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# WYNNEFIELD CAPITAL, INC.

FORM ADV PART 2A

FIRM BROCHURE

October 10, 2012

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This brochure provides information about the qualifications and business practices of Wynnefield Capital, Inc. ("Wynnefield"). If you have any questions about the contents of this brochure, please contact Wynnefield at (212) 760-0814 and/or [www.wynnefieldcapital.com](http://www.wynnefieldcapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Wynnefield is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training. Additional information about Wynnefield is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**MATERIAL CHANGES**

This Brochure is Wynnefield's first amended Form ADV Part 2A submitted to the SEC following its registration under the Investment Advisers Act of 1940 (the "Advisers Act"). Wynnefield has amended this Brochure to report an update in the legal matter reported in Item 9- Disciplinary Information. On September 6, 2012, the United States Court of Appeals for the Second Circuit vacated a summary judgment motion that had been previously granted by the United States District Court for the Southern District of New York in favor of Wynnefield and various affiliated persons and remanded the case to the District Court for potential trial.

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**ITEM 4 - ADVISORY BUSINESS**

Wynnefield Capital, Inc. ("Wynnefield"), a Delaware corporation formed in 1992, provides investment supervisory services on a discretionary basis to private investment fund vehicles. Wynnefield is a U.S. Securities and Exchange Commission registered investment adviser and the investment manager for Wynnefield Capital Management, L.L.C., a New York limited liability company formed in January 1997. Wynnefield Capital Management, L.L.C is the sole the general partner ("General Partner") of two private investment funds organized as Delaware based domestic limited partnerships and managed by Wynnefield.

Wynnefield is also the investment manager to an offshore fund, a Cayman Islands exempted company formed in January 1997. The offshore fund and the domestic funds are individually referred to as the "Offshore Fund" and "Domestic Funds" and collectively the "Funds". Wynnefield's sole clients are the Funds.

Wynnefield is also the investment manager to the Wynnefield Capital, Inc. Profit Sharing Plan (the "Profit-Sharing Plan") on behalf of its employees.

Wynnefield's principal owners are Mr. Nelson Obus, President and Mr. Joshua Landes, Executive Vice President, Secretary and Treasurer. Mr. Obus, as an individual, is also a General Partner to an unaffiliated Limited Partnership Fund ("Channel II Fund" or "Channel II"), in a joint venture with a Principal of an unaffiliated investment adviser who is also a General Partner of Channel II. Both General Partners make investment decisions on behalf of the Channel II Fund. Apart from the interests of its two general partners, the Channel II Fund has only one additional partner. The Channel II Fund is in process of dissolving and in the final stages of liquidating the securities holdings in its portfolio. Accordingly, the Channel II Fund is restricted from purchases of any additional securities and the only securities transactions in the Channel II Fund shall be in connection with the liquidation of existing security positions. During the liquidation process, Wynnefield has committed to not investing in any equity securities that are owned by Channel II. Wynnefield's Chief Compliance Officer will monitor trades and positions of both the Wynnefield Funds and the Channel II Fund

Wynnefield's management of the Funds is in accordance with the small-cap value, special situations strategy and objectives stated in the Domestic Funds' Private Placement Memorandum ("PPM") or the Offshore Fund's Confidential Explanatory Memorandum ("Offering Memorandum") (collectively the PPM and Offering Memorandum are referred to as the "Offering Documents"). Wynnefield specializes in seeking out under-followed, misunderstood, and undervalued companies that fit strict parameters which include minimal balance sheet risk and potential for company specific or industry change. Wynnefield selectively hedges its portfolio and/or specific investment positions through the purchase or sale of futures indexes, ETFs and options on ETFs and occasionally shorts individual stocks.

Wynnefield invests in undervalued companies that it believes have strong free cash flow characteristics, minimal leverage, and talented management teams. The Funds' securities are generally held on a long-term basis, and when necessary, Wynnefield works with management and corporate boards to enhance value. The Funds focus is on the micro-cap segment of the small-cap universe and Wynnefield frequently invests in companies with minimal sell-side research coverage. Because the focus of the Funds is on the least researched segment of the market, Wynnefield believes it has less competition which frequently gives Wynnefield "first mover advantage" whereby the Funds take advantage of pricing inefficiencies in the pursuit of long-term gains.

The Funds are not registered as an investment company pursuant to the exclusions of either section 3(c)(1) or section 3(c)(7) of the Investment Company Act of 1940, as amended. The specific investment methodology and objectives of the strategy of each Fund is described in the applicable Offering Documents of the Fund.

Wynnefield provides portfolio advisory and management services to the Funds based on their investment objectives, not based on the criteria or investment objective of any individual investor. Wynnefield does not participate in wrap fee programs.

As of December 31, 2011, the amount of client assets managed on a discretionary basis is approximately \$ 238,200,000 and the amount managed on a non-discretionary basis is \$0. The information provided in this Form ADV Part 2A contains summaries of information that is more particularly described in the Offering Documents of each Fund. Investors are directed to review the Offering Documents of the relevant Fund.

## **ITEM 5 - FEES AND COMPENSATION**

Fees are calculated by the Funds' Administrators and deducted from client assets. Wynnefield is the investment manager of the Funds, and is entitled to receive the following compensation for its services in that regard.

### **Management Fees**

Both the Domestic Funds and the Offshore Fund charge a management fee, paid quarterly in advance, based on a percentage of assets under management. The management fee is 1.0% per annum for limited partners who joined the Domestic Funds and shareholders in the Offshore Fund who initially purchased their shares prior to February 1, 2011. Investors who enter into the Funds after that date pay a management fee of 1.5% per annum. The Management Fee for the Funds is paid by direct deduction from each investor's account on a pro-rated quarterly basis, in advance. Wynnefield may, in its sole discretion, waive or reduce entirely its Management Fee with respect to certain limited partners including, without limitation, affiliates, employees or family members of the general partner or its principals.

**Performance Allocation for the Domestic Funds**

The General Partner, is responsible for the Domestic Funds' investment program, and has designated Wynnefield as the investment manager of the Funds. Wynnefield does not receive an incentive fee from the Domestic Funds. Rather, as an incentive to promote the Domestic Funds' success, the General Partner is allocated an annual performance share (the "Performance Share") equal to 20% of the appreciation (if any) of the net asset value of the Domestic Funds that is allocated to each of their limited partners. The Performance Share is generally calculated, and made (if applicable), on the last day of each fiscal year. If a limited partner makes a partial withdrawal of capital or receives a distribution as of a time other than the end of a fiscal year, the General Partner will receive a partial Performance Share allocation at the time of that withdrawal or distribution in proportion to the reduction in the limited partner's capital account caused by the withdrawal. Once made, the Performance Share allocation is not subject to reversal if there is a subsequent loss. The General Partner may, in its sole discretion, reduce or waive entirely its Performance Share allocation with respect to certain limited partners including, without limitation, affiliates, employees or family members of the general partner or its principals.

The General Partner's Performance Share allocation is subject to a "high water mark" provision which prevents the General Partner from receiving a Performance Share allocation on profits that simply restore previous losses and ensures that each Performance Share allocation is based on the long-term positive performance of a limited partner investor's investment in the Domestic Funds. To accomplish this purpose, the partnership agreement provides that no Performance Share allocation is made unless the appreciation allocated to a limited partner increases his year-end closing capital account to an amount that exceeds his "maximum capital account". The "maximum capital account" is the limited partner's actual capital contributions, reduced by any withdrawals and distributions, and increased by any appreciation which has previously been credited to his capital account and has already been subject to a Performance Share allocation. If a limited partner makes a partial withdrawal or receives a distribution at a time when he or she has unrecovered losses, the Maximum Capital Account and Closing Capital Account shall be adjusted in proportion to the amount withdrawn or distributed.

**Performance Allocation for the Offshore Fund**

Wynnefield, as investment manager of the Offshore Fund, receives an annual incentive fee (the "Incentive Fee") equal to 20% of the net profits (including net unrealized gains and losses), if any, attributable to each common share of the Fund, subject to a loss carry-forward provision. If a common share has a loss chargeable to it during any year and during a subsequent year there is a profit allocable to the share, there will be no Incentive Fee payable with respect to the share until the amount of the loss previously allocated to the share has been recouped. All or a portion of the Incentive Fee attributable to a shareholder's Common Shares may be paid by a redemption of a portion of that shareholder's Common Shares. The management agreement between Wynnefield and the Offshore Fund provides that Wynnefield will be paid the Incentive Fee no later than 30 days after the end of each year. In the event that the management agreement is

terminated prior to the last day of the year, the Incentive Fee will be computed as though the termination date were the last day of the year.

### **Brokerage, Sales and Redemption Fees**

Wynnefield does not charge any sales or redemption fees. Please see Item 12, below for a discussion of Wynnefield's brokerage practices and fees.

### **Expenses Charged to the Domestic Funds**

The expenses for which the Domestic Funds are responsible include research fees; interest on margin accounts; legal, accounting, auditing and other professional fees; borrowing charges on securities sold short; custodial fees; brokerage commissions; bank service fees; interest on loans and debit balances; taxes applicable to the Domestic Funds on account of their operations (if any); any other reasonable expenses related to the management and operation of the Domestic Funds as well as the purchase, sale or transmittal of Domestic Funds partnership assets, as the General Partner determines in its sole discretion. In addition, to the extent that the Domestic Funds invest in managed accounts or private investment funds managed by third-party money managers, the Domestic Funds will indirectly bear their pro rata share of the expenses of those vehicles. These indirect expenses include the Domestic Fund's pro rata share of such vehicles' investment expenses (such as custodial fees and brokerage commissions); legal, administrative, registrar and transfer agent expenses; accounting expenses; and research expenses; and may include overhead expenses (such as rent, personnel expenses, equipment, supplies, management and consulting fees and similar expenses). Third-party money managers generally will also charge (i) a fixed asset-based fee and (ii) an incentive fee or allocation based upon a percentage of the profits earned by the Domestic Fund under their management. Wynnefield pays for its own direct overhead expenses in providing services to the Domestic Funds.

### **Expenses Charged to the Offshore Fund**

Wynnefield renders the services set forth in its management agreement with the Offshore Fund at its own expense. The Offshore Fund pays its own expenses including the fees paid to Wynnefield, to the fund administrator, to the registrar and to the transfer agent; accounting, audit, legal and other professional expenses; organizational expenses; all investment expenses including commissions, travel expenses incurred by Wynnefield in its advisory capacity; research fees; interest on margin accounts and other indebtedness; borrowing charges on securities sold short and short sale dividends; custodial fees; registrar and transfer agent fees; bank service fees; insurance expenses; and other reasonable expenses related to the purchase, sale or transmittal of the Offshore Fund's assets. Organizational expenses have been fully amortized.

In addition, to the extent the Offshore Fund invests in managed accounts or private investment funds managed by third-party money managers to achieve the Offshore Fund's

investment objective, the Offshore Fund will indirectly bear its pro rata share of the expenses of those vehicles. These indirect expenses include the Offshore Fund's pro rata share of such vehicles' investment expenses (such as custodial fees and brokerage commissions); legal, administrative, registrar and transfer agent expenses; accounting expenses; and research expenses; and may include overhead expenses (such as rent, personnel expenses, equipment, supplies, management and consulting fees and similar expenses). Third-party money managers generally will also charge (i) a fixed asset-based fee and (ii) an incentive fee or allocation based upon a percentage of the profits earned by the Offshore Fund under their management.

In the event that Wynnefield is not acting as investment manager to a Fund for an entire quarter (i.e., in the event that a Fund ceased operation or the investment management agreement with Wynnefield were to be terminated), the Management Fee paid in advance by the Fund to Wynnefield for that quarter would be prorated to reflect the portion of the quarter in which Wynnefield is acting as investment manager.

Neither Wynnefield nor any of Wynnefield's supervised persons accepts compensation (e.g., brokerage commissions) for the sale of interests or shares in any of the Funds or in connection with the purchase or sale of securities or other investment products on behalf of the Funds.

#### **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

For a description of the Performance Share Allocations for the Domestic Funds and the Performance Fee for the Offshore Fund, please see the response to Item 5.

#### **Domestic Funds**

The General Partner believes the prospect of receiving its non-refundable Performance Share allocation provides a strong incentive to manage the Domestic Funds profitably. However, the Performance Share may create an incentive for the General Partner to engage in activities that are riskier or more speculative than would be the case if the General Partner did not receive a Performance Share allocation. This is partly because once the Performance Share is allocated, the General Partner need not return it if investors experience losses in subsequent periods. It is also partly because, if the partnership experiences losses, partners who were allocated those losses must later be allocated enough profits to recover those amounts before the General Partner may again receive a Performance Share allocation.

The Performance Share which is allocated to the General Partner's Capital Account is in addition to its proportional allocation of the appreciation or depreciation of the net asset value of the Partnership.



## **Offshore Fund**

The Incentive Fee may create an incentive for Wynnefield to cause the Offshore Fund to make investments that are riskier or more speculative than would be the case in the absence of such a fee. Similar to the Domestic Funds, the Incentive Fee is not refundable if investors experience losses in subsequent periods. While the Offshore Fund's portfolio typically will be valued based on pricing information from independent sources such as brokers, Wynnefield is ultimately responsible for its valuation. This may present a potential conflict of interest, because Wynnefield is paid a percentage of the Offshore Fund's net profits (including unrealized gains), the determination of which will be made by Wynnefield itself.

## **Domestic and Offshore Funds, the Profit Sharing Plan and the Channel II Fund**

The investment management agreement between Wynnefield and the Offshore Fund and the Offering Documents for the Domestic Funds specifically provides that Wynnefield (or Wynnefield's Supervisory Persons) may conduct any other business including any business within the securities industry whether or not such business is in competition with the Offshore Fund. Wynnefield (or Wynnefield's Supervisory Persons) may, therefore, act as investment adviser or investment manager for others, may manage funds or capital for others, may have, make and maintain investments in its own name or through other entities and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms.

Wynnefield recognizes that certain personnel may provide investment related services to the Funds and the Profit Sharing Plan. In particular, Wynnefield manages the Funds, on one hand, and also provides management services to the Profit Sharing Plan. Simultaneously, Wynnefield's President also provides investment management services to the Channel II Fund (*i.e.*, "side by side management"). The economic interests of Wynnefield and its President may conflict with Wynnefield's fiduciary duty to the Funds based upon the fees and compensation paid to Wynnefield and Wynnefield's President or differing ownership interests in Wynnefield, the Funds and the Profit Sharing Plan. Wynnefield expects that all employees will perform their responsibilities in accordance with their fiduciary duties and not allow such conflicts to influence that performance.

To the extent a particular investment is suitable for the Domestic Funds, the Offshore Fund, and the Profit Sharing Plan, that investment will be allocated on a pro-rata basis based on assets under management or in some other manner which Wynnefield determines is fair and equitable under the circumstances.

Where less than the maximum desired number of shares of a particular security to be purchased is available at a favorable price, the shares purchased will be allocated among the Offshore Fund and each of the Domestic Funds in the first instance and subsequently to the Profit Sharing Plan in the event the allocations for the Domestic and Offshore Funds are completed or in any other equitable manner as determined by Wynnefield. It may not

always be possible or consistent with the investment objectives of the Funds and accounts as described above for Wynnefield to take the same investment positions or liquidate them at the same time or at the same price.

Wynnefield's Portfolio managers, analysts, operational staff, and traders may discuss and share research and other company specific information with each other provided that certain limitations are observed. Subject to an applicable exemption and other investment conditions, Wynnefield has imposed certain limitations on the ability to short investments for any Fund and the Profit Sharing Plan where the Wynnefield Funds and the Profit Sharing Plan currently have a "long" position in the same investment and when a portfolio manager expects a proposed investment or position to perform inversely to a position held by the Fund and the Profit Sharing Plan.

Wynnefield intends to treat the interests of the Offshore Fund and the Domestic Funds equitably. Expenses which are incurred jointly by the Offshore Fund, Domestic Funds and any of Wynnefield's affiliates or by any affiliates on behalf of the Offshore Fund, are allocated by Wynnefield among those accounts and Funds. Such allocation is on a basis that Wynnefield determines to be fair and equitable to the Offshore Fund, Domestic Funds and Wynnefield's affiliates where applicable.

Wynnefield (and Wynnefield's Supervised Persons) may have conflicts of interest in allocating time and activity between the Offshore Fund, the Domestic Funds, the Profit Sharing Plan and the Channel II Fund. Wynnefield will use its best efforts and will devote as much time and effort to the affairs of the Funds, in Wynnefield's judgment, is necessary to accomplish the purposes of the Funds.

Wynnefield may conduct cross-transactions between the Funds when periodically rebalancing two or more Funds. Generally, a cross-transaction is a pre-arranged trade between two or more different Funds that does not involve a broker dealer. For regulatory purposes, Wynnefield also treats a trade between two or more different Funds where the transactions are pre-arranged through a broker dealer as a cross-transaction. Cross-transactions may be undertaken for purposes of rebalancing the portfolio of two or more Funds under certain restrictive conditions and where it is believed that the rebalancing is consistent with the investment objectives of each Fund.

## **ITEM 7 - TYPES OF CLIENTS**

### **Domestic Funds**

The Domestic Funds are private investment funds each organized as a Delaware limited partnership. Each of the Domestic Funds operates under an exemption contained in the Investment Company Act of 1940, as amended (the "Investment Company Act"). One Fund operates under a Section 3(c)(1) exemption, which requires that the Fund have no more than 100 "accredited investors" within the meaning of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). The other Fund operates under an

exemption contained in Section 3(c)(7), which allows the Fund to have more than 100 investors who are “qualified purchasers”. From and after the date that Wynnefield shall become a registered investment adviser with the SEC, both of its Domestic Funds will also require that any new investor satisfy the requirements of a “qualified client” under the Investment Advisers Act of 1940, as amended.

The Domestic Funds are managed in accordance with the same investment objectives and, to the maximum extent possible, they make proportional investments in the same portfolio securities based on the respective assets of each entity.

The minimum initial subscription amount for investment in the Domestic Funds is \$250,000, although the General Partner may waive or reduce this requirements in particular cases and may change it as to new investors in the future.

### **Offshore Fund**

The Offshore Fund's common shares are offered only to experienced and sophisticated investors who are neither citizens nor residents of the United States, and to a limited number of United States investors consisting primarily of tax-exempt entities. Common shares will not be offered to persons who are members of the public in the Cayman Islands. The minimum initial investment per investor in the Offshore Fund is \$250,000, subject to reduction in the sole discretion of the Offshore Fund, provided, however, that the absolute minimum subscription for new subscriptions is \$50,000.

### **Domestic and Offshore Funds**

The limited partners who invest in the Domestic Funds and the investors in the Offshore Fund generally consists of high-net-worth individuals, family offices, trusts, funds of hedge funds, pension plans under ERISA and endowments.

### **Profit Sharing Plan**

Wynnefield also manages the Profit-Sharing Plan account on behalf of its employees.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

The Funds' investment objective is to achieve capital appreciation primarily through a “value” based investment strategy principally focused on small and micro capitalization stocks, while at the same time emphasizing preservation of capital. Wynnefield will both purchase and sell short securities in connection with the investment strategy. The Funds are not structured to be market neutral and generally have a long bias. The investment risks associated with an investment in the Funds is described in detail in the Fund's Offering Document. Wynnefield has not attempted to summarize such risks in this document as it could impact the effectiveness and completeness of the disclosures related

to those risks. Any questions associated with an investment in the Funds should be directed to Wynnefield.

### **“Value” Investment Philosophy**

The Funds will primarily follow a “value” investment philosophy of purchasing or selling short investments when Wynnefield believes there to be a discrepancy between the market value of a company’s securities and an estimate of their intrinsic value based upon the value of the business enterprise or its assets. For example, market prices of such securities may be temporarily depressed by visible near-term problems, because value is being *overlooked by the market*, because of investor uncertainty over complex legal or business circumstances or other reasons. Likewise, market prices may be unrealistically high due to analyst hype or widespread investor misperception which could result from a variety of factors. In essence, Wynnefield seeks out companies that are under-followed, misunderstood, and consequently not appropriately valued. This type of strategy affords the Funds an opportunity for significant portfolio appreciation regardless of prevailing market conditions. At the same time, the perceived difference between the market value and intrinsic value of the Funds’ investments, often referred to as the “margin of safety,” may serve as a buffer to reduce risk and mitigate the effects of broad market swings or unexpected events. To succeed in applying a value based approach, Wynnefield attempts to (i) locate and accurately evaluate numerous candidates for investment and (ii) identify potential events or other change of conditions (“catalysts”), which could cause the spread between market value and intrinsic value to narrow. These steps and certain potential categories of value investment are described in greater detail below.

### **Locating and Evaluating Opportunities**

The intrinsic value of potential investments are evaluated on a fundamental, bottom-up basis focusing on developing an understanding of a company’s financial statements and why the historical numbers may not accurately represent a company’s prospects. Wynnefield’s analysis typically includes an examination of a company’s assets and liabilities both on and off its balance sheet, its management team, competitive position and strategic direction. Wynnefield conducts its own research which may be supplemented by on-site visits with company management and numerous other sources of research and analysis such as newspapers, periodicals, trade publications, annual reports, SEC filings, insider stock transactions data and information available through the Internet and on-line services. If Wynnefield’s analysis indicates that the intrinsic value of a company’s securities significantly differs from the current market value, then it may be considered suitable candidates for investment.

### **Realizing Higher Value**

Successfully identifying securities available at a discount to conventional value measures does not in itself achieve Wynnefield’s total return objective. To realize the sale of a company’s securities at a higher price, its intrinsic value must either grow in absolute

terms, or the discount must be narrowed in the market. Increases in absolute value most often result from business growth, operational improvement or maturation of a business plan. Where a company's intrinsic value does not grow in absolute terms, securities can also increase in value through the reduction or elimination of the value discount. Accordingly, Wynnefield seeks to acquire securities of a company when it has identified a company or industry specific catalyst which is expected to influence how and when this discount is likely to be reduced. Catalyst events do not generally occur within a fixed or discernible timeframe so investor patience is required for this style of investment. Catalysts which result in an investment becoming more fully valued usually fall into one of three general categories:

### **Change in Market and Investor Perception**

Broader investor recognition of a company's previously overlooked value will typically result in its securities being traded at prices more closely aligned with the company's actual value. This change in investor perception may be the result of greater analyst coverage, successful public relations efforts, management changes or news events which focus attention on a company's industry and operations. In these situations, there may be no actual change in either the company's operations or in its industry generally.

### **Material Events**

Specific events may alter a company's structure, capitalization or operations, or have a near-term discernable effect on its business or industry. Such events may include a proposed disposition of a business unit (through spin-off or sale), retirement or other changes in management, stock repurchase, merger or a need for recapitalization or refinancing. An event which drives change in a company's value may also be presented by a defining regulatory change or industry event, such as a strategic business alliance, or a rapid shift in competitive strategies or other businesses.

### **Evolving Economic or Industry Conditions**

A catalyst also may be more gradual in nature, but lead to a discernable shift in the profitability of a company, or in its strategic or competitive opportunities. These changes may include age or demographic population shifts beneficial to a company's business, changes in consumer preferences or broader transitions in market, regulatory or economic circumstances. Such catalysts require substantially longer investment horizons to be effective.

### **Small and Micro Cap Value**

The Funds' portfolio focuses on small and micro cap stocks that have a market capitalization between \$25,000,000 and \$500,000,000. Because of their low trading volumes and typically small market capitalizations, these companies often receive little or no research coverage by brokerage firms. Larger investment funds may find themselves

unable to justify the time and attention required for such small companies that cannot have a meaningful impact on their overall performance. Consequently, important positive changes can go unrecognized for longer periods than in the case of more closely researched companies. Wynnefield focuses on investing in these companies that are often undervalued by the market.

### **Third-Party Managers**

The Funds may also invest through third-party money managers (“Money Managers”). The Money Managers may manage the Funds’ assets directly through managed accounts or indirectly through private investment funds. It is anticipated that less than 10% of the Funds’ assets (measured at the time of investment) will be allocated to Money Managers. Wynnefield intends to invest with a Money Manager if it believes that the Money Manager offers efficient access to a particular strategy, sector or geographic area, has specialized expertise or knowledge, or if investment with that Money Manager would enhance the overall performance of the Funds. Wynnefield will select Money Managers based on a number of factors including, but not limited to, portfolio management experience, style, historical performance, correlation to the Fund’s other investments, and organizational stability. To the extent the Funds invest in managed accounts or private investment funds managed by Money Managers, the Funds will indirectly bear their pro rata share of the expenses of those vehicles, including any fixed asset-based fees and incentive fees or allocations charged by the Money Managers.

### **Risk Management**

Wynnefield continually monitors the value of their respective Funds’ portfolio companies relative to their earnings power and cash flow generation and seeks to limit losses of positions which are turning in the wrong direction. Additionally, Wynnefield attempts to gauge macro-level market forces and may use exchange-traded funds (ETFs), options and futures on market indices as a hedging tool on portfolio level risk. Wynnefield intends to pursue the investment objective described above and generally follows the outlined investment strategies as long as such strategies are in accord with the Funds’ investment approaches and may also formulate new approaches to carry out the overall objective of the Funds. The Funds’ investment objective may be changed without the consent of investors.

### **Investments**

Wynnefield typically invests most of a Fund’s assets in equity securities. Nevertheless, in the interest of both preserving capital and taking advantage of profit opportunities, Wynnefield retains the flexibility to invest in a broad range of asset classes and situations and use a broad range of specialized investment techniques. A Fund is not required to invest any particular percentage of its portfolio in any type of investment or region, and the amount of the Partnership’s portfolio that is invested in any type of investment or strategy, which is long or short, or which is weighted in different countries or different sectors, can



change at any time based on the availability of attractive market opportunities. The Funds may invest not only in publicly-traded or privately-issued equity securities, but also in financial and money market instruments, including, but not limited to, U.S. Treasury bills, notes and bonds, corporate and municipal bonds, sovereign debt, certificates of deposit, ETFs, GNMA securities and money market funds. The Funds may also invest in preferred stocks, stock warrants and rights, convertible securities, stock index futures contracts, options (puts and calls, purchased or written), warrants, repurchase and reverse repurchase agreements, currencies, futures or forward contracts, swaps, commodities and other derivative instruments, other limited partnerships or managed accounts, and any other interests in any of the foregoing. The Funds may invest in the securities of foreign issuers, including those traded overseas as well as those traded in the United States. Wynnefield may also invest in securities whose resale is subject to legal restrictions ("restricted securities") although these investments are limited to no more than 10% of a Fund's assets at cost. Although not a focus of the Funds' trading strategy, the Funds may engage to a limited degree in the trading of derivatives, commodities, commodity futures, financial futures or foreign currencies, either as a hedge against the risk of a specific investment or for opportunistic purposes. In order to maintain Wynnefield's exemption from registration as a commodity pool operator with the Commodities Futures Trading Commission, the aggregate initial margin and premiums on derivatives, futures and options on futures contracts cannot exceed 5% of each Fund's net assets. Some of the Funds' portfolio securities may not be widely traded and the Funds' position in such securities may be substantial in relation to the trading volume for such securities.

### **Short Selling**

As part of their investment strategy, the Funds engage in short selling securities that are believed to be overvalued relative to their perceived target prices or other securities held long on a relative basis. Selling securities short involves selling securities which the Funds do not own. In order to make delivery to a purchaser, the Funds must borrow securities from a third party lender. The Funds subsequently return the borrowed securities to the lender by delivering to the lender the securities received in the transaction or by purchasing securities in the open market. The Funds must generally pledge cash or marketable securities with the lender equal to at least one half of the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains its right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays a Fund a fee for the use of the Fund's cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors. The Funds may also lend securities that they hold in order to allow other persons to sell short those securities. The Funds may receive fees for loaning its securities to others.

**Leverage**

The Funds may utilize leverage with respect to their investment activities when deemed appropriate by Wynnefield. Leverage involves the use of margin borrowings to increase the amount of invested capital in their securities positions. The use of leverage increases both the proportionate amount of potential gain, as well as potential loss, relative to a Fund's equity capital. If the value of a margin position declines, the securities serving as collateral for such margin position may be liquidated, resulting in a loss proportionately greater than would be the case absent such use of leverage. A Fund's use of options and derivative securities positions may also have the effect of increasing the Fund's leverage.

**Concentration**

In order to concentrate a Fund's capital on investment opportunities that Wynnefield believes offer the most attractive opportunities for significant capital appreciation, the Fund's portfolio may not always be broadly diversified. Wynnefield will generally purchase and hold a relatively concentrated portfolio of companies with compelling investment prospects and follow them closely, rather than owning a broad universe of less familiar securities. Each Fund is restricted from investing more than 15% of its assets (at cost) in the securities of any one issuer.

**Relationship with Portfolio Companies**

Apart from their activist activities described below, the Funds do not ordinarily acquire investment positions with the intention of seeking control or substantially influencing the control of a particular issuer. However, there may be situations that, in the judgment of Wynnefield, require active efforts to seek changes in particular management policies or strategies, or to change management itself. In such situations, Wynnefield may, either alone or with other investors, make its views known to management and may seek to influence, in a manner consistent with the Fund's investment objectives and resources, the management or policies of a particular issuer. The principals of Wynnefield may also serve on the boards of directors (or serve in other capacities) of companies in which the Funds may invest, for which services they may personally receive compensation and benefits.

**Cash Equivalent Investments**

Although Wynnefield expects the Funds to be substantially invested at all times, a portion of their assets may be invested in cash equivalents, such as money market funds, during a period when securities are sold and Wynnefield is unable to identify new, attractive equity investment opportunities.

**New Issue Purchases**

The Funds do not generally make investments in new issue offerings which are regulated by the Financial Industry Regulatory Authority, Inc. ("FINRA"), Rule 5130. To the extent



that the Funds make any such investments in the future, they will establish whether each of their investors qualify to participate in the purchase of such securities and may establish a special account established for such purpose in which only investors who do not fall within the proscription of FINRA Rule 5130 ("Unrestricted Investors") shall have an interest. In order to determine whether an investor is an Unrestricted Investor, at Wynnefield's request, each investor will be obligated to furnish such information as may be required to determine whether that investor falls within any proscription of FINRA Rule 5130. If an investor fails or refuses to provide such required information, he shall not be entitled to participate in such initial public offering purchases and will not be deemed an Unrestricted Investor.

### **Exchange-Traded Funds**

The Funds may buy or sell short exchange-traded funds (ETFs). ETFs are similar to index mutual funds, but are traded more like stocks. ETFs represent a basket of securities that are traded on an exchange. ETFs can be bought and sold throughout the trading day, allowing for intraday trading which is rare for mutual funds. Traders can sell ETFs short or buy ETFs on margin. ETFs are subject to risks similar to those of stocks. Investment returns on ETFs will fluctuate and are subject to market volatility.

### **Foreign Investments**

The Funds may invest in the securities and other financial instruments of non-U.S. entities and/or securities and other financial instruments denominated in currencies other than U.S. Dollars. These may include securities issued by entities in, and traded in, so-called "emerging markets." The Funds value such assets in U.S. Dollars. To the extent such assets are unhedged, the value of the Funds' assets will fluctuate with the U.S. Dollar exchange rates as well as with price changes of the Funds' investments in other various markets denominated in other currencies. The Funds may invest in foreign currencies and currency related products either to hedge foreign currency exchange rate risks that may arise from the purchase of such securities, or for speculative purposes. Non-U.S. investing and investing in emerging markets in particular, subjects the Funds to certain risks not typically associated with investing in securities in the United States. Many foreign stock markets are not as developed or efficient as those in the United States and may be more volatile than U.S. markets. The costs and expenses of investing in foreign markets are generally higher than in the United States. There is also generally less publicly available information about foreign companies than domestic companies and the information that is available may be unreliable. This general lack of information will make it more difficult for Wynnefield to remain abreast of corporate developments that may affect the price of a particular security. Additionally, some foreign economies are less stable than the U.S. economy due to, among other things, volatile political environments, less stable monetary systems and/or external political risks.

## Activist Investment

The Funds may from time to time acquire substantial positions in the securities of particular companies and may in certain instances seek to obtain representation on the board of directors and/or to influence the management of any company in which the Partnership may invest. To the extent the Funds seek to obtain representation on the board of any company or to otherwise seek to influence the management or policies of the company, the Funds may incur significant legal and administrative costs (e.g., proxy firms) with no guarantee that such efforts will be successful or profitable.

## General Risks

General risks inherent to investing are discussed in the Funds' Offering Documents. What follows are material risks inherent to the Funds' particular investment strategies and instruments.

There are two primary risks relating to the Funds investment strategy. First, is the risk that Wynnefield errs in its assessment of the fundamentals of particular investments. In other words, the spread between Wynnefield's perception of intrinsic value and market value proves to be insufficient (also possibly because of changes in business value, fraud, Acts of God or other events) to protect the investment or investments from loss. The second major risk is the possibility that the perceived differential of intrinsic value to market value of the Funds' investments remains wide, or widens further. In some cases, Wynnefield seeks to mitigate this risk by preferring investments that have "catalysts" in place that should act to hasten or otherwise ensure the narrowing of the underlying discount. However, there is also a risk that the catalyst event does not occur or that it does occur but does not have the expected effect on market price. Additionally, the Funds focus on investing in smaller-to-medium-sized companies of a less seasoned nature whose securities are traded in the over-the-counter market. These types of securities may involve significantly greater risks than the securities of larger, better-known companies.

Therefore, an investment in the Funds involves a high degree of risk and is suitable only for persons having substantial financial resources, who understand the long-term nature, the consequences of, and the risks associated with the investment, and who have no need for liquidity with respect to their investment. Prospective investors should carefully consider the risk factors described below as well as other risks specified Offering Documents before making a decision to invest in the Funds. Investments in the Funds are speculative in nature, and the Funds are not intended as a complete investment program. They are designed only for investors who can bear the risk of a substantial loss in the value of their investment.

## Specific Risks

- Investment in Small and Micro Cap Companies: Small and micro cap companies may be of a less seasoned nature or have securities that may be traded in the over-the-

counter market. These “secondary” securities often involve significantly greater risks than the securities of larger, better-known companies. In addition to being subject to the general market risk that common stock prices may decline over short or even extended periods, the Funds may invest in securities of companies that are not well-known to the investing public, may not have significant institutional ownership and may have cyclical, static or only moderate growth prospects. The stocks of such companies may be more volatile in price and have lower trading volumes than larger capitalization. Accordingly, investors in the Funds should have a long-term investment horizon. In addition, the Funds will be invested in many small and micro cap securities that are followed by relatively few securities analysts, with the result that there tends to be less publicly available information concerning the securities compared to what is available for exchange-listed or larger companies. The securities of these companies may have limited trading volumes and be subject to more abrupt or erratic market movements than the securities of larger, more established companies or the market averages in general, and the Funds may be required to deal with only a few market-makers when purchasing and selling these securities. Also, the size of the Fund’s investments might be particularly disproportionate to the trading volume. Transaction costs in small and micro cap stocks may be higher than in those of larger capitalization companies. Companies in which the Funds are likely to be invested also may have limited product lines, markets or financial resources and may lack management depth and may be more vulnerable to adverse business or market developments.

- Market Risks: The profitability of a significant portion of the Funds’ investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that Wynnefield will be able to predict accurately these price movements. With respect to the investment strategy utilized by the Funds, there is always some, and occasionally a significant, degree of market risk.
- Illiquidity: Because of the restrictions on redemption rights and transfers of interests in the Offshore Fund, and limitation on transfers of partnership interests or withdrawals from the Domestic Funds (details of which are found in the Funds’ respective Offering Documents), an investment in them is a relatively illiquid investment, involves a high degree of risk and is not suitable for an investor who needs liquidity. There is no public market for interests in the Funds. Wynnefield attempts to grow the Funds in a measured fashion complementary to the Funds’ investment style. Liquidity constraints and the availability of ideas will determine the Funds’ ability to accept new funds.

Fund assets may, at any given time, consist of securities and other financial instruments or obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability. The sale of any such investments may be possible only at substantial discounts and such investments may be extremely difficult to value. Therefore, there is a risk that investors who

redeem or withdraw all or part of their investments while the Funds holds such illiquid or thinly-traded investments will be paid an amount less than they would otherwise be paid if the actual value of such investments is higher than the value designated by the Funds. Similarly, there is a risk that such investors might, in effect, be overpaid if the actual value of the illiquid or thinly-traded investment is lower than the value designated by the Funds. In addition, there is a risk that an investment in the Funds by a new investor (or an additional investment by an existing investor) could dilute the value of such illiquid or thinly-traded investments for the other investors if the actual value of such investments is higher than the value designated by the Funds.

Furthermore, the Funds will be investing in small and micro-capitalization companies which do not have significant public float and in financial instruments and obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability. As a result, it may be difficult to liquidate investments. In addition, the Funds' sales of thinly traded securities could depress the market value of such securities and thereby reduce the Funds' profitability or increase its losses.

- **Leverage:** Wynnefield may use leverage in investing Fund assets. The use of leverage by a Fund results in that Fund controlling substantially more gross assets than the Fund's net position. Leverage increases a Fund's returns if the Fund earns a greater return on investments purchased with borrowed money than the Fund's cost of borrowing it, but exposes a Fund to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the Fund not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Fund's cost of borrowing. In the event of a sudden, precipitous drop in value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses. Interest costs of borrowings will be an expense of the Fund and therefore both borrowing levels and fluctuations in interest rates may affect the operating results of the Fund. While the use of margin and borrowed funds can substantially improve the return on invested capital, such use may also increase the adverse impact to which the investment portfolio of the Fund may be subject. To the extent that options, futures, options on futures, swaps, swaptions and other "synthetic" or derivative financial instruments are used, it should be noted that they inherently contain much greater leverage than a non-leveraged purchase of the underlying security, commodity or instrument. This is due to the fact that generally only a very small portion (and in some cases none) of the value of the underlying security, commodity or instrument is required to be paid in order to make such investments. In addition, many of these products are subject to variation or other interim margin requirements, which may force premature liquidation of investment positions.

In the current unsettled credit environment, Wynnefield may find it difficult or impossible to obtain leverage for the Fund. Since leveraging its assets is an integral part of the investment strategy of the Fund, the Fund could find it difficult to implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in Wynnefield being forced to unwind positions quickly and at prices below what Wynnefield deems to be fair value for the positions.

- Short Sales: The Funds' investment programs include short sales. Short selling, or the sale of securities not owned by the Funds, necessarily involves certain additional risks. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Funds' portfolio. Such transactions expose the Funds to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Funds in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Funds might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier. There can be no assurance that securities necessary to cover a short position will be available for purchase.
- Derivative Counterparty and Settlement Risk: To the extent the Funds invest in derivative instruments or other over-the-counter transactions, they may take a credit risk with regard to parties with whom they trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Funds and hence the Funds should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this and there may be practical or time problems associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.
- Futures: Trading in futures and forward contracts are highly specialized activities which, while they may increase the total return on the Fund's portfolio, may entail greater than ordinary investment risks. The prices of futures contracts and options used for speculation and hedging purposes may not correlate with price movements of the underlying securities being hedged. Although the Funds intend to purchase or sell commodity futures contracts only if there is an active market for each such

contract, no assurance can be given that a liquid market will exist for the contracts at any particular time. Futures exchanges and boards of trade limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit.

Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events, and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage is typical of a commodity futures trading account. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to the trader. Commodity futures trading may also be illiquid. Certain commodity exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits -- which conditions have in the past sometimes lasted for several days in certain contracts -- Wynnefield could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses. Commodity options, like commodity futures contracts, are speculative, and their use involves risk. Specific market movements of the cash commodity or futures contract underlying an option cannot be predicted, and no assurance can be given that a liquid trading market will exist for any particular futures option at any particular time.

- **Options:** The Funds may engage in various types of option transactions both as an independent source of profit and as part of its hedging strategy. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Because option premiums paid or received by an investor will be small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause an investor's asset value to be subject to more frequent and wider fluctuations than would be the case if the investor did not invest in options. Upon the exercise of a put option written by an investor on securities, the investor may suffer a loss equal to the difference between the price at which the investor is required to purchase the underlying securities and their market value at the time of the option exercise, less the premium received from writing the option. Upon the exercise of a call option on securities written by the investor, the investor may suffer a loss equal to the excess of the market value of the securities at the time of the option's exercise over the investor's acquisition cost of the securities, less the premium received from writing the option. No assurance can be given that Wynnefield will be able to effect transactions to close out options positions at a time when it wishes to do so. If Wynnefield cannot enter into a close-out transaction, it may be required to hold securities that it might otherwise have sold, in which case it



would continue to bear market risk on the securities and could have higher transaction costs, including brokerage commissions, upon the sale of securities.

- Investments with Money Managers: The Funds have the ability to invest with other money managers. Wynnefield will select money managers based upon the Funds' investment objectives. Wynnefield will request information from each prospective money manager regarding the money manager's historical performance and investment strategy. Wynnefield will also request detailed portfolio information on a continuing basis from each money manager retained on behalf of any of the Funds. However, Wynnefield may not always be provided with such information because certain of this information may be considered proprietary information by the particular money manager. This lack of access to information may make it more difficult for Wynnefield to select, allocate among, and evaluate money managers.

Wynnefield will have no control over the day-to-day operations of any of the selected money managers. As a result, there can be no assurance that every money manager engaged by the Funds will invest on the basis expected by Wynnefield. In addition to the foregoing, a Fund may be required to pay an incentive fee or allocation to the money managers who make a profit for that Fund in a particular fiscal year even though the Fund may in the aggregate incur a net loss for such fiscal year.

- Lack of Broad Diversification: The Funds' investment portfolios may at times be confined to the securities of relatively few sectors and/or issuers on due to size, investment strategy and other considerations. Accordingly, disproportionate losses in certain industries or particular issuers may materially reduce the Funds' performance or capital if not offset by gains from other industry investments or hedging techniques. Additionally, the investment portfolio of the Funds may be subject to more rapid change in value than would be the case if the Funds were required to maintain a wide diversification among companies, securities and industry groups.

## **ITEM 9 - DISCIPLINARY INFORMATION**

On April 25, 2006, the United States Securities and Exchange Commission (the "SEC") filed a complaint in the United States District Court for the Southern District of New York (the "District Court") against Nelson Obus, Peter F. Black, and Thomas Bradley Strickland (collectively, the "Defendants") in connection with trading on behalf of the Wynnefield Partners Small Cap Value L.P., Wynnefield Partners Small Cap Value L.P. I, and Wynnefield Partners Small Cap Value Offshore Fund, Ltd. (collectively, the "Funds"), who were named as Relief Defendants in the suit. The SEC alleges that in May and June 2001, Obus, Black, and Strickland, a friend of Black and employee of GE Capital Corporation, were involved in insider trading in the stock of SunSource, Inc. ("SunSource"). Specifically, the SEC claims that in advance of a June 19, 2001 public announcement of a

merger agreement between SunSource and Allied Capital Corporation, and in possession of material, nonpublic information about the pending merger, Obus authorized the purchase of 287,200 shares of SunSource stock for the Funds' accounts, which resulted in gains of \$1,335,700.

The SEC sought a final judgment (1) enjoining Obus, Black, and Strickland from future violations of the Securities Exchange Act of 1934, (2) ordering disgorgement of the \$1,335,700 gained by the Funds (including pre judgment interest) jointly and severally from the individual Defendants and Relief Defendants, (3) imposing a civil money penalty on the individual Defendants, and (4) prohibiting Obus and Black from serving as officers or directors of a public company.

On September 11, 2009, Obus and Black filed motions for summary judgment (which Strickland joined) in the District Court, seeking to dismiss the SEC's complaint in its entirety. The SEC opposed the Defendants' motions. On September 20, 2010, the District Court granted summary judgment for the Defendants and dismissed the SEC's complaint against them. The District Court ruled that the SEC failed to demonstrate that Strickland owed a duty of confidentiality to SunSource, or breached such a duty owed to GE Capital; or that either Black or Obus acted with the requisite intent to deceive.

On November 19, 2010, the SEC filed a notice of appeal to the United States Court of Appeals for the Second Circuit (the "Second Circuit") and on September 6, 2012, the Second Circuit vacated the District Court's grant of summary judgment for Defendants and remanded the case to the District Court.

In so doing, the Second Circuit did not rule on the merits of the case but rather simply determined that the matter should be resolved at a trial where all the relevant facts and evidence can be considered. Obus, Black, and the Funds continue to vigorously dispute the SEC's allegations and defend the case. No trial date has been set.

During the past 10 years, except as set forth above, there has been no material legal or disciplinary action involving Wynnefield, its control persons, or management.

#### **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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

Nelson Obus, the President and Chief Investment Officer of Wynnefield, is a General Partner to the Channel II Fund, a Limited Partnership Fund, in a joint venture with a principal of an unaffiliated investment adviser who is also a General Partner.

As of February 6<sup>th</sup>, 2012 the Channel II Fund is in process of dissolving and liquidating the security holdings in its portfolio.



Nelson Obus also has a personal investment in the Channel II Fund. There is no management fee charged to the Channel II Fund. The Channel II Fund is billed a performance fee with a high water mark where Nelson Obus may be compensated. Wynnefield may conduct trades on behalf of the Channel II Fund and provide other administrative services.

Nelson Obus and Wynnefield access persons are subject to certifications, personal securities transactions reporting and trading restrictions of Wynnefield's Code of Ethics and Restricted List as described in Item 11. The Channel II Fund is treated as a personal reportable account of Mr. Obus and all securities transactions for the Channel II Fund are captured by Wynnefield and monitored in accordance with Wynnefield's Code of Ethics policies and trade allocation policies and procedures as described in Item 13.

Wynnefield and its principals are required to devote only so much of their time to the affairs of the Funds as they reasonably believe is necessary in good faith. Such persons are not prohibited from engaging in any other existing or future business or in other investment activities but these persons owe the Fund's investors an affirmative duty of utmost good faith, undivided loyalty, full and fair disclosure of all material facts, and an affirmative obligation to employ reasonable care to avoid misleading them.

The Funds may invest directly in limited partnerships sponsored by unaffiliated investment advisers. Wynnefield employees may also have a personal investment in the limited partnerships of unaffiliated investment advisers. There is no direct compensation received by Wynnefield or its employees involved with these personal investments. Wynnefield does receive indirect compensation through the management and performance allocation fees charged to the Funds for investment advisory services. In accordance with the Code of Ethics, private placement investments by employees must be approved by the Chief Compliance Officer.

Wynnefield's Code of Ethics also addresses potential conflicts of interest in cases where Wynnefield's employees serve as Directors of companies whose securities Wynnefield or Wynnefield's Supervised Persons may purchase or sell on behalf of the Funds.

#### **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Wynnefield has adopted a written code of ethics ("Code of Ethics" or "Code") designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act, which requires that investment advisers adopt a code of ethics setting forth standards of business conduct and compliance with federal securities laws by all employees. Wynnefield's Code of Ethics has three primary objectives, namely to ensure that Wynnefield's employees: (1) place the interests of advisory clients first; (2) avoid taking inappropriate advantage of their position in the firm; and, (3) that they prevent insider trading by protecting material non-public information.

Wynnefield's employees must also avoid any personal interest outside of Wynnefield which could be placed ahead of their fiduciary obligation to Wynnefield and to Wynnefield's advisory clients. Conflicts may exist even when there is an appearance of a conflict and no wrongdoing. The opportunity to act improperly may be enough to create the appearance of a conflict. Wynnefield recognizes and respects an employee's right of privacy concerning personal affairs, but requires full and timely disclosure of any situation which could result in a conflict of interest or even the appearance of a conflict. Whether or not a conflict exists will be determined by the Chief Compliance Officer.

The Code of Ethics includes detailed provisions to comply with the securities laws and to address conflicts of interest, such as the following:

- Reporting of personal securities transactions to the Chief Compliance Officer;
- Maintaining a Restricted List of securities and restricting employees' and advisory client trading subject to certain exemptions;
- Blackout period restrictions on employee trading subject to certain exemptions;
- Employee certification of compliance;
- Employee restrictions on the giving and receiving of gifts and entertainment;
- Approval of employee outside business interests; and,
- Restrictions on employee political and charitable contributions.

Wynnefield's Chief Compliance Officer periodically monitors Access Persons, employees and employee-related accounts and advisory client trades against the Restricted List and other restrictions for any violations of the "Code of Ethics and the Policy Statement on Insider Trading."

Wynnefield's employees may from time to time purchase and sell securities for their own personal accounts which they may also be recommending for the Funds, subject to the Wynnefield's Code of Ethics policies. Additionally, the Profit-Sharing Plan may invest in the same securities that Wynnefield recommends for the Funds. Employees of Wynnefield may also serve as directors of companies whose securities Wynnefield or Wynnefield's Supervised Persons may purchase or sell on behalf of the Funds and the Profit Sharing Plan. Also, by reason of its activities, Wynnefield will not be free to disclose or act upon such confidential activities where Wynnefield may acquire confidential information or be restricted from transacting in certain information and as a result may not initiate a transaction in which it otherwise might have engaged. All such purchases are made in accordance with Wynnefield's Code of Ethics as described in this Item 11 and the trade allocation policies and procedures, as described in Item 13.

Wynnefield will provide a copy of its Code of Ethics upon request to Joshua Landes, its Chief Operating Officer, at 212-760-0814.

## **ITEM 12 - BROKERAGE PRACTICES**

### **Investment and Brokerage Discretion**

Wynnefield has complete discretion in choosing brokers, dealers, banks, market-makers and other execution services (collectively “broker dealers”) in executing trades for the Funds. As a fiduciary, Wynnefield has a duty to seek “best execution” on all securities transactions effected for the Funds. Broker-dealers are not selected solely on the basis of price but on the basis of an evaluation by Wynnefield of the overall value and quality of the brokerage services provided by such firms to the Funds. Best execution is not easily quantifiable, because it encompasses several factors, including: (i) value of research and other services; (ii) commission amount; (iii) execution speed; (iv) confidentiality; (v) market depth; (vi) capital commitment; (vii) recent order flow; (viii) knowledge of the other side of the trade; and (ix) the quality of the broker’s services (including, but not limited to, accuracy, reputation, timeliness and responsiveness). As determined by Wynnefield at its discretion, the Funds may pay a higher than competitive commission rate to the executing broker-dealer who has given Wynnefield valuable research for specific securities. Such commissions are generally paid when selling the security through the executing broker-dealer from whom Wynnefield has received such research.

### **Soft Dollars**

Although the Offering Documents for the Funds permit Wynnefield to make use of soft dollars arrangements with broker-dealers which conform to the requirements of Section 28(e) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), it is Wynnefield’s current policy not to enter into such arrangements. Section 28(e) of the Exchange Act provides a “safe harbor” to investment managers who use commission dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the manager in the performance of investment decision-making responsibilities. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. Wynnefield’s portfolio managers must inform the Chief Compliance Officer if they intend to enter into any soft dollar arrangements.

Wynnefield does not have any arrangements where they receive client referrals in conjunction with selecting or recommending broker dealers.

### **Directed Brokerage**

Wynnefield currently does not have any directed brokerage relationships in regards to the Funds. It is Wynnefield's general policy to not accept instructions from Advisory Clients for the direction of brokerage. Any specific request by an Advisory Client for a directed brokerage arrangement would require approval by Wynnefield's Chief Compliance Officer prior to Wynnefield's acceptance.

The Profit Sharing Plan assets are in custody at Lazard Capital Markets and are directed to execute transactions with Lazard Capital Markets. Aggregated trades with the Funds will be subject to this trade allocation policy and "stepped out" to Lazard Capital Markets as described below.

Wynnefield's trade allocation policy and procedures are intended to be fair and equitable to each of its Funds and no Fund will be favored or disfavored over any other Fund or Wynnefield's Profit Sharing Plan. Wynnefield's policy prohibits any allocation of trades in a manner such that Wynnefield's Profit Sharing Plan or any particular Fund or group of Funds would receive more favorable treatment than other Funds.

Consistent with Wynnefield's duty to seek best execution for the Funds, Wynnefield may aggregate purchases or sales of any security for the Funds and the Profit-Sharing Plan. Wynnefield will not aggregate orders, or include the Profit Sharing Plan in the aggregation if:

- Wynnefield determines that aggregation would be inconsistent with its investment management duties or the investment guidelines for each Fund or for any other regulatory reason or imposed restriction.
- Wynnefield may not be able to complete the intended allocation for the Funds due to illiquid securities as determined by Wynnefield's Chief Investment Officer and Trader. As such, the Funds will be given priority in the allocations.

Wynnefield will attempt to allocate investments in a manner which is in the best interests of all of the Funds and in general allocates investments and trading costs on a pro-rata basis in proportion to the asset value size of each Fund and the Profit Sharing Plan. Each Fund and the Profit Sharing Plan will receive an average share price for such aggregated order or the same price for executed portions of the aggregated order.

In situations where investment opportunities are not appropriate or otherwise not reasonably available for all suitable Funds or the Profit Sharing Plan, Wynnefield's portfolio managers may deviate from the standard allocation method and use some other methodology to achieve fair and equitable allocations. In addition, there may be circumstances under which Wynnefield will consider participation in the allocation by the Profit Sharing Plan in which Wynnefield intends to invest the same investment opportunities as the Funds only on a limited basis. Wynnefield will evaluate the Fund's portfolios and the Profit Sharing Plan for a variety of factors which may be relevant in determining whether a particular allocation of investments is appropriate. These factors include the following:

- net long exposure of the Funds;
- the investment strategy of each Fund and the Profit-Sharing Plan;
- the nature of the investment opportunity taken in the context of the other investments for the Funds;
- tax considerations;
- special portfolio restraints;
- cash position and buying power;
- odd-lot size of available transaction;
- the transaction costs involved; and;
- regulatory limitations on the Fund or a particular entity.

Because these considerations may differ for the Funds and the Profit-Sharing Plan in the context of any particular investment opportunity, investment activities of the Funds and the Profit-Sharing Plan may differ considerably from time to time. Changes to the allocation after the final execution of the original order is permissible at no later than one hour after the markets open on T+1 (the next trade date). Such changes will be subject to approval by the Chief Compliance Officer. In no event, will shares be re-allocated to the Profit Sharing Plan after execution of the original order and allocation.

Partial fills are first to be allocated on a pro-rata basis based on a percentage of cash available in each Fund and the asset value size of the Funds. The Profit Sharing Plan shall not receive any partial-fill allocation until the Funds original allocations have been completed. Any partial-fill shares left over once the Funds have completed their allocation may be allocated to the Profit Sharing Plan. If the allocation is de-minimis as a result of a partial fill situation (i.e., disproportionately small in relation to the asset value size), the de-minimis shares may be reallocated to other participating Funds in the first instance, and then the Profit Sharing Plan in the event that the partial-fill shares are not suitable for any of the Funds.

In the event that Wynnefield trades in new issues, these trades are subject to the trade allocation policy for all Funds whose investment objectives and guidelines, tax reasons and other potential restrictions allow for participation in the order. Wynnefield will allocate new issues in a systematic manner and take into consideration the suitability of the investment for the Funds, any reasons for non-participation and the size of the order for the new issue placed by Wynnefield. In no event will new issues that are suitable for the Funds be allocated to the Profit-Sharing Plan.

### **ITEM 13 - REVIEW OF ACCOUNTS**

The investment portfolio for the Funds advised by Wynnefield is monitored on a daily basis by several professionals. At the portfolio composition level for the Funds, on an informal basis, generally a daily review is conducted by the Chief Investment Officer in consultation with the portfolio manager primarily responsible for such investments. The portfolio manager conducts in-depth fundamental research, valuation analysis and position monitoring.

The investors of each Fund generally receive the following regular reports: (i) after the end of each fiscal year of the Funds, annual audited financial statements (including a balance sheet, income statement and statement of changes in net assets) for the recently completed fiscal year; (ii) monthly regular net asset value or capital account statements, as applicable; (iii) a quarterly letter reviewing the investment performance; and (iv) annual tax information necessary for the completion of US federal, state and local income tax returns, if applicable.

#### **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

Currently, Wynnefield does not have any arrangements with any third parties that involve any economic benefit to Wynnefield.

Wynnefield may periodically compensate individuals as a finder or solicitor for introducing any prospective investor to any Fund subject to the Advisers Act or other applicable U.S. federal securities laws. The compensation typically ranges from 25 to 100 basis points of 1% of the annual management fee paid when billed.

Wynnefield may periodically engage placement agents in regards to its solicitation and private placement activities and in doing so relies on the Mayer Browne SEC No-Action Letter relief from the Solicitation Rule. With respect to the use of placement agents, Wynnefield only uses placement agents that are registered as broker-dealers with the SEC.

Wynnefield generally relies on the placement agent activities in accordance with the terms of the agreement with the placement agent. As a result, Wynnefield will conduct some level of due diligence where necessary on all placement agent relationships to ensure that the placement agents procedures and methods does not violate the general rules pursuant to Regulation D of the Securities Act and the Advisers Act.

Wynnefield does not provide non-cash payments to any person or placement agent for referrals. If a situation should arise in which it may be appropriate to make such payments, the Chief Compliance Officer will be consulted regarding the decision to make an exception to this policy and update the disclosures in the Form ADV Part 2A.

Under no circumstances may Wynnefield make payments in any form to any Limited Partner or other person having influence on the decision-making process of that Limited Partner or person (unless the person exercising influence is an employee of Wynnefield or has a solicitor relationship as described above) for the purpose of obtaining or retaining that Limited Partner or person as an investor in the Funds.

#### **ITEM 15 - CUSTODY**

Jefferies & Co. is the qualified custodian to the Funds' assets. Wynnefield has the authority to wire cash from the Funds and would be deemed to have custody under the Advisers Act. Wynnefield has in place internal controls relating to its wiring authorizations.

Wynnefield has designated SS&C as its Administrator for the Domestic Funds. The Offshore Fund Administrator is CACEIS. The Administrator is responsible for preparing and sending account statements to clients. Additionally, a document (the "Fact Sheet") is sent out on a monthly basis to the domestic and offshore investors by Wynnefield. Because the Fact Sheets report the Funds' average returns, they will generally differ from the monthly statements sent to investors by the Administrators, which contain the returns on individual accounts. Prospective investors should carefully compare the information from the account statement sent by SS&C to the performance report received from Wynnefield.

In addition, the Domestic Funds managed by Wynnefield undergo an annual financial audit conducted in accordance with GAAP by McGladrey & Pullen, LLP, who is registered with the Public Company Accounting Oversight Board. Wynnefield will deliver the Funds' audited financial statements to all of the limited partners of the Funds within 120 days of the fiscal year-end for each Fund to comply with Rule 206(4)-2 and Amended Rule 204(4)-2 (b)(3) of the Advisers Act, which regulates the custody practices of Registered Investment Advisers.

McGladrey & Pullen, Caymen, an affiliate of McGladrey & Pullen, LLP is the independent auditor for the Offshore Fund and is not registered with the Public Company Accounting Oversight Board but will work jointly with McGladrey & Pullen, LLP to satisfy both the U.S. Securities and Exchange Commission and Caymen Islands Monetary Authority Regulatory Requirements.

#### **ITEM 16 - INVESTMENT DISCRETION**

Wynnefield furnishes investment supervisory services to clients on a discretionary basis under agreements executed by clients which grant Wynnefield the general discretionary authority to manage securities accounts on behalf of its clients in a manner consistent with Wynnefield's fiduciary duties to them.

#### **ITEM 17 - VOTING CLIENT SECURITIES**

Wynnefield will vote proxies for the Funds when voting would be in the best interest of such Fund, as determined by Wynnefield in its sole discretion. In determining how to vote individual proxies, Wynnefield will review current performance, activities and events related to the investment; consult with any appropriate individuals including portfolio manager(s), the Chief Compliance Officer and legal counsel, if necessary, and agree on the manner in which each proxy should be voted on behalf of the Fund's, taking into account the best interests of the Fund.



Prior to exercising its voting authority, Wynnefield's Portfolio Managers in consultation with the Chief Compliance Officer and legal counsel, where necessary, review the relevant facts and circumstances in accordance with the Advisers Act and determine whether or not a material conflict of interest may arise due to business, personal or family relationships of Wynnefield, its principals, employees and the Profit Sharing Plan. When a proxy raises material conflicts between the interests of Wynnefield, the Portfolio Manager, in consultation with the Chief Compliance Officer, will determine the manner in which such proxy should be voted to achieve the best interest of the Fund, which may include, but not be limited to: (i) disclosure of the conflict of interest to the Fund's investors; (ii) seeking advice from the investors in voting such security; (iii) consultation with an outside service provider for a recommended course of action to be presented for Wynnefield's approval and/or the engagement of an outside service provider to vote the proxy in the best interest of the Funds; or (iv) take such other action in good faith (in consultation with legal counsel) which would serve in the best interests of the Fund.

**ITEM 18 - FINANCIAL INFORMATION**

Wynnefield does not require or solicit prepayment of fees by clients six or more months in advance and is therefore not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.

**ITEM 19 - REQUIREMENTS FOR STATE-REGISTERED INVESTMENT ADVISERS**

All sections of this Item are not applicable because they pertain to state-registered investment advisers, and Wynnefield is a federally registered investment adviser.