

**ITEM 1. COVER PAGE**

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**CALVERT STREET CAPITAL PARTNERS, INC.**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

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**Dated: February 14, 2012**

**This brochure provides information about the qualifications and business practices of Calvert Street Capital Partners, Inc. If you have any questions about the contents of this brochure, please contact us at (443) 573-3700 or [tcullen@cscp.com](mailto:tcullen@cscp.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.**

**Additional information about Calvert Street Capital Partners, Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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

**THIS BROCHURE SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE  
SOLICITATION OF ANY OFFER TO BUY ANY SECURITY.**

**ITEM 2. MATERIAL CHANGES**

Not applicable.

**ITEM 3. TABLE OF CONTENTS**

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**ITEM 4. ADVISORY BUSINESS**

Calvert Street Capital Partners, Inc. (“**CSCP**”), a Maryland corporation, is an adviser to private funds and was organized on May 10, 1995. Joshua Hall and Brian Mahoney founded CSCP originally as Legg Mason Merchant Banking, Inc., an affiliate of Legg Mason, Inc., and purchased the business from Legg Mason, Inc. on December 31, 2003. Mr. Hall and Mr. Mahoney are the principal owners of CSCP (the “**Principals**”).

CSCP’s clients are private funds, as well as certain subsidiaries established by the funds to pursue the strategies described herein. Affiliates of CSCP serve as the general partners of each fund advised by CSCP.

CSCP’s advisory services generally focus on lower middle market companies in North America. CSCP advises funds with respect to the acquisition, management and disposition of investments. The services that CSCP provides to funds are based on and tailored to each fund’s specific investment needs and goals. Each fund’s partnership agreement sets forth certain investment limitations, including restrictions on investing in certain securities or types of securities. CSCP looks for investments that meet the stated objectives, strategy and investment guidelines of each fund. CSCP supervises the entire investment process and monitors the performance of each investment held by its fund clients. All investment decisions on behalf of the funds advised by CSCP are made by the applicable general partner of each fund and, if applicable, a dedicated investment committee established for each fund.

Currently, CSCP advises the following private funds : (i) Calvert Street Capital Partners III, L.P., a Delaware limited partnership organized on April 5, 2005 (“**CSCP III**”) (ii) Legg Mason Capital Partners II-A, L.P. and Legg Mason Capital Partners II-B, L.P., Delaware limited partnerships organized on February 7, 2000 (collectively “**LMCP II**”, and together with CSCP III, the “**Equity Funds**”); and (iii) Legg Mason Mezzanine Fund, L.P., a Delaware limited partnership organized on January 24, 2003 (the “**Mezzanine Fund,**” and together with the **Equity Funds, the “Funds”**). CSCP III is the successor to both Legg Mason Capital Partners, L.P., a Delaware limited partnership that was dissolved on May 31, 2008, and LMCP II. In addition, CSCP advises Legg Mason SBIC Mezzanine Fund, L.P., a Delaware limited partnership organized on January 30, 2003 and a subsidiary of the Mezzanine Fund (the “**LM SBIC**”) licensed under the Small Business Administration (“**SBA**”) to operate as a small business investment company (the “**SBIC**”). None of the Funds are accepting new investors currently, and their investment periods have expired. LMCP II and the Mezzanine Fund are in the process of liquidating their investments.

The investment objective of the Equity Funds is to provide investors with the opportunity to realize substantial appreciation in the form of long-term capital gains by making control equity investments in lower middle market companies that offer significant growth potential. In advising the Equity Funds, CSCP consistently employs a structured investment process, through which CSCP: (a) identifies profitable, often undermanaged companies, (b) conducts rigorous due diligence, (c) builds the infrastructure of the company through improvements to the management team and information systems, (d) undertakes aggressive growth initiatives both organically and

through complementary acquisitions and (e) generally exits investments in a negotiated sale transaction.

The investment objective of the Mezzanine Fund is to provide investors with current income plus capital appreciation through investing in a portfolio of mezzanine securities (typically subordinated debt and equity interests) of established, profitable, small to mid-sized manufacturing and service companies in the United States. In advising the Mezzanine Fund, CSCP utilizes a collaborative approach to investing, employing a strict investment discipline by focusing on fundamental credit analysis and rigorous due diligence. The Mezzanine Fund invests primarily through the LM SBIC. Investments made by the Mezzanine Fund through the LM SBIC use leverage provided by the SBA (up to 2 times the amount of capital).

CSCP currently does not provide investment advisory services to clients apart from the Funds and their affiliated entities, although it and/or one or more affiliates may do so in the future.

As of November 30, 2011, CSCP had approximately \$305 million in assets under management, all managed on a discretionary basis.

Please see Items 8 (Methods of Analysis, Investment Strategies and Risk of Loss) and 10 (Other Financial Industry Activities and Affiliations).

#### **ITEM 5. FEES AND COMPENSATION**

CSCP generally receives a management fee paid by the funds it advises (the “**Management Fee**”). Typically, during a fund’s investment period, the Management Fee ranges from 1.5% to 2.0% per annum of the fund’s committed capital. After the end of a fund’s investment period, the Management Fee typically ranges from 1.5% to 2.0% per annum of the cost of unrealized investments until expiration of the fund. With respect to the Mezzanine Fund, the Management Fee paid by the Mezzanine Fund does not take into account amounts invested through the LM SBIC. However, CSCP receives a separate Management Fee from the LM SBIC on capital invested through the LM SBIC (including an assumed two tiers of leverage under the SBA on such amounts). Because CSCP and the funds advised by CSCP are related to one another, there is no independent person who negotiates CSCP’s advisory fees. The specific fee arrangements for each fund are described in the applicable fund’s offering memorandum.

Additionally, CSCP generally enters into arrangements with portfolio companies and prospective portfolio companies pursuant to which such companies pay transaction, advisory, monitoring and/or board of director fees, and/or reasonable “breakup” fees with respect to unconsummated transactions. CSCP typically reduces the Management Fee otherwise payable to CSCP by a fund by 50% to 100% of any such transaction, advisory, monitoring or board of directors fees, or any “breakup” fees, in excess of costs incurred by CSCP.

Funds may be required to pay CSCP’s Management Fee annually or quarterly and in advance or in arrears. The exact payment terms relating to CSCP’s Management Fee will be set forth in each fund’s partnership agreement and/or the management agreement related to that fund. CSCP deducts the Management Fees owed by each fund from the assets of the applicable fund. In the

event of an early termination of a fund's management agreement, CSCP will refund any overpayment of fees to the fund on a pro rata basis.

Affiliates of CSCP (i.e., the general partner of each fund) are generally entitled to receive distributions from each fund, typically equal to 20% of the applicable profits after capital contributions have been returned to investors in the fund and the fund's investors have received a compounded preferred return on their capital contributions in accordance with the terms of the applicable partnership agreement. This share of profits is often referred to as a carried interest. CSCP distributes the carried interest to the general partner of the applicable fund in accordance with the terms of the applicable partnership agreement. Because of CSCP's relationship with the general partner of the funds it advises, the carried interest may be considered performance based compensation which benefits CSCP.

Each fund generally pays all third-party and out-of-pocket fees and expenses incurred by an affiliate of CSCP in connection with organizing such Fund, not to exceed certain specified amounts set forth in the fund's partnership agreement or in the management agreement. In addition to the Management Fee and organizational expenses, the funds also typically pay for other fees and expenses as set forth in each fund's partnership agreement or management agreement. Some of the types of fees and expenses that are paid by the funds include legal, audit and other professional fees and expenses not reimbursed by portfolio companies or prospective portfolio companies, expenses related to periodic meetings of the investment committee, the advisory committee and the investors in each fund, premiums for contractual indemnity insurance and any extraordinary expenses such as litigation expenses or indemnity payments. The Mezzanine Fund also pays all fees, interest expense and all other expenses payable to the SBA.

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

The carried interest payments that the general partners of the funds advised by CSCP are generally allocated are performance-based. See Item 5 (Fees and Compensation) above. The general partners of the funds advised by CSCP are affiliates of CSCP.

#### **ITEM 7. TYPES OF CLIENTS**

CSCP's clients are private funds and their affiliated entities. See Item 4 (Advisory Business) which sets forth a list of CSCP's current fund clients. Affiliates of CSCP serve as the general partners of each fund advised by CSCP. The investors in the funds advised by CSCP typically (but not exclusively) include high net worth individuals and trusts and other family investment entities created by those individuals, institutions, pension funds and other corporate entities. CSCP does not manage separate accounts for individuals or institutional investors. All of the funds currently advised by CSCP are closed to new investors.

**ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS*****Methods of Analysis and Investment Strategies***

CSCP advises funds primarily about making investments in securities of lower middle market companies. Each fund client will have a specific strategy and investment focus that is described in the fund's offering memorandum. Some funds may have strategies similar to other funds. The fund's offering memorandum and/or partnership agreement may include specific guidelines or restrictions on investments. CSCP's role is to (i) find investment opportunities that fit the fund's specific strategy, (ii) diligently investigate each investment's benefits and risks (called due diligence), (iii) make recommendations to each fund whether to buy, hold or sell an investment, and (iv) monitor the performance of investments made. CSCP will review its recommendations against any specific guidelines or restrictions on the fund's investments.

**The Equity Funds**

Each Equity Fund advised by CSCP invests in a limited number (less than ten) of discreet, stand-alone companies (each a "**Platform Company**") around which, CSCP and each respective management team develops a growth strategy. Growth strategies often involve the acquisition of compatible businesses in the same industry ("**Add-On Companies**"), otherwise known as a buy and build strategy.

A description of CSCP's investment process as it relates to the identification, evaluation, and execution of its investment strategy is set forth below:

**1. Sourcing Investment Opportunities**

CSCP has focused its origination efforts on privately-owned businesses in the lower middle market that meet the following criteria:

- Companies with roughly \$20-\$50 million in revenue and approximately \$3-10 million of EBITDA
- Manufacturing and service companies in North America
- Predictable and repetitive demand for products or services

In many cases, CSCP targets companies in fragmented industries in which rapid growth can be achieved through consolidation.

CSCP leverages the following sources to generate attractive investment opportunities:

*The Calvert Street Network.* CSCP's professionals have developed a comprehensive network of intermediaries and other referral sources over the past 24 years to identify new investment opportunities for the Equity Funds. These sources include accountants, attorneys, lenders, investment bankers, business brokers, consultants, corporate development managers, former managers of prior CSCP portfolio companies, and other professionals involved with or generally aware of merger and acquisition activity.

*Platform Company Referrals.* As a result of CSCP's buy and build investment strategy, a larger percentage of the acquisitions completed by the Equity Funds are Add-On Companies to the limited number of Platform Companies in each fund. CSCP utilizes the management teams and boards of directors of its portfolio companies to help identify these acquisition opportunities.

## **2. Due Diligence and Investment Structuring**

### *Due Diligence*

Professional employees of CSCP perform due diligence on each investment opportunity. Due diligence will vary depending on the type of investment but will usually include some or all of the following:

- Review of historical financial information
- Research and analysis of market information
- Research and review of competition and industry
- Review, preparation and/or analysis of financial projections
- Modeling to determine the company's ability to manage an economic downturn or other adverse event
- Interviews and background checks of company management
- Lien searches of company assets and real estate
- Review of material contracts and other company data
- Review of regulatory and environmental issues impacting the business
- On-site visits to company headquarters and other operational locations
- Review, preparation and/or analysis of business plan

The above is not an exhaustive list, nor does every item on the list apply to all investment opportunities. CSCP's professional employees use their experience and expertise to review each investment opportunity in a diligent way. Although the investment professionals of CSCP are responsible for the scope and quality of due diligence, the assistance of outside professionals is regularly required. CSCP enlists the services of experienced accountants, consultants, attorneys, industry experts and, in certain instances, experienced operating managers to assist in the due diligence process.

### *Investment Approval Process*

Potential investment opportunities are staffed with at least two CSCP investment professionals, as well as CSCP's dedicated consultants as appropriate (the "**Deal Team**"). Deal Teams provide overviews of the diligence process together with an update on outstanding issues related to potential investment opportunities at CSCP's weekly meetings of all investment professionals and the relevant investment committees. In addition, Deal Teams prepare detailed memorandums on each potential investment opportunity for the investment committee of the applicable fund. The applicable investment committee holds discussions regarding potential investments and may request additional information from the applicable Deal Team. Investment decisions are made by members of the applicable investment committee.



*Structuring*

CSCP typically structures acquisitions without the use of excessive leverage. Generally, the Equity Funds' acquisitions are capitalized with 50% debt and 50% equity. CSCP uses various forms of debt financing to fund the Equity Funds' acquisitions. In addition to senior bank debt, CSCP often utilizes seller financing.

### **3. Monitoring Investments and Improvements to Portfolio Company's Management Information Systems and Management Team**

CSCP takes a hands-on approach to managing portfolio companies, which includes intense managerial involvement on a weekly, often daily, basis. CSCP controls the board of directors of the companies the Equity Funds acquire, with at least two of CSCP's investment professionals represented on each board. One of the investment professionals serves as the company's chairman of the board and, when applicable, CSCP has representatives who serve on the board's audit and compensation committees. In most cases, CSCP also utilizes the services of knowledgeable industry executives, as appropriate, to sit on the boards of portfolio companies as a source of industry expertise.

In order to prepare for successful growth after the acquisition of each Platform Company, CSCP focuses on building the infrastructure of each company it acquires. This is accomplished by evaluating the capabilities and depth of each management team and making the requisite additions and replacements as necessary. In addition, CSCP helps its Platform Companies implement improvements to management information systems that provide timely and accurate information about the performance of various aspects of each company's operations. Management teams utilize this information to make informed decisions about the direction of the business relative to its business plan.

In addition, CSCP is actively involved in matters relating to the strategic planning and management of the Platform Companies. Their efforts typically include the following:

- Establishing incentive compensation programs for management and making periodic performance evaluations
- Providing guidance in the preparation and approval of annual budgets
- Approving major capital expenditures
- Monitoring progress in fulfillment of the business plan and communicating such to the company's lenders and investors
- Providing audit oversight and assuring the integrity of financial reporting and internal controls

### **4. Accelerated Growth Strategies**

Once the Platform Company is positioned to effectively manage more accelerated growth, CSCP encourages its management teams to execute on organic growth strategies that will materially improve shareholder value. In addition, in many instances CSCP and management will pursue the acquisition of Add-On Companies as a way to rapidly increase the critical mass of the business and improve value.

## 5. Exit Investments

The objective of CSCP's investment strategy is to build larger, more professional businesses that are attractive to a wide range of prospective buyers. Dispositions may occur in a number of ways, but most commonly occur through a negotiated sale of the company. The timing of the disposition of an investment by the Equity Funds depends upon the performance of the portfolio company, CSCP's judgment as to the value of the investment, and alternative disposition opportunities. CSCP considers these elements, together with factors such as the stage of the general economic cycle, the extent to which expected growth in earnings has been realized, and the future prospects of the company.

### The Mezzanine Fund

The investment objective of the Mezzanine Fund, including investments made through the LM SBIC, is to provide investors with current income plus capital appreciation through investing in a portfolio of mezzanine securities (typically subordinated debt and equity interests) of established, profitable, and small to mid-sized manufacturing and service companies in the United States. The primary criterion of this strategy is preservation of invested capital through in-depth credit analysis and rigorous due diligence. The Mezzanine Fund makes investments generally supporting several different purposes:

- **Growth Capital:** This investment purpose typically covers either (i) a strategic acquisition; or (ii) a company's capital expenditures or working capital needs.
- **Leveraged Buy-Outs:** These transactions involve the acquisition of an existing business. The amount of leverage deployed depends upon the nature of the business acquired and the company's ability to meet debt service obligations.
- **Recapitalizations:** These transactions involve the retirement of a company's debt or equity capital through an infusion of new debt and/or equity. They are typically entered into in order to reduce the cost of capital, to remove restrictions placed on the company by the existing capital structure, to provide for ownership succession or to allow existing ownership to realize a portion of its investment.

A description of CSCP's investment process as it relates to Mezzanine Fund investments is set forth below:

#### 1. Sourcing Investment Opportunities

CSCP leverages the following sources to generate attractive investment opportunities:

*The Calvert Street Network.* CSCP's professionals have developed a comprehensive network of intermediaries and other referral sources over the past 24 years to identify new investment opportunities for the Mezzanine Fund. These sources include accountants, attorneys, lenders, investment bankers, business brokers, consultants, corporate development managers, former managers of prior CSCP portfolio companies, and other professionals involved with or generally aware of merger and acquisition activity.

*Small to Mid-Sized Sponsor Groups.* Due to the conservative bank debt environment, financial sponsors targeting small to mid-sized businesses seek mezzanine financing from sources such as the Mezzanine Fund. Without access to mezzanine financing, these private equity groups are forced to invest substantially more equity in transactions than they have historically. The Mezzanine Fund offers an additional source of capital for acquisition-related activities, and CSCP targets these sponsor groups for investment opportunities.

## **2. Due Diligence**

Prior to any potential mezzanine investment, CSCP performs extensive credit analysis and a thorough assessment of each potential portfolio company. Professional employees of CSCP perform due diligence on each investment opportunity. Due diligence will vary depending on the type of investment but will usually include some or all of the following:

- Review of historical financial information
- Research and analysis of market information
- Research and review of competition and industry
- Review, preparation and/or analysis of financial projections
- Modeling to determine the company's ability to manage an economic downturn or other adverse event
- Interviews and background checks of company management
- Lien searches of company assets and real estate
- Review of material contracts and other company data
- Review of regulatory and environmental issues impacting the business
- On-site visits to company headquarters and other operational locations
- Review, preparation and/or analysis of business plan

The above is not an exhaustive list, nor does every item on the list apply to all investment opportunities. CSCP's professional employees use their experience and expertise to review each investment opportunity in a diligent way. Although the investment professionals of CSCP are responsible for the scope and quality of due diligence, the assistance of outside professionals is regularly required. CSCP enlists the services of experienced accountants, consultants, attorneys, industry experts and, in certain instances, experienced operating managers to assist in the due diligence process. Mezzanine Fund investments decisions are made in a manner similar to the process utilized by the Equity Funds which is described above.

## **3. Investment Structuring**

CSCP seeks to structure the Mezzanine Fund's investments to ensure capital preservation while offering attractive returns through a combination of current yield and capital gains. Generally, investments are negotiated and structured to incorporate reasonable business valuation multiples as well as prudent capital structures. The perspective gained during the due diligence process helps finalize the actual structure of each investment. Appropriate covenants, financial and otherwise, are negotiated to provide access to necessary information, monitor performance and respond to any unfavorable developments. In addition, CSCP analyzes and assesses the terms of other creditors, particularly the senior debt holders, to ensure that the mezzanine investment is

not unreasonably disadvantaged. With respect to the equity component of an investment (*e.g.*, warrants), CSCP, in most cases, pre-negotiates certain rights to facilitate an exit.

#### **4. Monitoring Investments**

Close monitoring of financial performance and market developments for each portfolio company is a critical element of the investment strategy and, ultimately, the exit of an investment. CSCP conducts on-going investment monitoring and evaluation of the portfolio. In general, CSCP obtains board seats or board observation rights for its portfolio companies and conducts monthly financial reviews and regular discussions with management. The active review of financial statements and compliance of covenants is designed to provide an early warning of financial difficulty and provide the Mezzanine Fund with meaningful rights to influence the direction of a portfolio company, while at the same time providing information necessary to determine if legal remedies should be pursued.

#### **5. Exit Investments**

An exit strategy for each investment is evaluated at the initial stage of investment by developing a clear strategic plan, deliberately structuring an investment to maximize flexibility for an exit and close monitoring of performance for optimal execution. Most of the investments have contractual maturities of five to eight years, and the investments are often redeemed in advance of scheduled maturity.

#### ***Risk of Loss and Risk Factors***

Investing in securities involves risk of loss that clients should be prepared to bear.

There are certain risk factors that may apply generally to the types of investment securities CSCP recommends to the funds. There are also numerous risk factors that may apply to the specific investment program or strategy to be followed by a particular fund. These general and specific risks are described in the offering memorandum of the particular fund. Some of the risk factors that apply generally to the funds advised by CSCP are summarized below.

*The Use of Leverage.* CSCP recommends investments in companies whose capital structure often includes debt financing. Although intended to enhance the potential equity returns, this leverage could limit the portfolio company's ability to react to or withstand adverse economic, industrial or business conditions resulting in lower than expected equity returns or, in some cases, a loss of all or some portion of the fund's investment in such portfolio company.

*Illiquidity.* A significant period of time may elapse between a fund's making of an investment and the disposition of that investment. Accordingly, it is likely that a fund's limited partners may realize no significant return from any of such fund's investments for at least several years and that it may be a significant number of years before all of the funds' investments have been realized.

*Diversification.* Diversification of each fund depends on the ultimate size of each fund relative to the size of available opportunities. The funds which CSCP advises often make only a limited

number of investments, and poor performance by one investment could severely affect the total returns to the limited partners of such fund.

*Ability to Dispose of Investments.* General economic conditions, conditions within the financial markets and the condition of specific portfolio companies may be such that no opportunities exist for a fund to sell its investments. The realization of investments made by funds advised by CSCP could take many years and cannot be assured.

*Reliance on Management of Portfolio Companies.* Affiliates of CSCP are represented on the boards of directors of portfolio companies. However, it is primarily the responsibility of the management of each portfolio company to operate such company on a day-to-day basis. There can be no assurance that a portfolio company's existing management team, or any new team, will be able to operate such company successfully.

*Unidentified Investments – Blind Pool.* The funds which CSCP advises are blind pools – meaning that the investments are not identified at the time of the fund's equity offering. As a result, a prospective investor considering an investment in a fund will not know or be able to evaluate investments to be made by the fund prior to making an investment decision. Rather, the prospective investor must rely upon the ability of the fund's general partner, based upon advice provided by CSCP, to select appropriate investments on behalf of the fund. The criteria selected by CSCP for the selection and periodic assessment of fund investments may not prove effective in identifying investments that will produce acceptable returns.

*General Risks of Investing in Private Companies.* There typically is little or no publicly available investment information about privately-held companies. The information that is available may be more limited or less reliable for small private companies than is typically the case for a larger private or public company. The due diligence investigation undertaken by CSCP may not uncover all material information about a private company necessary to make a fully-informed investment decision. In addition, the valuation of securities of privately-held companies is less certain than public companies and may be subject to substantial market variations. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*General Risks of Investing in Equity Securities.* Any investment in equity securities is subject to risks. These risks include fluctuations in value due to issuer, political, market and economic developments. Fluctuations can be dramatic over the short or long term. Different parts of the market and different types of equity securities can react differently to these developments. These developments can affect a single issuer, many issuers within an industry or economic sector or geographic region, or the market as a whole.

#### ***Certain Additional Risks related to the Mezzanine Fund***

*SBIC Leverage.* Obtaining an SBIC license allows the Mezzanine Fund, through its subsidiary partnership, to obtain debentures through the SBA. There is no assurance that there will not be delays or that aggregate demand for available SBA leverage will not be in excess of SBA's annual authorization or appropriation levels as determined by Congress, which would cause leverage to be unavailable either in whole or in part.

The debentures require periodic interest payments and a lump-sum principal payment at maturity. Although the use of leverage reduces the Mezzanine Fund's overall cost of capital, it also increases its exposure to losses. To the extent the Mezzanine Fund uses debentures to obtain leverage, it faces mandatory periodic interest payments and, if its revenues are not sufficient to make such payments, the SBA could accelerate the maturity of all of the debentures.

SBA regulations require that debentures must be repaid to the SBA prior to a return of capital to the Mezzanine Fund. The LM SBIC may distribute earnings as received but may not return capital until the debentures have been repaid.

*Federal Regulation.* The LM SBIC is subject to extensive regulation by the SBA regarding its operations and the type and terms of its investments. If the LM SBIC should fail to comply with any applicable SBA regulation, it could forfeit its license as an SBIC, face acceleration of all debentures previously issued, and be placed in receivership and/or liquidated at the direction of the SBA, which would have a detrimental impact on the operation of the LM SBIC and the Mezzanine Fund.

*Nature of Mezzanine Securities.* Although mezzanine securities are typically senior to common stock or other equity securities, the debt securities in which the Mezzanine Fund invests are generally unsecured and subordinated to substantial amounts of senior debt, all or a significant portion of which may be secured. In addition, these securities may not be protected by all of the financial covenants typically protecting such senior debt. Holders of mezzanine debt generally are not entitled to receive any payments in bankruptcy or liquidation until senior creditors are paid in full. In addition, the remedies available to holders of mezzanine debt are normally limited by restrictions benefiting senior creditors. In the event any portfolio companies cannot generate adequate cash flow to meet senior debt service, the Mezzanine Fund may suffer a partial or total loss of capital invested.

Please see Items 4 (Advisory Business) and 10 (Other Financial Industry Activities and Affiliations).

#### **ITEM 9. DISCIPLINARY INFORMATION**

None.

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

##### ***Pooled Investment Vehicles and Related General Partners***

CSCP serves as investment adviser to the Funds, as well as the LM SBIC, and affiliates of CSCP act as general partners of the Funds and LM SBIC. See Item 4 (Advisory Business) which sets forth a list of CSCP's current fund clients.

The general partner of each Fund is as follows: (i) CSCP Fund Management III LLC, a Delaware limited liability company organized on April 5, 2005 is the general partner of CSCP III, (ii) LM Fund Management II LLC, a Delaware limited liability company organized on February 7, 2000 is the general partner of LMCP II, and (iii) LM Mezzanine Fund Management LLC, a Delaware limited liability company organized on January 24, 2003 is the general partner of the Mezzanine

Fund. The general partner of LM SBIC is Legg Mason SBIC Mezzanine Fund Management, LLC, a Delaware limited liability company organized on January 30, 2003.

In addition, CSCP may establish one or more additional funds with affiliates of CSCP acting as general partners of such funds.

Generally, the general partner of each fund advised by CSCP receives a share of profits generated by the applicable fund. This share of profits is often referred to as a carried interest. Because of CSCP's relationship with the general partners of the funds it advises, the carried interest may be considered performance based compensation that benefits CSCP. A carried interest may give CSCP or the general partner of a fund an incentive to take more risk or make more speculative investments than would otherwise be the case. CSCP addresses this potential conflict of interest by (i) recognizing its fiduciary duty owed to each fund, and (ii) reviewing each fund's objectives, strategies and investment guidelines against its recommendations.

Legg Mason, Inc. ("**Legg Mason**"), a global investment management firm from which the Principals purchased CSCP, owns a 45% interest in each of LM Fund Management II LLC and LM Mezzanine Fund Management LLC. Legg Mason, however, has no investment discretion with respect to LMCP II or the Mezzanine Fund. Because Legg Mason does not have any investment discretion with respect to LMCP II or the Mezzanine Fund, CSCP does not believe that Legg Mason's role as an equity owner of the general partners of such funds, gives rise to any conflicts between their interests and the interests of LMCP II or the Mezzanine Fund.

#### ***Other Funds Advised by CSCP***

In addition, CSCP may establish one or more additional funds with investment objectives substantially similar to, or different from, those of an existing Fund. Allocation of available investment opportunities among the funds could give rise to conflicts of interest. In such an eventuality, CSCP recognizes that it must allocate such investment opportunities in a manner that is fair to each of the funds, in light of the facts and circumstances of each situation.

In order to mitigate conflicts of interest between CSCP sponsored funds, the partnership agreements of CSCP sponsored funds ordinarily contain provisions which restrict CSCP and its affiliates from forming a successor fund with substantially the same investment objectives without obtaining the consent of 75% - 80% in interest of the investors in the applicable fund prior to a specified time, such as expiration of the investment period of such fund.

In addition, CSCP sponsored funds also maintain advisory committees consisting of representatives of the investors in a fund whom are not affiliated with CSCP or its affiliates. The advisory committees meet as required to consult with the general partner of the fund as to potential conflicts of interest.

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

CSCP has adopted a code of ethics (the "**Code**") pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**") that covers all of its supervised persons.

The Code highlights the fiduciary duty that CSCP owes to its fund clients, including the affirmative duty to put the best interests of CSCP's fund clients ahead of the interests of CSCP and its supervised persons. Each supervised person at CSCP must act with competence, dignity, integrity, and in an ethical manner, when dealing with the funds, the public, investors and prospective investors in the funds, service providers and fellow supervised persons. All CSCP personnel must also comply with all federal securities laws. Finally, the Code requires that supervised persons adhere to the highest standards with respect to any potential conflict of interest with the funds or investors.

The Code governs personal trading by supervised persons. CSCP's access persons generally are not permitted to purchase any security (i) not publicly offered under the Securities Act of 1933, as amended, or (ii) in an initial public offering, without the advance written approval of CSCP's Chief Compliance Officer. The Code also requires access persons to provide the Chief Compliance Officer with certain securities holdings reports and periodic transaction statements, as required by Advisers Act Rule 204A-1.

All of the employees of, and persons acting on behalf of, the general partner of each fund advised by CSCP are also subject to the Code.

Violations of the Code must be promptly reported to the Chief Compliance Officer, who is primarily responsible for administering and enforcing the Code. A violation of the Code may result in the imposition of sanctions, including, without limitation, termination of employment.

The Code is available to clients or investors (or prospective clients or investors) upon request by contacting us at the following address:

Calvert Street Capital Partners, Inc.  
111 South Calvert Street, Suite 1800  
Baltimore, Maryland 21202  
Attention: Chief Compliance Officer  
Telephone: 443-573-3700  
Facsimile: 443-573-3702  
Email: [tcullen@cscp.com](mailto:tcullen@cscp.com)

#### **ITEM 12. BROKERAGE PRACTICES**

Not applicable to CSCP's business.

#### **ITEM 13. REVIEW OF ACCOUNTS**

The investments of the funds advised by CSCP are reviewed and monitored by CSCP on a regular and current basis. CSCP closely monitors the portfolio companies of the funds it advises and generally maintains an ongoing oversight position in such portfolio companies. CSCP holds weekly meetings of all investment professionals and the relevant investment committees to review the performance of the portfolio companies and investments of the funds which CSCP advises. In addition, the portfolio companies of each fund prepare weekly or monthly financial/statistical reports which are reviewed by CSCP's investment professionals.



Investors receive quarterly unaudited financial statements of the fund in which they are invested within 60 days of quarter end and audited annual financial statements of the fund in which they are invested as soon as available, but in any event within 120 days following the close of the fiscal year. Investors also receive annual financial information for each portfolio company of a fund in which they are invested. Investors in certain funds also receive quarterly reports containing updates with respect to the portfolio companies of such funds.

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

CSCP does not receive any economic benefit from non-clients for providing investment advice or other advisory services to CSCP's clients.

Neither CSCP nor its affiliates directly or indirectly compensates any person for client referrals.

#### **ITEM 15. CUSTODY**

CSCP is considered to have custody of client funds and securities to the extent it is related to the general partners of its fund clients. All assets of the funds advised by CSCP are held in custody by unaffiliated qualified custodians. Except for fund clients which send audited financial statements prepared in accordance with GAAP to their investors within the time period required by SEC rules, the qualified custodians send quarterly account statements directly to investors of each fund client of CSCP (or to an investor's independent representative). Investors (or their independent representative) should carefully review those statements. If an investor (or their independent representative) also receives an account statement from CSCP, the investor (or independent representative) is urged to compare the account statements received from the qualified custodians to the account statements received from CSCP.

#### **ITEM 16. INVESTMENT DISCRETION**

CSCP provides investment advisory services to each of its fund clients pursuant to management agreements. Investment advice is provided by CSCP directly to its fund clients, subject to the direction and control of the affiliated general partner of such fund. Any restrictions on investments in certain types of securities are established by the general partner of the applicable fund, and are set forth in the partnership agreement of such fund.

#### **ITEM 17. VOTING CLIENT SECURITIES**

CSCP's policy is to vote securities owned by the funds it advises in the best interests of the applicable fund. Because the securities held by the funds CSCP advises typically are privately held equity interests, votes are usually cast directly at a meeting or by written consent and not by proxy. CSCP or the general partner of the fund advised by CSCP will vote any securities or proxy in a manner consistent with the investment objectives of the fund, typically to maximize investment returns within the guidelines established by the fund and to promote sound corporate governance by the issuer, subject to any investment restrictions and other constraints set forth in the fund's offering memorandum or partnership agreement.

Prior to voting any securities, CSCP and the general partner of the applicable fund will identify any conflicts that exist between the interests of CSCP, the general partner and the fund by

reviewing the relationship of CSCP and the general partner with the issuer of such security to determine if CSCP, the general partner or any of their affiliates has any financial, business or personal relationship with the issuer. In situations where CSCP or the general partner is required to vote the securities for a company in which supervised persons of CSCP serve on the board of directors, CSCP has determined that this does not inherently present a conflict of interest when the sole purpose of this representation is to maximize the return of a fund's investment in such company. If CSCP or the general partner determines that a material conflict of interest exists, CSCP or the general partner will disclose the conflict to the advisory committee of the applicable fund in order to give the advisory committee of the applicable fund an opportunity to review and approve or reject CSCP's or the general partner's proposed vote in light of the conflict of interest.

CSCP's proxy voting policies and procedures are designed to comply with the requirements of Rule 206(4)-6 under the Advisers Act. Such policies and procedures are reviewed periodically and may be amended from time to time. Upon written request by any investor, a copy of the full policy and procedures on proxy voting will be provided as well as a voting record for any securities voted on behalf of a fund in which that investor purchased securities.

#### **ITEM 18. FINANCIAL INFORMATION**

CSCP does not believe any financial conditions currently exist that are reasonably likely to impair its ability to meet contractual commitments to its fund clients.