

Part 2A of Form ADV: Firm Brochure

August 9, 2013

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This brochure provides information about the qualifications and business practices of Cyrus Capital Partners, L.P. If you have any questions about the contents of this brochure, please contact us at (212) 380-5800. 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 Cyrus Capital Partners, L.P. is also available on the SEC's website at: www.adviserinfo.sec.gov.

Though Cyrus Capital Partners, L.P. may refer to itself as a “registered investment adviser,” this statement does not imply a certain level of skill or training.

Material Changes

Below we note certain changes in our business that occurred between our annual update that we filed on March 30, 2012 and our annual update that we filed on March 28, 2013. At the end of this section we note the changes that have taken place since we filed our March 28, 2013 annual update. We recommend that you read this Form ADV Part 2A in its entirety.

As a general matter, we have formed two new parallel private equity-style pooled investment funds, Cyrus Aviation Partners IIIA, L.P. and Cyrus Aviation Partners IV, L.P., that do not have any assets yet.

Section 1: Advisory Business

As of December 31, 2012, our firm had discretion over \$3,185,414,851 in regulatory assets under management, including assets that Kortright Capital Partners LP manages.

Section 2: Fees and Compensation

We have revised this section to clarify the performance-based compensation that our firm receives from our clients and to reflect the expenses that our newly-launched clients, Cyrus HCE Fund, SPC, CRS Fund, L.P., Cyrus Special Strategies Fund, LP and Cyrus Special Strategies Fund, Ltd., and our private equity-style clients, Cyrus Aviation Partners II, L.P., Cyrus Aviation Partners (Cayman) III, L.P., Cyrus Aviation Partners III, L.P., Cyrus Aviation Partners IIIA, L.P. and Cyrus Aviation Partners IV, L.P., incur in connection with their operations and investments.

Section 4: Types of Clients

We have revised our discussion of minimum investment amounts.

Section 5: Methods of Analysis, Investment Strategies and Risk of Loss

We have added risk factors that correlate to additional strategies that we may pursue on behalf of our clients and have updated our credit default swaps risk factor to reflect recently adopted regulations.

Section 7: Other Financial Industry Activities and Affiliations

We no longer have an ownership interest in a broker-dealer's parent entity. Rather, we have entered into a revenue-sharing agreement with the broker-dealer's parent entity.

In addition, we now manage additional private investment vehicles in which our investment fund clients are the sole investors.

Finally, in response to recent legislation, we are now registered as a commodity pool operator and a commodity trading adviser with respect to many of our clients. Our affiliate, Cyrus Capital

Advisors, L.L.C., is now registered as a commodity pool operator with respect to many of our clients.

Section 8: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have added disclosure to reflect that Cyrus Capital Partners Europe L.L.P. is subject to regulatory obligations concerning, among other things, conduct of business and conflicts of interest under the U.K. Financial Services Authority's principles and rules.

Section 9: Brokerage Practices

We have updated our allocation policy to ensure that certain clients will continue to have exposure to the strategies that we pursue on behalf of newly-launched clients, Cyrus Special Strategies Fund, LP, Cyrus Special Strategies Fund, Ltd. and their master fund.

Interim 2013 Changes

As a general matter, our two new parallel private equity-style pooled investment funds, Cyrus Aviation Partners IIIA, L.P. and Cyrus Aviation Partners IV, L.P., have launched and now contain assets.

In addition, our firm withdrew our interest in Kortright Capital Partners LP and therefore Kortright Capital Partners LP is no longer a relying adviser. CM Investment Partners, LP is now managing over \$100,000,000 in assets and is a relying adviser of Cyrus Capital Partners, L.P.

Section 1: Advisory Business

Cyrus Capital Partners GP, L.L.C., the general partner of Cyrus Capital Partners, L.P., has appointed a board of managers.

Cyrus Capital Partners Europe L.L.P. now serves as a sub-adviser to our clients and therefore is incorporated throughout our Form ADV Part 2A as a relying adviser.

We have updated our assets under management since Kortright Capital Partners LP is no longer a relying adviser.

Section 9: Brokerage Practices

We may accept consulting services from broker-dealers without paying for these services which may give rise to conflicts of interest.

Section 11: Client Referrals and Other Compensation

We have entered into an agreement with a third party solicitor under which we may receive investor referrals. The solicitor will only be entitled to fees from us if it successfully refers an investor to us that invests in one of our client funds.

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1. Advisory Business

Cyrus Capital Partners, L.P. is a successor firm to Och-Ziff Freidheim, which Stephen C. Freidheim, Daniel Och and the Ziff family founded in 1999. Effective January 1, 2005, Stephen C. Freidheim and some of his partners assumed all of the controlling interests of Och-Ziff Freidheim and changed our firm's name to Cyrus Capital Partners, L.P. Cyrus Capital Partners, L.P. provides investment advisory services to pooled and single-investor investment vehicles. We typically offer the opportunity to invest in our clients to high net worth, financially sophisticated individuals and institutional investors. The principal owner of Cyrus Capital Partners, L.P. is Stephen C. Freidheim. In addition, Stephen C. Freidheim, James H. Tucker and Daniel J. Bordessa sit on the board of managers of the general partner of Cyrus Capital Partners, L.P., Cyrus Capital Partners GP, L.L.C.

An affiliate of ours, Cyrus Capital Partners Limited (which is ultimately owned by Stephen C. Freidheim), along with Lucien E. Farrell, owns Cyrus Capital Partners Europe L.L.P., an investment adviser that is based in the United Kingdom and serves as a sub-adviser to our clients (and does not advise any other clients). In addition, Cyrus Capital Partners, L.P. and Cyrus Capital Partners GP, L.L.C. own another investment adviser, CM Investment Partners, LP. Unless we indicate otherwise, all of the information we provide in this brochure also applies to Cyrus Capital Partners Europe L.L.P. and CM Investment Partners, LP.

Our firm provides discretionary investment advisory services to our clients. Our investment strategies entail primarily investing across the capital structure of highly levered and financially distressed companies. We seek attractive absolute and relative returns that are not correlated to the general equity and fixed income markets, while also focusing on preserving capital. Fundamental value and credit analysis combined with our firm's experience with event catalysts and processes specific to leveraged and financially distressed companies drive our investment process.

CM Investment Partners, LP's investment strategy differs from ours in that it entails primarily investing across the capital structure of middle-market companies (generally with annual revenues between \$10 million and \$1 billion) in the United States. CM Investment Partners, LP seeks to generate both current income and capital appreciation by targeting investment opportunities with favorable risk-adjusted returns.

Though our firm utilizes a similar strategy for all of our clients, we may tailor our advisory services to certain of our clients for legal and tax purposes.

When accepting investors into our client funds, our firm offers investors the option of purchasing interests that only participate in returns from "socially responsible" investments. "Socially responsible" investments are those investments which favor

corporate practices that are environmentally responsible, support consumer safety and workplace diversity, and generally contribute to the enhancement of the quality of life around the world.¹ We may also attempt to accommodate investment-related requests in certain single-investor client funds, provided that, in our opinion, these requests do not unfairly advantage one client at the expense of any of our other clients.

Our firm does not participate in wrap fee programs.

As of July 1, 2013, our firm had discretion over \$3,803,383,000 in regulatory assets under management.

2. Fees and Compensation

Our firm, or an affiliate of our firm, typically receives compensation from each of our clients based on both the percentage of assets we manage and performance-based fees based on capital appreciation (or realized gains in the case of our private equity-style fund clients), though in very limited circumstances we may only charge a client performance-based fees. We typically structure our performance-based compensation as profit-sharing allocations through general partner interests that our affiliates hold in our client funds. Our performance-based compensation is also generally subject to a loss carryforward requirement or “high water mark.” This means that we only receive a performance profit allocation when an investor’s account value for the year has recovered any losses from prior years (reduced proportionately by any withdrawals an investor makes). We only offer interests in our client funds to “qualified purchasers” as defined in the Investment Company Act of 1940. Qualified purchasers are generally individual investors or certain family-owned entities with over \$5,000,000 in investments or entities with over \$25,000,000 in investments.

We deduct our asset-based fees directly from our clients’ accounts each quarter. Except with respect to our private equity-style clients, from which we only receive performance-based compensation when investments are realized and gains are distributed, we generally deduct performance-based compensation on an annual basis or upon a withdrawal or redemption (but only on the amount withdrawn or redeemed). In certain instances, we may also deduct performance-based compensation on funds that are allocated for a special illiquid investment and/or when a special illiquid investment is realized.

The asset-based fee that we charge investors in our clients is payable at the beginning of each quarter. In the unlikely event that an investor redeems his or her investment before

¹ CM Investment Partners, LP does not offer its investors a “socially responsible” investment option.

the end of the billing period, we will refund a *pro rata* percentage of the fee paid in advance.

Investors in our clients do not pay any performance-based compensation in advance.

All of our clients bear various costs, fees and expenses in addition to the compensation payable to our firm or an affiliate of our firm. Although we set forth enumerated lists below, all investors in our clients and prospective investors should review the Private Placement Memorandum or other governing documents for each applicable fund, which may discuss additional costs, fees and expenses not discussed below.

Cyrus Opportunities Fund II, L.P., Cyrus Europe Fund, L.P., CYR Fund, L.P. and Crescent 1, L.P. bear their own operating and investment-related expenses, including:

- brokerage commissions,
- clearing and settlement charges,
- custodial fees,
- margin expense,
- interest expense,
- consulting and other professional fees relating to particular investments,
- research-related costs,
- travel expenses incurred in connection with due diligence,
- legal expenses,
- systems and technology costs,
- market data and risk management expenses,
- audit and tax preparation expenses,
- organizational expenses,
- expenses relating to the offer and sale of interests in the applicable fund,
- extraordinary expenses, and

- expenses related to services performed by the administrator.

Cyrus Opportunities Fund II, Ltd., Cyrus Europe Fund, Ltd., CRS Fund, L.P., CRS Fund, Ltd., Cyrus HCE Fund, SPC, Cyrus Special Strategies Fund, LP and Cyrus Special Strategies, Ltd. are typically responsible for the following expenses:

- brokerage commissions,
- clearing and settlement charges,
- custodial fees,
- margin and interest expense,
- consulting and other professional fees relating to particular investments,
- legal expenses,
- administrative expenses,
- fees and expenses of any administrator,
- directors' fees (if applicable),
- systems and technology costs,
- market data and risk management expenses,
- research expenses,
- travel expenses in connection with due diligence,
- audit and tax preparation expenses,
- corporate licensing fees,
- organizational expenses,
- expenses relating to the offer and sale of shares in the applicable client fund, and
- other expenses associated with the operation of the applicable client.

Cyrus Select Opportunities Fund, L.P. and Cyrus Select Opportunities Fund II, Ltd. generally bear the following expenses:

- brokerage commissions and other transaction costs,
- clearing and settlement charges,
- custodial fees,
- margin and interest expense,
- commitment fees on debit balances or borrowings,
- borrowing charges on securities sold short,
- consulting, legal and other professional fees relating to particular investments (including fees incurred in connection with due diligence and negotiating terms),
- travel expenses incurred in connection with due diligence,
- systems and technology costs,
- market data and risk management expenses,
- directors' fees (for Cyrus Select Opportunities Fund II, Ltd. only),
- expenses of professionals providing services to the clients, including legal, audit, accounting, tax and administration,
- organizational expenses,
- expenses relating to the offer and sale of interests or shares in the applicable client fund,
- the costs of any liability insurance we obtain on their behalf,
- any litigation or investigation costs related to their investment activities,
- indemnification expenses,
- regulatory costs,
- any issue or transfer taxes chargeable in connection with any securities transactions,
- any entity level taxes,

- regulatory filing and license fees,
- costs of reporting and providing information to investors, and
- extraordinary expenses.

Cyrus Aviation Partners II, L.P., Cyrus Aviation Partners (Cayman) III, L.P., Cyrus Aviation Partners III, L.P., Cyrus Aviation Partners IIIA, L.P. and Cyrus Aviation Partners IV, L.P. generally incur the following expenses:

- organizational expenses,
- out-of-pocket administration costs of the applicable fund, such as accounting, audit, tax return preparation and legal expenses, costs of holding any investor meetings, costs of liability insurance, costs associated with the maintenance of the applicable fund's books and records, and costs associated with preparing and delivering checks, financial reports and notices to investors and providing other information to existing and prospective investors,
- fees and expenses of fund counsel in connection with advice relating directly to each fund's legal affairs,
- expenses incurred in connection with the registration, qualification or exemption of each fund under applicable laws,
- expenses of revising governing documents,
- investigation or litigation costs and any judgment or settlement amounts,
- expenses for indemnity or contribution payable by the applicable fund,
- expenses incurred in connection with administrative proceedings with respect to taxes,
- expenses incurred in connection with dissolution and liquidation,
- taxes, fees and other governmental charges,
- all expenses incurred in connection with an investment, including legal, accounting, consulting or advisory fees and expenses, and
- expenses that are not normal operating expenses.

In addition, each of our clients that conducts most or all of its investment activities through a master fund bears its share of the expenses listed above incurred by the applicable master fund.

CM Investment Partners, LP's client, CM Finance LLC, bears its organizational expenses and all of its operational and investment-related expenses, including:

- custodial fees,
- interest payable on debt incurred to finance the fund's investments,
- fees and expenses payable to third parties, including agents, consultants and other advisors, in monitoring the fund's financial and legal affairs and its investments and performing due diligence on prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments,
- costs associated with reporting and compliance obligations of the fund,
- expenses related to unsuccessful portfolio acquisition efforts,
- legal expenses,
- administrative expenses, including any fees charged by an administrator and direct costs and expenses of administration, including printing, mailing, long distance telephone and copying,
- audit and tax preparation expenses,
- expenses incurred in calculating the net asset value of the fund (including the costs of any independent valuation firm),
- organizational expenses,
- expenses relating to the offer and sale of interests in the fund,
- costs of reporting and providing information to investors,
- federal, state and local taxes and
- all other expenses in connection with administering the business of the fund.

Cyrus Capital Partners, L.P. may advance funds to CM Finance LLC for any of the above expenses and to CM Investment Partners, LP for various operating expenses and will be

reimbursed by CM Finance LLC and CM Investment Partners, LP as agreed between Cyrus Capital Partners, L.P. and CM Investment Partners, LP.

The fees and expenses we have enumerated above may not contemplate every type of fee or expense our clients may incur.

For more information on brokerage transactions and costs, please see Section 9: Brokerage Practices.

Neither our firm nor any of our principals or employees accepts compensation for the sale of securities or other investment products.

3. Performance-Based Fees and Side-By-Side Management

Our firm (or one of our affiliates) receives performance-based compensation from all of our clients. Please see Section 2: Fees and Compensation for a more detailed explanation of the performance-based compensation we receive. We do not manage any funds or accounts that do not pay performance-based compensation.

4. Types of Clients

Our firm provides investment advisory services to pooled and single-investor investment vehicles, which are private investment funds. To comply with Securities and Exchange Commission regulation, we require that U.S. investors in our funds qualify as both accredited investors and qualified purchasers. Accredited investors are generally (i) individuals with \$1,000,000 of net worth (excluding their primary residence) or who have made \$200,000 in each of the two previous years (or \$300,000 joint income with one's spouse) or (ii) entities with assets totaling over \$5,000,000. Qualified purchasers are generally individual investors or certain family-owned entities with over \$5,000,000 in investments or entities with over \$25,000,000 in investments. Our non-U.S. investors are not subject to any particular wealth requirements. We typically market our investment funds to high net worth individuals and institutions.

Typically, to invest in one of our client funds, we require a minimum investment of between \$1,000,000 and \$5,000,000, depending on the fund (except for our client that focuses on European investments accepts minimum investments of €4,000,000 and our private equity-style funds which accept minimum investments of \$100,000). In addition, at its discretion, the board of directors of CRS Fund, Ltd. sets the minimum investment requirement for this client. We typically have the discretion to waive minimum investment requirements for investment in our clients.

This firm brochure is not an offer to invest in our funds.

5. Methods of Analysis, Investment Strategies and Risk of Loss

Fundamental value and credit analysis combined with our firm's experience with event catalysts and processes specific to leveraged and financially distressed companies drive our investment process. We use a rigorous fundamental, credit intensive approach to identify and exploit inefficiencies in the leveraged and distressed debt and leveraged equities markets. Our investment process begins with bottom up, fundamental analysis of leveraged companies, which includes understanding how a company generates cash flow, determining the prospects of that cash flow stream and analyzing the various claims against that cash flow stream. In making investment decisions, we rely on our own primary research, which includes knowledge we gain from relationships and contacts with the management team of a particular company, as well as with those of companies that supply goods or services to, compete with, or are customers of that company, all in accordance with applicable law.

Despite our methodology, investing in any securities involves a risk of loss that any of our clients or any of the investors in our clients must be prepared to bear.

The success of our investment activities depends on our ability to identify and capitalize on inefficiencies in the leveraged and distressed debt and leveraged equities markets. Identification and taking advantage of these opportunities involve uncertainty. We cannot assure any clients or investors that we will be able to locate investment opportunities or to correctly identify inefficiencies in the market. Certain risks associated with an investment in any client we advise include:

- *Investment Judgment and Market Risk:* The success of our investment programs depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Third Party Information Risk:* We may select investments for our clients, in part, based on information and data that issuers file with governmental regulators or other public information that issuers make available to us. Although we evaluate all information and data and seek independent corroboration when appropriate and available, we are not in a position to confirm the completeness, genuineness or accuracy of the information and data, and, at times, complete and accurate information is not available. Investments may not perform as we anticipated if information is inaccurate.

The following is a description of the various strategies that we utilize in advising our clients and some important risks associated with each strategy. The following explanation of certain risks is not exhaustive, but rather highlights some of the more

significant risks involved in our investment strategies. For a complete explanation of all relevant investment strategies and their associated risks, investors in our clients should also review each applicable client's Private Placement Memorandum or other governing documents, which may contain additional explanations of strategies, risks and other related details not discussed below. For an explanation of strategies and risks unique to an investment in CM Investment Partners, LP's fund, please see page 27.

- *Private Debt and Equity Securities:* Investments in privately held, early-stage companies are inherently more volatile than investments in more mature businesses. Younger businesses are inherently fragile and easily affected by both internal and external forces. New, private companies can lose much or all of their value suddenly in response to even one internal or external adverse event. On the other hand, immature businesses can gain suddenly in value in response to an internal or external positive development.

Significantly, typically less publicly available information exists concerning newer, private companies than for larger, more established businesses. In addition, private companies' securities typically are not traded in the volumes typical for larger companies, and it may take longer to sell private securities or we may have to accept potentially less favorable prices if selling a position. Ultimately, investing in private companies with limited operating histories is more speculative and entails greater risk than does investing in public companies with established operating records.

- *High Yield, Low-Rated or Unrated Securities:* Debt securities (including bonds) and preferred stock in which we invest on behalf of our clients may or may not be rated by credit rating agencies. If they are rated, their ratings may range from the very highest to the very lowest. Securities rated below investment grade normally provide a yield that is significantly higher than that of investment grade securities, but are quite speculative for reasons enumerated below. The lower-rated categories include debt securities that are in default and debt securities of insolvent issuers. The rating that a credit rating agency assigns to a security does not reflect an assessment of the volatility of the security's market value or the liquidity of an investment in the security. The values of lower-rated securities (including unrated securities of comparable quality) fluctuate more than those of higher-rated securities because investors generally believe that there are greater risks associated with them. In addition, the lower rating reflects a greater possibility that the financial condition of the issuer, or adverse changes in general economic conditions, or both, or an unanticipated rise in interest rates, may impair the ability of the issuer to make payments of principal and income. The inability (or perceived inability) of issuers to make timely payment of interest and principal

would likely make the values of our clients' securities more volatile and could limit our ability to sell the securities at prices approximating the values we had placed on the securities. In general, the market for lower-rated or unrated securities is smaller and less active than that for higher-rated securities, which can adversely affect our ability to sell these securities at favorable prices. In addition, the market prices of lower-rated securities are likely to be more volatile because: (1) an economic downturn or increased interest rates may have a more significant effect on the yield, price and potential for default; (2) past legislation has limited (and future legislation may further limit) investment by certain institutions in lower-rated securities or the tax deductibility of the interest by the issuer, which may adversely affect the value of the securities; and (3) it may be difficult to obtain information about financially or operationally troubled issuers. We will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase.

- *Distressed Debt and Securities:* Distressed debt refers to non-performing and/or underperforming loans that are available for purchase on the secondary markets, as well as forms of securities (including bonds) issued by a company that is undergoing bankruptcy or reorganization or is likely to do so in the near future. Distressed bonds will have low ratings as discussed above. The debt and debt securities of distressed corporations are often overly discounted by the market, as risk adverse investors tend to sell securities due to an actual or potential bankruptcy filing. These situations can create attractive buying opportunities for investors specializing in valuing distressed debt and securities. We purchase these instruments on behalf of our clients with the anticipation that the company will emerge from its financial difficulties and become profitable again. In the interim, the purchase of the debt may allow the shareholders or bondholders to actively participate in the process of reorganizing the company as it attempts to position itself for a return to profitability. The risk of investing in distressed debt and securities is that the subject company's projected performance never takes place. When this is the case, the investments that we bought on behalf of our clients may become worth less than the amount initially paid for them, resulting in a loss. In some instances, however, particularly in the case of senior debt and other preferred claims, the ability to realize upon these claims successfully during a liquidation may also turn out to be profitable investment opportunities.

On the other hand, when investing in distressed debt, the amount and timing of payments, if any, by the debtor can be uncertain. Receiving late or incomplete loan payments can adversely affect our clients' return.

Significantly, on our clients' behalf, we may participate more actively in the affairs of a distressed issuer than is typical of investors. A heightened level of involvement may make our clients more vulnerable to litigation risks or prevent them from being able to sell their securities at certain times.

- *Bank Loans and Participations:* We may invest in bank loans on behalf of our clients. Investing in bank loans involves unique risks such as: (1) the possible invalidation of an investment transaction as a fraudulent conveyance to defer, hinder or defraud creditors under creditors' rights laws; and (2) environmental liabilities that may arise with respect to collateral securing the loans. In addition, participating in loans exposes our clients to potential lender liability claims, which are claims under which borrowers allege that their lenders are not treating them fairly. Lender liability claims are based on the premise that a lender has violated a duty of good faith and fair dealing owed to a borrower or has assumed a degree of control over a borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders.

Our clients would bear the costs of any successful claims by third parties that arise from these and other risks. Also, when investing in loans, there is always a risk that the borrower may default.

- *Loans of Portfolio Securities:* We may lend our clients' portfolio securities or enter into other transactions constituting loans of their assets. By doing so, we attempt to increase our clients' income by receiving interest on the loans. Should the borrowing party become insolvent and/or go into bankruptcy, we may experience delays in recovering the securities our clients lent. If the value of the securities our clients lent increases, our clients could experience losses if they are unable to recover the securities.
- *Bridge Loans:* We may lend our clients' funds on a short-term, unsecured basis to portfolio companies that are about to commence an initial public offering. In return, our clients typically receive discounted shares in the portfolio company after the public offering occurs. However, for reasons beyond our control, our clients may not always receive what they are expecting in return and their bridge loans may remain outstanding. In this case, the interest rate or terms of the loan probably will not adequately reflect the risk associated with the unsecured position that our client took.
- *Mezzanine Loans:* On our clients' behalf, we may invest in mezzanine loans from time to time. Mezzanine loans are an option a company might utilize when its real property is already being used to secure a primary loan, but the company has a need for a secondary loan. This type of loan is secured not by the real property,

but by the stock belonging to the company that owns the property. Companies generally use mezzanine loans when they have to raise a large amount of money for expansions or for other types of large expenditures.

There are certain risks associated with investing in mezzanine loans. First, it is likely that our clients' mezzanine investments will be subordinate to the borrower's more senior debt, and if the borrower defaults under the more senior loan, the lenders of the more senior loan will have preferential claims over those of our clients. In this case, the borrower's assets would first be used to repay the senior lender, so there is the risk that all or substantially all of the borrower's assets will be unavailable to repay our clients and other subordinate lenders. In addition, if we attempt to enforce a borrower's obligations on behalf of our clients, our clients could be subject to a borrower's claims of breach of contract or other unfair lending claims. If a borrower goes bankrupt, our clients also run the risk of being roped into bankruptcy proceedings which can be costly and lengthy. Lastly, there can be no assurance that a borrower will repay its mezzanine loans or that we, on our clients' behalf, will ultimately be able to collect on any of the collateral pledged for the loans.

- *Vendor Financing:* We may invest our clients' assets in portfolio companies that engage in vendor financing, meaning they lend money to their customers so that the customer can buy products from them. Vendor financing is risky because the customers that companies lend money to usually are not very financially stable and may never pay back the money. If the customers don't pay back the debt, the portfolio company will have to write-down the loss as a bad debt, decreasing the value of the portfolio company and its securities.
- *Trade Claims:* Trade claims are unsecured rights of payment arising from obligations other than borrowed funds. Trade claims include vendor claims and other receivables that are adequately documented and available for purchase from high yield broker-dealers.

The performance of trade claims depends in part on the obligor's current financial condition, competitive position in its industry and strategic direction. Investors in trade claims are also exposed to the risk of dilution, which occurs when the amounts invoiced by the obligor are reduced for reasons other than payment or default (for example, the return of goods, invoice errors, product disputes over quantity, quality or delivery). Finally, as with all debt investments, the risk exists that the obligor may default on its payments.

- *Structured Credit Products.* Special risks may be associated with investments in structured credit products, collateralized debt obligations, synthetic credit

portfolio transactions and asset-backed securities. For example, synthetic portfolio transactions may be structured with two or more classes of tranches that receive different proportions of the interest and principal distributions on a pool of credit assets. The yield to maturity of a tranche may be extremely sensitive to the rate of defaults in the underlying reference portfolio. A rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that our clients may incur losses on their investments in structured products regardless of their ratings by S&P or Moody's. Additionally, the securities in which our firm is authorized to invest include securities that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. Securities subject to resale restrictions may sell at a price lower than similar securities that are not subject to resale restrictions.

- *Collateralized Debt Obligations:* Collateralized debt obligations are securitized interests in pools of generally non-mortgage assets. Collateralized debt obligation pools are split into different risk classes, or tranches, with "senior" tranches being the least risky. Interest and principal payments are made in order of seniority, so that junior tranches cost less and get paid more to compensate for additional risk. Holders of collateralized debt obligations only receive payment when the underlying borrowers make payments, otherwise the holders have no other recourse against the pool.

From time to time, the market for collateralized debt obligations has been adversely affected when there is not enough financing available to bundle into a pool, partly in response to regulatory pressures on financing providers to reduce or eliminate their exposure to collateralized debt obligations transactions.

Collateralized debt obligations often consist of concentrated portfolios of assets. The concentration of an underlying pool in any one borrower would subject a collateralized debt obligation to a great degree of risk should the borrower default. Similarly, the concentration of a pool in any one industry would subject a collateralized debt obligation to a great degree of risk should the industry experience an economic downturn.

The value of collateralized debt obligations generally fluctuates with, among other things, the financial condition of the borrowers of the underlying assets, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in interest rates.

Finally, the underlying obligations that form collateral debt obligations are often given poor ratings by credit rating agencies. The lower ratings, as we have

previously explained, reflect a greater possibility that adverse changes in an obligor's financial condition and/or in general economic conditions could affect the obligor's ability to make payments of principal or interest.

- *Investing in Loans Generally:* When investing in any type of loan, the risk exists that a borrower made a material misrepresentation or omission in the process of obtaining the loan. This inaccuracy or incompleteness can adversely affect the valuation of the collateral underlying the loan and/or can adversely affect our ability to perfect or effectuate a lien on the collateral securing the loan.
- *Convertible Securities:* Convertible securities are bonds, debentures, notes, preferred stocks or other securities that can be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. The holder of a convertible security typically receives interest or a dividend until the security matures or is converted or exchanged. Convertible securities are unique in that they generally (1) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (2) are less subject to fluctuation in value than the underlying security due to their fixed-income characteristics; and (3) provide potential for capital appreciation if the market price of the underlying security increases.

The value of a convertible security is a function of its "investment value" and its "conversion" value. A convertible security's investment value is determined by its yield in comparison to yields of other securities of comparable maturity and quality that do not have a conversion privilege. Changes in interest rates influence a convertible security's investment value, as investment value declines as interest rates increase and vice versa. The issuer's credit standing and other factors may also affect the convertible security's investment value. A convertible security's conversion value is determined by the market price of the underlying security. If the conversion value is low relative to the investment value, then the investment value principally governs the price of the convertible security. As the market price of the underlying security approaches or exceeds the conversion price, the conversion value will increasingly influence the price of the convertible security.

A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying security while holding a fixed-income security. Typically, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the issuer's option. If one of our clients' accounts holds a convertible security that its issuer redeems, this could adversely affect our client's ability to achieve its investment objective.

- *Short Selling:* Short selling of securities occurs when we borrow securities, promising to buy them at a later date. If the price drops, we can buy the securities at the lower price and make a profit on the difference. If the price of the securities rises, we have to buy them back at the higher price, and the investment loses money. Buying the securities can itself cause the price of the securities to rise further which would exacerbate the potential for loss.
- *Capital Structure Arbitrage:* We may engage in capital structure arbitrage on our clients' behalf. This investment strategy seeks to identify and exploit the relationships between price movements in different securities and instruments within a single issuer's capital structure (for example, between senior debt and common stock or between subordinated debt and preferred stock). In this scenario, we buy an issuer's undervalued security and sell short the same issuer's overvalued security, or vice versa. The ultimate goal is for the market values of the different securities to converge, however, if instead they go in opposite directions, our client may incur substantial losses.
- *Relative Value Arbitrage:* When we engage in relative value arbitrage, we seek to take advantage of relative pricing discrepancies between various instruments, including equities, debt, options, swaps and futures. Relative value arbitrage generally involves purchasing and selling two securities simultaneously to derive returns from the relationship between the two related securities rather than from the direction of the market. Of course, the risk exists that the price differential we attempt to exploit could change unfavorably, causing a loss. The prices of these investments can be volatile and market movements are difficult to predict.
- *Absolute Value Investing:* Absolute value investing involves taking advantage of price inefficiencies by purchasing securities that we believe are undervalued. However, there are no assurances that the securities will in fact be undervalued. In addition, our clients may need to hold the securities for a long time before realizing their anticipated value. During this period, a portion of our clients' funds will be committed to these securities, thus possibly preventing our clients from investing in other opportunities.
- *Leverage:* Generally, any borrowing-type techniques we may use to increase potential returns are all forms of leverage. We leverage our clients' capital because we believe that using leverage may enable our clients to achieve a higher

rate of return. Borrowing involves risk to our clients because the interest on the borrowed amount may be greater than the income from or increase in the value of the securities purchased with the borrowed amount. Also, there is always a possibility that the value of the securities purchased with the borrowed amount can decline below the amount borrowed. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent our clients are leveraged. The cumulative effect of the use of leverage in a market that moves adversely to our clients' investments could result in a substantial loss which would be greater than if our clients were not leveraged.

- *Hedging Transactions:* We may employ hedging techniques, seeking to reduce a portfolio's vulnerability to various risks. Hedging entails determining certain risks in one's portfolio and making trades seeking to offset those risks. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of these positions decline, but rather it establishes other positions designed to gain from those same developments, moderating the decline in the portfolio positions' value. On the other hand, hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase.

The success of a client's hedging strategy is subject to our ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. There is a risk that we may not always choose the right variable to hedge against. Also, it is important to note that we may not always choose to hedge against, or might not anticipate, certain risks, and, our clients' portfolios will always be exposed to certain risks that cannot be hedged.

Loss of the ability to hedge, from either a change in the law or an inability to borrow a security when necessary, may result in losses to our clients from the resulting unhedged exposure or depreciation in the retained instrument's value.

Many other investment strategies we employ can be used as hedging techniques, such as options, futures, forwards, swaps and short selling.

- *Margin Transactions:* To increase their buying power, sometimes we engage in margin transactions on behalf of our clients. Trading on margin is a form of leverage. Specifically, when we trade on margin, our clients are borrowing from a broker to purchase more securities than they otherwise would be able to with their initial cash investment. The securities purchased on margin serve as collateral for the broker's loan. Trading on margin is risky because it not only can increase

gains, but also can amplify losses to the point where a client may lose more than its initial investment.

Our clients may employ short-term margin borrowing, which can be especially risky. For example, should the collateralized securities decline in value, a client could be subject to a “margin call,” under which it must either deposit additional funds or securities with the broker or sell the pledged securities to compensate for the decline in value. If the value of a client’s assets suddenly drops, we might not be able to liquidate its assets quickly enough to satisfy its margin requirements.

- *Fixed-Income Securities:* We invest in bonds or other fixed-income securities on behalf of our clients. Fixed-income securities provide periodic returns and the eventual return of the principal at the end of the term. The value of fixed-income securities changes in response to interest rate fluctuations and market perception of the issuer’s ability to pay off its obligations. Fixed-income securities are also subject to the risk that their issuer may be unable to make interest or principal payments on its obligations.
- *Swaps and Other Derivatives:* At times, we may invest in swaps and other forms of derivative contracts on behalf of our clients. A derivative is a financial instrument that is a contract between two parties, the value of which is linked to another security or commodity, or an “underlying asset.” Most of the derivatives in which we may trade are over-the-counter, meaning they are privately negotiated between two parties, as opposed to being traded on an exchange. Over-the-counter transactions typically involve significant transaction costs.

A swap is a type of derivative in which counterparties agree to exchange one stream of cash flow for another, each stream being based on an underlying asset. For example, an investor realizing returns from an equity investment can swap those returns into less risky fixed income cash flows without having to sell its equities. Swaps are particularly sensitive because various market variables affect the values of the cash flows, causing them to fluctuate. Specifically, we tend to invest in credit default swaps and debt-for-equity-swaps, described below.

Any derivative contract typically involves leverage, as it exposes our clients to potential gain or loss from a change in the price of an underlying asset in an amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. Consequently, an adverse change in the price of the underlying asset can result in a loss to our clients that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in a derivative contract. Finally, derivative contracts are risky because,

ultimately, their success depends in part on the counterparty's financial condition; that is, the counterparty's ability to turn over the cash flow it promised.

A discussion of some of the particular types of derivative contracts in which we invest follows below.

- *Credit Default Swaps:* A credit default swap is a contract between two parties under which they both agree to isolate and separately trade the credit risk of at least one third-party entity. Essentially, the buyer of a credit default swap receives credit protection, and the seller of the swap guarantees the credit worthiness of the product. For example, the buyer of a credit default swap would be entitled to the par value of a bond by the seller of the swap, should the bond default in its coupon payments. On behalf of our clients, we may use credit default swaps to hedge a portion of the default risk on a single corporate bond, a portfolio of bonds or a set index of bonds. We also may use credit default swaps to implement a portfolio manager's theory that a particular credit or group of credits will experience credit improvement. In this case, the client would sell credit default protection under which it would receive a premium to take on the risk. Conversely, a client may purchase credit default protection even if it does not own the referenced instrument if we believe there is a high likelihood of credit deterioration.

The market for credit default swaps with a single underlying instrument is currently unregulated, but U.S. legislation requires the SEC to adopt regulations governing the clearing, reporting and margin requirements of credit default swap transactions. These regulations may result in increased margin requirements and other increased costs for our clients when entering into credit default swaps. In addition, the Commodity Futures Trading Commission now requires certain swaps within its purview (*i.e.*, broad-based index credit default swap contracts) to be centrally cleared and reported and subjects our counterparties to significant obligations. This clearing requirement may affect our ability to negotiate individualized terms on our clients' behalf and/or may increase the costs of entering into these derivative transactions by increasing margin or capital requirements.

The possibility exists that the counterparty may not have the financial strength to abide by the contract's provisions. The leverage involved in many credit default swap transactions, and the possibility that a widespread downturn in the market could cause massive defaults and

challenge the ability of risk-buyers to pay their obligations, both add to the uncertainty of an investment in these instruments. Credit default swaps that are not cleared are subject to increased risk of default.

- *Debt-For-Equity Swaps:* A debt-for-equity swap is a refinancing deal in which a debt holder of a company receives an equity position in the company in exchange for cancellation of the debt. Essentially, in debt-for-equity swaps, the creditors end up acquiring the portfolio company through this exchange. The primary risk inherent in a debt-for-equity swap is the ultimate failure of the acquired company. In that event, the former creditors, now equity holders, would lose their investment, especially if the company were liquidated in a bankruptcy.
- *Options:* There are certain risks associated with the sale and purchase of options. We may invest in call and/or put options on our clients' behalf. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period.

Not only will we buy and sell traditional equity stock options on behalf of our clients, but we may buy and sell options on futures and forward contracts as well (futures and forward contracts discussed below).

- *Option Writing:* Our clients may write (sell) covered call and put options on securities. The applicable client receives a premium from writing a call or put option, which increases the client's return if the option expires unexercised or is closed out or exercised at a net profit. When a client writes a call option, it gives up the opportunity to profit from any increase in the price of a security above the exercise price of the option; when it writes a put option, the client takes the risk that it will be required to purchase a security from the option holder at a price above the current market price of the security.
- *Warrants:* Warrants are derivative instruments that entitle the holder to buy the underlying stock of the issuing company at a fixed exercise price until an expiration date. Warrants are similar to options (discussed above), except that warrants are typically attached to bonds or preferred

stock and usually have longer exercise windows. Warrants typically can be detached from bonds or stock and sold separately. Warrants do not carry with them the right to dividends or voting rights with respect to the securities that they entitle the holder to purchase, and they do not represent any rights in the assets of the issuer. As a result, warrants may be considered more speculative than certain other types of equity-like securities. In addition, the values of warrants do not necessarily change with the values of the underlying stock and warrants cease to have value if they are not exercised prior to their expiration dates.

- *Futures:* A future, also known as a futures contract, is a contractual agreement to buy or sell a particular commodity or financial instrument at a pre-determined price in the future. At times, futures may be illiquid investments because certain commodity exchanges limit fluctuations in particular futures contract prices during a single day. Once the price of a futures contract has increased or decreased by an amount equal to the daily limit, that contract cannot be traded unless traders are willing to trade it within that limit. This could prevent us from promptly selling unfavorable contracts and thus would subject our clients to substantial losses. There is also the risk that an exchange or the Commodity Futures Trading Commission may suspend trading, order immediate liquidation or settlement in a particular contract. This could also prevent us from promptly selling unfavorable contracts.

Sometimes, we may ultimately settle the differences in a futures contract for cash, rather than delivering or receiving the underlying commodity or financial instrument.

- *Forwards:* A forward, or a forward contract, is a contract between two parties to buy or sell an asset at a specified future date at a price agreed upon at the time the contract is made. It is very similar to a futures contract, except forward contracts are negotiated privately and are not traded on an exchange, and thus, are not subject to limitations on daily price moves. On the other hand, this means that there is not a big secondary market for forwards, which means they may be difficult to sell should they become unfavorable for our clients.
- *Reverse Repurchase Agreements:* We may, at times, enter into reverse repurchase agreements on behalf of our clients. Under a reverse repurchase agreement, a client sells securities yet also agrees to repurchase them at an agreed upon date and price. Reverse repurchase agreements

involve the risk that the value of the securities sold may decline, yet the client must still repurchase them. On the other hand, these transactions also involve the risk that the other party to a reverse repurchase agreement will be unable or unwilling to complete the transaction as scheduled, which may result in losses to our client.

- *Investing in Highly Leveraged Portfolio Companies:* Because our clients' investments may include securities of companies that are highly leveraged, our clients may be subject to increased exposure to adverse economic factors, such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of portfolio companies or their industries. Similarly, we may invest our clients' assets in companies that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of a client's investment in these companies could be significantly reduced or even eliminated due to further credit deterioration.
- *Foreign Securities:* At times, we buy and sell foreign securities for our clients' accounts. In fact, one of our clients focuses its investments in leveraged and distressed companies based in Europe. Investing in foreign securities involves certain risk factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates and the costs of converting from one currency to another. An increase in the value of the U.S. dollar compared to other currencies in which we may make investments will reduce the effect of increases and magnify the effect of decreases in the prices of securities our clients own.

In addition, there may not be much information available regarding foreign securities because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. There also might be a greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our clients' income. Additionally, when investing in foreign bonds, there is always a risk that their issuer will default and be unable to pay the interest and/or principal payments due on the bonds, as the financial stability of foreign issuers may be more precarious than that of U.S. issuers.

Finally, non-U.S. markets have different clearance and settlement procedures which, in some markets, have difficulty keeping pace with large volumes of transactions. This can lead to substantial delays and settlement failures that could adversely affect our clients' performance.

- *Investing in Emerging Markets:* We may invest in securities of issuers located in emerging markets on behalf of our clients. Emerging markets are countries that

are less developed than the United States but whose social and economic activity is in the process of reform and is experiencing growth and industrialization. Risks associated with investing in some emerging markets include less publicly available information, less strict securities market regulation, less efficiency, less favorable tax provisions, a greater likelihood of severe inflation, unstable currency and war. Furthermore, due to quality and reliability concerns, official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

- *Illiquid Investments:* On behalf of our clients, we make illiquid investments or make investments that become illiquid. Illiquid investments are investments that are not heavily traded and cannot easily be converted to cash. If any of our clients requires cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in over-the-counter markets.
- *Lack of Diversification.* Some of our clients' assets may be highly concentrated in one or a few investments. Any lack of diversification would increase the risk of loss to a client if there is a decline in the market value of any security in which our firm, on behalf of our client, had invested a large percentage of our client's assets.

CM Investment Partners, LP

CM Investment Partners, LP's investment program differs from Cyrus Capital Partners, L.P.'s in that its portfolio managers focus on investing across the capital structure of middle-market companies (generally with annual revenues between \$10 million and \$1 billion) in the United States. More specifically, CM Investment Partners, LP's strategy involves investing primarily in standalone first and second lien loans, unitranche loans and selectively in mezzanine loans, structured equity and the equity of portfolio companies through warrants and other instruments.

Fundamental value and credit analysis combined with CM Investment Partners, LP's experience crafting customized loan structures and loan documentation drive CM Investment Partners, LP's investment process. In addition to performing substantial diligence on potential investments, CM Investment Partners, LP employs an extensive underwriting process, which includes reviewing the prospects, competitive position, financial performance and industry dynamics of each potential portfolio company. It utilizes customized loan documentation tailored to the pricing and structural needs of a

portfolio company. Once CM Investment Partners, LP has made an investment on behalf of its client, it constantly monitors the underlying portfolio company by analyzing monthly and quarterly financial statements, reviewing financial projections, meeting with management and reviewing compliance certificates and covenants.

In making investment decisions, CM Investment Partners, LP relies on its own primary research, which includes obtaining and analyzing a multitude of information about potential investments, such as, for example:

- historical and projected financial performance of a company,
- company and industry specific characteristics, such as strengths, weaknesses, opportunities and threats,
- composition and experience of a company's management team and
- track record of the private equity sponsor leading the transactions, if applicable.

Despite this methodology, investing in any securities involves a risk of loss that CM Investment Partners, LP's client or any of its investors must be prepared to bear.

In effecting its investment program, CM Investment Partners, LP may utilize some of the same strategies as does Cyrus Capital Partners, L.P., and thus, some of the descriptions and corresponding risks we have enumerated above apply to investments in CM Investment Partners, LP's client as well. The following represents additional strategies, and their corresponding risks, that CM Investment Partners, LP may utilize that we have not discussed above. As previously mentioned, our explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in the investment strategies we discuss.

- *Referral and Relationship Risk:* CM Investment Partners, LP's investment model depends to a certain extent on its relationships with private equity sponsors, placement agents, investment banks, management groups and other financial institutions, as it relies on those relationships to provide it with potential investment opportunities. There can be no assurance that (1) CM Investment Partners, LP will be able to maintain those relationships, (2) those parties will continue to be successful sources of investment opportunities or (3) CM Investment Partners, LP will be able to develop new relationships with other sources of investment opportunities.
- *Unitranche Loans:* Unitranche loans are loans that combine senior debt and subordinated debt into one instrument bearing a blended interest rate that will usually fall between the rate for the two types of debt and reflects the relative risk of the secured and unsecured components. They typically provide for moderate

loan amortization during the initial years of the loan with the majority of the principal repayment deferred until loan maturity. There is a risk that the portfolio company may be unable to pay the lump sum or refinance the amount owed at maturity. In some cases, CM Investment Partners, LP's client may be the sole lender to a portfolio company, which may afford CM Investment Partners, LP additional influence with the portfolio company in terms of monitoring and, if necessary, remediation in the event of underperformance.

- *First Lien Loans:* First lien loans are generally secured by a first priority security interest in certain assets of the portfolio company. There is always a risk that the collateral securing CM Investment Partners, LP's client's loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that CM Investment Partners, LP's client will receive principal and interest payments according to the loan's terms, or at all, or that CM Investment Partners, LP will be able to collect on the loan should it be forced to enforce its client's remedies.
- *Second Lien Loans:* Second lien loans are generally secured by a second priority security interest in certain assets of the portfolio company. When CM Investment Partners, LP makes, on behalf of its client, subordinated investments, the underlying portfolio companies may not generate sufficient cash flow to repay its client, particularly after they pay any senior creditors. In addition, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, after repaying senior creditors, the portfolio company may not have any or enough remaining assets to repay its obligation in part or in full to CM Investment Partners, LP's client. Also, there is always a risk that the collateral securing CM Investment Partners, LP's client's loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions.
- *Structured Equity, Warrants and Equity:* CM Investment Partners, LP may, on behalf of its client, structure preferred equity or other equity-like instruments. These equity instruments will typically have redemption rights and will either be convertible into common equity at its client's option or may have detachable warrants.

When CM Investment Partners, LP invests its client's assets in loans and debt securities, its client may acquire warrants or other equity securities of portfolio companies as well. Please see the discussion on warrants earlier in this section.

CM Investment Partners, LP's client may also acquire equity securities directly. To the extent that it holds equity investments, CM Investment Partners, LP will attempt to dispose of them and realize gains for its client. However, any form of equity securities that its client receives may not necessarily appreciate in value.

Our firm does not recommend primarily any single type of security. Our clients' investments are rather diversified, yet we still encourage our investors to consider all of the risk factors we have explained, in addition to those we provide in the Private Placement Memoranda and other governing documents of our client funds, as any investment can be risky and investors must be prepared to assume any potential loss.

6. Disciplinary Information

Neither our firm, nor any of our directors, officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court that would be material to an evaluation of our firm's advisory business or the integrity of our firm's management.

Neither our firm, nor any of our directors, officers or principals has been involved in any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority that would be material to an evaluation of our firm's advisory business or the integrity of our firm's management.

Neither our firm, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings that would be material to an evaluation of our firm's advisory business or the integrity of our firm's management.

7. Other Financial Industry Activities and Affiliations

Neither our firm, nor any of our directors, officers or principals is registered as a broker-dealer or a representative of a broker-dealer or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

Because we are registered with the National Futures Association as a commodity pool operator and commodity trading adviser with respect to some of our clients, some of our employees are considered "associated persons" of a commodity pool operator and a commodity trading adviser.

Relationships with Broker-Dealers

Our firm has a revenue-sharing agreement with Cyan Partners, LP, the parent entity of a broker-dealer, Cyan Capital Markets LLC. From time to time, Cyan Partners, LP suggests to us investments that may be suitable for our clients. We do not pay a fee for this service.

Since we have a revenue-sharing arrangement with Cyan Partners, LP, we indirectly benefit when Cyan Capital Markets LLC secures a buyer for one of its recommended investments. Thus, we may be deemed to have a potential conflict of interest when our clients participate in any of these investments. To mitigate this conflict, following the completion of each fiscal year end audit, we pass along any amounts received under our revenue-sharing agreement (less any expenses we incur in connection with this strategic relationship) to all of our clients (excluding any clients that contain only proprietary funds). These distributions are made *pro rata* according to each client's assets under management (again, excluding any clients that contain only proprietary funds).

Additionally, it is feasible that a portfolio company in which our clients have made a substantial investment could utilize Cyan Capital Markets LLC to secure funding. In order to mitigate any potential conflicts of interest, our clients, in general, would not participate in the portfolio company's loans that Cyan Capital Markets LLC arranged, and, consequently would not pay any fees to Cyan Capital Markets LLC.

Relationships with Pooled Investment Vehicles

Our Private Investment Funds

Our firm and our affiliates, Cyrus Capital Advisors, L.L.C. and Cyrus Capital Partners GP, L.L.C., have sponsored a number of private investment funds that we manage. In fact, Cyrus Capital Partners GP, L.L.C. serves as the general partner to one of our fund clients and Cyrus Capital Advisors, L.L.C. serves as the general partner to many of our fund clients. Our clients do not have independent management, and our offshore funds do not have completely independent boards of directors, as we hire and retain their directors. Although this arrangement may give us heightened control and discretion over our clients, we manage any potential conflicts of interest by adhering to the investment strategy and investment allocation policy discussed in their Private Placement Memoranda or other governing documents.

We have organized our private investment funds that follow a private equity-based strategy in parallel fund structures. In one of the parallel fund structures, the investors in one of the parallel funds consist only of our employees. Any investments and dispositions will be made concurrently, at the same price and on a *pro rata* basis within each parallel fund structure.

SIG Master Limited, FBC Holdings S.à r.l., Cyrus Master Holdings II Corp., Cyrus Master Holdings III Corp., Shelf Life Fund, Hill Pond Fund, Ltd. and Black Rhino Fund, Ltd.

Some of the private investment fund clients that we manage may invest directly in other private vehicles that we manage. These private vehicles do not contain any other investors other than our investment fund clients. Investing our clients' funds into another vehicle that we manage presents the potential opportunity for our firm to charge our clients fees at multiple levels. However, while our clients indirectly bear all investment and operating expenses, we do not charge these private vehicles any management or performance fees in connection with our management services and therefore our clients do not pay to us further management or performance fees in addition to those that we charge at the client level. In addition, since we do not allow investors other than our clients to invest in these private vehicles, these vehicles do not compete with our clients for investments.

CM Finance LLC

Some of our private investment fund clients, including Cyrus Opportunities Master Fund II, Ltd., Cyrus Select Opportunities Master Fund, Ltd., CRS Master Fund, Ltd. and Crescent 1, L.P., are the sole investors in CM Finance LLC, a pooled investment vehicle expecting to convert into and register as a business development company under the Investment Company Act of 1940. CM Investment Partners, LP serves as the investment manager of CM Finance LLC. Our private investment fund clients are not subject to management or performance fees charged at the CM Finance LLC level, so they are not subject to further management or performance fees in addition to those that we charge at the fund client level.

Relationships with Other Investment Advisers

Cyrus Capital Partners Limited and Cyrus Capital Partners Europe L.L.P.

Our firm wholly owns Cyrus Capital Partners Limited, an English limited company, which owns, along with one of our employees, Cyrus Capital Partners Europe L.L.P., an English limited liability partnership. Cyrus Capital Partners Limited employs the employees who work in our London office. Cyrus Capital Partners Europe L.L.P. serves as a sub-adviser to our clients and is registered with the U.K. Financial Services Authority. Our firm has a services agreement with Cyrus Capital Partners Europe L.L.P. under which it provides us with research, analysis and investment advice.

Cyrus Capital Partners (Jersey), Ltd.

Our firm wholly owns Cyrus Capital Partners (Jersey), Ltd. Our firm has a services agreement with Cyrus Capital Partners (Jersey), Ltd. under which it provides us with consulting services in foreign jurisdictions.

Cyrus Capital Partners Jersey LP

Cyrus Capital Partners (Jersey), Ltd., along with one of our employees, owns Cyrus Capital Partners Jersey LP. Our firm has a services agreement with Cyrus Capital Partners Jersey LP under which it provides us with consulting services in foreign jurisdictions.

Cyan Partners, LP

As we discuss above, our firm has a revenue-sharing agreement with Cyan Partners, LP, an investment adviser and the parent entity of a broker-dealer, Cyan Capital Markets LLC. See the sub-heading “Relationships with Broker-Dealers” above for a description of potential conflicts of interest that may arise due to our relationship with Cyan Partners, LP and how we address those potential conflicts of interest.

CM Investment Partners, LP

CM Investment Partners, LP serves as the investment manager to CM Finance LLC, an investment vehicle that we discuss above. Cyrus Capital Partners, L.P. and Cyrus Capital Partners GP, L.L.C. own CM Investment Partners, LP. As we mention above, any of our private investment fund clients that invest in CM Finance LLC are not subject to management or performance fees charged at the CM Finance LLC level, so they are not subject to further management or performance fees in addition to those that we charge at the fund client level. Our firm does not expect to encounter any conflicts regarding allocation of investment opportunities because the investment focus of CM Finance LLC differs from the investment strategies of our private investment fund clients. Our firm shares employees with CM Investment Partners, LP. This may cause a conflict of interest because some of our employees may have to allocate their time, attention and ideas between our clients and CM Investment Partners, LP’s client. However, since our firm’s clients are the only investors in CM Investment Partners, LP’s client, our clients benefit from all time, attention and ideas allocated to CM Investment Partners, LP and its client.

Relationships with Commodity Pool Operators

One of our affiliates, Cyrus Capital Advisors, L.L.C., which serves as the general partner to some of our client funds, is registered with the National Futures Association as a commodity pool operator with respect to some of our clients to invest in futures on their behalf.

We do not recommend or select other investment advisers for our clients, although we may invest a portion of certain clients' assets in other investment funds. We do not receive any additional compensation other than our standard management fee and performance compensation in connection with such an arrangement.

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

As an investment adviser, our firm stands in a position of trust and confidence with respect to our clients, our investment funds. Our firm has a fiduciary duty to place the interests of our client funds before the interests of our firm and our firm's employees. All of our personnel must put the interests of our clients before their own personal interests and must act honestly and fairly in dealings with our clients. All of our personnel must also comply with all federal and other applicable securities laws.

To promote our fiduciary duties and legal obligations, our Code of Ethics contains policies regarding gifts and entertainment, outside business activities, political contributions, reporting violations and disciplinary action. We will provide a copy of our Code of Ethics to any client, or investor in a client, or prospective client or prospective investor upon request.

As part of our Code of Ethics, we have adopted a personal trading policy requiring all of our employees to disclose all holdings in personal accounts and all personal securities transactions in a timely manner. In accordance with our Code of Ethics, our firm maintains a "Restricted List" that contains the names of companies of which we have determined to restrict trading activity by our personnel, typically because our clients hold, or we anticipate that they may hold, active positions in these companies. Generally, an employee may not, for his or her personal account, trade securities of an issuer included on the Restricted List, though our Chief Compliance Officer may grant limited exceptions in certain circumstances after an employee seeks pre-approval. In fact, our Chief Compliance Officer must pre-approve all employees' personal securities trades (subject to limited exceptions). Employees must also submit quarterly and annual reports disclosing all of their personal securities holdings (subject to limited exceptions).

Our portfolio managers may occasionally, under exceptional circumstances, determine that it is in line with certain clients' investment strategies and in the best interest of our clients to have one client purchase a security from another client that is selling the same security, otherwise known as a "cross trade." Cross trades may create conflicts of interest because they are not independently negotiated and may provide an opportunity for an investment adviser to collect related commissions. However, we do not take any commissions or fees in connection with effecting cross trades between our clients. In fact, we engage brokers to effect our clients' cross trades, whose commissions are equally

borne by both participating clients. Our Chief Investment Officer or Chief Operating Officer must approve all cross trades before they are executed. In addition, our trading desk must notify our Chief Compliance Officer of any cross transactions, who must document the reason for the trade and the approval obtained.

Our personnel may invest their personal funds in our clients, and other unaffiliated private funds, and, therefore, they may hold the same securities as the investors in our clients. In addition, when they arrive at our firm, certain of our employees may already own securities in their personal accounts that we also recommend to our client funds. If our employees buy or sell these securities for their personal accounts, a conflict of interest may arise if our employees receive more favorable execution prices than do our clients because our employees' trades might have driven up the market prices of target securities. As described above and further in our Code of Ethics, we have established procedures designed to limit conflicts of interest in cases where our employees may buy or sell, for themselves, securities that we recommend to our clients.

Our Code of Ethics prohibits our employees from actively buying or selling securities for their own accounts securities that we are currently recommending that our clients buy or sell.

Finally, we note that our affiliate, Cyrus Capital Partners Europe L.L.P., and its members and employees are not only subject to our Code of Ethics and U.S. Investment Advisers Act rules and regulations, but they are also subject to U.K. regulatory obligations, including in respect of conduct of business and conflicts of interest, under the U.K. Financial Services Authority's principles and rules.

9. Brokerage Practices

Our firm utilizes various brokers and dealers to execute, settle and clear securities transactions. In selecting broker-dealers and determining the reasonableness of their commissions for our clients' transactions, we consider the following factors, among others:

- a broker-dealer's quality of execution,
- a broker-dealer's ability to effect the transaction,
- a broker-dealer's trading expertise and volume,
- a broker-dealer's facilities,
- a broker-dealer's reliability,
- a broker-dealer's reputation, financial responsibility and stability,

- a broker-dealer's willingness and ability to commit capital,
- the nature and extent of a broker-dealer's customer service,
- a broker-dealer's general responsiveness,
- a broker-dealer's access to underwritten offerings and secondary markets,
- any research-related services and equipment provided by a broker-dealer, and
- the overall cost of a trade, including commissions.

If we determine, in good faith, that any commissions a broker charges or the prices a dealer charges are reasonable in relation to the value of services that we and our clients receive, our clients may pay commissions or prices that are greater than those another broker or dealer might charge.

In addition, we may accept certain operations-based consulting services in areas such as facilities management technology, design and build, real estate and third-party service providers from a broker-dealer that we do not pay for. These consulting services are designed to assist our firm in providing efficient investment management services for our clients and improving our dealings with third parties. Receiving these consulting services may give rise to a conflict of interest for our firm because we may be incentivized to use a particular broker-dealer or pay higher commissions or prices than those another broker or dealer might charge. We will only enter into this type of arrangement if we believe that the broker-dealer providing these services charges fair commissions in light of the overall value of services that our clients receive from the broker-dealer.

We May Utilize Research and Other Soft Dollar Benefits, but Do Not Currently Do So.

Our firm has the authority to pay higher prices to buy securities from, or accept lower prices for the sale of securities to, brokerage firms that provide us with investment and research information. This investment and research information is often referred to as "soft dollar" benefits. The research services that broker-dealers might provide include:

- written information and analyses concerning specific securities, companies or sectors,
- market, financial and economic studies and forecasts,
- news and research services,
- statistics and pricing or appraisal services,
- discussions with research personnel,

- computer and telecommunications equipment, and
- invitations to attend conferences or meetings with management or industry consultants.

We are authorized to use these research services and products in connection with our advisory services for any of our accounts, not necessarily for only the account that “paid” for them. For example, we could utilize research services that a broker-dealer provides for one of our funds in connection with our advisory services for other accounts and vice versa. Should we decide to engage in soft dollar arrangements, we would aim to allocate soft dollar benefits among our clients in a fair and equitable manner, but may not necessarily allocate soft dollar benefits to each of our client accounts in proportion to the soft dollar credits that each client generates.

If We Use Soft Dollars, We Intend for our Use to Fall Within the Safe Harbor. The Securities and Exchange Commission has created a safe harbor that protects financial advisers from liability for a possible breach of fiduciary duty to their clients for engaging in soft dollar arrangements for certain services at other than the lowest transaction costs if they make a good faith determination that the amount of the commission was reasonable in relation to the value of the research services received. We intend that any soft dollar arrangements in which we may engage will fall within this safe harbor.

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. If we use client markups or markdowns to obtain research products and services, our firm would receive a benefit because we would not have to produce or pay for the research products and services. The availability of these benefits could influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients’ interest in receiving the best execution prices. Obtaining these benefits could cause our clients to pay higher fees than those charged by other broker-dealers.

The use of soft dollars to obtain research products and services could create a conflict of interest between our firm and our clients because our clients would pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of our firm or other clients. To the extent that we could acquire these products and services without expending our own resources, any use of soft dollar benefits would likely increase our profitability.

Because we do not currently engage in soft dollar arrangements, we do not have any procedures to direct client transactions to broker-dealers in return for soft dollar benefits.

We Do Not Consider Referrals in Selecting or Recommending Broker-Dealers.

Our Clients Do Not Direct Brokerage. As all of our clients are private investment funds that we manage, we select all broker-dealers for our clients.

Trade Aggregation and Allocation

Because Cyrus Capital Partners, L.P.'s clients generally follow the same investment strategy (with the exception of our private equity-style clients which each only invest in a single issuer and whose investments would not fall within the investment mandates of our other clients), they tend to participate in the same investment opportunities. When determining whether or not a client should participate in an investment opportunity, we consider, with respect to each client,:

- amount of cash available,
- current portfolio composition,
- any specific investment restrictions,
- the liquidity currently available in the marketplace, and
- the anticipated liquidity when unwinding the investment.

For each shared investment opportunity, we typically place one aggregate order on behalf of all participating clients, unless, under a particular circumstance, we believe that doing so would not be in the best interest of our clients or consistent with our best execution policy. We typically allocate aggregated orders among our participating clients' accounts *pro rata*, based on their net asset values. We may, however, determine that a *pro rata* allocation is not appropriate in certain circumstances, such as when:

- certain clients are restricted from participating in certain initial public offerings;
- certain clients have cash limitations or limitations because of current portfolio holdings (for example, existing percentage holdings in an issuer or specific industry type);
- certain clients are restricted or may face adverse consequences from participating in an investment due to tax, legal or regulatory considerations;
- an order has only been partially filled and contains so few shares that a *pro rata* allocation would be impracticable or result in a nonconforming allocation for one or more clients;

- we are seeking to level positions across clients (due to, for example, capital infusions or withdrawals);
- we are seeking to align European investment exposure for certain clients; and/or
- single investor client mandates require that we allocate an order otherwise.

In addition, we do not allocate investments relating to the strategies that are the focus of our newly-launched clients, Cyrus Special Strategies Fund, LP, Cyrus Special Strategies Fund, Ltd. and their master fund, according to the procedures we have discussed above because applying the procedures above could result in an allocation of all or almost all of these investments to Cyrus Special Strategies Fund, LP, Cyrus Special Strategies Fund, Ltd. and their master fund. Rather, we allocate these investments according to specific procedures that we have devised to ensure that certain other clients will continue to have exposure to the strategies that we pursue on behalf of Cyrus Special Strategies Fund, LP, Cyrus Special Strategies Fund, Ltd. and their master fund.

If we do not allocate a trade *pro rata* or in accordance with specific exceptions set forth in our policy, the responsible analyst must first receive pre-approval from our Chief Investment Officer, our Chief Operating Officer or our General Counsel and Chief Compliance Officer.

While we average prices paid for certain aggregated transactions, certain Commodities Futures Trading Commission regulations prohibit average pricing and thus we may fill orders for the same commodity interest transactions at different prices among participating clients.

Because CM Investment Partners, LP only has one client, it does not encounter situations in which it must allocate an order among multiple accounts.

We may, at times that we deem appropriate, aggregate trades for our clients and CM Investment Partner's client in one order. In this case, we will agree on a pre-determined allocation among participating clients before executing the order. If the order is only partially filled, we will allocate the order *pro rata* based on the initial pre-determined allocation.

Clients can ultimately benefit when we aggregate trades because each client gets volume discounts on execution costs, and may otherwise be unable to execute an investment decision as effectively as it could have had it acted alone.

Finally, as we mention above in Section 7: Other Financial Industry Activities and Affiliations, we have organized our private investment funds that follow a private equity-based strategy in parallel fund structures. Any investments and dispositions will be made concurrently, at the same price and on a *pro rata* basis within each parallel fund structure.

We will provide a copy of our complete order aggregation and trade allocation procedures policy to any client, or investor in a client, or prospective client or prospective investor upon request.

10. Review of Accounts

Stephen C. Freidheim, our Chief Investment Officer, and our analysts are aware of the holdings in each client's account on a continuous basis. Mr. Freidheim and our analysts monitor these holdings in light of trading activity, significant corporate developments and other activities which may dictate a change in portfolio positions. Mr. Freidheim and our analysts review client accounts periodically from the standpoint of the specific investment objectives of each client and as particular situations may require.

In addition, on a periodic basis, Mr. Freidheim reviews our clients' holdings against various risk parameters. Mr. Freidheim then communicates the results of this review to key investment and trading personnel.

Those positions with a price movement of greater than 3% are subject to heightened scrutiny by Mr. Freidheim and our analysts. In addition, before deciding whether to purchase or sell a particular security on behalf of any of our clients, Mr. Freidheim and our analysts review, in full, each client account that holds, or is about to hold, the security.

Michael C. Mauer and Christopher E. Jansen, the co-Chief Investment Officers of CM Investment Partners, LP, are aware of the holdings in CM Investment Partners, LP's client's account on a continuous basis. Mr. Mauer and Mr. Jansen monitor these holdings in light of trading activity, significant corporate developments and other activities which may dictate a change in portfolio positions. Mr. Mauer and Mr. Jansen review the account of CM Investment Partners, LP's client periodically from the standpoint of its specific investment objectives and as particular situations may require.

In addition, on a periodic basis, Mr. Mauer and Mr. Jansen review the holdings of CM Investment Partners, LP's client against various risk parameters.

In addition, before deciding whether to purchase or sell a particular security on behalf of CM Investment Partners, LP's client, Mr. Mauer and Mr. Jansen review, in full, the client's account holdings.

Investors in all of our clients receive written quarterly update letters that contain performance information for the applicable fund and audited written annual reports. In addition, investors may also receive unaudited written monthly reports of the performance of the client fund in which they have invested.

11. Client Referrals and Other Compensation

Our firm does not, nor do any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients.

Employees may serve on the boards of directors of companies in which our clients invest and may, under certain circumstances, receive compensation in connection with these roles. All compensation employees earn from serving on the board of a company in which our clients invest is remitted to the relevant clients by offsetting any amounts they owe our firm for expenses we have incurred on their behalf. In addition, we place any company for which an employee serves on its board of directors on our firm's restricted list and only permit trading in that company's securities during permitted time windows.

Our firm does not compensate third parties for client referrals. However, we have entered into an arrangement with a third party solicitor under which we have agreed to pay the solicitor a fee representing a percentage of our asset-based fees and performance-based compensation that we earn from any investors that the solicitor identifies to us and that invest in any of our client funds. In addition, we do make residual payments to one person for an investor referral pursuant to an expired solicitation arrangement.

12. Custody

While it is our firm's general practice not to accept or maintain physical possession of any of our clients' assets, we are deemed to have custody of their assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, because we have the authority to access clients' funds and deduct fees and expenses from clients' accounts.

In order to comply with Rule 206(4)-2, we utilize the services of a qualified custodian (as defined under Rule 206(4)-2) to hold all assets of our clients. We also ensure that the qualified custodian maintains these funds in accounts that contain only clients' funds and securities. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit our clients at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in our clients within 120 days after the end of the fiscal year. We also receive quarterly account statements on behalf of our client funds, which we compare with our own records.

13. Investment Discretion

Scope of Authority

Our firm accepts discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific

client consent, which securities to buy or sell and the amount of securities to buy or sell. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients' Private Placement Memorandum or other governing documents.

Procedures for Assuming Authority

Before accepting their subscriptions for interests, we provide all investors in our clients with a Private Placement Memorandum and/or governing documents that set forth, in detail, our investment strategy and program and the terms of investment for investors. By completing our subscription documents to acquire an interest in one of our client funds, investors give us complete authority to manage their investments in accordance with the Private Placement Memorandum and/or governing documents they each received.

In addition, under investment management agreements with each client fund, all of our clients have granted our firm full power of attorney over their assets, which gives us the right to pursue their investment programs at our full discretion and all rights, privileges and powers of ownership with respect to their assets.

14. Voting Client Securities

Our firm has authority to vote our clients' securities. Our policy is to vote proxies solely in the interests of our clients. Generally, we believe that a company's management is best suited to make decisions that are essential to the ongoing operation of the company. Therefore, we generally vote proxies in line with a company's management. However, under certain circumstances, when we believe that management's proposal is not designed to maximize value for our clients, we will vote against management.

Clients, and investors in our clients, cannot direct our portfolio managers' proxy votes.

If there are any potential conflicts of interest in connection with voting a client proxy, our Chief Compliance Officer and the relevant portfolio manager must present any purported conflict to our Chief Investment Officer. Our Chief Compliance Officer must document the matter thoroughly and preserve the documentation in accordance with our books and records policies.

Clients, or investors in our clients, may obtain information about how we voted proxies and/or a copy of our proxy voting policies by contacting our Investor Relations Team at the telephone number on the cover of this brochure.

15. Financial Information

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.