

**Topspin Management Company LBO, LLC**

**FIRM BROCHURE**

**(Part 2A of Form ADV)**

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This brochure provides information about the qualifications and business practices of Topspin Management Company LBO, LLC. If you have any questions about the contents of this brochure, please contact us at (516) 625-9400.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Topspin Management Company LBO, LLC also is available on the SEC's website at: [www.adviserinfo.sec](http://www.adviserinfo.sec).

Registration with the SEC as an investment adviser does not imply a certain level of skill or training.

## ITEM 2. Material Changes

This Item will summarize the material changes, if any, made to this brochure as part of our annual update. This is the initial brochure for the firm and therefore, there currently are no material changes to report.

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## ITEM 4 ADVISORY BUSINESS

### A. General Description of Advisory Firm

Topspin Management Company LBO, LLC, a Delaware limited liability company (“Topspin Management”), was formed on February 13, 2007. Topspin Management and its advisory affiliate, Topspin Management Company, LLC (“LG Management”), are under the common control of Leo A. Guthart and, as a result, Topspin Management and LG Management are “related persons” within the meaning of the Investment Advisers Act of 1940 (the “Advisers Act”). As the advisory business of Topspin Management and LG Management are operationally integrated, the disclosures made in this Part II of Form ADV are made collectively with respect to both Topspin Management and LG Management (referred to collectively herein as the “Firm”). The principal owners of Topspin Management are Leo A. Guthart, Steve Lebowitz and Leigh Randall.

Topspin Management provides investment management and administrative services to certain private investment funds (the “Topspin LBO Funds”) for which Topspin Partners LBO GP, LLC, a Delaware limited liability company, acts as general partner. The Topspin LBO Funds invest primarily in equity of small to middle market buyouts and growth equity investments. LG Management provides investment management and administrative services to certain private investment and venture capital funds (the “Topspin Prior Funds” and, together with the Topspin LBO Funds, the “Funds”) for which Topspin Management, LLC acts as general partner (Topspin Partners LBO GP, LLC together with Topspin Management, LLC, the “General Partner”). The Topspin Prior Funds invest primarily in venture capital investments. The Firm provides investment advice to the Funds (not to Fund investors).

Each of the Topspin LBO Funds and the Topspin Prior Funds is organized into a structure comprised of parallel funds, which generally invest in assets side-by-side on a pro-rata basis (based upon capital commitments made to each Fund within the applicable group) with the other Topspin LBO Funds and Topspin Prior Funds, respectively. Generally, parallel funds may be established to accommodate specific tax issues impacting certain types of investors.

### B. Description of Advisory Services

The Firm provides investment management and administrative services only to the Funds.

The investment strategies of the Topspin LBO Funds and the Topspin Prior Funds are different; therefore, investments will not be suitable for both groups. Because of the parallel nature of each sub-group within the Funds, the Firm does not offer customized services for Funds within the same grouping. All Topspin LBO Funds receive the same services and all Topspin Prior Funds receive the same services; but the advisory service to each group differs based on the investment strategy of each group. Investors purchase limited partnership interests in the Funds and investments are made at the Fund level.

The Topspin Prior Funds are no longer investing, so advisory services to the Topspin Prior Funds is limited to overseeing current portfolio companies and determining the timing of their disposition of securities. The Topspin LBO Funds are currently deploying capital and therefore seek, evaluate and consummate new investments as well as look for appropriate opportunities to exit investments.

We do not provide investment advice to individuals.

### **Assets under Management**

As of December 31, 2011, the Firm had approximately \$254 million in assets under discretionary management.

## **ITEM 5 FEES AND COMPENSATION**

### **A. Advisory Fees and Compensation**

The Firm receives an annual management fee based on a percentage of the capital commitments made to each of the Funds and the invested capital of each of the Funds. Each investor will bear its pro rata share of the management fees for a particular Fund in proportion to its investment in that Fund. The management fee is paid to the Firm quarterly in advance of each of the Fund's fiscal quarters.

Managements fees will be reduced by placement agent fees paid by a Fund (if any), allocated over a three year period, plus between 50% (in the case of the LBO Fund) and 100%, (in the case of the venture Fund) of any transaction, monitoring, advisory, break-up, director or similar fees paid to the General Partner or the Firm (or any of their respective managers, members, directors, officers and employees) in connection with actual or prospective investments by that Fund, and 50% or 100%, as stated above, of any litigation proceeds from transactions not consummated by that Fund in connection with the Fund's proposed investment in such transactions. Credits will be carried forward until utilized. At the termination of a Fund, credits will be paid to the investors in that Fund.

### **B. Additional Fees and Expenses**

The Firm will bear certain administrative expenses of each Fund, including salary and benefits for employees of the Firm, costs associated with office space, telephone and utility expenses and similar administrative expenses of the Firm.

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

The General Partner receives a performance fee payable by each Fund in the form of a carried interest. The carried interest is deducted from a Fund's distributable proceeds. The carried interest payable to the General Partner will not exceed 20% of the amount of profits otherwise disburseable to each investor in the applicable Fund. Each Fund has established a distribution waterfall describing how distributions will be paid to the underlying investors and to the General Partner. Investors in the Topspin LBO Funds receive a preferential return on their investments before the distribution of any carried interest occurs in the amount of 8% per annum.

The fees paid to the General Partner are subject to clawback provisions pursuant to which the General Partner is obligated to return to the applicable Fund any carried interest compensation that exceeds 20% of the profits of that Fund (subject to the return of invested capital and preferred return thereon) over the course of the life of that Fund.

The performance-based fees may create an incentive for the Firm to recommend or approve more speculative investments on behalf of the Funds than would be the case in the absence of this arrangement. All investments, however, will be made subject to the investment

objectives and strategies set forth in Fund offering documents. In addition, the performance-based fees, if made, could result in allocations to the Firm that are greater than fees normally paid to other investment managers for similar services.

Based on the parallel nature of the Funds, the Firm expects that the Funds within a group will participate in investment opportunities at the same time. Each such investment opportunity is allocated *pro rata* among such Funds according to the respective amounts of capital commitments made to each Fund within that group.

When presented with an investment opportunity, the Firm will assess the suitability of the investment for each Fund. Its assessment takes into account, among other things, the Funds' investment objectives and strategies, risk profile, tax status, diversification requirements, liquidity needs and available assets for investment. The Firm also assesses current market conditions and any other relevant information.

The Topspin LBO Funds have an advisory committee, the delegates of which are selected by the General Partner on an annual basis and consist of representatives of the investors (the "Advisory Committee"). The Advisory Committee is consulted with respect to, among other things, conflicts of interest that may arise in the course of managing the Topspin LBO Funds. The Topspin Prior Funds do not have an investor advisory committee.

## ITEM 7 TYPES OF CLIENTS

The Firm provides investment management and administrative services solely to the Funds. The Funds have minimum capital commitments for investors, as specified in the offering documents for each Fund. The General Partner has the authority to waive minimum capital commitment levels in its discretion. Each investor is required to meet certain suitability qualifications, such as being an "accredited investor" or a "qualified purchaser" within the meanings set forth under the federal securities laws.

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

### A. Investment Analysis

Since the Topspin Prior Funds are no longer investing, the Firm no longer evaluates investment opportunities for them. The Firm sources and evaluates investment opportunities for the Topspin LBO Funds. The Firm prepares all valuations of investments made by the Topspin LBO Funds, all of which are then subject to the review and approval, on an annual basis, of the Advisory Committee for the Topspin LBO Funds, the delegates of which represent investors in the Topspin LBO Funds. For all Funds, the General Partner retains sole discretion to implement any particular investment strategy.

The Firm identifies potential exit opportunities for the Topspin Prior Funds and continues to identify investment opportunities for the Topspin LBO Funds through a variety of sources. The Firm bases its investment analysis upon information obtained from working with an extensive network of executives and consultants with experience in different industries, as well as the principals of the Funds, each of whom has valuable, long-term experience in a variety of different industries.

The screening process for potential investments involves extensive analysis. In order to gain a sufficient level of confidence in a company's prospects, the Firm looks to, among other factors, whether the company has the following: (i) a business in which the Funds already have knowledge or may obtain knowledge through additional due diligence; (ii) a strong operating history; (iii) a business model that is inherently defensible so that the prospective portfolio company can withstand competitive attacks; (iv) a quality management team; and (v) a valuation that generates acceptable returns without excessive use of leverage.

On average, the Firm screens over 250 investments annually. When a potential investment is deemed to be attractive in accordance with the Firm's investment strategic principles (explained more fully below), the Firm will recommend such investment to the General Partner who will assign the proper parties, determined by the specifics of the particular investment, to conduct extensive due diligence.

## B. Investment Strategy

The Firm focuses on small to middle-market companies with enterprise values between \$15 million and \$50 million, seeking those companies that have strong growth potential. The Firm targets companies in this market because it believes there are significant advantages in avoiding the more crowded higher-end segment of the middle market. Such advantages include lower purchase price multiples, heightened opportunities for multiple expansion, a scarcity of private equity competition and better opportunities for proprietary deal flow.

The Firm seeks to take a control position in each target investment company through ownership of that company. Tapping into the resources provided by both its group of experienced principals and its extensive network of highly accomplished senior executives and consultants, the Firm may seek to either reorganize management of a target company, take positions on the board of directors of the target company or work with the target company's existing management to maximize profitability.

The Funds seek to achieve superior investments returns by (i) targeting the underserved smaller buyouts segment of the middle-market; (ii) pursuing a highly disciplined value-oriented strategy focused on earnings visibility; (iii) leveraging their positions as a leading Long-Island based buyout fund; and (iv) capitalizing on the extensive operating, financial and transactional experience of the principals of the Funds.

The Funds hold investments on average for a five year period. Typically, when a company reaches its target earnings return, the Fund will exit the investment generally through a sale.

## C. Risk of Loss

Investments in a Fund involve a significant risk of loss that investors should be prepared to bear. A Fund investor should not invest in a Fund unless the investor is able to withstand a total loss of the investment. Even if the investments of a Fund are successful, they may not produce a realized return to Fund investors for a period of years. There is no assurance that a Fund will achieve its investment objective. In addition to the speculative nature of such investments, the risks include limited operating history for the Funds and the companies in which they invest, challenges in achieving optimum diversification, dependence on managers to enhance portfolio company values, limitations on withdrawal from the Funds, potential conflicts of interest, non-transferability of interests in the Funds and illiquidity of the Funds' investments.

The Funds' risk management cannot entirely eliminate risk. The following are risks associated with the Funds' significant investment strategies:

## **Risks Related to the Business and Investments of the Fund**

### ***Business Risks***

The Funds investment portfolio consists primarily of securities issued by privately-held smaller middle market companies and investing in such companies involves a high degree of business risk and uncertainty. Furthermore, such portfolio companies may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, or may otherwise have a weak financial position. In addition, such portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

### ***Leveraged Nature of Investments***

The Funds may use debt to leverage investments in its portfolio companies. Investments in leveraged companies involve a high degree of risk. As a result, recessions, operating problems and other general business economic risks may have a more pronounced effect on the profitability or survival of such companies. Also, increased interest rates generally increase portfolio company interest expenses. In the event that any such portfolio company cannot generate adequate cash flow to meet debt service, the Funds may suffer a partial or total loss of capital invested in the portfolio company.

### ***Future and Past Performance***

The Funds have a limited operating history. The performance of the prior funds managed by the Firm and the General Partner cannot be relied upon as indicative of the Funds' future results. While the General Partner intends the Funds to have estimated returns commensurate with the risks undertaken, there can be no assurances that an internal rate of return will be achieved. Any given investment made by the Funds may prove to be unsuccessful and investors should determine whether they are able to absorb a loss of some or all of their investment before purchasing any Interests in the Funds.

### ***Investment in Subordinated and Unsecured Securities***

The securities in which the Funds invest may be unsecured or subordinate, and, as a result, there may be no collateral to protect an investment once made.

### ***Competitive Market for Investments***

The business of identifying and structuring transactions of the nature contemplated by the Funds is highly competitive. The Funds compete for investments with other private equity investment vehicles and other companies, including institutional investors. There can be no assurance that the Funds will be able to continue to locate suitable investment opportunities, acquire them for an appropriate level of consideration, achieve a superior rate of return or fully invest its committed capital.



### ***Concentration of Investments***

The Funds participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. Given the location of the Funds' management team on Long Island and the Funds' intent to leverage its contacts in the Long Island business community, a portion of the Funds' investments may be in companies based in Long Island. As a result, the Funds' investment portfolio could become concentrated and its lack of diversification may increase the Funds' exposure to adverse market conditions. Moreover, such concentration could cause the Funds' aggregate return to be affected substantially by the performance of a few holdings.

### ***Lack of Sufficient Investment Opportunities***

It is possible that the Topspin LBO Funds will never be fully invested if enough suitable investments are not identified. Investors pay a quarterly Management Fee based on the entire amount of their capital commitments during the investment period or until a successor fund is launched, and thereafter on the unfunded portion of capital commitments plus their capital invested in portfolio securities. The payment of such fee is required even if the Funds experience net losses in a particular year and even if the Funds are never fully invested. If an investor in a particular Fund fails to pay installments of its capital commitment when due and that Fund's available funds and the proceeds of additional contributions made by non-defaulting investors and of borrowings by the Fund are inadequate to cover the defaulted capital contributions, the Fund may be unable to meet the Fund's capital requirements to make investments, pay expenses and otherwise satisfy its liabilities and obligations.

### ***Restricted Nature of Investment Positions***

All or a substantial portion of Funds' investments will consist of securities that are subject to restrictions on sale by that Fund because they are not registered under the Securities Act or other applicable securities laws and may be subject to contractual restrictions and conditions on transfer. Generally, the Funds will not be able to sell such securities under the Securities Act of 1933, as amended (the "***Securities Act***"), or will only be able to sell the securities under Rule 144 or other rules under the Securities Act which permit limited sales under specified conditions. In addition, practical limitations may inhibit a Fund's ability to liquidate certain of its investments in the portfolio companies since the issuer will be privately held and the Fund will own a relatively large percentage of the issuers' equity securities. Sales may also be limited by market conditions, which may be unfavorable for the sale of securities of particular issuers or issuers in particular industries. The above limitations on liquidity of the Fund's investments could prevent a successful sale thereof, result in the delay of any sale or reduce the amount of proceeds that might be realized from such sale.

### ***Actual Results May Vary Significantly From Projections***

The Funds may rely upon projections, forecasts or estimates relating to investment decisions in a particular portfolio company. Projections, forecasts and estimates are forward looking statements and are based upon certain assumptions. Actual events are difficult to predict and beyond the Funds' control and may differ significantly from those assumed. Accordingly, there can be no assurance that estimated returns or projections can be realized or that actual returns or results will not be materially lower than estimated. Projected operating results of a company in which the Funds invest normally will be based primarily on financial projections prepared by each portfolio company's management and subject to numerous factors outside the

control of the Funds. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections.

#### ***Need for Follow-On Investments***

Following their initial investments in portfolio companies, the Funds may decide to provide additional funds to portfolio companies or have the opportunity to increase their investments in a successful business. There is no assurance that the Funds will make follow-on investments or that the Funds will have sufficient funds to make all or any of such investments. Any decision by the Funds not to make follow-on investments or its inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may result in a lost opportunity for the Funds to increase its participation in a successful operation.

#### ***Control of Limited Partners' Vote***

The investors have the ability to vote on certain significant matters relating to the Funds, including replacement of the General Partner, dissolution of the Funds and amendment of the applicable Fund agreement. Members of the General Partner, together with the principals and their affiliates, own at least 20% of the limited partner interests in the Funds. There may be situations where the interests of such persons and the other investors differ and the applicable Fund partnership agreement does not include any limitation on the ability of such investors to vote their limited partner interests.

#### ***Partnerships Vote Separately***

Each vote of investors undertaken by each of the Funds is taken on a separate partnership basis. As a result, the Funds could have different terms in their partnership agreements which could adversely affect the General Partner's ability to manage identical returns for each Fund.

#### ***Certain Regulatory Considerations***

The Funds may make investments in industries that are or may become subject to regulation under the laws of any one or more jurisdictions in which they operate. New and existing regulations and the burdens of regulatory compliance may have a material adverse effect on companies that operate in these industries. In addition, the Funds may invest in companies which thereafter experience a change in laws or regulations which change has an adverse effect on the portfolio company.

#### ***Possible Adverse Consequences of Control Positions***

The Funds often take control positions in their portfolio companies. Depending upon the amount of equity owned by the Funds in a portfolio company, contractual arrangements between a portfolio company and the Funds and other relevant factual circumstances, such control could result in an extension to one year of the 90-day bankruptcy preference period with respect to payments made by the portfolio company to the Funds. In addition, because of its equity ownership, representation on a portfolio company's board of directors or other similar governing body, the Funds could be exposed to control person liability for environmental damage, product defects, failure to supervise management and employees, violations of laws and other potential liabilities. If the Funds experience control person liability, it could expose the Funds' assets to claims by its portfolio companies, by its portfolio companies' other security holders and creditors,

and by governmental agencies which, if adversely determined against the Funds, could materially and adversely affect the Funds' performance.

### ***Less Control in Minority Positions***

Although the Funds typically acquire principally controlling interests in their portfolio companies, they may, as part of its overall investment strategy, elect to purchase or maintain after any disposition a minority position in one or more of its portfolio companies, and as such, it may not be able to exercise control over such companies.

### **Other Risks**

Other risks related to investment in a Fund are detailed in each Fund's offering documents.

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

None.

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

##### **A. Broker Dealer Registration Status**

None.

##### **B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status**

None.

##### **C. Material Relationships or Arrangements with Related Persons**

Leo Guthart is a common owner and is involved in the investment decisions for each group of Funds.

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

### **Code of Ethics**

The Firm has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest, as required by Rule 204A-1 under the Advisers Act. The Firm's Code of Ethics contains policies and procedures that address, among other things, pre-clearance of certain personal securities transactions; periodic reporting of employees' personal securities transactions and holdings; and prompt internal reporting of any violations of this Code of Ethics.

The Firm will provide a copy of our Code of Ethics to Fund investors or prospective investors upon request.

## ITEM 12        BROKERAGE PRACTICES

Although the Firm has discretionary authority to recommend broker-dealers for client transactions, the Firm does not expect to use this authority. Since the Firm anticipates that the securities of the underlying funds and portfolio companies will not be publicly traded, the Firm does not anticipate engaging any broker-dealer to effect transactions in securities of underlying funds and portfolio companies.

## ITEM 13        REVIEW OF ACCOUNTS

### A.        Review of Fund Portfolio

The only accounts managed by the Firm are the Funds. The principals of the Firm meet on a periodic basis to discuss new investment opportunities that should be presented to the General Partner. The investment positions and assets within the Funds' portfolios are monitored and reviewed by personnel of the Firm regularly. The principals of the Firm meet whenever needed to review and approve new investment opportunities or to evaluate developments with respect to existing investments and/ or opportunities for exiting investments.

### B.        Fund Reporting

Investors receive an audited annual financial report for each Fund within 120 days after the conclusion of each fiscal year, and an unaudited financial report within 60 days after the conclusion of each of the first three quarters of each of the Fund's fiscal year, or as soon as practicable thereafter. We use all reasonable efforts to deliver annual tax information for an investor's tax return within 180 days after the end of each fiscal year.

## ITEM 14        CLIENT REFERRALS AND OTHER COMPENSATION

The Firm does not receive economic benefits from non-clients for providing investment advice or other advisory services to clients.

## ITEM 15        CUSTODY

Under Advisers Act rules, the Firm is deemed to have custody of Fund client assets.

Each Fund is subject to an annual audit, and the audited financial statements are distributed to each Fund's investors in accordance with the custody rules. Such financial statements are prepared in accordance with generally accepted accounting principles by an independent public accountant registered with and subject to regular inspection by the Public Company Accounting Board.

## ITEM 16        INVESTMENT DISCRETION

The Firm has investment discretion over the Funds' assets in accordance with each Fund's respective offering document and limited partnership agreement. The General Partner has the authority to delegate investment discretion to the Firm pursuant to the limited partnership agreements of each of the Funds. The offering documents and limited partnership agreements generally set forth the limitations with respect to the management of the Funds and the activities of the Firm.

## ITEM 17 VOTING CLIENT SECURITIES

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, the Firm has adopted and implemented written policies and procedures governing the voting of client securities.

The Funds are primarily invested in privately-held portfolio company investments which typically do not issue proxies. However, upon occasion, we will receive proxies in connection with publicly traded portfolio companies, in which case it is our policy to exercise the proxy vote in the best interest of the Funds, taking into consideration all relevant factors, including without limitation, acting in a manner that we believe will (i) maximize the economic benefits to the relevant Fund and (ii) promote sound corporate governance by the issuer. On rare occasions, we may be required to exercise a vote for a privately-held portfolio company, in which case the same procedures shall apply.

We seek to avoid material conflicts of interest between our own interests on the one hand, and the interests of the Funds on the other. In situations where we are required to vote the proxy for a company in which our employees serve on the board of directors, we have determined that this does not inherently present a conflict of interest, as the sole purpose of this representation is to maximize the return on the Funds' investment in such portfolio company. Accordingly, while we are generally, but not automatically, fully supportive of recommendations made by a portfolio company's board of directors with respect to proxy votes related to that issuer, we will review all proxies in accordance with our proxy voting guidelines and may or may not vote in favor of the board's recommendation.

All conflicts of interest will be resolved in the interests of the Funds. In situations where we perceive a material conflict of interest, the circumstances surrounding such potential conflict will be reviewed with our Chief Compliance Officer, who will be responsible for recommending the appropriate action, which may include removing certain of our employees from the proxy voting process.

All proxies that we receive will be treated in accordance with these policies and procedures. A copy of our written proxy voting policies and procedures, as well as a record of how we have voted in the past, will be maintained and available for review upon written request made to the Firm at Three Expressway Plaza, Suite 100, Roslyn Heights, NY 11577-2033.

## ITEM 18 FINANCIAL INFORMATION

We are not aware of any financial condition we believe is expected or likely to impair our ability to meet our contractual commitments to the Funds.