, the Firm makes debt and equity investments in entrepreneurially led companies, structured, in the Firm’s opinion, to provide equity returns while preserving investment capital (“**structured equity investments**”). The Structured Equity Funds will provide investment capital to portfolio companies generally through a combination of securities, including senior and subordinated notes, preferred stock and common stock. Targeted portfolio company investments generally provide capital for (i) growth and expansion and (ii) acquisitions and mergers. Portfolio companies in which the Structured Equity Funds invest may be involved in various industries, including, without limitation: aerospace, broadcasting, consumer products, equipment rental, food processing, manufacturing, health care, real estate services, restaurant franchising, fueling distribution, safety products and specialty finance. However, the Firm does not target investments in portfolio companies that focus primarily on high technology, biotechnology or the internet. Additionally, the Firm does not target investments in start-up companies.

C. Tailoring of Investment Advice

LLCP tailors its investment decisions for each Structured Equity Fund in accordance with the terms of the applicable Structured Equity Fund's limited partnership agreement and investment management agreement. The Structured Equity Funds are comprised of the following.

- **Structured Equity Series Funds.** The “**Structured Equity Series Funds**” are comprised of the following:
 - Levine Leichtman Capital Partners II, L.P. (the “**LLCP II Fund**”). LLCP II Fund is not accepting new investors. The investment period for LLCP II Fund has expired and the Fund has entered its liquidation phase.
 - Levine Leichtman Capital Partners III, L.P. (“**LLCP III**”), and its parallel fund, Levine Leichtman Capital Partners III-Amicus Fund, L.P. (“**LLCP III Amicus**” and, together with LLCP III, the “**LLCP III Funds**”).¹ The LLCP III Funds are not accepting new investors. The investment period for the LLCP III Funds has expired. However one portfolio company of the LLCP III Funds invests in loan and debt obligations and participations therein of third parties. Accordingly, the LLCP III Funds, indirectly, will continue to make new investments through such portfolio company.
 - Levine Leichtman Capital Partners IV, L.P. (“**LLCP IV**”), and its parallel fund, Levine Leichtman Capital Partners IV-Amicus Fund, L.P. (“**LLCP IV Amicus**” and, together with LLCP IV, the “**LLCP IV Funds**”).² The investment period for the LLCP IV Funds is still active.

Each Structured Equity Series Fund focuses primarily on investments in middle-market companies.

- **THE SBIC Fund.** Levine Leichtman Capital Partners SBIC Fund, L.P. (the “**SBIC Fund**”) operates as a small business investment company (an “**SBIC**”) under the regulations of the U. S. Small Business Administration (the “**SBA**”). The SBIC Fund focuses on investments in companies that (i) satisfy the requirements set forth by the SBA for an SBIC, (ii) are located in the United States and (iii) have revenues of less than \$50 million at time of investment. The SBIC Fund makes structured equity investments in these companies (and utilizes leverage provided by the SBA of up to 2 times the amount of private regulatory capital) structured, in the Firm's opinion, to

¹ LLCP III has established the following Alternative Investment Vehicles to hold specific investments on behalf of certain investors in LLCP III: LLCP III Alternative Partnership 1, L.P.; LLCP III Alternative Partnership 2, L.P.; LLCP III Alternative Partnership 3, L.P.; LLCP III Alternative Partnership 4, L.P.; LLCP III Alternative Partnership 5, L.P.; LLCP III Alternative 1, LLC; LLCP III Alternative 2, LLC; LLCP III Alternative 3, LLC; LLCP III Alternative 4, LLC; and LLCP III Alternative 5, LLC.

² LLCP IV Fund has established the following Alternative Investment Vehicles to hold specific investments on behalf of certain investors such Fund: LLCP IV Alternative SQL, L.P., LLCP IV Alternative SQL, LLC, LLCP IV Alternative Partnership Renewal, L.P., LLCP IV Alternative Renewal, LLC, LLCP IV Alternative Natchez LLC and LLCP IV Alternative Partnership Natchez.

provide equity returns while preserving investment capital. The SBIC Fund is not accepting new investors.

- **The California Growth Fund.** Levine Leichtman Capital Partners California Growth Fund, L.P. (the “**California Growth Fund**”) focuses on investments in portfolio companies (i) located primarily in, (ii) incorporated and with actual business activities in, or (iii) conducting substantial operations in, the State of California, in each case with annual revenues of \$50 million or less at the time of investment. The California Growth Fund may also invest in one or more subsidiaries that directly hold or invest primarily in loan or debt obligations or participations therein of third parties (“**Collateral Warehousing Subsidiaries**”). The California Growth Fund is not accepting new investors. The investment period for California Growth Fund has expired. However, the Collateral Warehousing Subsidiaries of California Growth Fund are permitted to reinvest investment proceeds in additional loan or debt obligations or participations therein of third parties.

LLCP provides each Structured Equity Fund with portfolio management, administrative and due diligence services, including investigating, structuring and negotiating potential investments, monitoring the performance of portfolio investments and advising each Structured Equity Fund as to disposition and acquisition opportunities.

D. Wrap Fee Programs

The Firm does not participate in any wrap fee programs.

E. Assets Under Management

LLCP manages the assets of each Fund on a discretionary basis. As of December 31, 2011, the amount of assets held by the Firm’s Fund clients was \$2,430,667,840.

Item 5. Fees and Compensation

A. Management Fees

LLCP typically receives two types of compensation for its services to the Funds. A Fund will pay LLCP an annual management fee that is a specified percentage of either the limited partners' capital commitments or the Fund's invested capital (depending upon whether the Fund is still permitted to call capital from limited partners for investment). During a Fund's investment period, management fee rates are typically in the range of 1.7% to 2.0% per annum of the Fund's committed capital. After the end of a Fund's investment period, management fee rates are typically in the range of 1.5% to 1.875% per annum of the Fund's invested capital.

Affiliates of the Firm are also entitled to receive from each Fund carried interest distributions as further described in **Item 6** below.

The specifics of each fee arrangement are negotiated for each Fund and are fully described in the limited partnership agreement related to the specific Fund.

B. Payment of Management Fees

On a semi-annual basis the Firm calls capital from each investor in each Fund, except for the SBIC Fund, for which the Firm calls capital from its investors on a quarterly basis, for the pre-payment of management fees. Management fees are then paid by the applicable Fund to affiliates of the Firm. A percentage of the Transaction and Monitoring Fees for each Fund as further described in **Item 5.D** below will be credited towards an offset of the Fund's management fee.

C. Other Fees

In addition to the fees described in **Item 5.A** above and the carried interest distributions described in **Item 6** below, each Fund will pay costs, expenses and liabilities associated with its organization and operations, including, without limitation (i) organizational and offering expenses (other than any excess organizational expenses to be paid by the Firm or its affiliates); (ii) the fees and expenses relating to consummated portfolio company investments, unconsummated investments, indebtedness or guarantees (including interest) and temporary investments, including the evaluation, acquisition, holding and disposition thereof, to the extent that such fees and expenses are not reimbursed by a portfolio company or other third Person; (iii) to the extent permitted, premiums for insurance protecting the Fund and any covered persons from liabilities in connection with Fund affairs and any indemnification obligations; (iv) legal, custodial and accounting expenses, including expenses associated with the preparation of the Fund's financial statements, tax returns and Schedule K-1s and the representation of the Fund or its partners by the tax matters partner, including expenses paid or incurred in connection therewith; (v) auditing, accounting, banking and consulting expenses; (vi) appraisal expenses; (vii) expenses related to organizing persons through or in which portfolio company investments may be made; (viii) reasonable expenses of the Fund's advisory committee; (ix) reasonable expenses of the Investment Committee (excluding the SBIC

Fund); (x) costs and expenses that are classified as extraordinary expenses under generally accepted accounting principles; (xi) except as otherwise specified in the limited partnership agreement, taxes and other governmental charges, fees and duties payable by the Fund; (xii) damages; (xiii) costs of reporting to the partners and of any annual meeting; and (xiv) costs of winding up and liquidating the Fund.

Further, as described in **Item 10.C** and **Item 11.B** the portfolio companies in which a Fund invests may pay directors' fees, transaction fees, investment banking fees, advisory fees, monitoring fees, break-up fees and other fees ("**Transaction and Monitoring Fees**") to the Firm, the general partner of the Fund or any of their respective employees in connection with the consummation, holding or disposition of a portfolio company investment or the termination of an unconsummated investment by the Fund. Any such Transaction and Monitoring Fees received by the general partner of a Fund or any of their respective employees are required to be immediately remitted to the Firm. As noted in **Item 5.B** above, in general, a percentage of such fees received by the Firm, the general partner of the Fund or any of their respective employees (after a deduction for applicable expenses) will be credited toward an offset of the management fee. The remainder will be retained by the Firm.

D. Fees Payable in Advance

All management fees are payable semi-annually, except for the SBIC Fund which is payable quarterly, in advance.

LLCP is generally under no obligation to refund management fees upon the early termination of a Fund's management agreement.

E. Compensation for the Sale of Securities

Neither the Firm nor any of its supervised persons accepts any compensation for the sale of securities or other investment products, including interests in the Funds.

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

Performance-Based Profits Allocations

As noted in **Item 5.A** above, affiliates of LLCPS are entitled to receive distributions of carried interest from each Fund, generally equal to 20% of the applicable profits after capital contributions have been returned to investors in the Fund and the Fund's investors have received their applicable preferred return, if any, each as further described in the applicable Fund's limited partnership agreement.

Potential Conflicts of Interest

A potential conflict of interest arises where the financial or other benefits available to an investment adviser differ among its clients. The fact that the compensation of affiliates of the Firm is based on the performance of the applicable Fund may create an incentive for LLCPS to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of a performance-based carried interest distribution.

Item 7. Types of Clients

Each Fund is a client of LLCP. As further described in **Item 4** above, LLCP provides advice to the Funds, as well as certain Alternative Investment Vehicles, Co-Investment Vehicles and certain Underlying Vehicles (as defined in **Item 10.C** below), and as such makes investment decisions on behalf of those entities according to the stated investment objectives set forth in the respective Fund documentation.

The Funds only accept potential investors who are "accredited investors" as defined in Regulation D under the Securities Act of 1933, as amended (the "**Securities Act**"). Investors in each Structured Equity Fund (other than LLCP II Fund, LLCP III Amicus and LLCP IV Amicus) must also generally be "qualified purchasers" as that term is defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "**Investment Company Act**"). Investors in LLCP III Amicus and LLCP IV Amicus must be "qualified clients" as that term is defined under Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "**Advisers Act**").

The minimum initial investment in a Structured Equity Fund is generally \$10 million, subject to waiver. The minimum investment in a parallel fund or co-investment vehicle is determined on a case-by-case basis. The Firm (or its affiliates) is permitted to waive these minimum investment amounts at any time for any prospective investor.

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

A. Investment Strategies and Process

The significant investment strategies and investment process utilized by the Firm on behalf of each Structured Equity Fund are set forth below. Investments in the Structured Equity Funds are not guaranteed. The instruments in which the Structured Equity Funds invest may lose value. An investment in a Structured Equity Fund involves a risk of loss that an investor in such Fund should be prepared to bear.

Investment Strategies.

The principal components of the Firm's investment strategy with respect to the Structured Equity Funds include:

- Focus on U.S. Small and/or Middle-Market Companies.
 - The Structured Equity Series Funds primarily target investments in entrepreneurially led middle-market companies in the United States, a rapidly growing market place where the Firm has an established presence. Each Structured Equity Series Fund defines its target market as businesses with predictable revenues at time of investment.
 - The SBIC Fund targets investments in entrepreneurially led companies in the United States, a rapidly growing market place where the Firm has an established presence. The SBIC Fund defines its target market as businesses with revenues of less than \$50 million at the time of investment and otherwise satisfy the SBA regulations governing SBIC investments.
 - The California Growth Fund focused on investments in entrepreneurially led companies (i) located primarily in, (ii) incorporated and with actual business activities in, or (iii) conducting substantial operations in, the State of California, in each case with annual revenues of \$50 million or less at the time of investment (the “**Target Companies**”). In addition, the California Growth Fund also invested in one Collateral Warehousing Subsidiary that directly holds and invests primarily in loan or debt obligations or participations therein of third parties.
- Investment in Entrepreneurially Led, Established and Growing Small and/or Middle-Market Companies. Each Structured Equity Series Fund targets structured equity investments with experienced entrepreneurs who hold significant equity stakes in their companies. In addition to control transactions, the Structured Equity Series Funds often consummates investments with entrepreneurs who are not interested in selling control of their businesses. Accordingly, entrepreneurs who have founded and built established businesses generally continue to manage a Structured Equity Series Fund's portfolio companies. LLCP considers a strong, experienced and entrepreneurial

management team to be a critical factor for a successful investment. The Firm seeks high-caliber entrepreneurs, with a vision and passion for their businesses and structures its investments such that operating management teams retain significant equity interests in their companies.

- Utilize a Structured Equity Investment Approach. Many entrepreneurs will not sell control of their businesses to a private equity group, but still require significant investment capital for their ongoing business needs. LLCP has developed a tailored structured equity investment approach to meet the investment needs of these entrepreneurs. This approach involves investing at low leverage multiples using a combination of securities such as senior and subordinated notes, preferred stock and common stock. Entrepreneurs who are seeking less dilutive forms of capital than traditional private equity may find this approach very compelling as they can retain equity control of their companies while receiving the support of LLCP as a financial sponsor. LLCP intends to structure the Structured Equity Funds' investments to align the interests of the applicable Fund and operating management through (i) understanding and supporting management's overall strategic vision and objectives and (ii) ensuring that management shares meaningfully in the future equity value of the portfolio company.
- Provide Value-Added Expertise. LLCP is integrally involved with each Structured Equity Fund's portfolio company investment from the initial investment through full realization of its invested capital. The Firm intends to add value during the investment period by offering management teams sophisticated financial and strategic advice, while respecting their operating autonomy. During the due diligence process, LLCP identifies and defines the critical success factors that drive the performance of each of a Structured Equity Fund's portfolio companies. During the documentation process, LLCP sets financial and operating covenants that measure the performance of each portfolio company's critical success factors. The identification and creation of covenants for critical success factors allows for the early detection and addressing of problems. LLCP monitors the critical success factors of its investments on a daily/weekly basis and meets monthly with senior management of its portfolio companies, in an operating committee environment, to discuss the respective companies' strategic, financial and operating performance. LLCP makes significant contributions to the success of its portfolio companies and assists senior management in the following areas: strategic direction and planning, introductions to new business contacts, follow-on growth and acquisition capital, refinancings and recapitalizations and public offerings of debt and equity capital. LLCP's proactive assistance to its portfolio companies protects each Fund's investments, while helping to create substantial returns for its investors.
- (For the SBIC Fund only) Utilize SBA Leverage to Enhance Investment Returns. The SBIC Fund expects to enhance its investment returns by obtaining inexpensive and flexible leverage under the SBA program. The SBA leverage is low-cost, 10-year interest only debentures.

The Structured Equity Funds will invest in portfolio companies which require financing for one of the following purposes: (i) growth and expansion and (ii) acquisitions and mergers.

- Growth and Expansion Financings. Established companies need access to capital to take advantage of market opportunities, during all economic cycles. Many companies in the United States experience rapid growth and require significant capital to accomplish their objectives. Historically, entrepreneurs of established companies have turned to the high yield debt and public equity markets and commercial banks to finance their long-term capital requirements. These traditional financing sources are difficult for middle-market companies to access. LLCP has substantial experience in providing companies with growth and expansion capital. By providing long-term capital structures that are less dilutive than common equity, LLCP is able to address the primary concerns of companies and their entrepreneurial owners.
- Acquisition and Merger Financings. LLCP has significant experience in working with entrepreneurs to build their businesses through acquisitions and mergers. LLCP works with operating management teams to develop the business plans for the combined companies' post-investment activities and provide advice and capital to complete their growth plans. In order to facilitate an acquisition, a Structured Equity Fund often provides investment capital and assists a portfolio company in negotiating the credit facilities necessary to complete the transaction.

Investment Process.

LLCP maintains consistent discipline to make thorough, informed decisions throughout all phases of the investment process including transaction screening, analysis, structuring, monitoring and exiting.

- Screening Investments. LLCP has developed specific, detailed criteria that are used to screen potential investment opportunities for each Fund. Each Structured Equity Fund's general partner will ensure that an investment meets a majority of these initial requirements prior to committing time or capital to pursue an opportunity:
 - United States based companies;
 - Experienced management team owning a significant equity stake;
 - Market-leading industry position;
 - Predictable revenues;
 - Strong consistent cash flow;
 - Pro-forma capitalization adequate to meet fixed obligations and growth requirements;

- A diversified customer base;
 - The ability to withstand cyclical downturns; and
 - High equity growth potential.
- Analyzing Investments. Before making an investment, the Firm conducts an extensive due diligence investigation focused on understanding the critical success factors and major risks associated with an investment opportunity such as:
 - Detailed analysis of management including on-site interviews, management and corporate questionnaires and background checks;
 - Extensive reference checks of board members, customers, suppliers and service providers;
 - Critical success factors analysis including developing operating covenants to measure performance;
 - Due diligence of financial statements, conditions and prospects, including analysis and review of historical revenues, margins and earnings, working capital, capital spending requirements, projections and related sensitivities and accounting working papers;
 - Industry segmentation analysis including competition, positioning, trends and opportunities and, if necessary, consultation with industry experts or operating executives with relevant expertise; and
 - Legal due diligence including corporate formalities, contract review, litigation, employment matters, insurance and environmental reviews.
 - Structuring Investments. Each Structured Equity Fund makes structured equity investments through a combination of senior and subordinated notes, preferred stock and common stock. These structured equity investments are typically secured, and in large part, are senior in right of payment to the equity owned by the company's management team. LLCPS structure each investment in order to minimize equity dilution to the entrepreneur and properly match the company's pro-forma capitalization to its business plan. Each Fund seeks to invest at low leverage multiples.
 - Monitoring Investments. LLCPS is integrally involved with each Structured Equity Fund's portfolio companies from the initial investment through full realization of its invested capital. The Firm adds value during the investment period by offering management teams sophisticated financial and strategic advice while respecting their operating autonomy. LLCPS monitors the critical success factors of its investments on a daily/weekly basis and meets monthly with senior management of its portfolio companies, in an operating committee environment, to discuss the respective companies' strategic, financial and operating

performance. LLCP's proactive assistance to these portfolio companies is designed to protect each Structured Equity Fund's investments, while creating substantial returns. LLCP makes significant contributions to the success of its portfolio companies and has assisted senior management in the following areas: (i) strategic direction and planning; (ii) introduction of new business contacts; (iii) follow-on growth and acquisition capital; (iv) capital for refinancings and recapitalizations; and (v) public offerings of debt and equity capital.

- Exiting Investments. The Firm intends to exit portfolio company investments through public sales of securities, private company sales, refinancings and recapitalizations. The Firm endeavors to maximize value in these capital markets transactions due to: (i) the expertise of its investment professionals, (ii) its detailed knowledge of management and the portfolio companies obtained through active post-investment monitoring and (iii) its extensive investment banking and sell side broker networks. Each Structured Equity Fund's structured equity investments typically contain fixed maturity dates for its invested capital and equity rights that permit a timely exit including public registration, put and co-sale rights. Typically, a Structured Equity Fund exits an investment within three to five years from the date of its initial investment.

B. Investments and Risk

Certain Investment Considerations.

Following is a description of various investment risks that could affect the portfolio of the Structured Equity Funds. Investors should note that the following does not summarize all of the risks that apply to an investment in a Structured Equity Fund, and should carefully read such Fund's private placement memorandum before making any decision to invest.

Small and Middle-Market Companies. Investments in small and middle-market companies such as those that each Structured Equity Fund intends to invest in, while often presenting greater opportunities for growth, may also entail larger risks than are customarily associated with investments in large companies. Smaller companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Further, there is ordinarily a more limited marketplace for the sale of interests in smaller companies, which may make realizations of gains more difficult.

Competitive Nature of the Firm's Business. The business of the Firm is highly competitive. LLCP and its affiliates will be competing for investment opportunities against other groups, including other investment firms, merchant banks and industrial groups, and LLCP and its affiliates may be unable to identify a sufficient number of attractive investment opportunities for a Structured Equity Fund to meet its investment objectives. Other investors may make competing offers for investment opportunities that are identified, and even after an agreement in principle has been reached with the owners

of an acquisition target, consummating the transaction is subject to a myriad of uncertainties, only some of which are foreseeable or within the control of LLCP or its affiliates. No assurance can be given that a Structured Equity Fund will be successful in obtaining suitable investments, or that if such investments are made, the objectives of the Structured Equity Fund will be achieved.

General Economic Conditions. General economic conditions may affect a Structured Equity Fund's activities. Each Structured Equity Fund will be investing in securities and assets that carry a significant amount of risk as a result of financial, business or legal uncertainties. Interest rates, economic and political developments, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by the Structured Equity Fund or considered for prospective investment.

Projections. Each Structured Equity Fund may rely upon projections developed by its general partner or a portfolio company concerning the portfolio company's future performance and cash flow. Projections are inherently subject to uncertainty and factors beyond the control of the Firm, its affiliates and the portfolio company. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values and cash flow.

Follow-On Investments. The Structured Equity Funds may be called upon to provide follow-on funding for its portfolio companies or may have the opportunity to increase its investment in such portfolio companies. There can be no assurance that a Structured Equity Fund will wish to make follow-on investments or that it will have sufficient funds to do so. Any decision by a Structured Equity Fund not to make follow-on investments or its inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish a Structured Equity Fund's ability to influence the portfolio company's future development.

Risk of Reliance on Management by Third Parties. Each Structured Equity Fund may hold non-controlling interests in issuers in the form of debt, debt-related or equity securities. Each Structured Equity Fund will have limited ability to manage the activities of portfolio companies. Although LLCP will monitor the performance of each investment, each Structured Equity Fund will rely upon management to operate the portfolio companies.

Default Risk. While prospective portfolio investments will be subject to the Structured Equity Fund's underwriting standards, portfolio companies could experience adverse business conditions that could result in a default on all or part of their obligations to the Structured Equity Fund. A portfolio company's ability to satisfy its obligations to a Structured Equity Fund could be impacted by market or industry conditions, national or international economic or political factors or other developments beyond the company's control. The conduct of management and employees of companies in which investments are made will be outside the Structured Equity Fund's general partner's ability to control, and may adversely affect the Structured Equity Fund's performance. Defaults could

ultimately result in the loss of investment principal. Each Structured Equity Fund's general partner will seek to manage default risk through disciplined due diligence and monitoring, but there can be no absolute protection against defaults or losses of investment principal.

Risk of a Limited Number of Investments. Each Fund has its own concentration limit permitting between 10% to 30% of the Fund's total capital commitments to be invested in securities of a single portfolio company or group of companies at any time. As a consequence, the aggregate return on an investor's investment in a Fund may be substantially adversely affected by the unfavorable performance of even a single portfolio investment.

Co-Investment with Third Parties. Subject to applicable law, each Structured Equity Fund may co-invest with third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of a Structured Equity Fund, or may be in a position to take (or block) action in a manner contrary to the Structured Equity Fund's investment objectives. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.

Additional Investment Considerations Relating to the SBIC Fund Only.

The following are additional risks relating to investments by the SBIC Fund:

Ongoing Availability of SBA Leverage. Becoming licensed as an SBIC does not automatically assure that the SBIC Fund will receive debenture funding. Receipt of SBA leverage funding is dependent upon the SBIC Fund continuing to be in compliance with SBA regulations and policies and there being funding available. The amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future, may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by the SBIC Fund.

Regulation by SBA. The SBIC Fund will be subject to SBA regulations and policies which may change during the life of the SBIC Fund in ways that might require the SBIC Fund to alter its business activities. Current SBA regulations provide the SBA with certain rights and remedies if the SBIC Fund violates their terms. A key regulatory metric for the SBA is the extent of "Capital Impairment", which is the extent of realized (and, in certain circumstances, net unrealized) losses compared with the SBIC Fund's private capital commitments. Interest payments, management fees, organization and other expenses are included in determining "realized losses". The SBA regulations preclude the full amount of "unrealized appreciation" from portfolio companies from being considered when calculating Capital Impairment in certain circumstances. Remedies for regulatory violations are graduated in severity depending on the seriousness of Capital Impairment or other regulatory violation. For minor regulatory

infractions, warnings are given. For serious infractions, the use of debentures may be limited or prohibited, outstanding Debentures can be declared to be immediately due and payable, restrictions on distributions and making new investments may be imposed, management fees may be required to be reduced and investors may be required to pay their unfunded capital commitments to the SBIC Fund. In severe cases, the SBA may require the SBIC Fund's investors to remove the SBIC Fund's general partner or its officers, directors, managers or partners, or the SBA may obtain appointment of a receiver for the SBIC Fund.

Use of SBA Debenture Leverage. The use of SBA leverage will magnify the potential for both gains and losses with respect to investments made by the SBIC Fund. As a result of the commitment fees, repayment obligations and semi-annual interest payments to which the SBA is entitled, the SBIC Fund's investors may realize a lower return than they otherwise would have realized if they had made an investment in a fund that did not use SBA leverage, and may realize no return when they would have realized a positive return if they had made their investment in such a fund. There can be no assurance that the SBIC Fund will generate returns that exceed the crossover point for return enhancement attributable to SBA leverage. The payments to which the SBA is entitled may reduce or entirely eliminate returns to the SBIC Fund's investors if the SBIC Fund does not generate sufficient returns in excess of such payments.

Limits on Distributions. Pursuant to SBA regulations, an SBIC with outstanding debentures may distribute cumulative realized profits (less unrealized losses on investments) to its investors, but it may not reduce the SBIC's private capital by more than 2% in any fiscal year without SBA's prior approval. Historically, SBA has permitted repayments in excess of 2% only pursuant to an approved "wind-up" plan filed by an SBIC pursuant to which the SBA determines that repayment of the outstanding Debentures is adequately assured. These limits on distributions may result in investors in the SBIC receiving "phantom income".

Interest and Prepayment Risk. Assuming the issuance of debentures by the SBIC Fund to the SBA, the SBIC Fund's income will depend to a significant extent on the "spread" between the rate at which it obtains funds from the SBA pursuant to the debentures and the rate at which it loans to or invests those funds in portfolio companies. The SBIC Fund expects that any debentures will have terms of five to ten years, at fixed rates of interest. If interest rates decline, the SBIC Fund may experience significant prepayments which along with scheduled repayments, might have to be reinvested at lower rates. The SBIC Fund will attempt to protect against interest rate risk by making loans having an interest rate sufficiently greater than the rate on the debentures.

Federal Regulation. The SBIC Fund is subject to extensive regulation by the SBA regarding its operations and the type and terms of its investments and these regulations may be subject to changes which may negatively impact investor returns. The SBIC Fund will be permitted to invest only in small businesses, and its ability to invest in passive real estate and certain other types of investments will be limited. The SBIC Fund's loans generally must be for a term of at least five years, and the interest rates it can charge will be limited by federal law. Furthermore, SBA regulations restrict the

size of the investments that an SBIC may invest in any single business or group of affiliated businesses (the “**Overline Limit**”). Recently enacted stimulus legislation changed the Overline Limit from 20% of private capital to 10% of the sum of private capital multiplied by the leverage ratio approved at the time of licensing (i.e. 30% of private capital if private capital is fully leveraged with two tiers of leverage). This restriction could prevent the SBIC Fund from investing in future rounds of financings for a small business that needs capital, which in return could result in dilution of the SBIC Fund’s ownership in such small business. The SBIC Fund will be required to file certain reports with the SBA on a regular basis and it will be subject to periodic SBA examinations. If the SBIC Fund should fail to comply with any applicable SBA regulation, it could forfeit its license as an SBIC, face acceleration of all debentures previously issued, and be placed in receivership and/or liquidated at the direction of the SBA.

Additional Investment Considerations Relating to the California Growth Fund and the LLC III Funds.

Investments in High Yield Debt Securities. With respect to the California Growth Fund, the Collateral Warehousing Subsidiaries are expected to invest primarily in non-investment grade loans or participation interests in non-investment grade loans and high-yield debt securities (collectively, “**High Yield Securities**”) which are subject to liquidity, market value, interest rate, reinvestment and certain other risks. As discussed in **Item 4.B** above, the LLC III Funds may also indirectly make investments in High Yield Securities. High Yield Securities generally will be subject to greater risk than investment grade obligations. These risks could be exacerbated to the extent that the portfolio is concentrated.

Underlying Collateral Warehousing Subsidiaries may hold or invest in companies that may have significant leverage thus increasing the exposure of the underlying companies to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of such companies or their industries.

C. Risks Associated with Particular Types of Securities

Please see the discussion in **Item 8.B** above.

Item 9. Disciplinary Information

Neither LLCPC nor any of its management persons has been subject to any legal or disciplinary events that, in LLCPC's opinion, are material to a client's or prospective client's evaluation of the Firm's advisory business or the integrity of its management.

Item 10. Other Financial Industry Activities and Affiliations

A. Affiliated Broker-Dealers

Neither the Firm nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

B. Affiliated Commodity Advisors

Neither the Firm nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

C. Other Affiliations and Conflicts of Interest

The Funds' General Partners. The Funds' general partners are affiliates of LLC, subject to LLC's supervision and control and operate under the same compliance policies and procedures as LLC. Each general partner is relying on LLC's registration with the SEC as an investment adviser. The Funds' general partners are:

- (i) LLC California Equity Partners II, L.P., general partner of the LLC II Fund;
- (ii) LLC Partners III, LLC, general partner of the LLC III Funds;
- (iii) LLC Partners IV GP, LLC, general partner to the LLC IV Funds;
- (iv) LLC SBIC GP, LLC, general partner to the SBIC Fund;
- (v) LLC California Growth GP, LLC, general partner to the California Growth Fund;
- (vi) LLC Deep Value GP, LLC, general partner to Levine Leichtman Capital Partners Deep Value Fund, L.P. and Levine Leichtman Capital Partners Deep Value Amicus Fund, L.P.; and
- (vii) LLC Deep Value GP II, LLC, general partner to Levine Leichtman Capital Partners Deep Value Fund II, L.P. and Levine Leichtman Capital Partners Deep Value II Parallel Fund, L.L.C.

As discussed in **Item 6** above, the general partner to each Fund is entitled to receive performance-based carried interest distributions from the applicable Fund. In addition, as discussed in **Item 5.C** such general partner or its employees may receive Transaction and Monitoring Fees. The payment of Transaction and Monitoring Fees may create a conflict of interest, as the Firm may be incented to cause a portfolio company to increase such fees. Any such Transaction and Monitoring Fees received by the general partner of a Fund or any of their respective employees are required to be immediately remitted to the

Firm. A percentage of such Transaction and Monitoring Fees (generally in the range of 50%-100%) are used to offset each Fund's management fee.

LLCP SBIC Manager, LLC. LLCP SBIC Manager, LLC is a Delaware limited liability company and is an investment adviser affiliated with the Firm. LLCP SBIC Manager, LLC is engaged solely in the business of serving as the Investment Adviser/Manager (as that term is defined under the regulations of the SBA) to the SBIC Fund, for the purpose of operating the SBIC Fund as an SBIC in accordance with SBA regulations. As the business of LLCP SBIC Manager, LLC shall be conducted under the management of the Firm, and the Firm will be responsible for the management of LLCP SBIC Manager, LLC's business and affairs, the Firm does not believe that the activities of LLCP SBIC Manager, LLC will conflict with the activities of the Firm. LLCP SBIC Manager, LLC is relying on LLCP's registration with the SEC as an investment adviser and is subject to the Firm's compliance policies and procedures.

LLCP Advisors LLC. LLCP Advisors LLC is a Delaware limited liability company and is an investment adviser affiliated with the Firm. LLCP Advisors LLC is engaged solely in the business of serving as the collateral manager of a CLO that is sponsored by the Deep Value Funds. As the business of LLCP Advisors LLC shall be conducted under the management of the Firm, and the Firm will be responsible for the management of LLCP Advisors LLC's business and affairs, the Firm does not believe that the activities of LLCP Advisors LLC will conflict with the activities of the Firm. LLCP Advisors LLC is relying on LLCP's registration with the SEC as an investment adviser and is subject to the Firm's compliance policies and procedures.

LLCP MENA, Inc. LLCP MENA, Inc. ("LLCP MENA") is a Delaware corporation and is a wholly-owned investment adviser affiliated with the Firm. LLCP MENA provides advisory and consulting services to LLCP, with a focus on the middle east. As the business of LLCP MENA will be conducted under the management of the Firm, and the Firm will be responsible for the management of LLCP MENA's business and affairs, the Firm does not believe that the activities of LLCP MENA will conflict with the activities of the Firm. LLCP MENA is relying on LLCP's registration with the SEC as an investment adviser and is subject to the Firm's compliance policies and procedures.

LLCP Europe, LLP and Levine Leichtman Capital Partners Ltd. LLCP Europe, LLP ("LLCP Europe"), is a limited liability partnership incorporated under the laws of England affiliated with the Firm. It is engaged in the business of sourcing foreign investments for the Firm on behalf of its clients. As the business of LLCP Europe is conducted under the management of Levine Leichtman Capital Partners Ltd. ("LLCP Ltd."), a wholly-owned subsidiary of the Firm, the Firm does not believe that the activities of LLCP Europe will conflict with the activities of the Firm. LLCP Europe and LLCP Ltd. are each relying on the Firm's registration with the SEC as an investment adviser and are subject to the Firm's compliance policies and procedures.

Parallel Funds, Alternative Investment Vehicles and Co-Investment Vehicles. LLCP has in the past and may in the future organize a parallel fund with similar investment policies as a particular Fund. To the extent that any such parallel fund participates in the

investments made by a Fund, such parallel fund and the Fund will co-invest pro rata on the basis of available capital for each and, generally, on the same terms and conditions.

LLCP has in the past and may in the future also form Alternative Investment Vehicles for a Fund making certain investments on behalf of one or more investors in such Fund and Co-Investment Vehicles for the purpose of making certain co-investments with a Fund. The Firm may offer investment opportunities to Alternative Investment Vehicles and Co-Investment Vehicles on a case by case basis, generally on the same terms and conditions applicable to the Fund, and subject to the terms and conditions of the limited partnership agreement and management agreement related to the specific Fund.

For these reasons, the Firm does not believe that the activities of the parallel funds, the Alternative Investment Vehicles or the Co-Investment Vehicles will conflict with the activities of the Firm.

Each of LLC-A GP, LLC, a Delaware limited liability company, LLC-A Alt Managing Member, LLC, a Delaware limited liability company, LLC-A Cayman GP, LLC, a Delaware limited liability company, is a general partner or managing member of a group of Co-Investment Vehicles organized by LLC. Each entity is a direct or indirect subsidiary of LLC, subject to LLC's supervision and control, and operates under the same compliance policies and procedures as LLC. Each of these entities is relying on LLC's registration with the SEC as an investment adviser.

Other Funds Advised by LLC. In addition, LLC may establish one or more additional Funds with investment objectives substantially similar to, or different from, those of an existing Fund. Allocation of available investment opportunities among the Funds could give rise to conflicts of interest. In such an eventuality, LLC recognizes that it must allocate such investment opportunities in a manner that is fair to each of the Funds, in light of the facts and circumstances of each situation. Such allocation procedures may take into account the amount of capital that a Fund has available to make the investment as well as the relative size of each Fund. If there is insufficient supply of an investment for each Fund to make such an investment, LLC may institute "rotation" procedures that will provide a Fund that could not previously make the investment because of insufficient supply with a priority allocation in future investments. The Firm has adopted the following general procedures to reduce potential conflicts of interests between its various funds.

In order to mitigate potential conflicts of interest between its various Funds, LLC may establish advisory committees, consisting of representatives of the investors in a Fund whom are not affiliated with LLC. The advisory committees will meet as required to consult with LLC as to potential conflicts of interest.

The unaffiliated investors of a Fund are expected to include persons or entities organized in various jurisdictions, which may have conflicting investment, tax and other interests in respect of their investments in the Fund. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of portfolio investments, the purchase by the Fund of assets from a portfolio company where certain investors did not participate in the

portfolio investment in such portfolio company, and the timing of disposition of investments. Such structuring of portfolio investments and other factors may result in different returns being realized by different investors in the same Fund. As a consequence, conflicts of interest may arise in connection with decisions made by LLCP, including in respect of the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially in respect of investors' individual tax situation.

Conflicts of Interest Among Portfolio Companies Held by the Funds

The Funds may invest in portfolio companies that have competing business interests. Further, certain portfolio companies or subsidiaries in which a Fund invests may be actively engaged in the business of investing in securities (collectively, the “**Underlying Vehicles**”). Accordingly, the Firm may have conflicts of interests in allocating potential securities investments among the Underlying Vehicles. In order to mitigate these conflicts, the Firm has adopted the allocation policy described below.

LLCP, directly or through an affiliate, allocates investments on behalf of such Underlying Vehicles in accordance with the stated investment objectives for each such Underlying Vehicle. Purchases of securities are generally made with respect to each such Underlying Vehicle individually by the applicable Fund. At times, however, LLCP may allocate the same security in an aggregate amount, for allocation to one or more of such Underlying Vehicles, based upon their relative levels of liquidity, subject to certain minimums for investment and such other considerations as LLCP determinates to be equitable in light of the circumstances.

Conflicts of Interest Between the Structured Equity Funds and the Deep Value Funds

LLCP has invested in, and is managing, the Structured Equity Funds and the Deep Value Funds. Conflicts of interest situations may arise as a result of such dual roles and the right of the Structured Equity Funds to invest in securities eligible for purchase by the Deep Value Funds. Additionally, conflicts of interest may arise as a result of investment decisions concerning the allocation or purchase of securities eligible for purchase among the various investment vehicles held by the Structured Equity Funds or the Deep Value Funds. The investment policies, fee arrangements and other circumstances of the Deep Value Funds (and its affiliated investment vehicles) compared to those of the Structured Equity Funds (and its affiliated investment vehicles) may create situations in which the principals of the Firm have an economic incentive to make a decision that favors the Structured Equity Funds above the Deep Value Funds, or vice versa or a particular investment vehicle of a Fund in favor of another investment vehicle of the same Fund or another Fund.

The governing documents of the Structured Equity Funds require that such Funds get priority to any investment opportunities falling within such Funds' investment objectives. The investment objectives of the Structured Equity Funds and the Deep Value Funds partially overlap. Even though the Structured Equity Funds seek investment opportunities in the same marketplace as the Deep Value Funds and may from time to time analyze the same or similar companies, the conflicts are lessened since the

Structured Equity Funds will analyze investment opportunities from a different investment perspective than the Deep Value Funds. However, conflicts of interest relating to allocation of investment opportunities among the Structured Equity Funds and the Deep Value Funds may still exist as both the Structured Equity Funds and the Deep Value Funds may make direct investments in portfolio companies.

LLCP has adopted the following procedures to mitigate any potential conflicts of interests between the Deep Value Funds and the Structured Equity Funds.

- Each of the Deep Value Funds and the Structured Equity Funds has a separate group of professionals who shall devote substantially all of their business time to the investment activities of their respective Funds. The professionals of the Deep Value Funds will be supervised by an investment committee consisting of the principals of both the Structured Equity Funds and the Deep Value Funds.
- Although the Deep Value Funds and the Structured Equity Funds may analyze investment opportunities from different investment perspectives, in certain circumstances the Deep Value Funds may be restricted from considering and may cease considering an investment opportunity after any Structured Equity Fund has signed a confidentiality agreement with respect to that investment opportunity. Conversely, in certain circumstances the Structured Equity Funds may not consider and may cease considering an investment opportunity after the Deep Value Funds have signed a confidentiality agreement with respect to that investment opportunity. If neither the Deep Value Funds nor the Structured Equity Funds have signed a confidentiality agreement, the first Fund to receive investment committee approval and send out a capital call to its investors shall have the right to make the investment.

Conflicts of Interest Among the Structured Equity Funds

LLCP and its affiliates have invested in, and are managing, the Structured Equity Series Fund and the SBIC Fund. Conflicts of interest situations may arise as a result of such multiple roles. LLCP believes that the investment policies, fee arrangements and other circumstances of each of the Structured Equity Funds have been structured such that situations in which the Firm and its affiliates have an economic incentive to make a decision that favors one Structured Equity Fund over the other Structured Equity Funds have been minimized. However situations could arise whereby the Firm or its affiliates have an economic incentive to make a decision that favors one Structured Equity Fund above the other Structured Equity Funds.

The governing documents of the Structured Equity Series Funds require that such Funds get priority to any investment opportunities falling within such Funds' investment objectives. The investment criteria of the Structured Equity Series Funds and the SBIC Fund are different. Even though the Structured Equity Series Funds may be seeking investment opportunities in the same marketplace as the SBIC Fund, the potential conflict

is mitigated since the Structured Equity Series Funds that are still in the investment period target companies with revenues in excess of \$100 million at the time of investment as compared to the SBIC Fund which each target companies with revenues of less than \$50 million at the time of investment. Thus, the investment opportunities that will be suitable for the SBIC Fund, in most cases, will not be suitable for the Structured Series Equity Funds. The investment period for California Growth Fund has expired. For this reason, the Firm does not believe that the activities of the California Growth Fund will conflict with the SBIC Fund or the Structured Equity Series Funds.

Principal and Cross Transactions

Principal transactions generally include transactions in which an investment adviser directly, or through an affiliate, is acting as principal for its own account and buys securities from, or sells them to, an advisory client. To the extent that the Firm engages in principal transactions, it will do so in accordance with Section 206(3) of the Advisers Act.

Agency cross transactions generally involve sales between clients and/or certain subsidiaries of clients. The clients of the Firm, including the Funds, Alternative Investment Vehicles, Co-Investment Vehicles and Underlying Vehicles, may buy securities from, or sell securities to, each other or to certain subsidiaries of a client. These transactions may present a conflict of interest to the Firm as it will need to act in the best interests of the clients on both sides of the transaction. These potential conflicts of interest may be more prevalent, for example, if the cross transaction involves highly illiquid or privately placed securities as, in such cases, the Firm may have difficulty obtaining an accurate valuation for such securities. To the extent that the Firm engages in such cross transactions, the Firm will not be compensated in connection with the underlying purchase or sale of the security.

D. Recommendation of Other Investment Advisors

The Firm does not recommend or select other investment advisers for its clients.

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

A. Code of Ethics

LLCP has adopted a Code of Ethics (“**Code**”) pursuant to Rule 204A-1 under the Advisers Act which imposes ethical standards and duties on the principals, partners, directors, employees and other persons subject to LLCP’s control and supervision (collectively referred to herein as “**Supervised Persons**”). The Code is grounded on the principle that LLCP and Supervised Persons owe a fiduciary duty to LLCP’s clients and that the interests of the Funds must always be placed above the business, financial and personal interests of LLCP and any Supervised Persons.

The Code sets forth standards of conduct expected of the Firm’s personnel and it requires the Firm’s personnel to comply with applicable federal securities laws. All employees are expected to be familiar with the Code and adhere to its provisions. LLCP may address violations of the Code by imposing sanctions it deems appropriate including, but not limited to, penalties, the disgorgement of trading gains and termination of employment. The Code also requires any employee of the Firm to report potential violations of the Code promptly to the CCO. The Firm provides each employee with a copy of the Code and any amendments thereto, and employees are required to provide a written acknowledgement that they have received the Code, as amended from time to time. The Firm keeps records of reports and other information that access persons are required to provide under the Code.

The Code addresses conflicts that could arise from personal securities trading by the Firm’s “access persons” – i.e., the officers, directors and employees of the Firm:

- who have access to nonpublic information regarding any client’s purchase or sale of securities, or nonpublic information regarding the portfolio holdings of any Fund, or
- who are involved in making securities recommendations to clients or have access to such recommendations that are nonpublic.

The Code imposes trading restrictions upon the Firm’s Access Persons and uses three main features to protect the Funds. First, it prohibits certain activities by Supervised Persons that involve the potential for conflicts of interest.

Second, in order to avoid conflicts of interest between personal securities transactions and investment transactions that LLCP is considering or making on behalf of any Fund, the Code prohibits or restricts certain kinds of trading by Access Persons. Generally, and subject to specific exceptions, the principals and other Access Persons are prohibited from purchasing, selling or holding in any account in which they have a beneficial interest, any Firm specific securities or derivative thereof, including any security held by the Funds, any security subject to a Firm-wide restriction or that is the subject of LLCP’s investment decision making process, and securities sold in initial public offerings and private placements in which a Fund is participating.

Third, the Code requires all Supervised Persons to pre-clear all securities trades with LLCP's compliance department, and to make timely filings of quarterly reports of transactions and annual reports of securities holdings so that they may be checked for compliance with the Code.

The Code is administered and enforced by LLCP's Compliance Officer. In rare instances, the Compliance Officer may grant requests for relief from those Code provisions not mandated by the Securities and Exchange Commission.

LLCP will provide copies of its Code to the Funds, investors in the Funds and other prospective clients upon request, at no charge.

B. Purchases and Sales of Securities in which the Firm has Material Financial Interest

Although the Firm's principals, employees and officers may buy and sell securities for their own account or the account of others, they may not, without the written consent of the Firm's Advisory Committee, buy securities from or sell securities to the Funds.

As discussed in **Item 5.C** and **Item 10.C**, the Firm, a Fund's general partner or their respective employees may receive Transaction and Monitoring Fees in connection with the making of a portfolio company investment and may retain a portion of those fees. As a result, the Firm, the general partner and/or such employees may be considered to have a material financial interest in the consummation of the portfolio company investment.

C. Purchases and Sales of Securities by Clients and the Firm and/or its Affiliates

As discussed above, without the written consent of the Firm, the principals and other Access Persons are prohibited from purchasing, selling or holding in any account in which they have a beneficial interest, any security held by the Funds. Any sales of securities acquired by a principal or other Access Person in accordance with the prior sentence are subject to pre-clearance.

D. Purchases and Sales of Securities by Clients and the Firm and/or its Affiliates at the Same Time

See **Item 11.C**.

Item 12. Brokerage Practices

A. Brokerage

LLCP's objective in selecting brokers and dealers and in effecting the purchase and sale of securities is to obtain the best combination of price and execution on transactions effected for each Fund. The best net price, giving effect to brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other judgmental factors will be considered as they are deemed relevant. These factors include but are not limited to LLCP's knowledge of negotiated commission rates and spreads currently available; the nature of the security or instrument being traded; the size and type of the transaction; the nature and character of the markets for the security or instrument to be purchased or sold; the desired timing of the trade; the activity existing and expected in the market for the particular security or instrument; confidentiality; the execution, clearance, and settlement capabilities as well as the reputation and perceived soundness of the broker or dealer selected and other brokers or dealers considered; LLCP's knowledge of actual or apparent operational problems of any broker or dealer; the broker's or dealer's execution services rendered on a continuing basis and in other transactions; the reasonableness of spreads or commissions; and the research services and products furnished by the broker or dealer, if any.

In seeking to obtain best execution, LLCP generally will not seek in advance competitive bidding for the most favorable commission rate or spread applicable to any particular portfolio transaction or to select any broker or dealer on the basis of its purported or "posted" commission rate. LLCP will endeavor to be aware of the current level of the charges of eligible brokers or dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of its accounts. Although LLCP generally seeks competitive commission rates and dealer spreads, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker or dealer involved and would thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Transactions in publicly traded securities are to be executed only with brokers on the approved broker list (the "**Approved List**"). The Compliance Officer will review the request and supporting documents to determine whether a new broker meets the necessary criteria to be added to the Approved List. The Approved List is reviewed semi-annually by the portfolio managers, traders and research analysts to evaluate the services provided by each broker utilized by the Firm. Each counterparty is evaluated/reviewed with consideration given to certain factors, including but not limited to, execution capabilities, research and related services, the value of services provided and financial stability.

Research and Other Soft Dollar Benefits. LLCP has not entered into any soft dollar arrangements. However, consistent with obtaining best execution, brokerage commissions (including dealer spreads paid on certain securities transactions in accordance with SEC interpretations) on each Fund's portfolio transactions may be

directed by LLCPP to a broker or dealer in recognition of research services furnished by the broker or dealer or a designated third party, as well as for services rendered in the execution of orders by such broker or dealer. LLCPP may maintain an internal allocation procedure to identify those broker dealers who have provided it with research services and may endeavor to place sufficient transactions with them to ensure the continued receipt of research services LLCPP believes are useful to each Fund. LLCPP does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research received is, in the aggregate, of assistance to LLCPP in fulfilling its overall duty to its clients. However, each and every research service may not be used to service each and every account managed by LLCPP and LLCPP may use research services to service accounts that did not pay commissions to the broker dealers providing such research services. Moreover, LLCPP may benefit from these services, as it may not have to pay for such research services and products out of its own resources.

Certain brokers also provide investment banking services to LLCPP. The provision of such services is not taken into account in allocating client brokerage to such firm.

The receipt of investment research and information and related services permits LLCPP to supplement its own research and analysis and makes available to LLCPP the views and information of individuals and research staffs of other firms. The views and information include written materials on certain companies, industries, areas of the economy or market factors and other areas which might affect the economy or securities prices. Research services may also include statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market actions, pricing and appraisal services, credit risk measurement and performance analysis, analysis of corporation responsibility issues, portfolio strategy, analytic computer software and account performance services. They may also include advice from broker dealers as to the value of securities, availability of securities, availability of buyers and availability of sellers. In addition, they include recommendations as to purchase and sale of individual securities and timing of transactions.

These research services may be received through on-line information services provided by the broker dealers or a designated third party. Due to the receipt of various research materials through on-line services, products may include computer hardware and software in connection with gaining access to the information and may be considered a mixed-use item, having both research and non-research functions. When the products or services received are used for both research and other purposes, a good faith allocation is made between the research and non-research functions. The non-research portion will be paid in cash by LLCPP, while the portion attributable to research will be paid through brokerage commissions. Broker dealers selected by LLCPP may be paid commissions for effecting transactions for a Fund in excess of the amounts other brokers or dealers would have charged for effecting these transactions if LLCPP determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those brokers or dealers, viewed either in terms of a particular transaction or LLCPP's overall duty to its discretionary accounts.

Brokerage for Client Referrals. The Firm does not consider client referrals in selecting or recommending broker-dealers.

Directed Brokerage. As a general matter, the Firm does not enter into direct brokerage arrangements and the Firm does not anticipate that any of its clients will request directed brokerage arrangements.

B. Trade Aggregation

The Firm makes investments on behalf of each Fund in accordance with the stated investment objectives for the Fund. Purchases of securities are generally made with respect to each Fund individually. At times, however, the Firm may purchase the same security in an aggregate amount, for allocation to one or more Funds, based upon their relative levels of liquidity and subject to certain minimums for investment.

If the Firm is not able to purchase the entire allotment required to satisfy the orders on behalf of all Funds for which it wished to allocate securities, the Firm will allocate such security pro rata based on available commitments of each Fund, unless the Firm determines another method of allocation is more equitable under the circumstances.

The Firm recognizes that it must allocate securities among its clients in a fair and equitable manner, depending on the facts and circumstances of each situation. The Firm recognizes that the principles set forth above are fair and equitable as a general matter, but may not be so in every instance. Any deviation from the allocation procedures set forth above shall be approved by the Compliance Officer, appropriately documented and retained as part of the Firm's records. In all instances, however, the Firm shall determine and effect the allocation beforehand or promptly after the transaction.

Item 13. Review of Accounts

A. Account Review

LLCP considers the active and ongoing investment monitoring of its portfolio companies to be an essential element in its investment process. Once a week the Firm holds a meeting of all investment professionals to review the performance of its portfolio companies and investments against projected benchmarks. Moreover, LLCP closely monitors the operations and results of its portfolio companies and investments and receives and analyzes material information relating to the portfolio companies on an ongoing basis. LLCP analyzes each portfolio company's critical success factors which are drivers of equity value creation. LLCP has established these procedures to better respond to growth opportunities and to anticipate financial difficulties or additional capital requirements of its portfolio companies.

The reviews are conducted by the Investment Committee which consists of each of the principals of the Firm. The members of the Committee are assigned to all accounts and perform reviews on a weekly basis and as needed.

B. Factors that Trigger an Account Review

Not applicable.

C. Account Statements

Investors in the Funds receive quarterly unaudited financial statements within 60 days of quarter end and an audited annual report (including audited financial statements) within 90 days of fiscal year end. Moreover, investors in the Funds may receive certain additional information upon request, as set forth in the applicable Fund's limited partnership agreement.

Item 14. Client Referrals and Other Compensation

A. Benefits from Others for Providing Investment Advice

The Firm does not receive any economic benefits from non-clients for providing investment advice or other advisory services to the Funds.

B. Client Referrals

The Firm generally does not directly or indirectly compensate any person for client referrals, however, the Firm may pay certain of the Fund's placement agents for investor referrals, such as a percentage sales charge (based upon the amount invested in a Fund) or a percentage of the management fee and/or carried interest generated by an investor's investment in a Fund.

Item 15. Custody

The Firm is considered to have custody of certain of the assets of the Funds. The Structured Equity Funds' qualified custodian is Citibank. The Deep Value I Funds currently utilize Union Bank, N.A., Deutsche Bank AG, Scotiabank and State Street Bank and Trust Company as qualified custodians. The Deep Value II Funds are in the process of selecting qualified custodians. No investments have yet been made in any of the Deep Value II Funds.

To the extent required by law, certificated investment securities are held by a qualified custodian on behalf of an applicable Fund. The Firm does not use the qualified custodian to send quarterly account statements directly to the investors in the Funds. The Firm does require each Fund to distribute their annual audited financial statements to their investors within 90 days of the Fund's fiscal year-end.

Item 16. Investment Discretion

LLCP has discretionary authority to manage securities accounts on behalf of each Fund, subject to the investment objectives, strategies and policies set forth in the applicable Fund's limited partnership agreement.

Item 17. Voting Client Securities

A. Proxy Voting Authority

The Firm has authority to vote proxies on behalf of its clients and, in accordance with Rule 206(4)-6 of the Advisers Act, has adopted Proxy Voting Policies and Procedures to address how LLCP will vote proxies on behalf of each Fund. The policy is designed to ensure that proxies are voted to achieve maximum value in the best interest of each Fund and its investors, including when there may be material conflicts in voting proxies.

The principals of the Firm will have the responsibility of reviewing, evaluating and voting proxies received by the Firm on behalf of the Funds. The Firm will use reasonable efforts to acquire information sufficient to allow for an informed and timely vote. For each proxy proposal received, the Firm will analyze the issues connected with that proxy, determine the probable impact on corporate operations and vote the proxy in what it views to be in the best interests of its clients. In accordance with Rule 204-2, the Firm will document the basis for its voting decisions.

The Firm may choose not to vote proxies in certain situations or for certain clients, such as (i) where the Firm deems the cost of voting would exceed any anticipated benefit to the client, or (ii) where a proxy is received by the Firm for a security it no longer manages on behalf of a client.

Material Conflicts of Interest. The Firm may occasionally be subject to material conflicts of interest in the voting of proxies due to business or personal relationships it maintains with persons having an interest in the outcome of certain votes. The Firm and/or its employees may also occasionally have business or personal relationships with the proponents of proxy proposals, participants in proxy contests, corporate directors and officers, or candidates for directorships.

If at anytime, the Firm becomes aware of a material conflict of interest relating to a particular proxy proposal, the Firm will handle the proposal by requiring the proposal to be reviewed by a proxy voting committee (the “**Proxy Voting Committee**”) consisting of qualified employees and other affiliated persons with no real or apparent conflict of interest in casting a vote. The Proxy Voting Committee will determine how to vote the proxy in a manner consistent with the clients’ best interest and document its determination (including its consideration of the conflict of interest). This documentation shall be maintained in the Firm’s books and records.

A client may obtain a copy of LLCP’s proxy voting policies and procedures and information about how LLCP voted proxies by calling LLCP at (310) 275-5335, by directing requests in writing to its place of business, 335 N. Maple Drive, Suite 240, Beverly Hills, CA, 90266, Attn: Compliance Officer, or by emailing requests to info@llcp.com.

B. Limits on Proxy Voting Authority

Not applicable

Item 18. Financial Information

A. Prepayment of Fees

As noted in **Item 5.D** above, all management fees are payable semi-annually in advance. The Firm's ~~unaudited draft~~ balance sheet is included as Appendix A to this brochure. ~~Upon completion of the 2011 fiscal year audit Appendix A will be updated to include the audited balance sheet of the Firm.~~

B. Financial Impairment

The Firm is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

B. Bankruptcy Petition

The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.

Item 19. Requirements for State-Registered Advisers

Not applicable.

Levine Leichtman Capital Partners, Inc. and Subsidiaries

Consolidated Balance Sheet

As of December 31, 2011



Independent Auditor's Report

To the Stockholder
Levine Leichtman Capital Partners, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Levine Leichtman Capital Partners, Inc. and Subsidiaries as of December 31, 2011. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of Levine Leichtman Capital Partners, Inc. and Subsidiaries as of December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Breard & Associates, Inc.' in a cursive script.

Breard & Associates, Inc.
Certified Public Accountants

Northridge, California
May 8, 2012

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 2011

Assets

Current assets

Cash	\$ 111,334
Accounts receivable	527,956
Receivables - other	1,448,142
Prepaid rent	<u>66,603</u>

Total current assets	2,154,035
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Aircraft, furniture, equipment and leasehold improvements, net	<u>9,949,529</u>
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Other Assets

Deposits	335,166
Due from affiliates	7,700
Investments, at estimated fair value	6,071,289
Other assets	<u>406,241</u>

Total other assets	<u>6,820,396</u>
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Total assets	<u><u>\$ 18,923,960</u></u>
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Liabilities & Stockholder's Equity

Current liabilities

Accounts payable and accrued expenses	\$ 399,374
Current portion of notes payable	180,420
Current portion of rent credit/rebate	154,331
Pension payable	100,377
Income tax payable	<u>7,625</u>

Total current liabilities	842,127
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Long term liabilities

Long term portion of notes payable	13,933,530
Long term portion of rent credit/rebate	<u>270,080</u>

Total long term liabilities	<u>14,203,610</u>
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Total liabilities	15,045,737
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Stockholder's equity

Common stock, no par value, 25,000 shares authorized, 1,000 issued and outstanding	\$ 1,000
Paid-in capital	661,412
Retained earnings	<u>3,215,811</u>

Total stockholder's equity	<u>3,878,223</u>
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Total liabilities & stockholder's equity	<u><u>\$ 18,923,960</u></u>
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The accompanying notes are an integral part of this financial statement.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying consolidated balance sheet of Levine Leichtman Capital Partners, Inc. and Subsidiaries (the "Company"), include the accounts of Levine Leichtman Capital Partners, Inc ("LLCP") and its wholly owned subsidiaries, LYS, LLC, dba LYS Leasing, LLC ("LYS") and LLCP SBIC Manager, LLC ("SBIC"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Organization

LLCP was incorporated in the State of California on March 9, 1994 and is an independent investment firm that invests in middle market companies located in the United States. LLCP manages approximately \$5 billion of institutional capital on behalf of itself and its worldwide network of investors which include state and corporate pension plans, insurance companies, fund of funds, family offices, foundations and endowments.

LYS, a Delaware limited liability company, was established on September 11, 2008 with LLCP as its sole member. Its principal purpose is to own and operate an airplane for leasing and for the sole member's own use. LYS started its operations on March 17, 2009. All of its assets and liabilities are consolidated into LLCP.

SBIC, a Delaware limited liability company, was established on November 4, 2010 with LLCP as its sole member. Its principal purpose is to engage solely in the business of serving as an investment adviser/manager of the Levine Leichtman Capital Partners SBIC Fund, L.P. SBIC started its operations in February 2011. All of its assets and liabilities are consolidated into LLCP.

Summary of Significant Accounting Policies

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable

Accounts receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial. These amounts are classified as current in the accompanying balance sheet.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Receivables - other

Receivables - other are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial. Receivables - other consist of expenses incurred by the Company on behalf of their clients that are expected to be reimbursed. These amounts are classified as current in the accompanying balance sheet.

Prepaid rent

Prepaid rent is rent expense that was paid in advance. For the year ended December 31, 2011, the balance of \$66,603 is classified as a current asset on the accompany balance sheet.

Aircraft, furniture, equipment and leasehold improvements, net

Aircraft, furniture, equipment and leasehold improvements are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements enhancing the function and/or useful life are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized. Aircraft, furniture, equipment and leasehold improvements are depreciated over their estimated useful lives ranging from five (5) to thirty-nine (39) years by the double-declining balance and straight-line methods.

Investments, at estimated fair value

The Company records its investments at fair value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in settlement of the instruments.

Revenue recognition

The Company earns the vast majority of its revenues in the form of fees earned and collected from the limited partnerships it manages. The fees are calculated as a percentage of capital under commitment, and are recorded semi-annually based on the capital committed at the beginning of each six month period. Fees are also recorded as earned from monitoring the investment portfolios of specified limited partnerships. Investment banking fees are earned upon the successful completion of debt and equity restructuring transactions for selected clients.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The Company also recognizes income and losses for their proportionate share of the changes in portfolio valuations within the limited partnerships under management.

Income taxes

LLCP, with the consent of its Stockholder, has elected to be an S Corporation and, accordingly, has its income taxed under Sections 1361-1379 of the Internal Revenue Code. Subchapter S of the Code provides that the Stockholder, rather than the Company, is subject to tax on the Company's taxable income. Therefore, no provision or liability for federal income taxes is included in these financial statements. The State of California has similar regulations, although there exists a provision for a minimum franchise tax and a tax rate of 1.5% over the minimum franchise fee of \$800. Other states in which LLCP operates may have minimum tax requirements as well.

LYS and SBIC are treated as a disregarded entities for federal income tax purposes, in accordance with single member limited liability company rules. All tax effects of the LYS's and SBIC's income or loss are passed through to its sole member. Therefore, no provision or liability for federal income taxes is included in this financial statement. However, LYS and SBIC are each subject to a minimum franchise tax and a gross receipts fee in California for limited liability companies.

Advertising costs

Advertising costs are expensed as incurred. For the year ended December 31, 2011, the Company has included \$78,932 in other operating expenses for advertising and business development costs.

Subsequent events

The Company has evaluated events subsequent to the balance sheet date for items requiring recording or disclosure in the financial statements. The evaluation was performed through May 8, 2012, which is the date the financial statements were available to be issued. Based upon this review, the Company has determined that there were no events which took place that would have a material impact on its financial statements.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 2: AIRCRAFT, FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET

Aircraft, furniture, equipment and leasehold improvements are recorded at cost and summarized by major classifications as follows:

		<u>Depreciable Life Years</u>
Office equipment	\$ 621,768	5
Furniture & fixtures	1,940,116	7
Gulfstream GIV	18,579,772	7
Leasehold improvements	<u>1,959,690</u>	39
	23,101,346	
Less: accumulated depreciation	<u>(13,151,817)</u>	
Aircraft, furniture, equipment and leasehold improvements, net	<u>\$ 9,949,529</u>	

Depreciation expense for the year ended December 31, 2011, was \$3,742,872.

Note 3: INVESTMENTS, AT ESTIMATED FAIR VALUE

In September 2006, FASB issued Statement No. 157, Fair Value Measurements ("ASC 820") which the Company subsequently adopted on January 1, 2008. ASC 820 defines fair value and establishes a hierarchical framework which prioritizes and ranks the market price observability used in fair value measurements. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability being measured. Assets and liabilities with readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Under ASC 820, the inputs used to measure fair value must be classified into one of three levels as follows:

Level 1 - Quoted prices in an active market for identical assets or liabilities;

Level 2 - Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model derived prices whose inputs are observable or whose significant value drivers are observable

Level 3 - Assets and liabilities whose significant value drivers are unobservable.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 3: INVESTMENTS, AT ESTIMATED FAIR VALUE
(Continued)

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment. In accordance with ASC 820, the Company is not permitted to adjust quoted market prices in an active market, even if the Company owns a large investment, the sale of which could reasonably impact the quoted price.

<u>Assets</u>	<u>Fair Value</u>	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>
Investment in investment funds	\$ 6,071,289	\$ —	\$ —	\$ 6,071,289
Total	<u>\$ 6,071,289</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,071,289</u>
 <u>Liabilities</u>	 <u>Fair Value</u>	 <u>Level 1 inputs</u>	 <u>Level 2 inputs</u>	 <u>Level 3 inputs</u>
Liabilities	\$ —	\$ —	\$ —	\$ —
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Effect of Level 3 Inputs on net assets or liabilities:

	<u>Investments in investment funds</u>
Balance as of December 31, 2010	\$ 4,712,135
Realized gain (loss)	19,325
Change in unrealized appreciation (depreciation)	1,102,367
Contributions	1,758,402
Distributions	<u>(1,520,940)</u>
Balance as of December 31, 2011	<u>\$ 6,071,289</u>

These investments, at estimated fair value represent the Company's interest in seven different investment funds. The Company is the general partner for the various partnerships that comprise ownership of these investment funds. The principal purpose of the funds is to seek out opportunities for investment in securities of middle market companies.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 3: INVESTMENTS, AT ESTIMATED FAIR VALUE
(Continued)

The investments, at estimated fair value are as follows:

LLCP California Equity Partners II, LP	\$ 97,971
LLCP Partners III, LLC	2,632,788
LLCP Deep Value GP, LLC	292,117
LLCP Partners IV GP, LLC	3,126,600
LLCP SBIC GP, LLC	(121,866)
LLCP CA Growth GP, LLC	17,787
LLCP-A GP, LLC	<u>25,892</u>
Total	<u>\$ 6,071,289</u>

Note 4: DEPOSITS

The amounts included are as follows:

Security deposits for office space	\$ 185,166
Aircraft fuel deposit	<u>150,000</u>
Total deposits	<u>\$ 335,166</u>

Note 5: NOTE PAYABLE - AIRCRAFT

On November 4, 2008, as amended on March 13, 2009, LYS obtained a secured aircraft loan from Bank of America in the principal amount of \$14,640,000 for the purchase of a Gulfstream GIV (see Note 2). The loan calls for a monthly principal installment payment of \$15,035 plus interest at LIBOR + 2.05% for 83 months beginning April 1, 2009, with the remaining principal balance due on March 1, 2016. The loan is guaranteed by Lauren B. Leichtman, Arthur E. Levine and their affiliates. As of December 31, 2011, the secured aircraft loan balance is \$14,113,950, of which \$180,420 is due within a year. Interest expense related to the loan for the year ended December 31, 2011 was \$329,298.

Note 6: RELATED PARTY TRANSACTIONS

LLCP is the general partner or managing member (as the case maybe) of seven entities (LLCP California Equity Partners II, LP; LLCP Partners III, LLC; LLCP Partners IV GP, LLC; LLCP Deep Value GP, LLC, LLCP CA Growth GP, LLC, LLCP SBIC, GP LLC and LLCP-A GP, LLC) that control the investment funds that the Company has invested in. LLCP also is the general partner or managing member of additional two entities (LLCP-A Cayman GP, LLC and LLCP Deep Value GP

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 6: RELATED PARTY TRANSACTIONS
(Continued)

II, LLC) which controls related investment funds. For the year ended December 31, 2011, LLCP received \$13,513,384 in consulting income from these entities. In addition, the Company earned \$2,192,065 in gains (return on investment) from the funds.

LLCP performs services for and incurs expenses on behalf of the limited partnerships and the funds for which they are either paid or reimbursed. At December 31, 2011, the amount owed to LLCP by its affiliates is \$7,700.

During the year ended December 31, 2011, the Company formed a European entity, LLCP Europe LLP to primarily to conduct business in Europe. All of the transactions of this entity is recorded under LLCP. It is possible that the terms of certain of the related party transactions are not the same as those that would result for transactions among wholly unrelated parties.

Note 7: 401(k) PROFIT SHARING AND PENSION PLAN

Effective January 1, 1996, and as amended/modified on February 15, 2007, the Company adopted a qualified 401(k) Profit Sharing Plan. All employees, 21 years of age or older, are eligible to participate in the Plan on the date of hire. The Company may make a pre-tax matching contribution each year provided the participants have completed one year of service. The Company may also make profit sharing contributions which are discretionary and are determined each year by the Company. The participants must have completed one year of service to receive a pre-tax contribution. For the year ended December 31, 2011, the Company made \$100,377 in contributions to the plan, which is payable at year end and is classified as current in the accompanying balance sheet.

Note 8: INCOME TAX PROVISION

As discussed in the Summary of Significant Accounting Policies (Note 1), LLCP has elected the S Corporate tax status. Therefore, there is no provision or liability for federal income taxes.

For December 31, 2011, the total consolidated income tax provision was \$14,425.

LLCP's tax provision for the year ended December 31, 2011 consisted of various state income and franchise taxes totaling \$825. For the year ended December 31, 2011, LLCP has income taxes payable of \$825, which is classified as current in the accompanying balance sheet.

As discussed in the Summary of Significant Accounting Policies (Note 1), LYS and SBIC are treated as disregarded entities for federal income taxes purposes, in accordance with single member limited liability company rules. Therefore, there is no provision or liability for federal income taxes for either entity.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 8: INCOME TAX PROVISION
(Continued)

LYS is subject to a limited liability company gross receipts fee, with a minimum provision of \$800. At December 31, 2011, LYS recorded a gross receipts fee of \$6,000 and the minimum California limited liability company income tax of \$800.

SBIC is also subject to a limited liability company gross receipts fee, with a minimum provision of \$800. At December 31, 2011, LYS recorded a gross receipts fee of \$6,000 and the minimum California limited liability company income tax of \$800, which is payable at year end and is classified as current in the accompanying balance sheet.

Note 9: OCCUPANCY AND EQUIPMENT RENTAL

On September 30, 2009, the Company entered into a new five year lease at its Beverly Hills headquarters. The new lease runs through September 30, 2014. Monthly rent beginning October, 2010 and running through September 2011 is \$64,041, with annual escalation adjustments thereafter of 4%. The Company also has offices in the states of Texas, Illinois and New York. Each of those offices have one year leases, with renewal options. For the period of the lease agreement, the Company had a rent abatement provision in its lease agreement, which was in effect until May 31, 2010. Additionally, the Company also has a tenant improvement allowance clause in its lease agreement, which allowed the Company to use the unused allowance after April 31, 2010 as a rental credit. As of December 31, 2011, the balance of the rent rebate/credit was \$424,411, of which \$154,331 is current.

During the year ended December 31, 2011, the Company opened a European office located in London, England.

The Company has also entered into certain noncancellable leases for office equipment and an automobile. These leases vary in length and expiration.

Total occupancy and storage expense for the year ended December 31, 2011 was \$1,397,853 which includes the hangar expense for the aircraft of \$78,000. Office equipment rental and auto lease expense totaled \$362,687.

At December 31, 2011, the minimum annual payments are as follows:

<u>Year ending December 31,</u>	<u>Total</u>
2012	\$ 963,006
2013	1,001,697
2014	<u>810,521</u>
Total	<u>\$ 2,775,224</u>

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 10: COMMITMENTS AND CONTINGENCIES

Contingencies

The Company maintains several bank accounts at financial institutions. These accounts are insured either by the Federal Deposit Insurance Commission ("FDIC"), for up to \$250,000, or the Securities Investor Protection Corporation ("SIPC"), for up to \$500,000. At times during the year ended December 31, 2011, cash balances held in financial institutions were in excess of the FDIC and SIPC's insured limits. The Company has not experienced any losses in these accounts and management believes that it has placed its cash on deposit with financial institutions which are financially stable.

For the year ended December 31, 2011, the Company was named as a defendant in a case alleging wrongful termination, discrimination, and breach of employment contract by a former employee. That case was subsequently settled and dismissed with prejudice in February 2012, with the Company paying severance of \$66,667 to the terminated employee.

Separately, the Company was the co-recipient of a demand letter from the attorney of a former employee of Pacific Waves Systems, Inc. which is an investment in one of its limited partnership funds. The letter was presented on behalf of the former employee alleging (i) breach of employment contract by failing to provide the terminated employee with restricted stock in Pacific Wave and (ii) wrongful termination. The letter further asserts that the restricted stock is worth between \$419,000 and \$1,210,000. The Company and Pacific Wave responded, denying the allegations and setting forth the basis for the termination of employment and denying a breach of any agreement to provide restricted stock. Further, the Company and Pacific Wave demonstrated that even if there is liability, the restricted stock had a value of approximately \$23,000. The Company was not the employer and not a party to the employment contract and therefore is not liable for any claims in the demand letter. No litigation has been initiated against the Company as of the date of this report.

The Company has filed a demand for arbitration in a claim against one of its former law firms. This financial statement reflects no adjustment for any potential liabilities associated with this action. The law firm has filed a counterclaim for attorney fees and costs of \$221,306, which was still pending as of December 31, 2011. The Company plans to continue to vigorously defend itself in this action.

Note 11: CONCENTRATION OF CREDIT RISK

The Company is engaged in various trading and brokerage activities with counterparties that primarily include broker/dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends upon the creditworthiness of the counterparty or issuer of the instrument. To mitigate the risk of loss, the Company maintains its accounts with credit worthy customers and counterparties.

Levine Leichtman Capital Partners, Inc. and Subsidiaries
Consolidated Notes to the Financial Statement
December 31, 2011

Note 12: RECENTLY ISSUED ACCOUNTING STANDARDS

In June of 2009, the Financial Accounting Standards Board (the “FASB”) implemented a major restructuring of U.S. accounting and reporting standards. This restructuring established the Accounting Standards Codification (“Codification” or “ASC”) as the source of authoritative accounting principles (“GAAP”) recognized by the FASB. The principles embodied in the Codification are to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States. New accounting pronouncements are incorporated into the ASC through the issuance of Accounting Standards Updates (“ASUs”).

For the year ending December 31, 2011, various ASUs issued by the FASB were either newly issued or had effective implementation dates that would require their provisions to be reflected in the financial statements for the year then ended. The Company has reviewed the following ASU releases to determine relevance to the Company’s operations:

<u>ASU Number</u>	<u>Title</u>	<u>Effective Date</u>
2010-29	Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (December 2010).	After 12/15/10
2011-04	Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IRFSs (May 2011).	After 12/15/11
2011-05	Comprehensive Income (Topic 220): Presentation of Comprehensive Income (June 2011).	After 12/15/11
2011-08	Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment (September 2011)	After 12/15/11

The Company has either evaluated or is currently evaluating the implications, if any, of each of these pronouncements and the possible impact they may have on the Company’s financial statements. In most cases, management has determined that the pronouncement has either limited or no application to the Company and, in all cases, implementation would not have a material impact on the financial statements taken as a whole.