



# **TAILWIND MANAGEMENT L.P.**

## **STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2012**

**TAILWIND MANAGEMENT L.P.**  
(a Delaware limited partnership)

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## INDEPENDENT AUDITORS' REPORT

To the General Partner  
Tailwind Management L.P.

### Report on the Financial Statement

We have audited the accompanying financial statement of Tailwind Management L.P. (the "Partnership"), which comprises the statement of financial condition, as of December 31, 2012, and the related notes to the statement of financial condition.

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Tailwind Management L.P. as of December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.



New York, New York  
March 26, 2013



**TAILWIND MANAGEMENT L.P.**  
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**Statement of Financial Condition**  
**December 31, 2012**

**ASSETS**

Cash and cash equivalents	\$ 4,710,471
Restricted cash	578,412
Accounts receivable	2,873,130
Advances to employees	400,000
Prepaid and other assets	164,327
Fixed assets, net	<u>1,024,010</u>
	<u>\$ 9,750,350</u>

**LIABILITIES AND PARTNERS' CAPITAL**

Liabilities:	
Accounts payable	\$ 633,250
Accrued liabilities	898,253
Deferred rent	38,985
Deferred portfolio income	<u>1,994,505</u>
Total liabilities	<u>3,564,993</u>
Partners' capital	
General Partner	-
Limited Partners	<u>6,185,357</u>
Total partners' capital	<u>6,185,357</u>
	<u>\$ 9,750,350</u>

*See notes to statement of financial condition*

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**Notes to Statement of Financial Condition**  
**December 31, 2012**

*Unless otherwise noted, capitalized terms are defined in the Agreement (as defined below).*

**NOTE A - ORGANIZATION**

Tailwind Management L.P. (the "Partnership") was formed on September 16, 2005 as a Delaware limited partnership by Tailwind Capital Group LLC ("General Partner") and commenced operations on November 18, 2005. The Partnership was formed to provide advisory, management, administrative, consulting and other services to Tailwind Capital Partners, L.P. and its related parallel investment partnerships (the "Tailwind Fund"), TWCP L.P. and its related parallel investment partnerships ("TWCP Fund") and affiliated entities ("Affiliates"). The original limited partnership agreement was amended and restated as of August 15, 2008 (the "Agreement"). The Partnership will continue until such time that the General Partner of the Partnership decides to dissolve or wind up its affairs.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**[1] Use of estimates:**

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclose contingent assets and liabilities, at the date of the statement of financial condition. Actual results could differ from those estimates.

**[2] Cash and cash equivalents:**

Cash and cash equivalents include all highly liquid instruments purchased with original maturities of three months or less. The Partnership currently invests in cash management accounts with one major bank. In the event of that bank's insolvency, recovery may be limited to account insurance or other protection afforded such deposits.

**[3] Fixed assets:**

Fixed assets are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the respective assets or the lease term for leasehold improvements. Expenditures for repairs and maintenance are expensed as incurred.

**[4] Revenue recognition:**

Management and monitoring fees are recognized on an accrual basis as they are earned.

**[5] Income taxes:**

No provision for federal income taxes has been made since all income and losses are allocable to the limited partners for inclusion in their respective tax returns. The Partnership is subject to a 4% New York City unincorporated business tax. There are currently no income tax returns under audit. With few exceptions, the Partnership is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before December 31, 2009. Management is not aware of any tax positions which, more likely than not, will result in any material tax liabilities which should be recorded or disclosed in the accompanying statement of financial condition.

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**Notes to Statement of Financial Condition**  
**December 31, 2012**

**NOTE C - RESTRICTED CASH**

The Partnership has two twelve-month certificates of deposit ("CDs") for \$417,895 and \$160,517 to secure two letters of credit. The first letter of credit for \$157,000 represents the security deposit held for the Partnership's occupancy lease and is automatically extended, without amendment, for successive periods of one year with a final expiration date of March 13, 2014, unless written notice is provided no later than 30 days before the then existing expiration date. The second letter of credit for \$404,000 supports the Partnership's payroll and is automatically extended, without amendment, for successive periods of one year with a final expiration date of May 31, 2017, unless written notice is provided no later than 60 days before the then existing expiration date. Both CDs mature on March 6, 2014 and earn 0.10% interest, annually.

**NOTE D - FIXED ASSETS**

Fixed assets, net at December 31, 2012 are as follows:

Furniture and fixtures	\$ 367,410
Equipment	709,389
Software	199,524
Artwork	17,719
Leasehold improvements	<u>818,669</u>
	2,112,711
Less: accumulated depreciation and amortization	<u>(1,088,701)</u>
Fixed assets, net	<u>\$ 1,024,010</u>

**NOTE E - ACCOUNTS RECEIVABLE**

The Partnership pays for certain expenses on behalf of the Tailwind Fund, the TWCP Fund, their related portfolio companies, and Affiliates. As stated in the limited partnership agreements and the management services agreements with these entities, the Partnership is to be reimbursed for such expenses. As of December 31, 2012, the accounts receivable balance is comprised of:

Monitoring fees receivable (Note G), net of \$200,000 allowance	\$ 1,612,500
Due from Portfolio Companies (including amounts relating to in process deals)	329,004
Due from Tailwind Fund	238,756
Due from TWCP Fund	68,343
Fundraising receivable	594,766
Other	<u>29,761</u>
Total accounts receivable	<u>\$ 2,873,130</u>



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**NOTE F - MANAGEMENT FEE**

The Partnership earns management fees from the Tailwind Fund in return for investment advisory services. Such fees are paid semi-annually in advance and provide the primary source of income for the Partnership. The fee is calculated at a rate equal to 2% per annum of non-affiliated limited partners' commitments in the Tailwind Fund, subject to certain adjustments per the Agreement.

The Tailwind Fund's commitment period ended December 22, 2012. Accordingly, the annual management fee will be calculated at a rate of 1.5% of non-affiliated limited partners' aggregate invested capital of the Tailwind Fund, subject to certain adjustments per the Tailwind Fund's partnership agreements, until the twelfth anniversary of the original last closing date of the Tailwind Fund. After such date, the fee will be calculated at a rate of 0.75% of non-affiliated limited partners' aggregate invested capital of the Tailwind Fund.

The Partnership has been appointed the manager for the TWCP Fund. In consideration of these services, the managing general partner of the TWCP Funds, TWCP-GP LLC, may elect to pay a fee to the Partnership.

**NOTE G - DEFERRED PORTFOLIO COMPANY INCOME**

The Partnership receives monitoring fees from certain of the Tailwind Fund's portfolio companies, of which 80% of such fees are offset against the Tailwind Fund management fee (see note F) in the semi-annual period after which the fee is received. As of December 31, 2012, \$594,505 of the deferred portfolio company income balance will offset the first half 2013 Tailwind Fund management fee. The remaining balance of \$1,400,000 represents 80% of the fees that are due, but not received, from certain portfolio companies.

**NOTE H - ADVANCES TO EMPLOYEES**

The Partnership paid \$400,000 to certain employees as an advance of their 2013 compensation.

**NOTE I - OTHER RELATED PARTY TRANSACTIONS**

During 2012, the Partnership paid the General Partner \$1,000,000.

**NOTE J - LEASES**

As of December 2012, the Partnership is party to an occupancy lease agreement with a third party through April 2017. Future minimum annual rental payments under the lease at December 31, 2012 are as follows:

2013	\$ 795,536
2014	795,536
2015	795,536
2016	795,536
2017	<u>265,179</u>
Total	<u>\$ 3,447,323</u>

**NOTE K - 401(k) PLAN**

The Partnership provides a noncontributory 401(k) plan for the benefit of eligible employees.

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**NOTE L - CONTINGENCY**

The Partnership has an incentive plan in which certain employees are eligible to participate. The incentive plan is contingent upon carried interest earned by the Tailwind Fund as well as other requirements, as defined. Subject to certain thresholds, as described in the incentive plan agreement, amounts payable under this plan are payable within 120 days of the prior fiscal year end. For the twelve months ended December 31, 2012, the Partnership made payments totaling \$126,152 in respect of the plan. As of December 31, 2012, an additional \$38,581 was payable under this plan and is included in accrued liabilities on the statement of financial condition.

In the ordinary course of business, the Partnership is involved in a certain litigation proceeding. The Partnership believes that this claim is without merit and intends to vigorously defend against it. The estimated potential liability of this claim, if any, is not determinable.

**NOTE M - COMMITMENTS**

The Partnership has an agreement with a consulting firm to identify, analyze, evaluate and provide advice to the Tailwind Fund for potential investments which receives a fixed monthly retainer of \$8,667 through December 31, 2013 and \$17,000 per month thereafter. This agreement will terminate the earlier of March 31, 2014 or with 90 days prior written notice.

During 2012, the Partnership entered into an agreement with another consulting firm, acting as placement agent, which receives quarterly payments of \$250,000 up to a total of \$1,500,000. In addition, the consulting firm will receive payments subject to various milestones and thresholds.

**NOTE N - INDEMNIFICATIONS**

Under the Agreement, the Partnership indemnifies each of the partners of the Partnership for all losses arising from the business or affairs of the Partnership and its affiliated entities, except for losses resulting from such partner's gross negligence, willful misconduct or conduct constituting "cause". In addition, the Partnership has certain indemnification obligations to third parties under other contractual arrangements. The Partnership is unable to develop an estimate of the maximum potential amount of future payments that could potentially result from any hypothetical future claim, but expects the risk of having to make any payments under these general business indemnifications to be remote.

**NOTE O - COUNTERPARTY RISKS**

The Partnership enters into various transactions with counterparties. The Partnership does not have an internal credit function which evaluates the creditworthiness of its counterparties. This may impact the Partnership's ability to collect on such receivables and could result in potential losses.

**NOTE P - SUBSEQUENT EVENTS**

The General Partner has evaluated events through March 26, 2013, the date that this statement of financial condition was available to be issued.