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**This brochure provides information about the qualifications and business practices of Cypress Advisors Inc. (the “Registrant”). If you have any questions about the contents of this brochure, please contact us at (212) 705-0150. 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. Additionally, registration with the SEC as an investment adviser does not imply a certain level of skill or training.**

**Additionally information about Cypress Advisors Inc. also is available on the SEC’s website at [www.adviseinfo.sec.gov](http://www.adviseinfo.sec.gov)**

**Date: March 15, 2013**

**Item 2: Material Changes**

This Brochure updates the Brochure dated February 2, 2012. The only material change is that the value of investments increased to \$428.5 million at December 31, 2012 from \$351.8 million at December 31, 2011.

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#### **Item 4: Advisory Business**

Cypress Advisors Inc. has been providing investment advisory services since 1995 and is owned by James A. Stern and Jeffrey P. Hughes. The registrant provides investment advisory services to the private investment funds discussed below on a discretionary basis.

##### *A. Advisory Services*

The Registrant provides investment advisory services and acts as the investment adviser to the private investment funds discussed below. These funds are managed by a general partner, Cypress Associates II LLC, which is an affiliate of the Registrant.

##### *Cypress Merchant Banking Partners II L.P., Cypress Merchant B II C.V. and 55<sup>th</sup> Street Partners II L.P.*

The Registrant provides investment advisory services, in connection with the liquidation of assets pursuant to separate Liquidation Expense Reimbursement Agreements, to Cypress Merchant Banking Partners II L.P. (“CMBPII”), Cypress Merchant B II C.V. (“CV”), and 55<sup>th</sup> Street Partners II L.P. (“55<sup>th</sup> Street”, and together with CMBPII and CV, “Fund II”). Cypress Associates II LLC (“CAII” or the “General Partner”) is the general partner of CMBP II, CV and 55<sup>th</sup> Street. James A. Stern and Jeffrey P. Hughes are the managing members of CAII. Stichting Cypress Merchant B II (“Stichting”) is the administrative General Partner of C.V. and CAII is the managing member of Stichting.

Fund II commenced operations in December, 1998 and completed marketing in June 1999 with total committed capital of \$2.5 billion. Fund II invested primarily in established operating companies through direct negotiated transactions. All the investments (a total of 14), except one, were made in private companies and all the investments, except one, were \$100 million or more.

Fund II is now in a wind-up phase. No new investments and no further capital calls can be made. Four investments remain with a total value of \$428.5 million at December 31, 2012, of which one investment, Affinia Group Inc, represents approximately 91% of the total value.

Limited partnership interests in Fund II are not registered under the Securities Act of 1933, as amended (the “Securities Act”), and none of CMBP II, CV or 55<sup>th</sup> Street are registered under the Investment Company Act of 1940, as amended (the “1940 Act”). Accordingly, interests in Fund II are privately offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements for private transactions within the U.S.

*B. Tailored Services*

The Registrant does not tailor advisory services to the individual needs of Fund II’s limited partners. Investment advice is provided directly to each of the above private investment funds comprising Fund II and not individually to the limited partners of Fund II. The General Partner exercises final approval over the selection and disposition of investments and determines the amount of capital committed to each investment and the amount of assets to be sold. Each Limited Partnership Agreement has investment criteria that the General Partner adhered to when making investments.

*C. Wrap Fee Programs*

The Registrant does not provide portfolio management services to wrap fee programs.

*D. Client Assets*

The General Partner manages client assets. As of December 31, 2012, the following assets are under the General Partner’s supervision:

Discretionary Basis	\$428.5 million
Non-Discretionary Basis	\$0.00
Total Assets under Management	\$428.5 million

**Item 5: Fees and Compensation**

*A. Management Fees*

The Registrant provides investment advisory services pursuant to a Liquidation Expense Reimbursement Agreement under which it is reimbursed for its expenses. This expense reimbursement, which was negotiated with Fund II’s investor advisory committee, totals \$1.2 million for the one year period through October 15, 2013, and is payable quarterly in advance.

This expense reimbursement is pro-rated for the number of days in such quarter, and upon termination of the agreement, Registrant refunds to Fund II the amount allocable to the period after the termination. The expense reimbursement is not based on the value of assets under management. There is no agreement for the payment of any fees or for the reimbursement of any costs beyond October 15, 2013. The expense reimbursement is deducted from investment proceeds. Other than certain director fees paid to members and employees of the Registrant, all monitoring or consulting fees, advisory or investment banking fees, transaction fees and other remuneration paid to the Registrant are credited against this expense reimbursement pursuant to the terms of the Liquidation Expense Reimbursement Agreement.

*B. Additional Fees and Expenses*

In addition to the management fees described above, Fund II is responsible for a number of expenses that are incurred by or on behalf of Fund II. Below is a list of expenses and fees that have been incurred by Fund II.

- all out-of-pocket costs and expenses, incurred in developing, negotiating, structuring, and disposing of actual investments;
- the out-of-pocket costs and expenses incurred in connection with obtaining third-party financing for an investment;
- brokerage commissions and other investment costs actually incurred in connection with investments (please refer to Item 12 below which further describes brokerage practices);
- the costs of any litigation, D&O liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Partnership;
- expenses of liquidating the Partnership

The above list is not all-encompassing and only provides a general list of the fees and expenses that may be incurred in running Fund II.

*C. Compensation for Sale of Securities or Other Investment Products*

As a registered investment adviser, the Registrant is required to disclose whether any officer, partner, director, or employee receives compensation for the sale of specific securities or other

investment products. However, information required by this Item is not applicable to the Registrant.

#### **Item 6: Performance-Based Fees and Side-By-Side Management**

The Registrant does not receive performance-based fees. As stated above, the Registrant receives only expense reimbursement which is payable quarterly in advance.

Since the three private investment funds that comprise Fund II invest on a side-by-side basis on identical economic terms and share in each investment and any related investment expenses pro rata based on unused capital commitments, subject to applicable legal, tax and regulatory constraints, the Registrant does not believe there are any conflicts of interest.

#### **Item 7: Types of Clients**

The Registrant provides investment advisory services to the private investment funds discussed above in Item 4A. Each of the private funds comprising Fund II requires investors to make a specified minimum investment, which may be waived in the General Partner's discretion. For some partnerships, the minimum investment required is different depending on whether the investor is an institutional investor or an individual accredited investor. Refer to the table below for details on each fund's minimum investment requirement:

<b>Fund</b>	<b>Institutional Investor Min.</b>	<b>Individual Investor Min.</b>	<b>Negotiable?</b>
Fund II	\$10,000,000	\$1,000,000	Yes

In addition to the minimum investment, investors in Fund II will be required to meet certain suitability qualifications and make certain representations when investing in Fund II, such as being an "accredited investors" under the Securities Act of 1933, as amended, and with respect to U.S. Persons, being "qualified purchasers" under the Investment Company Act of 1940, as amended.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### *A. Methods of Analysis of Investment Strategies*

The Registrant conducts due diligence to analyze and identify potential portfolio companies. As previously mentioned, Fund II is no longer making new investments.

Fund II invested primarily in established operating companies through direct negotiated transactions. The General Partner is responsible for managing Fund II's remaining four investments. Through its majority ownership position in each of these four investments, Fund II exercises control and influence over the strategy and management of these four companies. As part of the Registrant's advisory services to Fund II, personnel of the Registrant are involved in portfolio company activities to enhance value of the investments, such as attending board meetings, participating in periodic calls and meetings with company management and the company's financial advisors, and reviewing company reports.

### *B. Risk Factors*

Investing in securities involves risk of loss that clients should be prepared to bear. Investors should be aware that an investment in Fund II involves a significant degree of risk. There can be no assurance that the investment objectives will be achieved, or that an investor will receive a return of capital. Risks associated with an investment in Fund II include, but are not limited to, the following, and should be carefully evaluated before making an investment in Fund II.

#### *General*

Private Equity investing involves a high degree of business and financial risk that can result in substantial losses. An investment in Fund II involves a high degree of risk and could result in the loss of part or all of an investor's capital contribution. Therefore, investors should not invest unless they can bear such a loss. Moreover, there can be no assurance that the investment objectives will be achieved and investment results may vary materially from one reporting period to the next. Consequently, an investment in Fund II



is suitable only for sophisticated investors with substantial other assets who are capable of making an informed independent decision as to the risks involved in an investment in the funds.

#### *Nature of Fund II Investments*

Fund II currently holds four investments; approximately 64% of the equity interest of Affinia Group Inc. and interests in BPI Holdings International Inc., which was spun out of Affinia on November 30, 2012 and in Danka Business Systems PLC and Stone Canyon Entertainment Corp., both of which are in a liquidation and wind-up phase. Affinia comprises approximately 91% of the value of Fund II at December 31, 2012. Affinia is likely to face intense competition, including competition from companies with greater financial resources, more extensive development, production, marketing and service capabilities and a larger number of qualified managerial and technical personnel. There can be no assurance that the development or marketing efforts of Affinia will be successful or that its business will continue to be profitable.

#### *Lack of Diversification*

Fund II has only four investments and Affinia represents approximately 91% of Fund II's value.

#### *Reliance upon Portfolio Company Management*

Neither Registrant nor the General Partner have an active role in the day-to-day management of Fund II's portfolio companies. To the extent that the senior management of any such company performs poorly, or if a key manager terminates employment, Fund II's investment in such company could be adversely affected.

#### *Regulations applicable to Portfolio Companies*

Fund II's portfolio companies may be subject to the extensive state, federal and foreign regulations governing their business activities. The failure to obtain applicable regulatory approvals and maintain those approvals may subject the applicable portfolio company to civil penalties, suspension or withdrawal of regulatory approval obtained, product recalls

and seizures, injunctions, operating restrictions and criminal prosecutions and penalties. Any of these events, individually or in the aggregate, may have a material adverse effect on the investment in such company.

#### *Illiquid Fund Investments*

Fund II's investments are in privately held companies. As a result, there is no readily available secondary market for Fund II's interests in such portfolio companies, and those interests are subject to legal restrictions on transfer. Therefore, there is no assurance that the funds will be able to realize liquidity for such investments in a timely manner, if at all. Unless a portfolio company subsequently succeeds in obtaining approval from the relevant authorities to list its shares on a recognized exchange, this avenue to liquidity will not be available to Fund II, which must then rely on other means to achieve liquidity. In addition, Fund II may be precluded from selling its shares in a public portfolio company for some time after such portfolio company's initial public offering, if any. It may be difficult to value their interests in privately held portfolio companies.

#### *Restrictions on Transfer and Withdrawal*

There is no public market for investors' interests in Fund II. In addition, the interests are not transferable except with the consent of the General Partner. Investors may not withdraw capital from the Fund. Consequently, investors may not be able to liquidate their investments prior to the end of Fund II's term. In addition, the interests have not been registered under the Securities Act or any other applicable securities laws, and such laws will further restrict an investor's ability to transfer interests in Fund II.

#### *Use of Leverage in Certain Investments*

While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. Fund II's investments involve varying degrees of leverage. As a result, economic downturns, operating problems and other general business and economic risks may have a more pronounced effect on the profitability or survival of such companies. Moreover, rising interest rates may significantly increase portfolio company interest expense, causing losses and/or the

inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet debt obligations, Fund II may suffer a partial or total loss of capital invested in the portfolio company. Additionally, the equity interests owned by Fund II are the most junior and thus subject to the greatest risk of loss.

#### *Risks of Certain Dispositions of Assets*

In connection with the disposition of an investment in a portfolio company, Fund II may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business. Fund II may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the investors to the extent of previous distributions made to them.

#### *Reliance on the General Partner and its Principals*

The General Partner of Fund II has exclusive responsibility for managing Fund II activities. Investors are not able to make investments decisions or any other decisions in the management of Fund II. Additional members may be admitted to the General Partner of Fund II, or existing members may withdraw, and the investors will have no power to prevent any specific person from being admitted to, or withdrawing from, the General Partner. In the event that the principals are no longer engaged in the active day-to-day management of the General Partner, there is no assurance that Fund II will be able to successfully realize upon any existing investments. The loss of one or more principals could have a material adverse effect on the business of the funds.

#### *Reliance on the Registrant*

The success of Fund II depends, in part, on the ability of the Registrant to implement strategies that achieve the fund's investment objectives. Subjective decisions made by the Registrant may cause Fund II to incur losses or miss profit opportunities.

#### *Distributions of Assets Other Than Cash*

Fund II may elect to make distributions to its investors of assets other than cash, including securities or other non-cash properties. An investor that receives assets other than cash may incur substantial costs and delays in converting those assets to cash.

#### *Conflicts of Interest*

Fund II's partnership agreement contains certain protections for investors against conflicts of interest faced by the General Partner and its partners, but does not purport to address all types of conflicts that may arise. Moreover, as a practical matter, it may be difficult for investors to subject the behavior of the General Partner and its partners to close scrutiny.

#### *Absence of Effective Remedies against the General Partner*

There can be no assurance that adequate remedies will be available to any investor of Fund II if the General Partner fails to perform its duties and the partnership agreement does not afford the investors rights to remove the General Partner except in very limited circumstances. Fund II's partnership agreements include provisions for exculpation and indemnification of the General Partner and its respective partners, members, managers, officers, directors, shareholders, employees and affiliates. Therefore, investors may have more limited rights of action than they would have absent such limitation.

#### *General Partner's Interest*

The capital contribution of the General Partner of Fund II represents only a small percentage of Fund II's capital. Investors have invested greater amounts.

#### *Certain Litigation Risks*

Fund II is subject to a variety of litigation risks, particularly if one or more of its portfolio companies face financial or other difficulties. Legal disputes involving Fund II, the General Partner, their members or affiliates, may arise from the foregoing activities (or any other activities relating to the operation of the funds or their General Partners) and could have a significant adverse effect on Fund II.

#### *Investment Company Act Considerations*

Fund II is not registered under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). Therefore, investors are not afforded the protection provided by the Investment Company Act and the extensive regulations thereunder.

#### Taxation

Changes in the tax law could occur during the remaining term of Fund II that may adversely affect Fund II. Investors are urged to consult their own tax advisors with respect to their own tax situations and the effect of an investment in Fund II

#### Service on the Board of Directors

One or more of the principals or other persons affiliated with the General Partner may serve as directors of Fund II's portfolio companies. Such service, especially in light of new statutes and regulations relating to corporate governance and increased scrutiny of corporate boards, could expose Fund II or its General Partner and affiliates to regulatory action and/or claims by a portfolio company, its security holders and its creditors. The possibility of successful claims or adverse regulatory actions cannot be eliminated, and such events may have a significant adverse effect on Fund II.

In their capacity as directors of portfolio companies, such persons will be subject to fiduciary and other duties to the portfolio company on whose board they serve. These duties may on occasion conflict with the interests of Fund II. For example, Fund II's ability to sell the publicly traded securities of a portfolio company may be limited if any such directors are in possession of material nonpublic information relating to such portfolio company.

#### Confidential Information

Fund II's partnership agreement contains confidentiality provisions intended to protect proprietary and other information relating to Fund II and its portfolio companies. To the extent that such information is publicly disclosed, competitors of Fund II and/or its portfolio companies, and others, may benefit from such information, thereby adversely affecting portfolio companies, its General Partner, and the economic interest of the investors.

### *C. Recommending Specific Security-Types*

In providing advisory services in connection with the liquidation of Fund II, the Registrant does not recommend particular types of securities to Fund II.

### **Item 9: Disciplinary Information**

As a registered investment adviser, the Registrant is required to disclose all material facts regarding any legal or disciplinary events that would materially affect an evaluation of the Registrant or the integrity of its management. However, information required by this Item is not applicable to the Registrant.

### **Item 10: Other Financial Industry Activities and Affiliations**

The Registrant is not affiliated with any financial industry entities other than the private investment funds that comprise Fund II. The General Partner, an affiliate of the Registrant, serves as the general partner for each of the private investment funds that comprise Fund II.

As part of its investing activities, the Registrant does not recommend or select other investment advisers to its clients where the Registrant receives direct compensation.

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

#### *A. Code of Ethics*

The Registrant has adopted a code of ethics that sets forth standards of ethical conduct and requires compliance with federal securities laws. The code of ethics requires that designated personnel report personal securities holdings and transactions. The Registrant has also adopted an insider trading policy that restricts the use and communication of material nonpublic information. The Registrant will provide a copy of the code of ethics and insider trading policy to clients and prospective clients upon request. The fundamental position of the Registrant is that, in effecting personal securities transactions, personnel of the Registrant must consider the interests of clients at all times. Key elements of the Registrant's Code of Ethics include, among other things, the following:

- Officers, Directors and employees are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding these securities or communicating material non-public information to others.
- Employees are required to place the interest of clients above the interests of the Registrant or other Employees whenever a material conflict may be present.
- Employees are required to certify annually that they have complied with the Registrant's Code of Ethics.
- Employees may not give or accept gifts or entertainment that are inappropriate or could be seen as overly generous or which could influence Employee decision-making.
- Employees that become aware of any violation of the Code of Ethics are required to report such violation to the Chief Compliance Officer.

#### *B. Conflicts of Interest*

Due to the nature of its business activities, the Registrant and its related persons may experience times where a conflict of interest might arise between certain parties. Refer to the descriptions below where possible conflicts of interest are identified and the course of action the Registrant takes to mitigate these conflicts is explained.

##### *Portfolio Companies*

Members of the Registrant may receive cash and non-cash compensation (e.g., options) for serving as a director of portfolio companies in which Fund II invested. Pursuant to the applicable Liquidation Expense Reimbursement Agreement, certain director fees received by members and employees of the Registrant are not credited against the expense reimbursement arrangement with the Registrant. Except in connection with such non-cash consideration, a member or employee of the Registrant may not invest for his or her own personal account in any securities held by Fund II.

##### *Outside Investment Opportunities*

It is possible that members, managers, employees and related persons of the Registrant and Fund II may take investment positions in securities that are different from, or opposite to, the positions taken by Fund II because of differing objectives or other factors. The code of ethics requires that designated personnel report personal securities holdings and transactions.

#### **Item 12: Brokerage Practices**

The General Partner is responsible for the day-to-day management of Fund II. Thus, the General Partner has the authority to select brokers or dealers to be used and commission rates paid, where applicable. In selecting brokers to execute transactions, the General Partner generally will seek to obtain the best price and execution for transactions. The General Partner takes into account factors such as price, size of order, difficulty of execution and operational facilities of a brokerage firm. Additional considerations are given to the scope and quality of brokerage services provided, and the firm's risk in positioning a block of securities.

The Registrant receives free research from a number of broker-dealers. This research is in each case given to the Registrant because of the personal relationships between the Registrant's principals and persons at the broker-dealers. It is not the result of soft dollar arrangements or any other arrangements with the broker-dealers. The Registrant will continue to receive the free research regardless of whether the General Partner chooses to execute client transactions with any of the broker-dealers providing the research. The value of research received by the Registrant is not considered when selecting brokers for execution of transactions in client accounts. Nevertheless, it could be perceived to create the potential for a conflict of interest under certain circumstances.

The General Partner does not consider client referrals from a broker-dealer or third parties when selecting broker-dealers.

The General Partner may aggregate orders in connection with the sale of an investment. Since the three private investment funds that comprise Fund II invest on a side-by-side basis on identical economic terms and sharing in each investment and any related investment expenses pro rata based on unused capital commitments, subject to



applicable legal, tax and regulatory constraints, the Registrant does not believe there are any conflicts of interest.

### **Item 13: Review of Accounts**

The Registrant's two investment personnel who are responsible for monitoring the investments (the Chairman and the Vice Chairman) provide such services on a continuous basis and are involved to varying degrees in the management of the portfolio companies held by Fund II.

Investors in CMBP II and CV receive annual audited financial statements and quarterly reports covering operations and significant portfolio company developments in that quarter, as well as all necessary tax reporting information. Investors in 55<sup>th</sup> Street receive annual audited financial statements and all necessary tax reporting information.

### **Item 14: Client Referrals and Other Compensation**

The Registrant or a related person does not have any arrangement oral or in writing, where it is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients. The Registrant's Code of Ethics generally prohibits employees from accepting gifts, favors, and other inducements from counterparties or service provider, excepting certain common business courtesies. In addition, the Registrant or a related person directly or indirectly does not compensate any person who is not a supervised person of the Registrant for client referrals.

### **Item 15: Custody**

Registrant has custody of client funds and securities since an affiliate of the Registrant serves as the General Partner of Fund II. Limited Partners will not receive statements from any custodians. Instead, each partnership comprising Fund II is subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each limited partner of Fund II. The audited financial statements will be prepared in accordance with generally accepted accounting principles and, in accordance

with Rule 206(4)-2 of the Advisers Act, will be distributed within 120 days of the fiscal year end of each partnership comprising Fund II.

#### **Item 16: Investment Discretion**

The General Partner of each partnership comprising Fund II has discretion to determine the Fund's investments subject to the fund's investment strategy as set forth in the respective partnership agreement. The Registrant provides investment advisory services in connection with the liquidation of Fund II through a Liquidation Expense Reimbursement Agreement entered into between the Registrant and each partnership comprising Fund II.

#### **Item 17: Voting Client Securities**

Pursuant to Rule 206(4)-6 under the Advisers Act, Registrant has adopted and implemented written policies and procedures governing the voting of securities held by Fund II. The General Partner is responsible for voting proxies in a timely manner and for the exclusive purpose of providing benefits to Fund II. In this regard, the General Partner will, consistent with its fiduciary role, seek to enhance the value of the Fund II's portfolio by voting each company proxy in a manner that is designed to maximize the company value.

If Registrant believes that a particular vote presents a material conflict of interest, it will determine how to vote taking into consideration various factors including the investment objectives of Fund II. In casting votes, Registrant believes that a material conflict of interest between Fund II and Registrant does not arise solely as a result of a representative of the Registrant serving a director of a particular portfolio company. Registrant will document the factors considered in determining how to vote a proposal that presents a material conflict of interest.

A copy of Registrant's written proxy voting policies and procedures, and information with respect to how the General Partner voted specific proxies is available upon request. Such request should be sent to the attention of Lynn Horn, Cypress Advisors Inc., 437 Madison Avenue, 33<sup>rd</sup> Floor, New York, NY 10022.

**Item 18: Financial Information**

There is no financial condition that is reasonably likely to impair Registrant's ability to meet contractual commitments to its clients. Registrant has not been the subject of a bankruptcy proceeding.