

Industrial Opportunity Partners, LLC

Part 2A of Form ADV

The Brochure

1603 Orrington Avenue
Suite 700
Evanston, IL 60201-3841
(847) 556-3460

www.iopfund.com

February 2012

This brochure provides information about the qualifications and business practices of Industrial Opportunity Partners, LLC (“IOP” or the “Company”). If you have any questions about the contents of this brochure, please contact Michael Hering at (847) 556-3460. 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 IOP is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Material Changes

IOP applied for registration with the U.S. Securities Exchange Commission (“SEC”) as an investment adviser in February 2012; therefore, this brochure is IOP’s first Form 2A filing with the SEC.

Table of Contents

Advisory Business.....	2
Fees and Compensation.....	3
Performance Based Fees and Side-by-Side Management	4
Types of Clients	4
Methods of Analysis, Investment Strategies and Risk of Loss	4
Disciplinary Information	6
Other Financial Industry Activities and Affiliations	6
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	7
Brokerage Practices.....	8
Review of Accounts	8
Client Referrals and Other Compensation.....	8
Custody.....	9
Investment Discretion.....	9
Voting Client Securities	9
Financial Information	9

Advisory Business

IOP is an investment adviser focused on managing private equity funds. IOP is the investment adviser to Industrial Opportunity Partners, L.P. (the “IOP Fund”) and the IOP Affiliates Fund, L.P. (the “Affiliates Fund”) (each a “Fund” and collectively, the “Funds”). IOP’s affiliate, Industrial Opportunity Partners GP, LLC (“IOP GP”), serves as the general partner to the Funds. The primary purpose of the Funds is to seek to generate returns for its partners, principally through long-term capital appreciation, by making, holding and disposing of primarily privately negotiated equity and equity-related investments in middle-market manufacturing and value-added distribution companies, with a particular focus on underperforming businesses.

The Company has full discretionary authority with respect to investment decisions, and its advice with respect to the Funds is tailored according to the investment objectives, guidelines, and requirements as set forth in each Fund’s respective offering memoranda and advisory agreement. The Company may enter into agreements with one or more investors which have the effect of altering or supplementing the terms of the offering to the specific investor. Any terms contained in such agreements to or with an investor shall govern with respect to such investor notwithstanding the provisions of the Fund’s governing documentation. Among other things, terms may include Fund Advisory Board membership, additional notification provisions, UBTI restrictions, and most-favored nation provisions. Under certain circumstances, these agreements could create preferences or priorities for such investors compared to other limited partners.

IOP is a Delaware limited liability company that was formed and began operating in 2005. The principal owners of IOP are Messrs. Kenneth Tallering, Adam Gottlieb, and Robert Vedra (collectively, the “Principals”). As of December 31, 2011, the Company advised approximately \$185 million of committed capital on a discretionary basis for the Funds.

Fees and Compensation

The fees and expenses applicable to the Funds are set forth in detail in each of the Funds' respective offering documents (e.g. private placement memorandum, limited partnership agreement and subscription agreement). A brief summary of fees and expenses is provided below.

Management Fees

The Funds pay a management fee to IOP GP for investment advice. The management fee is billed and/or deducted semi-annually in advance from the Funds in an annual amount equal to 2.5% of the total subscriptions of all partners, as defined in the Funds' partnership agreements. Commencing on the first day of the fiscal quarter following the earlier of the termination of the investment period or the initial drawdown of capital for a successor fund, the management fee shall be reduced to 2.0% based on invested capital.

In any one calendar year, to the extent that directors' fees, commitment fees, transaction fees, investment banking fees, break-up fees (in excess of the Fund's broken deal expenses), advisory fees, monitoring fees or other similar fees are received by the Principals, IOP or its affiliates (but excluding payments to the Operating Principals, as defined in the limited partnership agreements), all or a portion of the management fee shall be reduced by 80% of portfolio company remuneration up to \$500,000 and reduced by 100% of portfolio company remuneration above \$500,000 earned by the IOP GP, net of transaction expenses advanced by IOP and not reimbursed by the Funds. The reduction in management fee is allocated among the partners in the Funds based upon the proportional amount of capital contributed. Please refer to the respective Fund limited partnership agreement for additional information about fees.

Carried Interest

IOP GP may receive cumulative distributions (with respect to its carried interest) since the inception of the Funds equal to 20% of a Fund's cumulative net gain, provided that each limited partner has received aggregate distributions since the inception of the partnership equal to the sum of its contributions and its 8% preferred returns.

Fund Expenses

Expenses attributable to each Fund are described in the respective Fund's offering documents. Fund expenses may include, but are not limited to, the following: organizational expenses; liquidation expenses; any sales or other taxes, fees or government charges which may be assessed against the Funds; commissions or brokerage fees or similar charges incurred in connection with the purchase or sale of securities (including any merger fees payable to third parties and whether or not any such purchase or sale is consummated)(please refer to the *Brokerage Practices* section below); fees (if any) and expenses of members of the Advisory Board; the costs and expenses (including travel-related expenses) of hosting annual or special meetings for the partners of the Funds, or otherwise holding meetings or conferences with partners of the Funds, whether individually or in a group; interest expense for borrowed money (if any); all expenses relating to litigation and threatened litigation involving the Funds, including indemnification expenses; expenses attributable to normal and extraordinary investment banking, commercial banking, accounting, tax preparation, appraisal, legal, custodial and registration services provided to the Funds and any expenses attributable to consulting services not described in Fund offering documents, including in each case services with respect to the proposed purchase or sale of securities or assets by the Funds that are not reimbursed by the issuer of such securities or assets (whether or not any such purchase or sale is consummated); reasonable premiums for liability insurance to protect the Funds, IOP GP, the partners or members of IOP GP, the partners, members, officers, directors or employees of any service provider and members of the Advisory Board and IOP Board in connection with the activities of the Funds; and all other expenses properly chargeable to the activities of the Funds. Any income taxes assessed against either the Funds or IOP GP in respect of the management fee shall be borne by IOP GP.

Please refer to the *Client Referrals and Other Compensation* section below for additional expenses that may be borne by the Funds, and additional compensation that may be received by IOP, IOP GP, and/or the Operating Principals. The IOP Fund and Affiliate Fund fees are not negotiable since those Funds are closed to new investors. IOP will consider negotiable fees prior to IOP launching a new fund, should IOP launch a new fund going forward.

Performance Based Fees and Side-by-Side Management

As disclosed above and in each Fund's offering documents, each Fund may pay a carried interest of up to 20%. The carried interest may be viewed by regulators as creating an incentive for IOP to make more speculative investments and make different decisions regarding the timing and manner of the realization of such investments, than would be made if such carried interest were not allocated to IOP. The Company has adopted and implemented written compliance policies and procedures that are designed to address the conflicts of interest. Further, IOP believes that the above conflict of interest is substantially mitigated since the interests of IOP and IOP GP are aligned with investors in the Funds (i.e., IOP GP is an investor in the Funds and invests *pari passu* in all Fund investments with the limited partners).

Types of Clients

IOP provides investment management and administrative services, as described above in the *Advisory Business* section, to the Funds. Investment in the Funds is generally only available to institutional investors and certain high net worth investors that are "accredited investors" and "qualified purchasers", within the meaning of the U.S. Securities Act of 1933, as amended and the U.S. Investment Company Act of 1940, as amended, respectively.

The Funds have a specified minimum investment as set forth in their offering documentation. Investors in the IOP Fund are generally required to make a minimum capital commitment of at least \$5 million. Investors in the Affiliates Fund are generally required to make a minimum capital commitment of at least \$50,000. At its discretion, IOP or IOP GP may waive or lower the minimum capital commitment amount. The IOP Fund and the Affiliates Fund, however, are closed to new investors.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

As disclosed above, the primary purpose of the Funds is to seek to generate returns for its partners, principally through long-term capital appreciation, by making, holding and disposing of primarily privately negotiated equity and equity-related investments in middle-market manufacturing and value-added distribution companies, with a particular focus on underperforming businesses. IOP manages the Funds with support from Operating Principals, who are senior business managers with whom the Principals have had long-standing relationships. The Operating Principals have an exclusive arrangement with IOP and: (i) advise and assist IOP GP in connection with the sourcing, selecting, and review of investment opportunities; (ii) source key managers (as needed to replace or supplement management at portfolio companies); and (iii) in many situations, directly manage or oversee Fund investments.

IOP focuses on making investments in a wide range of manufacturing and value-added distribution businesses, generally with headquarters or base of operations in North America. While not limiting its investment focus, IOP has direct experience in the following industries:

- Agricultural and construction equipment
- Automotive components
- Building products

- Capital and industrial equipment
- Commercial vehicle and engine components
- Electronics
- Foundry and casting products
- Health care, dietary and food products
- Plastic components
- Precision machining
- Recreational and sport vehicle components
- Stamped and fabricated products
- Steel or metal processing

Fundamental values are the core of IOP's investing strategy. Underlying IOP's investing strategy is IOP's fundamental values:

- Pursue investment opportunities where IOP can support management in stabilizing, growing and enhancing the value of their business
- Provide strategic, operational and financial resources to accomplish the goals of the business
- Partner with the management and employees of the business
- Fundamentally improve the performance of the business to the benefit of its employees, customers, suppliers and community, as well as shareholders
- Accomplish the foregoing while adhering to IOP's standards of ethics and integrity

Utilizing the private equity and direct management experience among IOP's investment team and Operating Principals, IOP has developed its disciplined investment approach based on five key elements:

- Targeted investment strategy focused on operational improvement and sales growth opportunities of fundamentally sound businesses in the manufacturing and value-added distribution sectors
- Detailed, "hands-on" due diligence led by senior-level transaction and operational professionals
- Up-front development of operating plan (roadmap to value creation)
- Utilize strong key managers, decisive execution and active oversight
- Realize value through sales and earnings growth

IOP typically focuses on making investments with the following characteristics:

- Manufacturing or value-added distribution businesses
- Revenues generally between \$25 million and \$350 million
- Defensible market, customer and product positions
- Solid long-term industry fundamentals
- Identifiable and achievable improvement and/or growth opportunities
- Strong incumbent key managers preferred but not required
- Positive EBITDA preferred but not required
- Control equity investments generally between \$5 million and \$30 million
- Corporate divestitures, private sales, restructuring or bankruptcy situations

IOP has an Investment Committee comprised of the Principals and two Operating Principals. Messrs. Tallering, Gottlieb, Vedra and one Operating Principal must approve an investment opportunity before execution of the investment.

Risks

All investing involves a risk of loss that the Funds and its limited partners should be prepared to bear. IOP cannot give any guarantee that it will achieve a Fund's investment objectives or that the Funds will receive a return on their investment. The past performance of investment strategies such as those implemented by IOP is not necessarily indicative of their future results. Investors should ultimately refer to their Fund's respective offering documents for detailed risk disclosures that specifically address risks of each Fund's investment strategies, methods of analysis, and/or particular types of investments recommended. Below is a summary of potentially material risks for each significant IOP investment strategy used, the methods of analysis used, and/or the particular type of investment recommended.

- *Lack of Liquidity* - The Funds generally will invest in private companies, the shares of which are not publicly traded. Unless such a portfolio company subsequently succeeds in obtaining approval from the relevant authorities to list its shares on a recognized exchange, this avenue to liquidity will not be available to the Funds, which must then rely on other means to achieve liquidity. In addition, the Funds may be precluded from selling its shares in a public portfolio company for some time after such portfolio company's initial public offering. Investment in a Fund is not a liquid investment for investors.
- *Limited Number of Investments* - The Funds intend to participate in a limited number of portfolio investments and, as a consequence, the aggregate return of the Funds may be substantially adversely affected by the unfavorable performance of even a single portfolio investment.
- *Reliance on Portfolio Company Management* - Although it is the intent of the Funds to invest in companies with strong and stable management teams or to supplement management, there can be no assurance that the management team of a portfolio company, or any new one, will be able to operate such company successfully. Furthermore, although IOP and IOP GP will monitor the performance of each portfolio company, it will be primarily the responsibility of company management to operate the business on a day-to-day basis.
- *Service on the Board of Directors* - In their capacity as directors of portfolio companies, members of IOP and IOP GP will be subject to fiduciary and other duties to the portfolio company on whose board they serve, which duties may on occasion adversely affect the Funds.
- *Dependence on General Partners* - The limited partners rely on IOP GP, IOP, and the Principals to make investment decisions consistent with the Funds' investment objectives and policies, negotiate and structure the Funds' investments, administer, monitor and add value to the portfolio companies and dispose of such investments. The success of the Funds will depend significantly on the Principals.

Disciplinary Information

IOP and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

As described above, IOP GP serves as the general partner to the Funds. IOP GP is not registered as an investment adviser with the SEC. While IOP GP is not registered as an investment adviser, all of the investment advisory activities are subject to the Investment Advisers Act of 1940 and the rules thereunder. In addition, employees and persons acting on behalf of IOP GP are subject to the supervision and control of IOP. Thus, IOP GP, any of its employees and the persons acting on its behalf would be

“persons associated with” IOP so that the SEC could enforce the requirements of the Advisers Act on IOP GP.

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

Participation in Client Transactions

IOP, its employees or a related entity (collectively “Related Persons”), will generally have an investment in the Funds managed by IOP. As a result, Related Persons have an interest in the Funds’ investments. The IOP Operating Principals have also invested in certain of the Funds’ investments. Please refer to the *Client Referrals and Other Compensation* section for additional disclosures with respect to the Operating Principals.

Conflicts of Interest

The Company has adopted and implemented written compliance policies and procedures that are designed to address conflicts of interest. The Company further mitigates our conflicts primarily through our policy to act in the best interests of our Funds and to disclose (potential) conflicts of interest to Funds and its investors.

Code of Ethics and Personal Trading

IOP strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, IOP has adopted a Code of Ethics (the “Code”). The Code requires that all employees must act with competence, dignity, integrity, and in an ethical manner when interfacing with the public, current or potential investors, third-party service providers, and fellow employees. Employees must use reasonable care and exercise independent judgment when conducting investment analysis, making investment recommendations, making investment transactions, promoting IOP’s services, and engaging in other professional activities. IOP expects all employees to adhere to the highest standards with respect to any potential conflicts of interest with either the Funds or investors. As a fiduciary, IOP must act in the Funds’ best interests.

The Code governs personal trading by employees and Operating Principals (“Access Persons”), including that Access Persons disclose their personal securities holdings and transactions to IOP on a periodic basis. IOP’s Code requires employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide IOP with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

The Code also includes reporting requirements and restrictions designed to supervise the giving or receiving of gifts and entertainment, and employees’ outside business activities. The Code also requires IOP and its employees to pre-clear certain political donations. Also, policies and procedures for reporting, investigating, and treating violations are included in the Code.

Investors may request a copy of the Code by contacting IOP at the address or telephone number listed on the first page of this document.

IOP also maintains insider trading policies and procedures (the “Insider Trading Policies”) that are designed to prevent the misuse of material, non-public information. IOP’s personnel are required to certify to their compliance with the Code, including the Insider Trading Policies, on a periodic basis.

Brokerage Practices

IOP provides advice with respect to the acquisition, management and disposition of privately negotiated equity and equity-related investments in middle-market manufacturing and value-added distribution companies, with a particular focus on underperforming businesses. IOP does not engage in securities trading, and does not involve the participation of securities brokers or dealers in Fund transactions.

IOP will follow procedures to ensure that investment allocations do not involve a practice of favoring or discriminating against any Fund. As disclosed in the Funds' offering documents, the Funds invest on a *pari passu* basis.

Review of Accounts

The Funds are monitored on a continuous basis by personnel at IOP. The progress of all portfolio companies are monitored on an ongoing basis and are subject to the supervision and review by IOP investment professionals and the Operating Principals. For many portfolio companies, "dashboard reports" are periodically provided to IOP. These reports include high level metrics (e.g., orders taken, sales for a given week, etc.) that are key drivers to the business. IOP and the Operating Principals review financial statements of portfolio companies on a monthly basis.

IOP provides written quarterly and annual reports to each Fund's limited partners. The quarterly report provides updated information on investments, and includes unaudited financial statements of the Funds. The annual report includes audited Fund financial statements and a year-end summary letter. IOP also holds an annual investor meeting for the IOP Fund.

Client Referrals and Other Compensation

Economic Benefits from Non-Clients

As described above in the *Advisory Fees* section and in Fund offering documents, IOP GP and its affiliates (i.e. IOP) shall be permitted to receive fees, commissions and other compensation from entities other than the Funds, subject to remuneration provisions, as disclosed above in the *Fees and Compensation* section. For example, IOP has contractual rights to receive advisory fees from certain portfolio companies to the extent permitted in written agreement(s) with portfolio companies. IOP, at its discretion, may waive such advisory fees. Any director's, consulting, monitoring, investment banking, transaction or break-up fees or other remuneration (including, without limitation, proceeds from the disposition of any stock option received in connection with service as a director, consultant or investment banker) paid by or with respect to a portfolio company for services rendered shall be received by IOP GP or such affiliate in such person's capacity as IOP GP or as a member, officer, director, employee of or consultant to the IOP GP and shall be remitted to IOP GP, and shall reduce the management fee otherwise payable to IOP GP subject to provisions in Fund offering documents.

The Operating Principals, as defined in the Funds' limited partnership agreements, work in senior management roles in certain portfolio companies. As provided in the Funds' limited partnership agreements, the Operating Principals receive compensation from the portfolio companies and/or IOP and such compensation may not be offset against management fees of the Funds.

Ancillary compensation (besides management fees and carried interest paid by the Funds) received by IOP, its affiliates/related persons, and/or the Operating Principals may be viewed as a conflict with the interests of Funds. For example, any transaction-based or executive compensation (e.g. sourcing, director fees, stock options, etc.) paid to Operating Principals may create an incentive for an Operating Principal to recommend a portfolio company based on compensation received personally, rather than the Funds' needs. IOP believes such a conflict is mitigated since IOP maintains an investment committee that must approve

investment deals, including those sourced by an Operating Principal. Overall, IOP believes that conflicts of interests are substantially mitigated since the interests of IOP, IOP GP, and the Operating Principals are aligned with investors in the Funds (i.e., IOP GP is an investor in the Funds). Further, IOP has adopted and implemented written compliance policies and procedures that are designed to address conflicts of interest. Finally, IOP has a fiduciary duty to act in the best interests of the Funds.

Compensation to Non-Supervised Persons for Client Referrals (i.e. Placement Agent)

As previously disclosed, the Funds are closed to new investors. The IOP Fund utilized a placement agent which was compensated with placement agent fees. Placement agent fees paid by the IOP Fund were disclosed to investors. For any new funds launched by IOP or its affiliates, should IOP enter into an agreement with a placement agent, IOP will disclose material facts of the arrangement to investors and take any necessary actions to comply with Rule 206(4)-3 under the Advisers Act (i.e. the SEC's cash solicitation rule).

Custody

IOP has access to Fund assets since it or a related person serves as the investment adviser and general partner of the Funds. Limited partners will not receive statements from any custodians. To comply with the Advisers Act Custody Rule (i.e. Rule 206(4)-2) and to provide meaningful protection to investors, the Funds are subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles, and are distributed to investors in accordance with Rule 206(4)-2 and delivery requirements stated in Fund offering document provisions.

Investment Discretion

In accordance with the execution of terms and conditions disclosed in governing Fund documents (i.e. limited partnership agreement, subscription agreement, etc.), and subject to the direction and control of IOP GP, IOP has discretionary authority to determine the investments and the amounts to be bought or sold on behalf of the Funds, and to perform the day-to-day investment operations of the Funds. Any limitations on this authority are included in governing Fund documents, investor side letters, and/or IOP's internal compliance policies and procedures.

Voting Client Securities

The Funds do not invest in securities that carry proxy voting rights. As a result, the Company does not vote proxies.

Financial Information

A balance sheet is not required to be provided as IOP (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients or (iii) has not been subject to any bankruptcy proceeding during the past 10 years.