



# **TAILWIND MANAGEMENT L.P.**

## **STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2011**

**TAILWIND MANAGEMENT L.P.**  
(a Delaware limited partnership)

**Contents**

	<b><u>Page</u></b>
Independent auditors' report	1
Statement of financial condition	2
Notes to statement of financial condition	3

## INDEPENDENT AUDITORS' REPORT

To the Partners  
Tailwind Management L.P.

We have audited the accompanying statement of financial condition of Tailwind Management L.P. (the "Partnership") as of December 31, 2011. This financial statement is the responsibility of the Partnership'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 financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Tailwind Management L.P. as of December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.



New York, New York  
February 8, 2012

**TAILWIND MANAGEMENT L.P.**  
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**Statement of Financial Condition**  
**December 31, 2011**

**ASSETS**

Cash and cash equivalents	\$ 500,000
Restricted cash	520,251
Accounts receivable	1,819,040
Advances to employees	400,000
Prepaid and other assets	137,249
Fixed assets, net	<u>261,202</u>
	<u>\$ 3,637,742</u>

**LIABILITIES AND PARTNERS' CAPITAL**

Liabilities:	
Accounts payable	\$ 413,557
Accrued liabilities	389,866
Deferred portfolio income	<u>1,437,480</u>
Total liabilities	<u>2,240,903</u>
Partners' capital:	
General Partner	-
Limited Partners	<u>1,396,839</u>
Total partners' capital	<u>1,396,839</u>
	<u>\$ 3,637,742</u>



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**Notes to Statement of Financial Condition**  
**December 31, 2011**

*Unless otherwise noted, capitalized terms are defined in the Agreement (as defined below).*

**NOTE A - ORGANIZATION**

Tailwind Management L.P. (the "Partnership") was formed on September 16, 2005 as a Delaware limited partnership by Tailwind Capital Group LLC ("General Partner") and commenced operations on November 18, 2005. The Partnership was formed to provide advisory, management, administrative, consulting and other services to Tailwind Capital Partners, L.P. and its parallel investment partnerships (the "Tailwind Fund"), TWCP L.P. and its related parallel investment partnerships ("TWCP Fund") and affiliated entities ("Affiliates"). The original limited partnership agreement was amended and restated as of August 15, 2008 (the "Agreement"). The Partnership will continue until such time that the General Partner of the Partnership decides to dissolve or wind up its affairs.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**[1] Use of estimates:**

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclose contingent assets and liabilities, at the date of the statement of financial condition. Actual results could differ from those estimates.

**[2] Cash and cash equivalents:**

Cash and cash equivalents include all highly liquid instruments purchased with original maturities of three months or less. The Partnership currently invests in cash management accounts with one major bank. In the event of that bank's insolvency, recovery may be limited to account insurance or other protection afforded such deposits.

**[3] Fixed assets:**

Fixed assets are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the respective assets or the lease term for leasehold improvements. Expenditures for repairs and maintenance are expensed as incurred.

**[4] Revenue recognition:**

Management and monitoring fees are recognized on an accrual basis as they are earned.

**[5] Income taxes:**

No provision for federal income taxes has been made since all income and losses are allocable to the limited partners for inclusion in their respective tax returns. The Partnership is subject to a 4% New York City unincorporated business tax. There are currently no income tax returns under audit. With few exceptions, the Partnership is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before December 31, 2008. Management is not aware of any tax positions which, more likely than not, will result in any material tax liabilities which should be recorded or disclosed in the accompanying statement of financial condition.

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**Notes to Statement of Financial Condition**  
**December 31, 2011**

**NOTE C - RESTRICTED CASH**

The Partnership has two twelve-month certificates of deposit ("CDs") for \$416,902 and \$103,194 to secure two letters of credit. The first letter of credit represents the security deposit held for the Partnership's occupancy lease. The second letter of credit supports the Partnership's payroll. Both CDs mature on March 6, 2012 and earn 0.35% interest, annually. As of December 31, 2011, the CDs accrued interest of \$124 and \$31, respectively.

**NOTE D - FIXED ASSETS**

Fixed assets, net at December 31, 2011 are as follows:

Furniture and fixtures	\$ 194,967
Equipment	580,030
Software	199,524
Artwork	17,719
Leasehold improvements	<u>175,721</u>
	1,167,961
Less: accumulated depreciation and amortization	<u>(906,760)</u>
Fixed assets, net	<u>\$ 261,201</u>

**NOTE E - ACCOUNTS RECEIVABLE**

The Partnership pays for certain expenses on behalf of the Tailwind Fund, the TWCP Fund, their related portfolio companies, and Affiliates. As stated in the limited partnership agreements and the management services agreements with these entities, the Partnership is to be reimbursed for such expenses. As of December 31, 2011, the accounts receivable balance is comprised of:

Monitoring fees receivable (Note G), net of \$200,000 allowance	\$ 1,050,000
Due from Portfolio Companies (including amounts relating to in process deals)	526,487
Due from Tailwind Fund	106,010
Due from TWCP Fund	38,690
Other	<u>97,853</u>
Total accounts receivable	<u>\$ 1,819,040</u>

**NOTE F - MANAGEMENT FEE**

The Partnership earns management fees from the Tailwind Fund in return for investment advisory services. Such fees are paid semi-annually in advance and provide the primary source of income for the Partnership. The fee is calculated at a rate equal to 2% per annum of Non-Affiliated Limited Partners' Commitments, subject to certain adjustments per the Agreement.

The Partnership has been appointed the manager for the TWCP Fund. In consideration of these services, the managing general partner of the TWCP Funds, TWCP-GP LLC, may elect to pay a fee to the Partnership.

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**Notes to Statement of Financial Condition**  
**December 31, 2011**

**NOTE G - DEFERRED PORTFOLIO COMPANY INCOME**

The Partnership receives monitoring fees from certain of the Tailwind Fund's portfolio companies, of which 80% of such fees are offset against the Tailwind Fund management fee (see note F) in the semi-annual period after which the fee is received. As of December 31, 2011, \$437,480 of the deferred portfolio company income balance will offset the first half 2012 Tailwind Fund management fee. The remaining balance of \$1,000,000 represents 80% of the fees that are due, but not received, from certain portfolio companies.

**NOTE H - ADVANCES TO EMPLOYEES**

The Partnership paid \$400,000 to certain employees as an advance of their 2012 compensation.

**NOTE I - OTHER RELATED PARTY TRANSACTIONS**

During 2011, the Partnership paid the General Partner \$1,000,000.

**NOTE J - LEASES**

As of December 2011, the Partnership is party to an occupancy lease agreement with a third party through April 2017. Future minimum annual rental payments under the lease at December 31, 2011 are as follows:

2012	\$ 459,555
2013	795,536
2014	795,536
2015	795,536
2016	795,536
Thereafter	<u>265,179</u>
Total	<u>\$ 3,906,878</u>

**NOTE K - 401(K) PLAN**

The Partnership provides a noncontributory 401(k) plan for the benefit of eligible employees.

**NOTE L - CONTINGENCY**

The Partnership has an incentive plan in which certain employees are eligible to participate. The incentive plan is contingent upon carried interest earned by the Tailwind Fund as well as other requirements, as defined. Subject to certain thresholds, as described in the incentive plan agreement, amounts payable under this plan are payable within 120 days of the prior fiscal year end. As of December 31, 2011, there was no liability under this plan to these employees.



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**Notes to Statement of Financial Condition**

**December 31, 2011**

**NOTE M - COMMITMENTS**

The Partnership has entered into an agreement with a consulting firm to identify, analyze, evaluate and provide advice to the Tailwind Fund for potential investments. This consulting firm receives a fixed monthly retainer of \$22,000 through the earlier of March 2013 or 90 days prior written notice.

**NOTE N - INDEMNIFICATIONS**

Under the Agreement, the Partnership indemnifies each of the partners of the Partnership for all losses arising from the business or affairs of the Partnership and its affiliated entities, except for losses resulting from such partner's gross negligence, willful misconduct or conduct constituting "cause". In addition, the Partnership has certain indemnification obligations to third parties under other contractual arrangements. The Partnership is unable to develop an estimate of the maximum potential amount of future payments that could potentially result from any hypothetical future claim, but expects the risk of having to make any payments under these general business indemnifications to be remote.

**NOTE O - COUNTERPARTY RISKS**

The Partnership enters into various transactions with counterparties. The Partnership does not have an internal credit function which evaluates the creditworthiness of its counterparties. This may impact the Partnership's ability to collect on such receivables and could result in potential losses.

**NOTE P - SUBSEQUENT EVENTS**

The General Partner has evaluated events through February 8, 2012, the date that this statement of financial condition was available to be issued.