

Form ADV Part 2A: Firm Brochure

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Para Advisors LLC is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Para Advisors LLC. If you have any questions about the contents of this brochure, please contact us at (212) 355-6688. 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 Para Advisors LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

There have not been any material changes to this brochure since the date of our last annual update on March 29, 2012.

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Item 4

Advisory Business

- A. Para Advisors LLC (our “firm”) is an investment services firm specializing in investment management for hedge funds and portfolio accounts. Our firm, together with our predecessor, Para Advisors, Inc. and affiliates have been in business providing advisory services since 1991. The principal owner of our firm is Ned Sadaka through his ownership of Para Advisors, Inc., which is the sole member of our firm.
- B. We offer investment management services to hedge funds and other portfolio accounts. In providing our advisory services, we specialize in event driven strategies. We engage in diverse investment activities, including (i) investments in debt and equity securities of financially distressed companies, (ii) investments in merger arbitrage and takeover transactions, (iii) trading in options and short sales in debt and equity securities, (iv) investments in defaulted bonds and loans to companies in financial distress or bankruptcy, (v) high-yield bonds, (vi) swaps, (vii) derivative transactions and (viii) investments in securities of issuers which appear to be relatively or absolutely undervalued or overvalued. Such investments may be in securities of United States or non-United States companies and may be traded on markets or exchanges located either within or outside of the United States. We also invest in trade and other claims against, and institutional and other indebtedness of, financially distressed companies. We invest primarily in publicly traded securities; however, certain of our investments may be, or over time may become, thinly traded or illiquid.
- C. Our firm generally employs the same overall event driven strategy for all of our clients. Our firm adheres to the investment strategy set forth in each client’s governing or operational documents, including, for each hedge fund client, such client’s Confidential Information Memorandum or with respect to any managed account we may manage, the managed account agreement. Our firm can tailor our advisory services to the individual needs and specified investment mandates of our clients by adhering to the restrictions on the types of securities in which we invest for our clients, which can vary from client to client.
- D. We do not participate in wrap fee programs.
- E. As of December 31, 2012, we had approximately \$201,000,000 of regulatory assets under management on a discretionary basis. We do not manage any client assets on a non-discretionary basis.

Item 5

Fees and Compensation

- A. Our firm, or an affiliate of our firm, typically receives compensation from our clients based on the percentage of assets we manage and by charging performance-based fees. (All references to our firm in this Item 5 refer to us or one of our affiliates.) Generally, each year, we charge clients 1.5% of their assets that we manage and 20% of their net profits.

For investors in our hedge fund clients, our fees are generally not negotiable. However, we have the general discretion to waive or modify the application of any provision in the investment terms applicable to an investor in a “side letter” or any other manner, generally without the consent of other investors. Typically, we only exercise our discretion to waive all or a portion of the asset-based fee and/or performance-based fee for investors that are our affiliates, employees or immediate family members of our employees. In addition, we have, on occasion, entered into side letter arrangements with certain investors in our hedge funds clients, in which we grant them preferential terms. These terms may include, among other things, reduced fees, favorable withdrawal rights or transparency rights.

Our non-hedge fund clients would typically have asset-based fees and performance-based fees, which would be separately negotiated and/or contained in such client’s operative and governing documents.

Asset-based fees and performance-based fees for our current clients are as follows:

Client	Asset-Based Fee*	Performance-Based Fee**
Para Partners, L.P.	1.5% per annum	20%
Para Investors, L.P.	1.5% per annum	20%
Para International Fund Ltd.	1.5% per annum	20%
Managed Account	Separately Negotiated	Separately Negotiated

* Asset-based fees are based on the aggregate fair market value of the relevant fund client’s net assets.

** Performance-based fees are based on net realized and unrealized profits for each year, subject to a loss carryforward requirement or “high water mark.” A loss carryforward ensures that we only receive a performance allocation when the client’s account value is greater than its previous high water mark value. Should the investment drop in value, then we must bring it back above the previous year’s end high water mark before we can receive a performance allocation again.

- B. We deduct the asset-based fees from the accounts of investors in our hedge fund clients. These asset based fees are calculated and payable at the end of each calendar month.

We deduct the performance-based fees from accounts of investors in our hedge fund clients at the end of each year, or whenever an investor in a hedge fund client is making a withdrawal or redemption, but only on the withdrawn or redeemed amount.

In connection with our advisory services, clients bear all of their own expenses (ordinary and extraordinary). The enumerated lists below are detailed but do not include every possible expense a hedge fund client may incur.

Operational Expenses

Our hedge fund clients pay for expenses related to their fund’s administration, such as:

- accounting, audit and legal expenses,
- costs of holding meetings of and with investors and prospective investors (including reasonable commercial travel expenses),
- costs involving any litigation or investigation involving a fund client’s activities,
- fees and expenses of any administrator,
- costs associated with the preparation and distribution of reports and other information for investors and prospective investors, and
- its pro-rata portion of the costs of any liability insurance obtained on behalf of a client, our firm (as investment manager of the client) or any of our affiliates and members.
- Investors in our hedge fund clients may also incur costs related to the offering of shares or interests, including legal fees, accounting fees, printing costs and travel and other out-of-pocket expenses.

Investment-Related Expenses

Our hedge fund clients may incur expenses in connection with executing investment program transactions, such as:

- expenses of specific or prospective portfolio activities and transactions, such as brokerage commissions, custody fees, interest on borrowings, withholding taxes, transfer taxes and other transaction costs; and
- fees of professional advisors and consultants relating to investments or prospective investments, and
- specific expenses incurred in obtaining systems, research and other information utilized for portfolio management purposes that facilitate valuations and accounting, including the costs of statistics and pricing services, service contracts for quotation equipment and related hardware and software.

For more information on brokerage transactions and costs, please see Item 12: Brokerage Practices.

Investors in our hedge fund clients may incur additional expenses or other types of expenses. For example, a withdrawal charge may be deducted from the account of an investor in a hedge client for any withdrawal or redemption within the first 12 months of the initial investment, and generally is payable to our firm. Investors in a hedge fund client should review all fees and expenses charged to the fund to fully understand the total amount of fees to be paid by the fund, and indirectly, the investor. Each hedge fund's Confidential Information Memorandum provides a summary of expenses charged to the fund.

- C. None of our clients pays our fees in advance.
- D. Neither our firm nor any of our principals or employees receives any transaction-based compensation for the sale of securities of our client funds to investors in those client funds.

Item 6 Performance-Based Fees and Side-By-Side Management

Our firm, or one of our affiliates, receives performance-based compensation from each of our clients. Please see Item 5: Fees and Compensation for a detailed explanation of our performance-based fees.

Our firm and its investment personnel provide investment management for multiple clients. Our investment personnel have significant investments in certain of our hedge fund clients. When managing more than one client account a potential exists for one client account to be favored over another client account. We and our investment personnel may have a greater incentive to favor client accounts in which our personnel have more significant investments. We have adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts and the allocation of investment to ensure fair and equitable allocation among accounts.. In general, executed trades are allocated to each client account on a *pro rata* basis in proportion to the relative net asset value of each with consideration of investment restrictions, capacity, ownership of illiquid or private securities and available cash, although on occasion investments made on behalf of clients may differ. Please see Item 12B: Aggregation and Allocation for a detailed explanation of this process among our clients.

Item 7 Types of Clients

Our clients currently consist of private pooled investment vehicles (hedge funds). We have also historically managed and may in the future manage separately managed accounts.

Through investments in our hedge fund clients, our firm typically provides investment services to investors that are high net worth individuals, trusts, estates, charitable organizations, foundations, family offices and endowments, corporations, fund-of-funds institutions, Individual Retirement Accounts (IRAs), pension and profit sharing plans, and employees of our firm and their families.

Investment Requirements

Each of our hedge fund clients have a stated required minimum investment of \$1,000,000 or \$3,000,000. Nevertheless, we or our affiliates have the discretion to, and may, accept subscriptions for a lesser amount, as described in each hedge fund client's Confidential Information Memorandum.

We do not have any stated minimum investment amount in connection with non-hedge fund clients that we may advise, though a client's governing or operational documents may include a minimum investment amount for investment in such fund. We would typically require that the total amount of any new separately managed account be at least \$10 million.

To comply with Securities and Exchange Commission regulation, we require that U.S. investors in our hedge fund clients qualify as both accredited investors and qualified clients or 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 clients are generally individuals or entities with over \$2,000,000 of net worth. 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.

Separately managed accounts and other clients that we would advise must also be qualified clients and investors in such client funds will typically have minimum wealth requirements as well.

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

Item 8

Method of Analysis, Investment Strategies and Risk of Loss

- A. In managing our clients' accounts, we use fundamental analysis to identify investment opportunities, generally among event-related situations. Our investment professionals, consisting of principals, analysts and traders, perform primary research to select investments that we believe are undervalued and will appreciate over time through either a successful restructuring, recapitalization, bankruptcy reorganization, merger transaction, asset sale, refinancing transaction, takeover, spin-off, equity or debt repurchase transaction, liquidation, change in dividend policy, exchange offer for debt or equity securities, market appreciation or other means. We may also sell short relatively overvalued securities and as a result of our analysis of such factors as company debt levels, interest and principal repayment obligations, aggressive accounting practices, potential fraud, unrealistic growth or earnings projections on the part of analysts or investors, competitive pressures within a company's industry, and fundamental economic changes that may adversely affect a company's growth and profitability. We may create positions which involve both long and short positions in the securities of the same issuer.

We may invest in securities of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, or that are involved in bankruptcy or reorganization proceedings. We anticipate that certain of such securities may not be widely traded, and that our position in such securities may be substantial in relation to the market for the securities. These types of securities require active monitoring and may, at times, require our participation in bankruptcy or reorganization proceedings.

We may also make investments in the secured and other senior debt of financially troubled companies as well as in subordinated debt and preferred stock and common stock of such companies. Investments in secured and other senior debt are protected by various types of legal safeguards and a secured debt holder typically receives both the largest distributions (as a percent of their claims) in a bankruptcy proceeding as well as the most valuable consideration (usually consisting of cash or senior secured debt). Senior unsecured debt ranks prior to all subordinated claims in a bankruptcy proceeding and typically is required to be paid in full before any of the issuing company's subordinated debt is paid at all. We may also invest in corporate debt securities that are rated in the medium to lowest rating by nationally recognized statistical rating organizations.

We may from time to time engage in convertible securities arbitrage transactions. An example would be the purchase of a convertible security and an offsetting short sale of the underlying security to take advantage of a price differential in the two securities.

We may engage in various types of options transactions and may also engage in hedging and arbitrage in options on securities. Hedging activity reduces the risks attendant in short-selling and in taking long positions in certain transactions, and may involve the purchase or sale of a stock option on a registered options exchange and an offsetting transaction in the underlying stock, or offsetting transactions in one or more options for stock.

We may engage in transactions in financial instruments (including, without limitation, options, swaps, derivative or synthetic instruments, exchange traded funds, forward contracts or other over-the-counter transactions). Such instruments may be used for directional investing purposes and to hedge the value of portfolio investments, and/or to hedge market, interest rate or other portfolio risks.

We may invest in liquidation transactions. From time to time, companies announce that they intend to pursue a plan of liquidation, under which all or substantially all of the assets of the company to be liquidated are to be sold, with the proceeds of sales ultimately to be distributed to the stockholders of the company. There may be several liquidating distributions in connection with a particular liquidation.

In the case of liquidation proposals, the market value of the assets of the company to be liquidated is evaluated and a determination made of the likelihood that the transaction will occur. If we believe that the assets of the company to be liquidated are worth more than the market price of the company's publicly traded securities, and we believe that there is a substantial likelihood that the liquidation will occur, we may invest in the securities of the company to be liquidated in the expectation of profiting from the differential between the cost of the securities purchased and the amount of the liquidating distributions (less any commission and fees).

We may also take positions in the securities of companies which are embarking on a recapitalization or share repurchase program. Based on research, it may be determined that the value of particular securities of a company will increase or decrease as the result of the recapitalization or share repurchase program and, thus, we may take a position in the securities which are affected by a recapitalization or share repurchase program.

We may invest in merger arbitrage transactions. Typically, merger arbitrage involves the purchase of securities which are the subject of a takeover attempt prior to the time the market price of the securities fully reflects the value offered to the shareholders, in the expectation that the securities will rise to at least the value offered to the shareholders. We will use different arbitrage techniques with respect to the various kinds of transactions to be arbitrated. Substantial risks are involved in such transactions and the results of our operations may be expected to fluctuate from period to period.

We may invest in cash tender offers. At the time that a cash tender offer or a cash merger proposal is announced, the offer price for the securities of the target company is typically higher than the price at which such securities are selling in the marketplace. When a cash tender offer or cash merger proposal is announced, the probability that the transaction will be consummated is evaluated. If the likelihood of consummation or that another person or corporation may bid a higher price is considered to be high, we may purchase the securities of the target company in the open market in the expectation of tendering them for cash to the acquiring company on the closing date of the tender offer or merger. If the transaction is completed, we will, typically, realize a profit, if any, from the price differential between the cost of the securities purchased and the amount received from the acquiring company (less any commission and fees).

We may invest in exchange offers. When an exchange offer or a proposal for a merger is publicly announced, the market price of the securities of the acquiring company which would be issued in the transaction is typically greater than the market price of the securities of the target company for which they are to be exchanged, although this differential or spread will generally narrow or disappear as the closing date of the exchange offer or merger approaches. When an exchange offer or proposed merger is publicly announced, the probability of the consummation of the transaction is evaluated. If it is determined that it is probable that the transaction will be consummated, we may purchase shares of the target company. In order to hedge against the risk of market fluctuation in the securities to be received, we may, in addition, sell securities of the acquiring company short. If the transaction is consummated, we will then exchange the shares of the target company which it has accumulated for the shares issued by the acquiring company and may cover its short position, if any, with the securities so received. The profit realized, if any, will be the price differential between the two securities, plus any soliciting dealers' fees, dividends and stock borrowing income we receive (less any commission and fees).

We may sell short securities involved in tender offers and exchange offers. If it is determined that it is probable that a proposed tender offer, exchange offer or similar transaction will not be consummated, we may sell the securities of the target company short in the expectation of "covering" the short sale with securities purchased in the open market at a price lower than that received in the short sale. If the transaction is not consummated and the price of the target company's securities declines, we will then cover its short position with securities purchased in the market. The profit realized, if any, will be the price differential between the price received in the short sale and the cost of the securities purchased to cover the short sale (less any commission and fees).

We rarely purchase, but may purchase, trade receivables of financially distressed companies, i.e., the claims of trade creditors against the issuer for the payment of money in respect of goods or services provided to the company. Typically, such claims are unsecured and non-interest bearing. We seek to acquire such claims at a discount, normally through privately negotiated transactions with the creditor,

with the expectation of receiving a greater amount pursuant to a judicially approved plan of liquidation or reorganization, from a resale of the claim to another investor or from an exchange of the claim for securities issued by the reorganized debtor.

In addition to making investments as described above, we may make investments in other equity and debt securities which we believe offer opportunities for our client investment funds. For example, from time to time we have maintained investments in participations in loans of publicly traded companies. Additionally, short term opportunities may include tactical trades designed to take advantage of perceived market dislocations. We may also engage in various types of options transactions, including hedging transactions, so long as such actions do not involve Commodity Futures Trading Commission regulation.

Despite our thorough research and analysis, 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. Please see Item 8B below for a detailed explanation of the investment strategies we employ and some of the significant risks associated with them.

B. 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.
- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment may be lost. The use of short sales and option trading can, in certain circumstances, substantially exacerbate the impact of unfavorable price movements on our clients' investments. Also, changes in the general level of interest rates may negatively affect our clients' results.
- *Financial Markets and Regulatory Change:* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of hedge funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the hedge fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment

and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.

The following is a description of 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. We do not use every strategy listed below when managing each client's assets, but rather we use various combinations of strategies that depend on each client's circumstances and investment goals.

- *Reorganization Securities:* Investments in the securities issued by companies involved in reorganization proceedings entail a higher degree of risk than investing in securities of financially sound companies. If our firm's expected outcome of a reorganization or restructuring proves incorrect, our clients may experience a loss. The outcome of a reorganization may be affected by litigation between the participants in the reorganization proceeding or by a need to obtain consents from various governmental authorities or others. Our firm may have limited access to reliable and timely information concerning material developments affecting a company.

These types of securities require active monitoring. At times, we may be required to participate on behalf of a client in bankruptcy or reorganization proceedings of an issuer.

- *Distressed Securities:* Distressed securities refer to securities and other obligations issued by a company that is undergoing significant financial or operational difficulties, such as bankruptcy reorganization, or is likely to do so in the near future. Our investments in these companies consist largely of syndicated bank loans and publicly traded debt securities. The securities of distressed corporations are often overly discounted by the market, as risk adverse investors tend to sell securities due to the complexity inherent in an actual or potential bankruptcy reorganization. These situations can create attractive buying opportunities for investors specializing in valuing distressed securities. Our clients purchase these instruments with the anticipation that the company will emerge from its financial difficulties and become profitable again. In the interim, the purchase of the debt allows the new shareholders or bondholders to actively participate in the process of reorganizing the company as it attempts to position itself for a return to profitability. Because these companies' securities remain unpaid unless and until the companies reorganize or emerge from bankruptcy proceedings, our clients may have to hold these securities for long periods of time. A variety of scenarios could complicate the reorganization, liquidation or bankruptcy process, such as litigation between participants in the process or requirements to obtain mandatory or discretionary consents from governmental authorities.

The most significant risk of investing in distressed debt and securities is that the subject company's projected performance improvement never takes place. We may not always correctly identify and evaluate the nature and magnitude of the many factors that affect the probability of a successful reorganization. When this is the case, the loans, bonds and stocks, that our clients bought likely will 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 claims successfully during a liquidation may also turn out to be profitable investment opportunities.

We also invest in distressed securities of non-U.S. issuers, which requires an understanding of the reorganization process in the country of the issuer. Our investment approach combines value oriented, fundamental company analysis with the legal aspects of the reorganization proceedings.

- *Medium and Lower Rated Corporate Debt Securities.* Some of our clients may invest in medium and lower rated corporate debt securities. A general economic downturn or a significant increase in interest rates could severely disrupt the market for these securities and adversely affect their market value. In such circumstances, the ability of issuers of the securities to repay principal and to pay interest, to meet projected business goals and to obtain additional financing may be adversely affected. Such consequences could lead to an increased incidence of default for such securities and adversely affect the value of the corporate debt securities in a client's portfolio. The secondary market prices of these securities are less sensitive to changes in interest rates than are higher rated debt securities, but are more sensitive to adverse economic changes or individual corporate developments. In addition, periods of economic uncertainty and changes in interest rates can be expected to result in increased volatility of market price of any medium to lower grade corporate debt securities in the series portfolio and thus could have an effect on the net asset value of a client if other types of securities did not show offsetting changes in values. The secondary market value of corporate debt securities structured as zero coupon securities or payment in-kind securities may be more volatile in response to changes in interest rates than debt securities which pay interest periodically in cash.

To the extent that there is no established retail market for some of the medium or low grade corporate debt securities in which our clients invest, there may be thin or no trading in such securities and our ability to accurately value such securities may be adversely affected. Further, it may be more difficult for our clients to sell such securities in a timely manner and at their stated value than would be the case for securities for which an established retail market exists.

- *Bank Loans:* Some of our clients may invest in syndicated bank loans. Syndicated loans are large loans made by multiple lenders to a single borrower. Investing in these 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; (2) environmental liabilities that may arise with respect to collateral securing the loans; and (3) limitations on our clients' abilities to enforce their rights with respect to syndicated loans. In addition, investing 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 will bear costs of 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.

Finally, when investing in any type of loan, there is always the risk 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 clients' ability to perfect or effectuate a lien on the collateral securing the loan.

- *Risk Arbitrage:* We employ risk arbitrage on behalf of our clients. Risk arbitrage is a type of arbitrage that encompasses merger arbitrage and liquidation arbitrage. Merger arbitrage involves purchasing securities of a company that is the target of an announced merger, tender offer, spin-off or other similar transaction. The success of this strategy hinges on the ability to make an accurate assessment of the probability that the transaction in question will occur. This assessment involves evaluating, among other things, shareholder reaction, distribution of voting rights, regulatory response, the possibility of litigation and the position of current management. Purchasing securities subject to a merger-type transaction should be profitable if the transaction is successfully completed. Our traditional merger arbitrage strategy consists of acquiring the stock of the targeted company while simultaneously selling short the stock of the acquiring company.

There is always a risk that the transaction will fail, its terms will be revised or it will be prolonged to the point where our rate of return would be much smaller than anticipated.

Liquidation arbitrage is a strategy our clients employ to profit from a company's acquisition or breakup based on research showing that the value of a company's liquidation assets is greater than its stock value. We may decide to buy shares of a company on behalf of any of our clients if our firm determines that the value of a company's assets are not accurately reflected in the stock price.

Of course there is always a risk that we may undervalue a company's assets and never realize our anticipated profit because the company's stock price already closely reflects the value of its assets. In addition, even if we correctly value a company's stock, we may never realize anticipated profits if an event does not occur that corrects the company's stock price.

- *Leverage/Borrowing:* We may borrow against the assets of our clients when we believe that the proceeds from doing so will exceed the interest paid on the borrowing. 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, the value of the securities purchased with the borrowed amount can decline below the amount borrowed.

Any investment profits made with the proceeds from borrowings in excess of interest paid on the borrowings will cause the income and value of a client to be greater than would otherwise be the case. On the other hand, if the value of the additional securities purchased with the borrowed money does not increase enough to cover the interest paid on the borrowings, then the income and value of a client will be less than would otherwise be the case. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.

- *Hedging Transactions:* Our clients may, at times, engage in hedging transactions. Employing hedging techniques reduces a portfolio's vulnerability to various risks. Hedging entails determining certain risks in one's portfolio and making trades to offset those risks. For instance, if an investor buys stock in a company, it may also short the stock of a competitor company. 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 such positions decline, but rather it establishes other positions designed to gain from those same developments, thus 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 firm's 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 contracts, swaps and short selling.

- *Options:* There are risks associated with the sale and purchase of options. Our clients may invest in call and/or put options. 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 purchaser of either type of option assumes the risk of losing its entire investment in the option. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the seller is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss).
- *Swaps, Futures and Other Derivatives:* At times, our clients may invest in swaps, futures and other forms of derivative contracts. 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." Any derivative contract typically involves leverage, as it exposes our clients to potential gain or loss from a change in the price of the 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. Occasionally, we may trade derivatives over-the-counter, instead of on an exchange. The risk of nonperformance by opposing parties on over-the-counter derivatives is typically greater than the risk of nonperformance on exchange-traded derivatives. Also, derivative instruments not traded on exchanges are not subject to the same level of government regulation as are exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with over-the-counter derivative transactions.

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, such as interest rates and foreign currency values affect the values of the cash flows, causing them to fluctuate. In addition, if a counterparty's creditworthiness declines, the value of our swap agreement will likely also decline, potentially resulting in losses to our clients.

A future, also known as a futures contract, is another type of derivative in which we may trade. A future 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 or order immediate liquidation or settlement in a particular contract. This could also prevent us from promptly selling unfavorable contracts.

In addition, margin requirements for futures contracts are typically low relative to the value of the futures contracts. Low margin requirements mean that a relatively small price movement in a single stock futures contract could cause immediate and substantial losses. For example, if, at the time of purchase, 10% of the price of a futures contract is deposited as margin, a 10% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for brokerage commission. Thus, like other leveraged instruments, any purchase or sale of a futures contract may result in losses in excess of the amount invested.

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

- *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.

- *Illiquid Investments:* Some of the clients that we advise, from time to time, 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.
- *Equity Securities:* We buy, on our clients' behalf, equity securities we believe to be undervalued, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets. Consequently, our clients may suffer losses if they invest in equity instruments of issuers whose performance diverges from our expectations.
- *Non-United States Securities:* We may buy and sell non-U.S. securities for our clients' accounts. Investing in non-U.S. securities involves certain considerations 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. In addition, there may not be much information available regarding non-U.S. securities because non-U.S. 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. Finally, when investing in non-U.S. 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 non-U.S. issuers may be more precarious than that of U.S. issuers.

- C. Although we do not primarily recommend any single type of security, we focus on publicly traded debt and equity securities of U.S. issuers, often focusing on special situation investments and value securities. Accordingly, we encourage our clients as well as their investors to consider all of the risk factors we have described above. Please refer to Item 8B regarding risk factors related to our investment strategies. Any investment can be risky, and our clients and investors in our clients must be prepared to assume any potential loss.

Item 9

Disciplinary Information

- A. Neither our firm, nor any of our directors, officers or principals has been involved in any criminal or civil actions in a domestic, foreign or military court in which any of them: (1) was convicted of, or pled guilty or nolo contendere (“no contest”) to (i) any felony, (ii) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion, or (iii) a conspiracy to commit any of these offenses; (2) is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses; (3) was found to have been involved in a violation of an investment-related statute or regulation; or (4) was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, our firm or our directors, officers or principals from engaging in any investment-related activity, or from violating any investment-related statute, rule or order.
- B. 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, which was found to have either (1) caused an investment-related business to lose its authorization to do business or (2) been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority either (i) denying, suspending or revoking the authorization of our firm or any management person to act in a management related business (ii) barring or suspending our firm’s or a management person’s association with an investment related business (iii) otherwise significantly limiting our firm or a management person’s investment-related business or (iv) imposing actual monetary penalty of more than \$2,500 on our firm or a management person.
- C. Neither our firm, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings in which any of them (1) was found to have caused an investment-related business to lose its authorization to do business; or (2) was found to have been involved in a violation of the self-regulatory organization’s rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.

Item 10 Other Financial Industry Activities and Affiliates

- A. Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.
- C.
- 1. Our firm or our affiliates sponsor, manage and/or serve as general partners or investment managers to certain hedge fund clients formed as limited partnerships. Our firm also serves as an investment manager to an offshore hedge fund client that is not formed as a limited partnership of limited liability company, but rather, an offshore corporation.

Bosphorus Partners LLC, an affiliate of the firm, serves as the general partner of our domestic hedge fund clients, Para Partners, L.P. and Para Investors, L.P. We address this potential conflict of interest by fully disclosing the relationship among us, the general partner and the funds in the funds' offering documents.

Our domestic hedge fund clients do not have independent management, and while our offshore hedge fund client has a majority of independent directors, we hire and retain those directors. Although this arrangement may give us heightened control and discretion over our hedge fund clients, we manage any potential conflicts of interest by adhering to the investment strategy of the client and our investment allocation policy.

None of the compensation, liquidity or other terms of our hedge fund clients are negotiated at arm's length. However, we disclose to prospective investors the terms of all of our fees and performance-based compensation, as well as the other terms of an investment, in detail in the offering documents relating to each hedge fund client. Our hedge fund clients generally invest in the same strategy, so our management of more than one hedge fund client should not result in any actual or potential conflict of interest relating to the allocation of investment opportunities among them.

The potential to earn performance-based compensation could also give us an incentive to invest client assets in an aggressive or speculative manner. We seek to minimize this conflict by taking a disciplined approach to

portfolio risk management. Finally, performance-based compensation is based in part on unrealized gains and losses, so we may have an incentive to inflate the value of client assets through fair valuation determinations. Despite the presence of these conflicts of interest, we seek to act fairly when we allocate investment opportunities and value client assets. Our firm has adopted written policies and procedures that are designed to ensure fair allocations and valuations. We provide clients and investors in our hedge fund clients with a copy of our pricing and valuation policy upon request. For further discussion regarding allocation of investment opportunities among clients, please see Item 12: Brokerage Practices. We also distribute audited financial statements to all investors in our hedge fund clients annually.

2. We do not have any relationship or arrangement with any of the following types of related persons that is material to our business or to our clients or that creates a material conflict of interest:

- a broker-dealer, municipal securities dealer, or government securities dealer or broker,
- other investment adviser or financial planner
- a futures commissions merchant, commodity pool operator, or commodity trading adviser,
- a banking or thrift institution,
- an accountant or accounting firm,
- a lawyer or law firm,
- an insurance company or agency,
- a pension consultant,
- a real estate broker or dealer, or
- a sponsor or syndicator of limited partnerships.

D. We do not recommend or select other investment advisers for our clients.

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

- A. Our firm has established a Code of Ethics that sets forth standards of ethical conduct for our employees. Our Code of Ethics is based on the principle that our firm and our employees have a fiduciary duty to our clients and the investors in our clients, and in this fiduciary capacity, we must place the interests of our clients and their investors before our own interests. It contains detailed rules concerning a firm wide standard of conduct, personal securities transactions, treatment of confidential and proprietary information, rumors, loans, dealings with government and industry regulators, gifts and other reports.

Our Code of Ethics works to ensure that our employees' securities transactions are consistent with our firm's fiduciary duty to our clients and to ensure compliance with legal requirements and our firm's business conduct standards. It focuses on specific areas where employee conduct has the potential to affect clients' or investors' interests adversely. Our Code of Ethics requires that, at the outset of employment, all employees provide a comprehensive report of his or her brokerage accounts and any securities holdings in the accounts. Employees must update this disclosure annually. Our Code of Ethics also requires employees to submit quarterly transaction reports that set forth their securities transactions for the quarter and any newly opened brokerage accounts. With limited exceptions, all personal employee trades must be reviewed and approved by our Chief Compliance Officer before being executed in accordance with our personal securities transactions policy.

Additionally, our Code of Ethics provides for a range of sanctions, as deemed appropriate by the Chief Compliance Officer in consultation with the President, should anyone violate the personal securities transaction policy. Such sanctions include censure, a fine, suspension of personal trading rights, reversal of transaction(s) and disgorgement of profits, suspension or termination of employment.

Our policies prohibit our employees from purchasing or selling any security on behalf of their personal accounts or a client account while in possession of material, non-public information regarding the security. Our employees also are prohibited from trading for their personal accounts on the basis of material, non-public information obtained in the course of employment and from disclosing material, non-public information to anyone outside of our firm and our affiliates.

Employees are prohibited from accepting investment opportunities, gifts or other gratuities from individuals seeking to conduct business with our firm, other than in accordance with our gift policy or our personal transaction policy, as applicable.

Our Code of Ethics also requires each employee to certify annually his or her compliance with our personal trading policies and all other policies and procedures contained in our Code of Ethics.

The paragraphs above only represent a summary of key provisions in our Code of Ethics. We provide a copy of our Code of Ethics to any client or any investor in our clients that requests one.

- B. Our firm, our affiliates or employees do not recommend to clients, securities in which they have a material financial interest.

We may in limited circumstances determine that it is in line with certain clients' investment strategy 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." We do not take any commissions or fees in connection with effecting cross trades between our clients. In fact, we may coordinate cross trades between clients in an attempt to reduce or eliminate transaction costs. When coordinating any cross trades between clients, we must follow our written procedures for cross trading in order to reduce the potential for conflicts of interest. Our cross trading procedures require, among other things, that our Chief Compliance Officer and Chief Financial Officer approve the trade. We do not effect cross-trades with any clients that are "plan assets" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

We do not buy or sell for our client accounts, securities in which we or our affiliates have a material financial interest. These types of transactions are known as "principal transactions" and include "cross trades" (described above) among hedge-fund clients in which our investment personnel have significant investments. However, in the future, we may engage in these transactions in certain limited circumstances if we develop policies and procedures for such transactions. This could potentially create a conflict of interest between our firm and a client because we have an incentive to negotiate more favorable terms for us or our affiliates at the expense of our client.

We generally rebalance securities among our clients on a monthly basis. These rebalances are not processed as cross trades, but rather, are executed in the open market. To the extent that a de minimis allocation of securities is necessary to rebalance a client account, we will not make a rebalancing allocation. We do not rebalance securities among clients that are "plan assets" under ERISA by effecting cross trades among client accounts.

- C. From time to time, our affiliates or related persons may invest in the same securities that we recommend to, or buy and sell for, our clients.

As described above, our employees are permitted to invest on their own behalf solely in accordance with the personal securities transactions policy, as set forth in our Code of Ethics. The purpose of the personal securities transaction policy is

to ensure that our employees and certain of their relatives do not actively trade in securities of companies that we are analyzing and/or considering for potential investment or in which one or more of our hedge fund clients hold a position or in which we otherwise restricted, in a manner that would give rise to a conflict of interest or otherwise prejudice any of our clients.

Additionally, our firm may execute confidentiality agreements and receive confidential information with respect to certain securities. We maintain a restricted list identifying issuers of these securities and for which we receive private information. This list is disseminated to our employees who may not trade in securities of such issuers.

- D. We have a variety of procedures in place to ensure that we address any potential conflicts that may arise between our employees and our clients. See Item 11A and Item 11C above for a description of how we generally address conflicts that arise.

Item 12 Brokerage Practices

- A. We seek to achieve best execution in securities trades for our clients, taking into account such factors as price, size of order and difficulty of execution and operational facilities of the firm involved.

We have established a committee to oversee our brokerage practices. The committee is comprised of representatives from all areas of the firm including trading, compliance and operations. The current members of the committee are the Chief Compliance Officer, the Chief Financial Officer, the Controller and the trader, however, the committee may also seek the input of other appropriate members of our firm.

In selecting broker-dealers and determining the reasonableness of their commissions for our clients' transactions, we take into account factors including:

- The broker-dealer's ability to effect prompt and reliable executions at favorable prices;
 - The operational efficiency with which transactions are effected;
 - The financial strength, integrity and stability of the broker-dealer;
 - Whether the broker is a market maker with respect to the issue of securities
 - The quality, comprehensiveness and frequency of available research services considered to be of value;
 - The broker-dealer's capital introduction resources; and
 - The competitiveness of commission rates in comparison with other broker-dealers that satisfy our selection criteria.
1. Research and Other Soft Dollar Benefits. At times, our firm may pay higher execution costs to brokerage firms that provide us with or give us credit to receive investment, research or brokerage products and services. These products and services are often referred to as "soft dollar" benefits and may otherwise only be available to us for cash payment. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; and discussions with research personnel. The products and services that we generally obtain from broker-dealers include both internally generated items (such as research reports that a broker-dealer's

employees prepare) as well as items that a broker-dealer acquires from third parties (such as quotation equipment). We can 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.

In addition to research services, we may be offered other non-monetary benefits by broker-dealers. These benefits may take the form of special execution capabilities, clearance, settlement, reputation, financial strength and stability, efficiency of execution and error resolution. They may also take the form of payment of all or a portion of our or our affiliate’s costs and expenses of operation such as office equipment (such as quotation equipment and telephone lines), news wire charges, quotation services, periodical subscription fees and certain other trading related expenses.

We intend that our soft dollar arrangements will fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934. This safe harbor protects financial advisors 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 services received. To the extent that portions of the services provided by the brokerage firms fall outside the safe harbor, we intend to make a good faith allocation of the mixed use items so that the portion attributable to soft dollars corresponds only to the portion of the services that fall within the safe harbor. Any use of soft dollar credits requires the approval of our Chief Compliance Officer.

We generally seek to allocate soft dollar benefits equitably among all of our clients by pooling the credits for investment or trading related activities for all of our clients. However, the soft dollar benefits allocated to each client account may not be in proportion to the soft dollar credits each client generates.

We generally enter into commission sharing arrangements whereby soft dollars which have been generated are paid to other brokers or providers of research and trading products and services to our firm

In the last year, the products and services that our firm has acquired with our clients’ brokerage commissions, within the meaning of Section 28(e), include industry research newsletters and periodicals, systems through which we can monitor market data and place trades, Thomson Reuters Financial newswire service, Bloomberg, Options Price Reporting Authority (OPRA) and NYSE Euronext fees.

During the last fiscal year, we directed clients’ transactions to particular broker-dealers in return for soft dollar benefits after weighing the applicable factors and considerations described earlier in this section.

Our procedures require the authorization of the Chief Compliance Officer prior to obtaining a soft dollar product or service with the expectation of directing commissions to the broker that provides or pays for such product or service. In order to obtain such authorization, among other things, either the President or the trader must determine in good faith that the target commissions are reasonable in relation to the value of the brokerage and research services received.

Conflict of Interest

The use of soft dollars to obtain research services and to pay for other costs and expenses that our firm might otherwise incur may create a conflict of interest between our firm and our clients because our clients 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. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

When we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to pay for the research products and services. The availability of these benefits may 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 may cause our clients to pay higher commissions (or markups or markdowns) than those charged by other broker-dealers. Nevertheless we try to ensure that the fees and costs of broker dealers providing these services are not materially greater than the fees and costs of broker-dealers not providing these services.

2. Referrals in Selecting or Recommending Broker-Dealers.

- a. No broker-dealers have referred fund clients to our firm; however, at times, certain broker-dealers may introduce us to potential investors in our fund clients. We allocate transactions to brokers who introduce investors to a hedge fund client, but only when we believe that the transaction quality and commissions are comparable with those available from other perceived qualified brokers. We may be deemed to have a potential conflict of interest in receiving referrals in that we may have an incentive to select those brokers. In order to mitigate such a conflict, we focus on the criteria set forth above when selecting brokers.
- b. As described above, we evaluate capital introduction services as well as other factors and criteria when directing client transactions to a particular broker-dealer that provides hedge fund investor referrals.

There is no minimum value of transaction or commissions required to be directed to such broker-dealers providing capital introduction services of investor referrals to our hedge fund clients.

3. Directed Brokerage. We select all broker-dealers and do not permit our clients to direct executing brokerage. A request by a managed account to use a specific prime broker for clearing and settlement may be separately negotiated.

- B. Aggregation and Allocation: To facilitate trading our clients' accounts, we generally execute trades through executing brokers through an aggregate account for the firm. At the prime broker level, allocations are broken down on a fund-by-fund basis. Ultimately, clients benefit when we aggregate trades because they get volume discounts on execution costs. All of our clients have similar investment objectives. To this end, all of our clients tend to participate in the same investment opportunities. Our policy is to require that all trades are allocated in a manner that treats each client fairly. We allocate investment opportunities in a manner that we believe will be in the best interests of all of our clients, and in general, intend to allocate investment opportunities believed to be appropriate for more than one client on a *pro rata* basis in proportion to the relative net asset value of each with consideration of investment restrictions, capacity, ownership of illiquid or private securities and available cash, although on occasion investments made on behalf of clients may differ.

In order to more efficiently allocate investments among our clients that invest in bank debt and other private or illiquid securities, we have formed Para Omnibus LLC, a special purpose vehicle through which appropriate clients may participate in these investments.

New Issues: In addition, we allocate profits and losses from trades in "new issues" (generally, initial public offerings of equity securities) to the accounts of clients who are eligible to receive such profits and losses in accordance with the rules of the Financial Industry Regulatory Authority.

Trade Error Policy: On occasion, errors may occur with respect to trades executed on behalf of our clients. As a general rule, when a trading error occurs, the client must be made whole. In keeping with our trade error policy, we maintain a trade error account. Gains resulting from trade errors are allocated to the trade error account and are used to offset any losses resulting from trade errors that clients are obligated to pay within any calendar year. Any excess amounts are distributed among the active relevant clients, *pro rata* in proportion to the relative net worth of each such client at the end of a calendar year. Notwithstanding the foregoing, to the extent that a "de minimis" trade error occurs, we will not be required to correct such error. We generally consider any error less than \$1,000, in respect of all client accounts combined, to be *de minimis*. We generally do not consider the opportunity cost of a trade error when determining its total effect on our clients' accounts.

Item 13 Review of Accounts

- A. The President and any applicable members of our investment team evaluate all purchase and sale decisions and monitor the portfolios of our clients with respect to certain characteristics, such as exposures to specific investments and overall sector, geographic and asset class exposures. We monitor such characteristics on a weekly basis at minimum or more often, as needed.
- B. A client's account is reviewed in the context of the client's stated investment objectives and guidelines. Reviews may be triggered by material changes in variables such as the client's circumstances or the market, political or economic environment.
- C. We provide investors in our hedge fund clients with a balance sheet, a statement of net profits and losses, and other audited financial statements within 120 days of the end of each fiscal year. In addition, we provide to investors in our hedge fund clients detailed quarterly update letters reviewing the relevant fund's results for the relevant period of time. We also provide or make available, upon the investor's request, unaudited monthly performance reports. The quarterly and monthly reports are generally delivered to investors in the hedge fund clients by such client's administrator. Furthermore, upon the request of our hedge fund clients' investors, we may provide weekly updates of the relevant fund's performance.

The nature and frequency of regular reports to clients other than our hedge funds clients would be as agreed between us and the client. In addition, our non-hedge fund clients would typically have ongoing access to or ownership of their portfolio information.

Item 14 Client Referrals and Other Compensation

- A. Our firm does not, nor does any principal or employee of our firm, receive any economic benefit from non-clients for providing investment advice or other advisory services to our clients.

Item 15 Custody

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

We utilize the services of a bank or other qualified custodian (as defined under Rule 206(4)-2) to hold all assets of our clients, except those assets (such as bank debt) that are not capable of being held by a custodian. We also ensure that the qualified custodian maintains these funds in accounts bearing the client's name that contain only clients' funds and securities, including our name as agent for the clients.

As described in Item 12: Brokerage Practices, Para Omnibus LLC was formed as a special purpose vehicle for appropriate hedge fund clients to participate in bank debt or other private or illiquid securities. Our hedge fund clients that hold bank debt or other securities through Para Omnibus LLC are the beneficial owners of such securities.

While Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, we are not subject to this requirement because all funds client managed by us and for which we have custody are subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. In these cases, we distribute audited financial statements to all investors in our hedge fund clients within 120 days of the end of the fiscal year of the respective fund.

Item 16 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, the broker through which we effect trades, and the commission rates at which we effect trades. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in the Confidential Information Memorandum or, if applicable, the managed account agreement of the relevant client, as applicable. These documents cover matters such as the types and amounts of securities of which a client's portfolio will consist and the degree of risk assumed by a client's portfolio.

Procedures for Assuming Authority

Before accepting their subscriptions, we provide all investors in our affiliated hedge fund clients with a Confidential Information Memorandum and, as applicable, 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 funds, investors give us complete authority to manage their investments in accordance with the Confidential Information Memorandum and other documents they each received.

Prior to providing investment advice to clients other than our hedge fund clients, we typically would require each client to grant us authorization of its portfolio that we manage. This would give us complete discretionary authority to buy and sell any investment securities and instruments in the amounts and at the prices that we determine in accordance with the terms and restrictions contained in such clients' governing documents.

Item 17 Voting Client Securities

A. Proxy Voting Policies and Procedures

We have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our clients. We always strive to vote client proxies in a manner consistent with each client's best interests.

We typically have the authority to exercise voting discretion over all securities with respect to which we can vote that are held by our clients. Our firm votes proxies in accordance with guidelines in effect from time to time. Generally, we will cast proxy votes in favor of proposals that:

- Maintain or strengthen the shared interests of shareholders and management;
- Increase shareholder value; and/or
- Maintain or increase the rights of shareholders.

We will generally cast proxy votes against proposals having the opposite effect of those items listed above, particularly where we believe that a proposal will have a dilutive effect on the value of the underlying security.

The member of the investment team involved in making investment decisions or analyses with respect to a security is responsible for voting our clients' proxies respecting such security either in writing or via the internet and is subject to the oversight of the Chief Compliance Officer.

Generally, we rely on analyses and vote recommendations provided by Institutional Shareholder Services, an MSCI brand (ISS), formerly known as RiskMetrics, an unaffiliated third-party proxy voting research service. However, we maintain ultimate voting discretion and may disregard ISS's recommendations at any time. With respect to our proxy voting policy for foreign companies, we generally vote client proxies only if doing so will not curtail a client's ability to trade in the related securities or incur related fees. We retain the discretion to take no action with respect to a proposed vote if we determine it is in the best interests of a client.

Proxies will be voted automatically by ISS in most circumstances, or on occasion, directly by our firm by the responsible analyst.

Clients cannot direct our portfolio managers' proxy votes.

Upon request, any of our clients or any of the investors in our clients can obtain (1) a copy of our proxy voting policies and procedures and (2) information concerning proxy votes on its behalf.

Potential Conflicts of Interest

If there are any potential conflicts of interest in connection with voting a client proxy, our Chief Compliance Officer will, as soon as reasonable practicable, consult with the member of the investment team responsible for the investment proposal or decision in the security to which the proxy relates. The Chief Compliance Officer will identify the issuer and proposal to be considered. The Chief Compliance Officer will also identify the conflict of interest that has been detected. The proxy will be voted based upon the determination of the Chief Compliance Officer in conjunction with the relevant employee.

Recordkeeping

Our firm maintains the following records relating to proxy voting:

- Copies of our proxy voting policies and procedures and any amendments.
- Proxy statements received for client securities.
- Records of proxy votes cast on behalf of our clients.
- All communications received and any documents that our employees prepared that were material to deciding how to vote proxies.
- Records of requests from clients for proxy voting information and our responses to any such requests.
- Documentation of exceptions to our proxy voting policies.

We may rely on ISS or the SEC's Edgar system for maintaining any proxy statements.

- B. We have the authority to receive all of our clients' proxies and similar solicitations and to vote all of our clients' proxies received.

C. Class Actions

When we receive "class action" documents on behalf of a hedge fund client, we will ensure that the client either participates in, or opts out of, any class action settlements received. We determine if it is in the best interest of the client to recover monies from a class action. The member of the investment team covering the company may be consulted in order to determine the action to be taken when receiving class action notices. In the event we opt out of a class action settlement, we will maintain documentation of any cost/benefit analysis to support such decision.

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We may utilize the services of a third party in order to file claims on behalf of our hedge fund clients or, as applicable and as agreed by a client, any other client. Such third parties may collect fees based upon a percentage of funds recovered in such claims.

Item 18 Financial Information

- A. We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. We do not believe any financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.
- C. Our firm has never been the subject of a bankruptcy petition.