

**Part 2A of Form ADV: Firm Brochure  
Dated February 14, 2012**

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**This brochure provides information about the qualifications and business practices of Graham Partners, Inc. If you have any questions about the contents of this brochure, please contact us at 610.408.0500. 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 Graham Partners, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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#### Item 4 Advisory Business

Graham Partners, Inc., a Pennsylvania corporation ("Graham Partners" or "we"), is a privately held investment firm, based in suburban Philadelphia, which focuses on acquiring and investing primarily in lower middle market manufacturing and industrial service related companies principally in the United States and Canada with growth potential.

Since our founding in 1988, we have closed more than 60 acquisitions, joint ventures, financings and divestitures and have had close involvement in the operations of companies in many manufacturing and industrial service sectors. Graham Partners is owned by Steven C. Graham, its Senior Managing Principal.

We provide investment advisory services to pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended, and whose securities are not registered under the Securities Act of 1933, as amended. We currently provide investment advice to Graham Partners Investments, L.P., Graham Partners Annex, L.P., Graham Partners II, L.P., Graham Partners II Co-Investment, L.P., and Graham Partners III, L.P. (together with their respective parallel partnerships, the "Funds").<sup>1</sup> We may in the future advise other funds in addition to those listed herein.

Prior to the formation of the first Fund in 1999, Graham Partners served in a corporate finance advisory capacity for a group of industrial and investment businesses founded by entrepreneur Donald C. Graham, the father of Steven C. Graham. These entities were then commonly known as "The Graham Companies" or "The Graham Group." Today, the Graham Group name has been broadened and is used to refer to an alliance of independently owned and operated industrial and investment management businesses, which includes Graham Partners.

As investment adviser for each Fund, Graham Partners identifies investment opportunities and participates in the acquisition, management, monitoring and disposition of investments for each Fund. Graham Partners provides these investment advisory services to each Fund pursuant to separate investment advisory agreements (each an "Advisory Agreement").<sup>2</sup> The terms of the investment advisory services to be provided by Graham Partners to a Fund, including any specific investment guidelines or restrictions, are set forth in such Fund's Advisory Agreement and/or in its limited partnership agreement. We tailor our advisory services to the individual needs of each of the Funds. Individual needs are identified through a review of each Fund's overall investment guidelines and objectives, as well as specific investment goals.

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<sup>1</sup> With respect to certain of the Funds, Graham Partners provides its services indirectly through wholly owned subsidiaries.

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We do not participate in any wrap fee programs.

As of December 31, 2011, our regulatory assets under management totaled approximately \$1,197,450,000. This figure represents the sum of the current market value of the assets held by the Funds, plus the aggregate amount of uncalled commitments to the Funds. We manage these assets for the Funds on a discretionary basis. We do not manage any assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

We are compensated for our investment advisory services based on a percentage of committed capital or invested capital. Generally, each Fund pays us a management fee based on committed capital during its investment period, and thereafter pays us a management fee based on invested capital. In certain cases, however, a Fund will only pay a management fee based on invested capital. The percentage rate varies from 1.0% to 2.0% per annum. We negotiate the rate with investors in each Fund at the time such Fund is established. We are entitled to collect management fees from some of the Funds on a semi-annual basis and from other Funds on a quarterly basis. As described below, the management fee may be reduced or waived in some circumstances in connection with the receipt by Graham Partners or its affiliates of various fees paid by actual or prospective portfolio companies. The management fee is generally subject to waiver or reduction by Graham Partners in its sole discretion, including in connection with investments made by the general partner of the Fund or its affiliates.

Management fees are payable quarterly in advance of the services rendered or semiannually on the 15<sup>th</sup> day of the period. As required by the Investment Advisers Act of 1940, as amended (the "Advisers Act"), if the Advisory Agreement is terminated before the end of the applicable period, management fees will be charged on a pro rata basis through the date of termination, and any fees paid in advance but not earned will be refunded.

The Funds generally bear certain other fees, expenses and costs which are incidental or related to the maintenance of the Fund or related to the acquisition, carrying and disposition of investments, including but not limited to private placement fees, sales commissions, appraisal fees, taxes, brokerage fees, accounting, legal, investment banking, consulting, information services, professional fees, custodial, trustee, record keeping, partnership reporting, insurance, telephone, travel and other such expenses. Some of the above services may be provided at cost by our affiliates.

Graham Partners and its affiliates perform management, advisory, transaction-related, financial advisory and other services for, and receive fees from, actual or prospective portfolio companies of the Funds, including such fees in connection with mergers, acquisitions, add-on acquisitions, refinancings, sales and similar transactions. These fees may be significant. Such fees may be paid in cash, in securities of portfolio companies or investment vehicles (or rights thereto). Although such fees are in addition to the management fees paid by the Funds, Graham Partners will in some circumstances reduce future management fees in connection with the receipt of these fees. The calculation of such reduction varies from Fund to Fund and is described in the applicable limited partnership agreements. These fees are disclosed in the annual financial statements of the applicable Fund.

In order to improve efficiency and reduce certain costs, Graham Partners' wholly owned subsidiary, Graham Partners Operating Company, LLC ("GPOC"), provides operational consulting and other specialized advisory services to the Funds and their portfolio companies. GPOC is an alternative to the outsourcing of such services to third parties. Costs and expenses of GPOC for work done on Fund matters are generally allocable to the Funds. There is no profit or mark-up for the services of GPOC, which are provided at cost. In addition, certain Graham Group entities that are not Affiliates (as defined in the Funds' limited partnership agreements) provide operations-related consulting services to portfolio companies of the Funds and from time to time to the Funds, and from time to time we and GPOC make personnel available and provide operations-related consulting services to certain Graham Group entities.

Neither we nor any of our supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Some of our supervised persons receive carried interest distributions from certain Funds, which are based on a share of realized gains in the assets of such Fund. In certain circumstances, Graham Partners also receives carried interest distributions from the Funds. The amount of such distributions to supervised persons and Graham Partners are set forth in the limited partnership agreements of the Funds.

Such carried interest distributions may create an incentive for Graham Partners and its supervised persons to make investments on behalf of the Funds that may be riskier or more speculative than would be the case in the absence of such amounts. In addition, the payment by some but not all of the Funds of carried interest distributions may create an incentive for Graham Partners and its supervised persons to disproportionately allocate an investment to Funds paying carried interest distributions. Graham Partners addresses these potential conflicts through non-discretionary investment allocation policies that were negotiated with and agreed to by investors in the applicable Funds.

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

We provide investment advice to the Funds. Investors in the Funds include high-net-worth individuals, college and university endowments, public and private pension plans, funds-of-funds and other institutional investors.

Funds may have a specified minimum investment set forth in their offering documentation, organizational documents or other governing documents. Such minimums are typically subject to the discretion, on the part of Graham Partners, to permit investment of a smaller amount generally or with respect to any investor in the relevant Fund.

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

Our investment objective is to make investments primarily in lower middle market manufacturing and industrial service related companies principally in the United States and Canada. In evaluating potential portfolio companies, we conduct extensive due diligence to

analyze, among other things, the company's market and competitive position within that market, cost and revenue structures, unique assets, such as brand strength, distribution capability and intellectual property, management team and compensation structure, contingent liabilities (environmental, regulatory, accounting or otherwise), potential growth opportunities and potential exit strategies.

GPOC also employs a group of operating professionals with significant career experience across a broad range of industries who assist us in the sourcing of investment opportunities, the due diligence of potential transactions and the ongoing development of portfolio companies.

Our investment strategy is primarily long-term investment in privately held companies. It is possible that some investments may be held for less than a year, though this is not typical of our investment strategy. Graham Partners' Investment Committee, comprised of senior members of Graham Partners, is ultimately responsible for making investment decisions for the Funds.

Investing in securities involves a high degree of risk that can result in substantial losses. We may not be able to correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Investors should be prepared to bear this risk of loss. Prospective and existing investors are advised to review the offering materials and other constituent documents for full details on each applicable Fund's investment, operational and other actual and potential risks.

## **Item 9 Disciplinary Information**

There are no legal or disciplinary events relating to our advisory business or the integrity of our management.

## **Item 10 Other Financial Industry Activities and Affiliations**

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

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

Other than as described below, neither we nor any of our management persons have any relationship or arrangement that is material to our advisory business or to the Funds with any related person who is a broker-dealer, municipal securities dealer or government securities dealer or broker; investment company or other pooled investment vehicle; other investment adviser or financial planner; futures commission merchant, commodity pool operator or commodity trading advisor; banking or thrift institution; accountant or accounting firm; lawyer or law firm; insurance company or agency; pension consultant; real estate broker or dealer; or sponsor or syndicator of limited partnerships.

Graham Partners acts as investment adviser to the Funds, and certain related persons act as general partners of the Funds. Additionally, several related persons serve as management companies to the Funds and provide certain administrative and managerial services. The

Investment Committee of Graham Partners is currently comprised of certain of the Managing Principals of Graham Partners.

We do not recommend or select other investment advisers for the Funds or have other business relationships with other investments advisers that create a material conflict of interest.

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

We have adopted a written Code of Ethics which applies to all of our employees, and any person who enters into a significant consulting or other similar relationship with us that is not specifically exempted. Our Code of Ethics requires our employees to serve the best interests of our clients in compliance with our status as a fiduciary, to comply with applicable federal securities laws and to report any violations of our Code of Ethics promptly to our Chief Compliance Officer. Our Code of Ethics includes insider trading policies and procedures. Generally, each of our employees must pre-clear certain personal securities transactions and provide copies of trade confirmations and periodic account statements, annual securities holdings reports and quarterly securities transactions reports. We will make our Code of Ethics available to any investor or prospective investor who requests a copy.

From time to time we may cause one of the Funds to buy or sell securities in which one of our officers, directors, employees or Affiliates (as defined in the Funds' limited partnership agreements) has a material financial interest. The existence of such relationships may create a conflict of interest between the Fund and the relevant officer, director, employee or Affiliate. Pursuant to the limited partnership agreements of the Funds, such transactions must be approved by the Fund's advisory board or a subcommittee thereof. A Fund's advisory board is comprised of representatives of its limited partners.

From time to time our officers, directors, employees or Affiliates may wish to co-invest in a transaction in which a Fund with remaining available capital is making an investment. This may create a conflict of interest between such Fund and the relevant officer, director, employee or Affiliate. Pursuant to the limited partnership agreement of such Fund, such transactions must be approved by such Fund's advisory board or a subcommittee thereof, provided that approval is not required if the officer, director, employee or Affiliate acquires such securities in his or her capacity as a director of a portfolio company.

Certain Graham Group entities and certain of our related persons that are not Affiliates (as defined in the Funds' limited partnership agreements) may own limited partnership interests in the Funds and from time to time may be offered the opportunity to co-invest in a transaction in which a Fund with remaining available capital is making an investment. Pursuant to the limited partnership agreement of such Fund, we may only offer such co-investment to the extent we believe it is appropriate to do so and, in any case, we may not reduce such Fund's level of investment in such a transaction below that which we deem appropriate.

## **Item 12 Brokerage Practices**

As a private investment firm, from time to time we may engage registered broker-dealers to assist us in selling one of our privately held portfolio companies or publicly traded securities. In the event we choose a broker-dealer, we seek to obtain best execution of transactions.

In selecting broker-dealers and negotiating rates, we look for whether the transaction represents the best qualitative execution and take into account several factors, including but not limited to the broker-dealer's relevant expertise in portfolio companies of the relevant size and industry, the reputation of the broker-dealer, the quality of investment research, timing and speed of execution and responsiveness. Generally, we get competing bids and compare them to current market prices.

To the extent we aggregate orders for purchase and sale, we will aggregate such orders as we deem appropriate and in accordance with the Funds' limited partnership agreements and in the best interest of each Fund.

The Company occasionally receives proprietary investment research and related services ("soft dollar benefits") from broker-dealers in connection with client securities transactions. However, it has no formal agreements with any broker-dealer pursuant to which it receives soft dollar benefits. The Company may use the research to assist it in the performance of its investment decision-making responsibilities.

When the Company uses the soft dollar benefits, the Company receives a benefit as it may not have to produce or pay for the research, products or services. As a result, the Company may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on the Funds' interest in receiving most favorable execution.

The Company does not believe that it causes the Funds to pay brokers or dealers commissions in excess of the amounts other brokers or dealers would have charged in exchange for the soft dollar benefits. Consistent with its best execution obligation, the Company negotiates fee arrangements with broker-dealers that the Company believes is beneficial to the Funds.

The soft dollar benefits may not be used to service every Fund and the Company may use the soft dollar benefits to service accounts that did not pay commissions to the broker-dealers providing the soft dollar benefits. The Company does not seek to allocate soft dollar benefits to Funds proportionately to the soft dollar credits the Funds generate.

Within the Company's last fiscal year, the Company has received written research materials on certain companies, industries, sectors of the economy, market trends and other topics which might affect the economy or the price of securities. During its last fiscal year, the Company did not direct any client transactions to a particular broker-dealer in return for soft dollar benefits.



### **Item 13 Review of Accounts**

We manage the Funds on a day-to-day basis, as needed. The Funds' portfolio companies are closely reviewed by our managing principals and investment professionals. Audited financial statements are prepared for each of the Funds following the end of each fiscal year, and unaudited financial statements are prepared for each of the Funds following the end of the first three fiscal quarters, in each case in accordance with the terms of the Funds' limited partnership agreements.

### **Item 14 Client Referrals and Other Compensation**

Graham Partners or its affiliates may provide certain operational consulting and other specialized advisory services to the Funds and their portfolio companies and may receive compensation from the Funds and their portfolio companies in connection with such services. These fees may be in addition to management fees. See Item 5 above for more information.

Neither Graham Partners nor any affiliate directly or indirectly compensates any person other than our officers, partners, directors or employees for investor referrals.

### **Item 15 Custody**

Not applicable.

### **Item 16 Investment Discretion**

Graham Partners and its affiliates generally have the authority to make all investment determinations on behalf of the Funds. The limited partnership agreements of the Funds generally impose some limitations on our investment discretion, which limitations can only be waived by the Fund's advisory board, a subcommittee of the advisory board or its limited partners.

### **Item 17 Voting Client Securities**

We have adopted a Proxy Voting Policy to comply with Rule 206(4)-6 promulgated under the Advisers Act. The Proxy Voting Policy, which has been designed to ensure that we vote proxies in the best interest of the Funds and provide the Funds with information about how their proxies are voted, contains procedures that have been reasonably designed to prevent and detect fraudulent, deceptive or manipulative acts by us.

It is our policy to vote proxies in the interest of maximizing shareholder value. To that end, we will vote in a way that we believe, consistent with our fiduciary duty, will cause the value of the shares to increase the most or decline the least. Consideration will be given to both the short- and long-term implications of the proposal to be voted on when considering the optimal vote. We will vote Fund proxies in the best interest of the Funds and not our own. In voting proxies, we will avoid material conflicts of interest between our interests on the one hand and the interests of the Funds on the other.

The Funds are not able to direct our vote in a particular solicitation.

We will maintain records of all proxy statements received and votes cast in an easily accessible place for five years. Investors and prospective investors in the Funds may request information from us about how we voted the securities held by the Funds. We will make our Proxy Voting Policy available to any investor or prospective investor who requests a copy.

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

We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

Graham Partners 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.