



PATRIARCH PARTNERS

ITEM 1 COVER PAGE

PART 2A OF FORM ADV: FIRM BROCHURE

PATRIARCH PARTNERS XV, LLC

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This brochure (this “Brochure”) provides information about the qualifications and business practices of Patriarch Partners XV, LLC. If you have any questions about the contents of this Brochure, please contact us at (212) 825-0550 or Compliance@PatriarchPartners.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Patriarch Partners XV, LLC is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training. Additional information about Patriarch Partners XV, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

This Brochure does not constitute investment advice or an offer to sell or a solicitation of an offer to buy any securities. This Brochure is current only as of the time of writing. New securities of the CDO Clients, as defined in this Brochure, are not currently offered by the CDO Clients. Such securities were offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the CDO Clients generally must be both “accredited investors”, as defined in Regulation D, and “qualified purchasers”, as defined in the Investment Company Act of 1940, as amended. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any of the CDO Clients. Any such offer or solicitation will be made only by means of a confidential private placement memorandum or prospectus.

ITEM 2 MATERIAL CHANGES

This Brochure, dated April 2013 is an amended version of the Brochure dated February 2012. We have updated Items 4,6, 8, 11 and 12 of this Brochure to reflect the fact that the reinvestment period has now expired for all CDO Clients.

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ITEM 4 ADVISORY BUSINESS

This Brochure generally includes information about the Investment Adviser and its relationships with its CDO Clients, as defined below, and affiliates. Although much of this Brochure applies to all such CDO Clients and affiliates, certain information included herein applies to specific CDO Clients or affiliates only.

A. General Description of Advisory Firm.

Patriarch Partners XV, LLC (the “Investment Adviser”), a Delaware limited liability company with an office in New York City, was established in 2005. The principal owner of the Investment Adviser is Lynn Tilton (the “Principal Owner”).

The Investment Adviser provides investment advisory services to issuers of collateralized loan obligations (each, including their respective subsidiaries and co-issuers, as applicable, a “CDO Client” and collectively, the “CDO Clients”). The CDO Clients include Zohar CDO 2003-1, Ltd., a Cayman Islands exempted company (“Zohar I”), Zohar II 2005-1, Ltd., a Cayman Islands exempted company (“Zohar II”), Zohar III, Ltd., a Cayman Islands exempted company (“Zohar III”), Aeries Finance-II Ltd., a public limited company incorporated in Jersey, Channel Islands (“Aeries”), Captiva CBO 1997-1 Ltd., a Cayman Islands exempted company (“Captiva”), and Z-1 CDO 1996 Ltd., an exempted company organized under the laws of Bermuda (“Z-1”).

References to the “Investment Adviser” include the affiliates of the Investment Adviser that are the managers and agents of the CDO Clients. The collateral manager of Zohar I is Patriarch Partners VIII, LLC. The collateral manager of Zohar II is Patriarch Partners XIV, LLC. The collateral manager of Zohar III is Patriarch Partners XV, LLC. The portfolio manager of Captiva is Patriarch Partners VII, LLC. The collateral manager for Z-1 is Patriarch Partners V, LLC. The managing agent of Aeries is Patriarch Partners X, LLC. Aeries commenced operations in August 1999; however, the Investment Adviser was not hired as the managing agent for this CDO Client until September 15, 2003 when it replaced, during an event of default, a managing agent whose managing agent agreement was terminated by this CDO Client. Captiva commenced operations in December 1997; however, the Investment Adviser was not hired as the portfolio manager for this CDO Client until May 2, 2003 when it was hired, during an event of default, to succeed the portfolio manager that had previously been engaged by this CDO Client. Z-1 commenced operations in October 1996; however, the Investment Adviser was not hired as the collateral manager for this CDO Client until May 30, 2003 when it replaced, during an event of default, a collateral manager whose collateral management agreement was terminated by this CDO Client.

B. Description of Advisory Services.

The Investment Adviser provides discretionary investment advice and/or management services taking into account the stated investment objectives, restrictions and policies of each CDO Client. As part of its general investment strategy, including in its capacity as collateral manager or managing agent to the CDO Clients, the Investment Adviser selects for investment primarily below investment grade debt obligations and other securities.

As part of its services, the Investment Adviser primarily invests on behalf of its CDO Clients in undervalued, distressed companies or divisions and other assets thereof (the “Assets”). Often, the Investment Adviser seeks to make opportunistic investments on behalf of its CDO Clients with the primary purpose of obtaining influence over or control of financially troubled companies, focusing on “turning around” these Assets by restoring their value, thereby preserving jobs in the applicable industries in which such Assets operate. The Investment Adviser’s management team has extensive experience investing domestically and abroad, and its experience provides it with unique expertise in analyzing, managing and exiting investments in a variety of market environments. The Investment Adviser seeks to achieve returns for its CDO Clients by capitalizing on attractive investment opportunities and thereby creating for each CDO Client a portfolio of investments in influence or control credit positions.

Many of these investments are made with the help of a patented mathematical model that aims to balance cash flows between newly purchased Assets and already well-restored companies and to provide time to permit the implementation of turn-around strategies. This mathematical model is targeted towards payment of the outside investors in the CDO Clients at the maturity of the CDO Client Securities (as defined herein) that they hold. A copy of this patent can be found on the Investment Adviser’s website.

Many of our investments are also made strategically so as to minimize the risk of outside constituencies influencing the turn-around strategies.

In addition to controlling credit positions in companies acquired on behalf of the CDO Clients, as these same companies may often be seeking sponsorship from a sophisticated equity owner, affiliates of the Investment Adviser often may take an equity position in these same companies. Despite being under no legal obligation to do so, these affiliates often transfer to CDO Clients the equity ownership of Assets in which the CDO Clients invest, thereby increasing the potential for returns on such Assets beyond the investments made by the CDO Clients. No credit is given to this equity ownership by the rating agencies and the value of this equity ownership is not used in fee calculations. These equity interests help ensure that the incentive of the Investment Adviser is to enable the CDO Clients to repay, first, outside investors, with returns inuring to the benefit of the Investment Adviser only after payment in full of all outside investors in the CDO Clients. This equity ownership also provides an additional potential source of funds to the CDO Clients.

Although these equity securities have little or no value at the time of the initial investment in such Assets, including these securities in our CDO Clients is a unique feature of our CDO Clients in that it allows the CDO Clients to capture any increase in value in the Assets arising after the initial purchase. These increases in value provide additional protection to the CDO Clients beyond their holdings of debt securities not reflected in the ratings of the securities held by the CDO Clients and managed by the Investment Adviser for no additional fee, while the senior secured nature of many of the debt securities in which the CDO Clients invest offer protection to the CDO Clients in case of bankruptcy or reorganization.

Due to the equity/influence relationship that the CDO Clients have with these companies, the Investment Adviser often has the ability to exert influence upon, among other things (i) the companies’ leverage positions, (ii) expansion, both organically and through acquisitions, including new business lines and (iii) hiring of management. In addition,

instead of relying on third party banks to provide agency and administrative functions for loans controlled by the CDO Clients, such agency and administrative functions are often performed by affiliates of the Investment Adviser.

In distressed situations the Investment Adviser sometimes, on behalf of its CDO Clients, acquires various distressed or defaulted debt instruments, including bank loans, subject to the governing documents of the applicable CDO Clients. The Investment Adviser sometimes aims to position a CDO Client to acquire material stakes in debt (or in some cases an equity stake) sufficient to permit the Investment Adviser to influence the management of the distressed company. This is intended to result in the CDO Client receiving, in exchange for its holdings, cash, new debt or equity securities or a significant equity stake in or outright control of a reorganized company. The Investment Adviser may seek to exit the position, at any time, on behalf of its CDO Client and, subject to the terms of the CDO Client's governing documents, reinvest the capital into new opportunities. At this time, the reinvestment period for the CDO Clients has expired, so that the opportunity to reinvest such capital of such CDO Clients is strictly limited by such governing documents. In restructuring transactions, the Investment Adviser, on behalf of the CDO Clients, sometimes serves on official or unofficial creditor committees to implement its strategy or act unilaterally in certain circumstances. In addition, the Investment Adviser sometimes causes a CDO Client to act as a lender to distressed companies through syndicated or bilateral credit facilities, including "rescue financings" and debtor in possession loans extended in the context of a Chapter 11 reorganization.

C. Availability of Customized Services for Individual CDO Clients.

The Investment Adviser's investment decisions and advice with respect to each CDO Client are subject to each CDO Client's investment objectives, restrictions and guidelines, as set forth in its offering documents or imposed by its governing documents, as the case may be.

D. Assets Under Management.

The Investment Adviser manages approximately \$5,141,227,129 as of February 28, 2013 on a discretionary basis, including \$4,490,855,235 managed for CDO Clients and \$650,371,894 consisting of proprietary assets.

ITEM 5
FEES AND COMPENSATION

A. Advisory Fees and Compensation.

The fees applicable to each CDO Client are set forth in detail in each CDO Client's governing documents. Because the assets held by Aeries, Captiva and Z-1 have very little value, the Investment Adviser receives no fees directly from Captiva, Z-1 and Aeries at this time. For the remaining CDO Clients (the "Zohar CDO Clients"), a brief summary of such fees is provided below.

The Investment Adviser receives a Senior Collateral Management Fee (the "Senior Collateral Management Fee") and a Subordinated Collateral Management Fee (the "Subordinated Collateral Management Fee") from the Zohar CDO Clients, each of which are calculated pursuant to a formula included in the applicable governing documents pursuant to which each Zohar CDO Client issued debt securities (the "CDO Client Securities") to its investors.

The amount of the Senior Collateral Management Fee, which is payable quarterly based upon the availability of funds for such purpose, is 1.00% per annum of the Quarterly Asset Amount (the "Quarterly Asset Amount"), which is calculated based on a formula defined in the governing documents of the Zohar CDO Clients. The Quarterly Asset Amount is calculated based upon the aggregate principal balance of the issuer's senior or second-lien secured investments, without taking into account any common equity holdings. The "principal balances" of the assets are their outstanding principal amounts, with some adjustments for particular classes of assets, none of which adjustments are based upon market value. The Investment Adviser is paid the Senior Collateral Management Fee by a trustee on each payment date subject to the terms of the governing documents of the Zohar CDO Client, which establish distribution priorities, including for the distribution of the Senior Collateral Management Fee. This fee is paid from interest proceeds received on the assets, and if interest proceeds are insufficient, from principal proceeds, in each case after payment of certain administrative expenses, but before payments to hedge counterparties and payments of interest on the CDO Client Securities (with the exception that accrued and unpaid fees are payable after payment of interest on the CDO Client Securities).

If proceeds are sufficient to pay the Senior Collateral Management Fee, then the fee is paid *pro rata* with amounts set aside to pay certain other professional fees. If funds are not sufficient to pay this fee, then it accrues and is deferred until funds are available to pay such amounts (but subordinated to payments of interest on the CDO Client Securities).

The amount of the Subordinated Collateral Management Fee, which is also payable based upon the availability of funds for such purpose, is 1.00% of the Quarterly Asset Amount, which is calculated in the same manner as for the Senior Collateral Management Fee for Zohar I and Zohar II, and in the case of Zohar III is an amount equal to the sum of (a) 1.00% per annum of the Quarterly Asset Amount and (b) the excess of \$1,500,000 over the amount of the Senior Collateral Management Fee payable to the Investment Adviser on the related payment date. The Investment Adviser is paid its applicable Subordinated Collateral Management Fee by a trustee if and only if such additional funds are available from excess interest, certain interest coverage and over-collateralization tests set forth in the governing documents for the Zohar CDO Clients are

satisfied, and if an event of default has not occurred under the applicable governing documents for the Zohar CDO Clients. This fee is paid from interest proceeds received on the assets, in each case after payment of certain administrative expenses, payments to hedge counterparties, interest on the debt securities issued by the Zohar CDO Clients and certain other amounts as provided under the governing documents for the Zohar CDO Clients. If funds are not sufficient to pay this fee, then it accrues and is deferred until funds are available to pay such amounts.

The Investment Adviser is also entitled to reimbursement from the trustee for certain out-of-pocket expenses incurred in connection with the providing of its services.

B. Additional Fees and Expenses.

The Investment Adviser generally pays the expenses and costs that it incurs in connection with its services to the CDO Clients. However, the CDO Clients are required to reimburse the Investment Adviser at the times provided in, and subject to the terms of, their applicable governing documents and to the extent funds are available for such purposes, for (i) extraordinary costs and expenses incurred in the performance of the Investment Adviser's obligations, (ii) reasonable fees and expenses (not otherwise paid directly with funds from the CDO Clients as provided in their applicable governing documents) incurred by the Investment Adviser to employ outside lawyers, accountants, consultants or other outside specialists or professionals, asset pricing and asset rating services, and accounting, programming and data entry services that are retained by or on behalf of the CDO Clients, and (iii) brokerage commissions, transfer fees, registration costs, taxes and other similar costs and transaction related expenses and fees arising out of transactions effected for the accounts of the CDO Clients. Such expenses and costs are payable, subject to applicable distribution priorities, as funds are available in accordance with the governing documents of the CDO Clients.

C. Additional Compensation and Conflicts of Interest.

Neither the Investment Adviser nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

Affiliates of the Investment Adviser also receive fees from companies the CDO Clients invest in to provide loan agency and administrative services, management and consulting services (including services related to the sale of a company), secondment services of key and delegated personnel (including, without limitation, travel, lodging, relocation expenses and meal expenses) and, occasionally, director, officer and similar fees. In some cases, the Investment Adviser and its affiliates will forego, postpone or delay payment of these fees.

ITEM 6
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

The Investment Adviser and its affiliates may be deemed to accept performance-based fees from Zohar CDO Clients in the form of the Subordinated Collateral Management Fee (or similar fees in the case of Captiva, Aeries and Z-1, even though, as explained in Item 5, at this time, these are neither paid nor expected to be paid), which is paid only if interest coverage and over-collateralization tests described in the governing documents for the Zohar CDO Clients are satisfied, and if an event of default has not occurred, and then only after certain other amounts have been paid as required by the applicable governing documents for such Zohar CDO Clients. As a result, the Investment Adviser may be viewed as facing certain conflicts of interest with respect to the allocation of investment opportunities among various CDO Clients for which different fees may be available. To seek to address this situation the Investment Adviser has implemented trade allocation policies in an effort to ensure that investments are allocated fairly and equitably among CDO Clients in accordance with such CDO Clients' investment programs, objectives and investment restrictions (versus allocating transactions in accordance with fee arrangements). Allocations are reviewed to ensure compliance with these policies. At this time, because the reinvestment period has expired for all CDO Clients, these policies are not often triggered.

ITEM 7 TYPES OF CLIENTS

At this time, the Investment Adviser generally provides advisory services to the CDO Clients, which are collateralized loan obligation issuers specifically tailored to adapt to the unique investment strategies of the Investment Adviser.

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

A. Methods of Analysis and Investment Strategies.

The descriptions set forth in this Brochure of specific advisory services that the Investment Adviser offers to CDO Clients, and investment strategies pursued and investments made by the Investment Adviser on behalf of its CDO Clients, should not be understood to limit in any way the Investment Adviser's investment activities. The Investment Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Investment Adviser considers appropriate, subject to each CDO Client's investment objectives, restrictions and guidelines. The investment strategies the Investment Adviser pursues are speculative and entail substantial risks. Investors in securities issued by the CDO Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any CDO Client will be achieved.

B. Material, Significant or Unusual Risks Relating to Investment Strategies.

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the CDO Clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.

Distressed Nature of CDO Client Investments Generally. The loans, securities, instruments and other investments selected by the Investment Adviser for investments by the CDO Clients consist primarily of below investment grade loans or interests in below investment grade loans and high-yield debt or equity securities, which are subject to credit, liquidity, interest rate, market value, reinvestment and certain other risks. The loans, securities, instruments and other investments (the "Investments") acquired by each CDO Client constitute the collateral for the CDO Client Securities. Even though the Investment Adviser has attempted to minimize the impact of these factors at a portfolio level through the use of its patented mathematical model, there can be no assurance that the Investment Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on the Investments of each CDO Client. The Investments generally are subject to greater risks than investment grade corporate obligations. These risks could be exacerbated to the extent that a portfolio is concentrated in one or more particular types of Investments.

The financial performance of the CDO Clients may be affected by the price, term and availability of Investments to be originated or purchased. More particularly, a significant portion of the Investments selected for the CDO Clients by the Investment Adviser were (or will be) originated or acquired after the date on which the CDO Clients initially issued their CDO Client Securities. At the time of original issuance of the CDO Client Securities, the amount and nature of Investments securing the CDO Client Securities were established to withstand certain assumed deficiencies, based on criteria established by the applicable rating agencies, in payment occasioned by defaults in respect of the Investments. If deficiencies exceed such assumed levels, however, the repayment of the CDO Client Securities could be adversely affected. If a default occurs with respect to any

Investment securing the CDO Client Securities and the Investment Adviser sells or otherwise disposes of such Investment, it is not likely that the proceeds of such sale or disposition will be equal to the amount of principal and interest owing to the CDO Clients in respect of such Investment. As a result, a CDO Client may not be able to satisfy one or more of the coverage tests applicable to it, which could result in the prepayment of the CDO Client Securities.

At any time there may be a limited universe of investments that would satisfy the eligibility criteria for a CDO Client given the other Investments in the CDO Client's portfolio. As a result, the Investment Adviser may at times find it difficult to identify suitable investments for the CDO Clients. For instance, although the CDO Clients may invest primarily in Investments of various U.S. obligors and obligors incorporated or organized under the laws of certain other specified countries, the Investment Adviser may find that, as a practical matter, these investment opportunities or investments in obligations of issuers located in such jurisdictions are not available to the CDO Clients for a variety of reasons.

The ability of the Investment Adviser to arrange the sale of an Investment on behalf of a CDO Client prior to maturity is subject to certain restrictions under the governing documents of such CDO Client. Because of such restrictions, the Investment Adviser may not be permitted to arrange the sale of an Investment on behalf of a CDO Client even when the Investment Adviser believes that doing so would be prudent or advisable. If an Investment is sold or principal payments are received by a CDO Client with respect to an Investment, the Investment Adviser, at times, may be unable to identify for purchase or originate a suitable substitute investment for the CDO Client for any number of reasons, and may be unable to do so particularly in periods of market volatility or disruption, or because the reinvestment period (specified in the applicable governing documents) for the CDO Client has ended.

Investments--Inherent Illiquidity and Volatility; Funding of Operations; Exit Strategies; Foreclosure. The Investments selected by the Investment Adviser as investments for the CDO Clients consist primarily of senior secured loans which are obligations of corporations, partnerships or other entities organized under the laws of the United States or any state thereof or certain other specified countries, and equity securities in such corporations, partnerships or other entities.

The Investment Adviser often selects for the CDO Clients Investments that are illiquid and, therefore, many of the Investments that the Investment Adviser selects for the CDO Clients have no, or only a limited, trading market. Investments of obligors rated below investment grade (or that are not rated) will have greater credit and liquidity risk than investment grade obligations. The lower ratings of obligors in the non investment grade market reflect a greater possibility that adverse changes in the financial condition of the obligor on such obligations, in specific industries or in general economic conditions or a combination thereof, may impair the ability of such obligor to make payments of principal and interest. Although the Investment Adviser often selects Investments with a view that the CDO Clients will hold such Investments until maturity, repayment or sale of the issuer, the CDO Clients' investments in illiquid Investments may restrict the Investment Adviser's ability to dispose of such Investments on behalf of the CDO Clients in a timely fashion and for a fair price and may result in the inability to pursue other favorable investment opportunities. Illiquid Investments often trade at a discount from more liquid investments. In addition, in the case of loans, because of the unique and customized nature of a loan agreement and (in some cases) the relatively small size of loans that may be originated by the

Investment Adviser on behalf of a CDO Client, such a loan may not be sold as easily as publicly traded securities. Historically the trading volume in the bank loan market has been small relative to the bond market, and the market for middle market corporate loans is only a small portion of the overall bank loan market. Loans originated or purchased by the Investment Adviser on behalf of the CDO Clients may be difficult to trade and encounter trading delays due to their unique and customized nature, and transfers may be prohibited without the consent of an agent bank or borrower. In addition, the Investment Adviser may select Investments in privately placed Investments for a CDO Client that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed Investments are transferable, the prices realized from their sale could be less than those originally paid by the CDO Client or less than what may be considered the fair value of such assets.

A non investment grade loan or debt obligation or an interest therein is generally considered speculative in nature and may become non-performing for a variety of reasons. Such non-performing loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of the principal of the loan and/or the deferral of payments. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery. The CDO Clients are also likely to incur additional expenses to the extent the Investment Adviser is required to seek recovery upon a default on a loan or participate in the restructuring of such obligation. The liquidity for defaulted loans may be limited, and to the extent that defaulted loans are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon. Furthermore, there can be no assurance that the ultimate recovery on any defaulted loan will be at least equal to the minimum recovery rate assumed by a rating agency in rating the CDO Client Securities. In connection with any such defaults, workouts or restructuring, although the Investment Adviser on behalf of the CDO Clients exercises, as appropriate, voting rights with respect to an individual loan, the Investment Adviser may not be able to exercise a sufficient percentage of votes with respect to such loan to determine the outcome of such vote.

The market value of the Investments may be volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, among other things, the financial condition of the obligors on or issuers of the Investments, general economic conditions, the condition of certain financial markets, domestic and international economic or political events, developments or trends in any particular industry, prevailing credit spreads and changes in prevailing interest rates. A decrease in the market value of the Investments would adversely affect the sale proceeds that could be obtained upon the sale of the Investments and could ultimately affect the ability of the CDO Clients to pay in full or redeem the CDO Client Securities.

A lack of liquidity for the obligors and portfolio companies that issue the Investments may also adversely affect the market value of the Investments because of the likely adverse affect on the ability of these companies to fund their ongoing operations, capital expenditures and debt and other obligations. If these obligors and portfolio companies are not able to identify and secure additional and ongoing financing sources to fund operations, it is possible that, regardless of their potential for growth and future value, they will not generate sufficient cash from operations in time to meet their anticipated short term or near term cash needs. The ability of these obligors and portfolio companies to finance

their ongoing current operations without Investments from the CDO Clients or alternative funding may be very limited. The inability to secure sufficient financing, combined with a failure to generate sufficient cash from operations, could lead to the financial and operational failure of many of these companies before they can reach their growth potential.

Due to the illiquid nature of the Investments, the Investment Adviser is not able to predict with certainty the timing of or the value of the exit strategy for any given Investment, or that one will definitely be available or that the timing of that exit strategy will match the expected maturity date of the notes issued by the CDO Clients to their investors. Exit strategies that appear to be viable when an Investment is initiated may be precluded or delayed by the time the Investment is ready to be realized due to economic, legal, political or other factors, all of which may affect the value of the Investment. Because of the nature of the obligors and portfolio companies that issue such Investments, it may take several months or even years before the exit strategy envisioned at the time of the Investment may be realized, if the exit strategy is realized at all.

The financial markets have experienced substantial fluctuations in prices for high-yield debt securities and loans and equity securities of issuers rated below investment grade and limited liquidity for such securities and loans. No assurance can be given that the conditions giving rise to such price fluctuations and limited liquidity will not occur in the future. During periods of limited liquidity and higher price volatility, the Investment Adviser's ability to acquire or dispose of Investments on behalf of the CDO Clients at a price and time that the Investment Adviser deems advantageous may be impaired. As a result, in periods of rising market prices, the CDO Clients may be unable to participate in price increases fully to the extent that the Investment Adviser is unable to acquire desired positions quickly on their behalf; the Investment Adviser's inability on behalf of the CDO Clients to dispose of positions fully and promptly in declining markets may exacerbate losses suffered by the CDO Clients when Investments are sold by the Investment Adviser on their behalf. A decrease in the market value of the Investments would also adversely affect the sale proceeds that could be obtained upon the sale of the Investments and could ultimately affect the ability of the CDO Clients to pay in full or redeem the CDO Client Securities.

In the event that the Investment Adviser forecloses on collateral securing an Investment on behalf of a CDO Client, the CDO Client will be subject to the costs associated with the ownership and maintenance of such collateral to preserve its value pending sale in accordance with the governing documents of such CDO Client.

Workouts and Restructurings. The Investments include a material amount of stressed and distressed Investments that may be the subject of extensive amendment, workout, restructuring and other negotiations and, as a consequence thereof, the CDO Clients have received and are likely to continue to receive in certain cases (as a result of amendments, modifications, exchanges and/or supplements to such collateral, equity kickers and the relevant underlying instruments) interests in loans, debt or equity securities, letters of credit or leases that do not satisfy the requirements of the applicable governing documents of the CDO Clients for investments that meet the related eligibility criteria. In addition, the Investment Adviser and its affiliates have contributed - and can decide to contribute in the future - to the CDO Clients additional assets that might not satisfy such eligibility criteria but would provide additional benefits to the CDO Clients.

Prepayment of Loans. The CDO Clients invest in loans selected by the Investment Adviser. Loans can generally be prepaid, in whole or in part, at any time at the option of the obligor thereof. Loans in some cases may, but generally do not, provide for the payment of a prepayment premium. Prepayments on loans may be caused by a variety of factors that are often difficult to predict. Principal proceeds received upon such a prepayment are subject to reinvestment risk during the reinvestment period. The expiration of the reinvestment period for the CDO Clients may adversely affect the yield to maturity of the securities issued by the CDO Clients. Even if a CDO Client did permit reinvestments in a particular case, an inability of the Investment Adviser to identify loans or other instruments or securities in which to reinvest payments or other proceeds and that satisfy the investment criteria specified for the applicable CDO Client, may also adversely affect the yield to maturity of the securities issued by the CDO Clients, and there is no assurance that the Investment Adviser will be able to reinvest proceeds received by the CDO Clients in assets with comparable interest rates that satisfy such investment criteria or (if it is able to make such reinvestments) as to the length of any delays before such investments are made.

Reliance on Mathematical Model. The Investment Adviser uses a patented mathematical model that relies heavily on the ability of the Investment Adviser to predict and measure cash flows and interpret the results of the model correctly. In addition, while this model offers guidance to the Investment Adviser, it is not a replacement for the judgment of the Investment Adviser, nor does it provide perfect results. This model may include assumptions that prove incorrect. Finally, the model calls for management of Investments on a portfolio basis and may result in investment decisions that do not maximize the value of individual Investments in an attempt to maximize the value of the CDO Clients' portfolios.

Reliance on Principal Owner. The CDO Clients have been tailored to fit the skill, ability and vision of our Principal Owner and the mathematical model she created. Should anything happen to our Principal Owner, we do not believe there is a way to replace her without significantly impairing existing Investments. Because of the unique nature of the Investments and the difficulties in valuing them, public perceptions of our Principal Owner may affect the value of the Investments held by the CDO Clients, and, accordingly, may affect the value of the CDO Client Securities.

Valuation Risks. The CDO Clients invest primarily in Investments issued by highly distressed obligors ("Distressed Obligors"). In addition, because part of the investment strategy of the Investment Adviser is frequently to limit outside constituency involvement in the Distressed Obligors in order to best foster the rapid turnaround of the Distressed Obligors, many of the Investments of the CDO Clients do not trade and can be monetized mostly through a sale of the Distressed Obligors or their assets, and cannot be valued easily on any reliable basis, which may cause the value of our assets under management to fluctuate wildly. Changes in markets will cause the fluctuation of multiples upon which the value of Investments issued by Distressed Obligors is highly dependent. In addition, the governing documents of the CDO Clients prescribe various methods for reporting the value of Investments, including valuing certain obligations at par and not including the value of equity investments, which do not necessarily reflect the market value of these Investments or the expected cash recovery of these Investments to the CDO Clients.

Certain Conflicts of Interest Involving the Investment Adviser. Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Investment Adviser and its affiliates (including the Principal Owner),

and its or its affiliates' managers, directors, officers, stockholders, members, partners, agents, advisors, principals and employees (collectively, "Related Parties") and their respective CDO Clients. The Investment Adviser and its Related Parties may invest for their own accounts or on behalf of one or more CDO Clients (including CDO Clients with similar business objectives, structures and assets) in securities, obligations, loans or other assets that would also be appropriate as investments for other CDO Clients that do not participate in such investments, or that may be different (including with respect to obligor, price or terms) from those made on behalf of certain CDO Clients. The Investment Adviser and its Related Parties may have, or may advise a CDO Client with, ongoing relationships with companies whose securities, obligations or loans are pledged to support another CDO Client's obligation to repay its CDO Client Securities; and such persons may own equity or debt securities issued by issuers of, and other obligors on, the Investments of any CDO Client. The governing documents of each of the CDO Clients contain provisions regulating affiliate transactions and conflicts of interest of the Investment Adviser and its Related Parties. Subject to these provisions, the Investment Adviser and its Related Parties may serve as collateral manager or advisor for, invest in, or be affiliated with, the persons issuing to a CDO Client, or from which a CDO Client may acquire, Investments, affiliates of such persons and other entities organized to issue other collateralized securities, including securities with terms that are substantially similar or identical to the CDO Client Securities and securities secured by high yield securities, distressed loans, or emerging market bonds and loans, including those issued by companies that are issuers of, and other obligors on, the Investments of a CDO Client. The Investment Adviser and its Related Parties may at certain times be simultaneously seeking to purchase and/or sell investments for its CDO Clients and/or other entities (or for some but not all of such persons) for which it serves as collateral manager or investment adviser now or in the future, or for its managers, directors, officers, stockholders, members, agents, advisors, partners, employees and affiliates or for its own account. Due to the illiquid nature of the market for most of its investments, the Investment Adviser and its Related Parties and CDO Clients may be unable to obtain identical execution of similar buy or sell decisions.

The Investment Adviser and/or its Related Parties have no affirmative obligation to offer any investments to any CDO Client or to inform any CDO Client of any investments before offering any investment to other funds or accounts that the Investment Adviser and/or its affiliates manage or advise other than pursuant to the policies described in Item 11 of this Brochure. Furthermore, subject to the policies described in such Item 11, the Investment Adviser and its affiliates may make an investment on their own behalf without offering the investment opportunity to, or the Investment Adviser making any investment on behalf of, any CDO Client. Affirmative obligations may exist or may arise in the future whereby the Investment Adviser and/or its Related Parties are obligated to offer certain investments to funds or accounts that they manage or advise before or without the Investment Adviser offering those investments to a CDO Client. Subject to the policies described in Item 11 of this Brochure, the Investment Adviser and its Related Parties have no affirmative obligation to offer any investments to any CDO Client or to inform any CDO Client of any investments before engaging in any investments for themselves. The Investment Adviser will endeavor to resolve conflicts with respect to investment opportunities in accordance with the policies described in Item 11 of this Brochure and otherwise in a manner that it deems equitable under the facts and circumstances.

The Investment Adviser may, on behalf of a CDO Client, direct the CDO Client to sell Investments to the Investment Adviser, any of its Related Parties or entities for

which the Investment Adviser or a Related Party acts as investment advisor or in a similar capacity. The Investment Adviser also may, on behalf of a CDO Client, direct the CDO Client to purchase Investments from the Investment Adviser, any of its Related Parties or entities for which the Investment Adviser or a Related Party acts as investment advisor or in a similar capacity. To the extent required by the Investment Advisers Act of 1940, as amended (the “Adviser’s Act”), the Investment Adviser will submit the transactions to the board of directors (or similar governing body) of the CDO Client and obtain the written consent of a majority of such board of directors (or similar governing body) to such sale to or purchase by the CDO Client.

The Investment Adviser and/or one or more affiliates (or Related Parties) of the Investment Adviser and accounts for which the Investment Adviser or its affiliates act as investment adviser currently own, and may from time to time own, securities issued by CDO Clients. The interests and incentives of the Investment Adviser and/or its affiliates (or Related Parties) as holder of securities issued by CDO Clients will not necessarily be aligned with (and may be adverse to) those of the other holders of such securities. Accordingly, the ownership of securities issued by CDO Clients by the Investment Adviser or its affiliates (or Related Parties) may give the Investment Adviser an incentive to take actions that vary from the interests of other holders of such securities (in particular those with different payment priorities than the securities held by the Investment Adviser or its affiliates, Related Parties or managed accounts). The Investment Adviser, its affiliates and other managed accounts are not required to purchase securities issued by CDO Clients or to hold any such securities that they may purchase. Securities issued by a CDO Client and held by the Investment Adviser or any affiliate of the Investment Adviser (“Investment Adviser Securities”) generally will have no voting rights with respect to any vote in connection with the removal of the Investment Adviser and will be deemed not to be outstanding in connection with any such vote, but any such Investment Adviser Securities will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of such securities are entitled to vote.

Each CDO Client holds Investments (and may, subject to the restrictions in the governing documents of each of the CDO clients, acquire additional Investments) that are loans to portfolio companies, the equity interests in which are owned by Related Parties or by Related Parties and CDO Clients, in some cases together with investors not affiliated with (or managed by) the Investment Adviser or its affiliates. In most such cases the Principal Owner and/or other Related Parties have been appointed as the manager of the portfolio company or as the members of the board of directors or the board of managers of the portfolio company. In that capacity the Principal Owner and other Related Parties will be indemnified by, and reimbursed for expenses by, the portfolio company and may receive fees from the portfolio company. As described in Item 5 of this Brochure, such portfolio companies also typically enter into consulting and management agreements with Related Parties, under which Related Parties receive fees, reimbursements of expenses and indemnification from the portfolio company. A portfolio company also may appoint the Principal Owner or a Related Party as an executive officer (including chief executive officer) or as an employee and, in such capacities, the Principal Owner or such Related Party may receive compensation, reimbursement of expenses and indemnification payments from the portfolio company. When the Principal Owner or a Related Party acts as a manager, member of the board of directors or board of managers, consultant, executive officer or employee of a portfolio company to which a CDO Client has made a loan (or that has issued securities held by a CDO Client), the Principal Owner or Related Party may have a significant effect on the performance of such Investment, and in any such capacity the Principal Owner or Related

Party may consider the interests of other lenders to the portfolio company and other investors in the portfolio company, as well as the interests of the CDO Client. A CDO Client does not have the right to give directions to the Principal Owner or Related Party when he or she is acting in any of these capacities and, on its own, a CDO Client does not have the right to remove and replace the Principal Owner or Related Party in any of these capacities.

When a CDO Client has originated (or in the future originates) a loan, in most cases a Related Party has been (or will be) appointed as agent for the lenders (including the CDO Client) under the loan agreement. As agent under the loan agreement, such Related Party receives compensation (and reimbursement of expenses) from the borrower and may be indemnified by the borrower and the lenders (including the CDO Client). As agent, the Related Party exercises discretion in the administration of the loan (including approving amendments to the loan agreement). A CDO Client, on its own, does not have the right to direct the Related Party in the performance of its duties as agent for the lenders or to remove and replace the Related Party as agent.

The Investment Adviser, in connection with its other business activities, may acquire material non-public confidential information that may restrict the Investment Adviser from purchasing Investments or selling Investments for itself or its CDO Clients or otherwise using such information for the benefit of its CDO Clients or itself. There is no limitation or restriction on the Investment Adviser or any of its affiliates with regard to acting as collateral manager (or in a similar role) to other parties or persons. This and future activities of the Investment Adviser and/or its affiliates may give rise to additional conflicts of interest. The Investment Adviser may also effect CDO Client cross-transactions where the Investment Adviser causes a transaction to be effected between a CDO Client and another account advised by it or any of its affiliates. By purchasing a CDO Client Security, a holder of a CDO Client Security is deemed to have consented to the Investment Adviser effecting CDO Client cross-transactions under the circumstances and the procedures relating to principal transactions with the Investment Adviser or its affiliates.

Investments--Assignments and Participations. Although the CDO Clients typically purchase direct interests in loans, the Investment Adviser may, from time to time, acquire on behalf of a CDO Client interests in loans either directly (by way of assignment) or indirectly (by way of participation) from the institution selling the interest in the loans. At this time, the CDO Clients do not own any participations, but they might obtain rights in a participation in the future - for example, as a result of a restructuring or similar transaction. Holders of participation interests are subject to additional risks not applicable to a holder of a direct interest in a loan. The purchaser of an assignment of a loan obligation typically succeeds to all the rights and obligations of the institution selling such assignment and becomes a lender under the loan or credit agreement with respect to the loan obligation. As a purchaser of an assignment, the Investment Adviser, on behalf of the CDO Client, generally has the same voting rights as other lenders under the applicable loan agreement, including the right to vote to waive enforcement of breaches of covenants or to enforce compliance by the borrower with the terms of the loan agreement, and the right to set off claims against the borrower and to have recourse to collateral supporting the loan. Assignments are, however, arranged through private negotiations between assignees and assignors, and in certain cases the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the institution selling such assignment. In contrast, participations acquired by a CDO Client in a portion of a loan obligation held by a selling institution typically result in a contractual relationship only with such selling institution, not

with the obligor. The CDO Client would have the right to receive payments of principal, interest and any fees to which it is entitled under the participation only from the selling institution and only upon receipt by the selling institution of such payments from the obligor. In purchasing a participation, the CDO Client (and the Investment Adviser on its behalf) generally has no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such loan obligation, nor any rights of set-off against the obligor, and the CDO Client may not directly benefit from the collateral supporting the loan obligation in which it has purchased the participation. As a result, the CDO Client assumes the credit risk of both the obligor and the selling institution, which remains the legal owner of record of the applicable loan. In the event of the insolvency of the selling institution, the CDO Client may be treated as a general creditor of the selling institution in respect of the participation, may not benefit from any set-off exercised by the selling institution against the obligor and may be subject to any set-off exercised by the obligor against the selling institution. In addition, the CDO Client may purchase a participation from a selling institution that does not itself retain any portion of the applicable loan and, therefore, that selling institution may have limited interest in monitoring the terms of the loan agreement and the continuing creditworthiness of the borrower.

In addition, when a CDO Client holds a participation in a loan obligation, the CDO Client (and the Investment Adviser on its behalf) may not have the right to vote to waive enforcement of any default by an obligor. Institutions selling participations commonly reserve the right to administer the debt obligations sold by them as they see fit and to amend the documentation evidencing such debt obligations in all respects. However, most participation agreements with respect to bank loans provide that the selling institution may not vote in favor of any amendment, modification or waiver that forgives principal, interest or fees, reduces principal, interest or fees that are payable, postpones any payment of principal (whether a scheduled payment or a mandatory prepayment), interest or fees or releases any material guarantee or security without the consent of the participant (at least to the extent the participant would be affected by any such amendment, modification or waiver). An institution that sold a participation to a CDO Client and that is voting in connection with a potential waiver of a default by an obligor may have interests different from those of such CDO Client and the selling institution might not consider the interests of the CDO Client in connection with its vote. In addition, many participation agreements with respect to bank loans that provide voting rights to the participant further provide that if the participant does not vote in favor of amendments, modifications or waivers, the selling institution may repurchase such participation at par.

Assignments and participations are acquired strictly without recourse to the selling institutions, and the selling institutions generally make no representations or warranties about the underlying loans, the borrowers, the documentation of the loans or any collateral securing the loans. In addition, the CDO Clients are bound by provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower.

Each institution that sells a participation to a CDO Client in any Investment will, at the time of sale, be an entity that has (or whose parent corporation has) satisfied certain ratings criteria. However, the CDO Clients' governing documents do not require that the Investment Adviser dispose of or terminate a participation if such ratings of the counterparty are subsequently downgraded or withdrawn.

Currency Exchange Risk. Although, at this time, the CDO Clients do not own any Investment denominated in any foreign currency, under the governing documents of each CDO Client, the Investment Adviser may select a limited amount (which may be different for each CDO Client) of Investments in securities or other debt instruments that may be denominated in Euros or Canadian dollars or other currencies. The value of such Investments in such currencies fluctuates based on exchange rates. The CDO Clients may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between such currencies and the U.S. Dollar. Changes in currency exchange rates may also affect the value of interest earned, and the level of gains and losses realized on the sale of loans or other debt instruments. The rates of exchange between the U.S. Dollar and such currencies are affected by many factors, including forces of supply and demand in the foreign exchange markets. These rates are also affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. To mitigate a portion of such currency exchange rate mismatch, the Investment Adviser, on behalf of the CDO Clients, upon origination or acquisition after the funding date of any Investment, may enter into one or more currency hedge agreements. However, the benefits of such hedge agreements may not be achieved in the event of the early termination of such hedge agreements, including termination upon the failure of the counterparty thereto to perform its obligations under such hedge agreements. In addition, if a CDO Client makes an investment in U.S. Dollars in a company whose assets are located abroad, the value of the company and its assets, typically measured in, or dependent on, local currency, may fluctuate solely because of exchange rate movements.

Ability to Purchase Investments on Advantageous Terms; Competition and Supply. The CDO Clients' success depends, in part, on the Investment Adviser's ability on their behalf to purchase Investments on advantageous terms. In purchasing Investments, the Investment Adviser competes with a broad spectrum of investors, many of which have substantially greater financial resources and are more well known than the Investment Adviser or its affiliates. Increased competition for, or a diminishment in the available supply of, qualifying Investments could result in lower yields on such Investments, which could reduce returns to the CDO Clients and to investors in securities issued by the CDO Clients.

International Investing. A portion of the Investments may consist of loans or instruments that are obligations of non-U.S. obligors. Investing outside the United States may involve greater risks than investing in the United States. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, non-U.S. obligors may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies.

There generally is less governmental supervision and regulation of exchanges, brokers and issuers under the laws of countries other than the United States. For example, there may be no comparable provisions under such laws with respect to insider trading and similar investor protection laws that apply with respect to securities transactions consummated in the United States.

The markets for the Investments of non-U.S. obligors also may have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it

difficult to conduct such transactions. Delays in settlement could result in periods when assets of the CDO Clients are not invested and no return is earned thereon. The inability of the Investment Adviser to make intended Investment purchases on behalf of the CDO Clients due to settlement problems or the risk of intermediary counterparty failures could cause the CDO Clients to miss investment opportunities. The inability to dispose of an Investment on behalf of the CDO Clients due to settlement problems could result either in losses to the CDO Clients due to subsequent declines in the value of such Investment or, if the Investment Adviser has on behalf of a CDO Client entered into a contract to sell the security, could result in possible liability to the purchaser. Brokerage commissions, custodian fees, taxes and other transaction costs on non-U.S. securities exchanges generally are higher than in the United States. Furthermore, non-U.S. financial markets have, for the most part, substantially less volume than U.S. markets, and securities of many non-U.S. companies are less liquid and their prices more volatile than securities of comparable domestic companies.

In many countries other than the United States there is the possibility of expropriation, nationalization or confiscatory taxation, limitations on the convertibility of currency or the removal of securities, property or other assets of an issuer, possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of an issuer, whether from currency blockage or otherwise, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on the CDO Clients' investments in such countries. Furthermore, some of the Investments may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such Investment and reducing the realized gain or increasing the realized loss on such Investment at the time of sale. Income received by the CDO Clients from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the CDO Clients reduce the CDO Clients' net income or return from such Investments. The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Repayment, Settlement and Reinvestment Risk. The governing documents of each CDO Client permit the Investment Adviser to reinvest on behalf of the CDO Client the proceeds of Investments received by the CDO Client in new Investments for a limited period of time (generally five years) - although the reinvestment period (during which commitments may be made to make Investments) for all CDO Clients has expired at this time, so that the governing documents of each CDO Clients now strictly limit such reinvestments. More specifically, during the applicable reinvestment period, subject to certain criteria, the Investment Adviser, on behalf of the CDO Client, has had discretion to dispose of certain Investments and to reinvest the proceeds thereof in other Investments, in compliance with the reinvestment criteria imposed by the applicable governing documents for such CDO Client. In addition, to the extent that any Investments pay scheduled principal, prepay, amortize or mature during the reinvestment period, the Investment Adviser has sought and may seek, subject to the reinvestment criteria applicable to the particular CDO Client, to invest the proceeds thereof in additional Investments. The yield with respect to such additional Investments depends, among other factors, on reinvestment rates available at the time, on the ability of the Investment Adviser to identify suitable loans for origination, the availability of loans and other debt obligations in the secondary market satisfying the reinvestment criteria and acceptable to the Investment Adviser, and on market conditions related to asset based

loans and below investment grade securities. The need to satisfy such reinvestment criteria and identify acceptable investments may have required the origination or purchase of Investments with a lower yield than those replaced, with different characteristics than those replaced (including, but not limited to, spread, maturity, prepayment terms and/or credit quality) or that such funds be maintained temporarily in cash or eligible investments pending reinvestment in additional Investments, causing further reductions in the total yield of the Investments. Any decrease in the yield on the Investments may have had the effect of reducing the amounts available to the CDO Clients to make payments on the CDO Client Securities. There can be no assurance that in the event Investments are sold, prepay, amortize or mature, yields on Investments that are eligible for purchase will be at the same levels as those replaced and there can be no assurance that the characteristics of any substitute Investments purchased will be the same as those replaced. At this time, this risk is limited by the fact that the reinvestment period has ended for all CDO Clients.

Asset based loans and privately placed below investment grade securities are not as easily (or as quickly) purchased or sold as publicly traded securities. In addition, originating loans can be a significantly more time consuming process than purchasing publicly traded securities, in terms of the time needed to identify the opportunities and to document and close the transactions. Accordingly, there could be periods of time during which the Investment Adviser will not be able to originate loans on behalf of such CDO Clients or to fully invest the CDO Clients' cash in Investments. Furthermore, unsettled commitments are, in accordance with the CDO Clients' governing documents, to be included in the calculation of certain non-cash performance tests, such as diversity score tests and over-collateralization tests. Notwithstanding the foregoing, investment capacity to settle such loans will be reserved, at all times, by the Investment Adviser upon the CDO Client's commitment. The longer it takes to fully invest proceeds of the Investments and the longer the period between reinvestment of principal proceeds in additional Investments, the greater the adverse impact may be on the various performance tests, including the diversity score tests and the over-collateralization tests, and on the aggregate interest proceeds collected on the Investments and distributed to holders of the CDO Client Securities, thereby resulting in lower yield than could have been obtained if proceeds were immediately reinvested.

Although the reinvestment period for all of the CDO Clients has ended, the Investment Adviser is authorized in some cases specified in the governing documents for such CDO Clients to make certain Investments after the reinvestment period ends. The ability of the Investment Adviser to reinvest such funds on behalf of the CDO Clients is also subject to the risks and uncertainties described above.

Below Investment Grade Obligations. Investments generally consist of obligations rated below investment grade. Below investment grade obligations generally have greater credit, insolvency and liquidity risk than is typically associated with investment grade obligations.

The lower ratings of obligations in the non investment grade market reflect a greater possibility that adverse changes in the financial condition of an issuer of such obligations or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings or disruptions in the financial markets), or a combination thereof, may impair the ability of such issuer to make payments of principal and interest.

Risks of below investment grade obligations may include (among others): (i) limited liquidity and secondary market support, (ii) changes in value resulting from changes in prevailing interest rates, (iii) the possibility that earnings of the issuer may be insufficient to meet its debt service and (iv) the declining creditworthiness and potential for insolvency of the issuer of such obligations during periods of rising interest rates and economic downturn. An economic downturn or an increase in interest rates could adversely affect the value of such obligations and the ability of the issuers thereof to repay principal and interest.

The issuers of below investment grade obligations may be highly leveraged and may not have more traditional sources of financing available to them. The risk associated with acquiring the obligations of such issuers generally is greater than is the case with higher rated obligations. Below investment grade obligations are likely to be more sensitive to adverse economic changes or individual corporate developments than higher rated instruments. For example, during an economic downturn or a sustained period of rising interest rates, the issuers of below investment grade obligations may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by a specific issuer development, the issuer's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the issuer is greater for holders of below investment grade obligations than for holders of investment grade obligations. In addition, the Investment Adviser, on behalf of the CDO Clients, may incur additional expenses to the extent it is required to seek recovery upon a default on a below investment grade obligation or participate in the restructuring of such obligation.

The Investment Adviser may have difficulty disposing of certain below investment grade obligations for a CDO Client because there may be a thin market or no market for such obligations. To the extent that a secondary trading market for below investment grade obligations does exist, it is generally not as liquid as the secondary market for higher rated obligations. Under adverse market or economic conditions, the secondary market for below investment grade obligations could contract further, independent of any specific adverse changes in the condition of a particular issuer. Reduced secondary market liquidity may have an adverse impact on the value of, and the Investment Adviser's ability to dispose of, particular obligations for a CDO Client when necessary to meet the CDO Client's liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer of such obligations. Reduced secondary market liquidity for certain below investment grade obligations also may make it more difficult for the Investment Adviser to obtain accurate valuations for purposes of valuing a CDO Client's portfolio. Adverse publicity and investor perceptions, which may not be based on fundamental analysis, also may decrease the value and liquidity of below investment grade obligations.

Distressed Investments. The Investment Adviser often selects for a CDO Client Investments in U.S. companies - and, in some limited cases, non-U.S. companies - that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such Investments can result in significant returns to the CDO Clients, they also involve a substantial degree of risk. Any one or all of the Investments that the Investment Adviser may select for a CDO Client may be unsuccessful or may not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for

successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the Investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a CDO Client has invested, the CDO Client may lose its entire investment, may be required to accept cash or securities with a value less than the CDO Client's original investment and/or may be required to accept payment over an extended period of time.

Investments in Distressed Obligors and other asset based investments require active monitoring and may, at times, require participation by the Investment Adviser in business strategy or reorganization proceedings. In some cases, to the extent that the Investment Adviser becomes involved in such proceedings, the Investment Adviser's more active participation in the affairs of the issuer's reorganization proceedings could result in the imposition of restrictions limiting the Investment Adviser's ability to liquidate the CDO Client's position in the issuer.

Many of the Investments made by the CDO Clients in Distressed Obligors are thinly traded or not traded at all. Because of the investment strategy of the Investment Adviser, in many cases, the sale of a Distressed Obligor or its assets is the only way in which the CDO Clients will be able to liquidate or monetize an Investment in a Distressed Obligor, resulting in very long time delays in the ability to liquidate assets.

Credit Risk. The Investments are subject to credit risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack of or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument; securities and other debt instruments that are rated by rating agencies are reviewed frequently and may be subject to downgrade.

Interest Rate Risk. The Investments are also subject to interest rate risk. "Interest rate risk" refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner, although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Credit Ratings of Investments. Credit ratings of investments and issuers of securities and other obligations represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Accordingly, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an Investment or issuer's current financial condition or prospects of repayment may be

better or worse than a rating indicates. Consequently, credit ratings of the Investments are used by the Investment Adviser only as a preliminary indicator of investment quality. Nevertheless, the ability of the Investment Adviser to purchase Investments on behalf of a CDO Client is constrained, in part, by the credit ratings of a particular investment to the extent of limitations imposed by the CDO Client's governing documents.

Credit Ratings of CDO Client Securities. Many of the CDO Client Securities were assigned credit ratings by one or more rating agencies at the time of their original issuance. Such ratings subsequently have been reduced or withdrawn by the rating agencies. Each rating agency has significantly modified its methodology employed in assigning ratings to collateral loan obligations since the original issuance of the CDO Client Securities and such changes have had a significant effect on the ratings of the CDO Client Securities. Future changes in rating agency methodology may affect the ratings on the CDO Client Securities.

Restrictions on the Investment Adviser's Discretion. The governing documents for each CDO Client impose significant restrictions on the discretion of the Investment Adviser to purchase or sell Investments and require the Investment Adviser to obtain consents from investors in CDO Client Securities (or insurers that have insured some of such securities) and/or confirmations from rating agencies before the Investment Adviser takes certain actions on behalf of a CDO Client. These restrictions may prevent the Investment Adviser from taking actions that it believes are in the best interests of the holders of CDO Client Securities.

Equity Securities. The value of investments held by the CDO Clients in equity securities depends on the ability of the Investment Adviser to "turn around" a particular company and create value in that equity security. In addition, investments in equity securities are subject to many risk factors, including risks arising from economic conditions, government regulations, market, investor and customer sentiments, industry changes, local, domestic and international political and other news and events, and environmental and technological issues. In addition, the market value of equity securities may fluctuate in response to changes in currency values.

Fraud. Of paramount concern in originating loans or selecting Investments is the possibility of material misrepresentation or omission on the part of the obligor or issuer on such Investments. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the Investments, or may adversely affect the likelihood that a lien on the collateral securing the Investment has been properly created and perfected. The Investment Adviser, in identifying Investments for purchase by a CDO Client, often relies upon the accuracy and completeness of representations made by sellers or issuers, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a CDO Client may be reclaimed if any such payment or distribution is later determined to have been made with an intent to defraud or prefer creditors.

Third Party Litigation. A CDO Client's investment activities subject it to the risks of becoming involved in litigation by third parties. This risk is greater for Investments in companies experiencing significant financial or business difficulties and may be greater where the Investment Adviser, on behalf of the CDO Client, exercises control or significant influence over a company's direction or where the Investment Adviser, on behalf of the CDO Client, originates the Investment. The expense of defending against claims against the CDO

Client by third parties and paying any amounts pursuant to settlements or judgments would be borne by the CDO Client.

Participation on Creditor Committees. The Investment Adviser, on behalf of a CDO Client, may participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy. In addition, the Investment Adviser, on behalf of a CDO Client, may seek to negotiate directly with debtors with respect to restructuring issues. If the Investment Adviser, on behalf of a CDO Client, does join a creditor committee, the other participants of the committee will be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to the CDO Client in such proceedings. By participating on such committees, the CDO Client may be deemed to have duties to other creditors represented by the committees, which might thereby expose the CDO Client to liability to such other creditors who disagree with the Investment Adviser's actions on behalf of the CDO Client.

The Investment Adviser may also be provided with material non-public information that may restrict the Investment Adviser's ability to trade in a company's securities on behalf of a CDO Client. While the Investment Adviser intends to comply with all applicable securities laws and to make judgments concerning restrictions on trading in good faith, the Investment Adviser may trade in a company's securities on behalf of a CDO Client while engaged in such company's restructuring activities. Such trading creates a risk of litigation and liability that may cause the CDO Clients to incur significant legal fees and potential losses.

Insolvency Considerations With Respect to Obligors on Investments; Lender Liability; Equitable Subordination. Obligors on Investments acquired for a CDO Client may become involved in bankruptcy or similar proceedings. There are a number of significant risks inherent in the bankruptcy process. First, many events in a bankruptcy are the product of contested matters and adversary proceedings beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court, in the exercise of its broad powers, would not approve actions that would be contrary to the interests of the CDO Client. Second, the effect of a bankruptcy filing on a company may adversely and permanently affect the company. The company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on an investment can be adversely affected by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court and until it ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high and paid out of the debtor's estate prior to any return to creditors. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs. Fifth, bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that the Investment Adviser's influence with respect to the class of obligations or securities owned by a CDO Client can be lost by increases in the number and amount of claims in that class or by different classification and treatment of claims. Sixth, in the early stages of the bankruptcy

process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Seventh, especially in the case of investments made prior to the commencement of bankruptcy proceedings, creditors can lose their ranking and priority if they exercise “domination and control” of a debtor and other creditors can demonstrate that they have been harmed by such actions. Eighth, certain claims that have priority by law (for example, claims for taxes) may be quite significant.

In addition, it is possible that a court may invalidate, in whole or in part, the indebtedness underlying an Investment as a fraudulent conveyance, subordinate such indebtedness to existing or future creditors of the obligor or recover amounts previously paid by the obligor in satisfaction of such indebtedness. In particular, a court could make such a determination if, in a lawsuit brought by a creditor or representative of creditors (such as a trustee in bankruptcy) of an obligor on an Investment, the court were to find that the obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the Investment and, after giving effect to such indebtedness and the use of the proceeds thereof, the obligor (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such obligor constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature. The measure of insolvency for purposes of the foregoing varies. There can be no assurance as to what standard a court would apply in order to determine whether the obligor was “insolvent” or that, regardless of the method of valuation, a court would not determine that the obligor was “insolvent”, in each case, after giving effect to the incurrence of such Investment and the use of the proceeds thereof. In addition, in the event of the bankruptcy of a debtor in which an Investment was made by the CDO Clients, payments made on such Investment may be subject to avoidance as a “preference” if made within a certain period of time (that may be as long as one year under federal bankruptcy law or even longer under state laws) before bankruptcy.

In general, if payments on an Investment are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the CDO Client) or from subsequent transferees of such payments (such as the holders of the CDO Client Securities). To the extent that any such payments are recaptured from a CDO Client, the resulting loss will generally be borne by the holders of CDO Client Securities (in inverse order of seniority, if applicable). A court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a holder of CDO Client Securities to the extent that such court has jurisdiction over such holder or its assets. However, it is unlikely that voidable payments could be recaptured directly from a holder that has given value in exchange for its CDO Client Securities in good faith and without knowledge that the payments were voidable. The ultimate legal analysis will be based on a judge’s interpretation of precedents, and there can be no assurance that a holder of CDO Client Securities will be able to avoid recapture on this basis.

In addition, a number of judicial decisions in the United States have upheld the right of debtors to sue creditors on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that a creditor has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the debtor, has wrongfully exacerbated or “deepened” the insolvency of the debtor or has assumed a degree of control over the debtor resulting in the creation of a fiduciary duty owed to the debtor or its other creditors or shareholders. Because of the nature of the Investments, the CDO Clients may be subject to allegations of lender liability.

Furthermore, under common law principles that in some cases form the basis for lender liability claims, if a creditor (a) intentionally takes an action that results in the under capitalization of a debtor to the detriment of other creditors of such debtor, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a debtor to the detriment of other creditors of such debtor, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination”. Because of the nature of the Investments, the CDO Clients may be subject to claims from creditors of an obligor that Investments issued by such obligor that are held by the CDO Clients should be equitably subordinated. The Investment Adviser does not intend to engage in conduct that would form the basis for a successful cause of action based upon fraudulent conveyance, preference, lender liability or the equitable subordination doctrine with respect to any Investment. The risk of a successful cause of action on such grounds may be increased to the extent the Investment Adviser or its affiliates own equity securities of an issuer of or obligor on an Investment, to the extent that the Investment Adviser, on behalf of a CDO Client, originates Investments, or to the extent the CDO Client remains the record owner of Investments and sells a participation interest therein to a third party. With respect to a loan for which a third party financial institution acts as agent, the Investment Adviser and the CDO Client may be unable to prevent such agent from engaging in conduct that would form the basis for a successful cause of action based upon fraudulent conveyance, preference, lender liability or equitable subordination.

The preceding discussion is based upon principles of U.S. federal and state laws. Insofar as Investments that are obligations of non-U.S. obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. Federal and state laws.

Voting Restrictions for Minority Holders. The Investment Adviser may select Investments for the CDO Clients that are obligations, or participations in obligations, issued under a loan facility or a bond indenture to which more than one investor is a party. Although, in many cases, an affiliate of the Investment Adviser acts as the agent and lead administrator for the loan facility in which a CDO Client invests, these loan facilities may be administered for the lenders by an agent acting as the lead administrator that is not affiliated with the Investment Adviser. The terms and conditions of these loan facilities may be amended, modified or waived only by the agreement of a certain number of lenders. Generally, any such agreement must be proposed by the agent and include a majority or a super majority vote of (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the lenders, and the CDO Client may only have a minority interest in such loan facilities. Similarly, indentures governing bond facilities may be amended, modified or waived only by the agreement of a majority or a super majority vote of bondholders, measured by class or by indenture, and the CDO Client may only have a minority interest in such bond facility. Consequently, the terms and conditions of an Investment arising from such loan or bond facilities could be modified, amended or waived in a manner contrary to the interests or preferences of the CDO Client if the amendment, modification or waiver of such term or condition does not require a unanimous vote and a sufficient number of other investors in such facilities concur with such amendment, modification or waiver. There can be no assurance that any obligations arising from any loan or bond facility will maintain the terms and conditions to which the CDO Client or a

predecessor in interest to the CDO Client originally agreed. Conversely, there can be no assurance that any CDO Client will be able to make any amendment, modification or waiver it favors. Voting on any such amendment, modification or waiver is subject to the Investment Adviser's proxy voting policies and procedures.

Limited Control of Administration and Amendment of Investments. The Investment Adviser, on behalf of the CDO Clients, exercises or enforces, or refrains from exercising or enforcing, any or all of its rights in connection with the Investments or any related documents or refuses amendments or waivers of the terms of any Investment and related documents in accordance with its portfolio management practices and the standard of care specified in the applicable management agreement. The Investment Adviser's ability to change the terms of the Investments is generally not otherwise restricted by the governing documents for the CDO Clients. The holders of CDO Client Securities do not have any right to compel the Investment Adviser to take or refrain from taking any actions other than in accordance with its portfolio management practices and the standard of care specified in the applicable management agreement. The Investment Adviser may, in accordance with its portfolio management standards and subject to the CDO Clients' governing documents, extend or defer the maturity, or adjust the outstanding balance of any Investment, or otherwise amend, modify, supplement or waive the terms of any related loan agreement, including the payment terms thereunder. Any amendment, waiver, supplement or modification of an Investment could postpone the expected date for repayment of the principal amount of the CDO Client Securities and/or reduce the likelihood of timely and complete payment of interest on or principal of the CDO Client Securities.

Third Party Appraisal Risk. A portion of the Investments may consist of asset based loans that are based primarily on the value of collateral rather than on a borrower's operating cash flows. Third party appraisals of assets may be obtained in connection with the origination or acquisition of an asset based loan. There is no assurance that any valuation of collateral performed in connection with the origination of any asset based loan actually reflects an amount that would be realized upon a current sale of the related assets. Moreover, such a valuation is not necessarily indicative of the value of the assets at any time after the date of the valuation. No new valuations of the collateral securing asset based Investments are obtained in connection with the issuance by a CDO Client of CDO Client Securities. Future values may depend upon a variety of factors, including the economic success of the business, local and general competitive and economic conditions, obsolescence or nonperformance of collateral, as well as the overall credit of the borrower. In the event of default by a particular borrower, there may well have been factors present that reduced the value of the assets that secure the asset based loan. The value of the collateral securing an asset based loan of a borrower in liquidation generally will be less than the value of such collateral when used as part of an operating business in good standing. As a result, there is no assurance that the value of the collateral securing any asset based Investment will equal or exceed the amount of the obligation at any time.

ITEM 9
DISCIPLINARY INFORMATION

There are no legal or disciplinary events that are material to a CDO Client's or prospective CDO Client's evaluation of the Investment Adviser's advisory business or the integrity of the Investment Adviser's management.

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as broker-dealers or registered representatives of a broker-dealer.

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

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

The Investment Adviser, its affiliates and its personnel serve as investment advisers and investment managers to several privately placed pooled investment vehicles. The Investment Adviser, its affiliates and its personnel may take action or give advice with respect to certain CDO Clients that differs from the advice given to other CDO Clients. The Investment Adviser, its affiliates and its personnel will devote as much time to the activities of each CDO Client as they deem necessary and appropriate and the amount of time devoted to different CDO Clients may vary.

D. Material Conflicts of Interest Relating to Other Investment Advisers.

The Investment Adviser does not recommend or select other investment advisers for its CDO Clients.

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

A. Code of Ethics.

The Investment Adviser strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Investment Adviser has adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees, which for purposes of the Code include the Principal Owner and all other supervised persons, are expected to uphold:

- All Employees must place the interests of CDO Clients first;
- All Employees must keep confidential information concerning the CDO Clients and their investments;
- All Employees must maintain independence in the investment decision making process;
- All Employees must conduct all personal transactions in securities in a manner consistent with the Code and avoid any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility; and
- No Employee may inappropriately take advantage of its position at the Investment Adviser.

CDO Clients may request a copy of the Code by contacting the Investment Adviser at the address or telephone number listed on the first page of this document.

B. Securities in which the Investment Adviser or a Related Party Has a Material Financial Interest.

1. Cross Trades

The Investment Adviser may determine that it would be in the best interests of its CDO Clients to transfer a security from one CDO Client to another for tax purposes, liquidity purposes or to reduce transaction costs that may arise in an open market transaction. The Investment Adviser generally does not engage in cross trades but reserves the right to do so in the future. If the Investment Adviser decides to engage in such a cross trade, the Investment Adviser should determine that the trade is in the best interests of both of the CDO Clients involved in the trade and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those CDO Clients.

A cross transaction between two CDO Clients may occur simply by having the adviser instruct the custodian for the CDO Clients to book the transaction at the price determined by the adviser’s valuation procedures (*i.e.*, an “internal cross”). The Investment Adviser may not receive any fee in connection with the completion of an internal cross. The

receipt of a transaction-based fee could potentially subject the adviser to the requirement to register as a broker-dealer.

The Investment Adviser generally does not engage in cross transactions between CDO Clients. Nevertheless, the Investment Adviser reserves the right to do so in the future but will only do so where it determines that doing so is in the best interest of both CDO Clients and in transactions approved by the appropriate personnel of the Investment Adviser in accordance with its compliance policies. In addition, where the Investment Adviser has engaged in cross transactions in the past, it has always used a third party to ensure a fair valuation of the transaction and, while it reserves the right not to do so in the future, its intention is to continue its current practice.

2. Principal Transactions

The Investment Adviser currently does not anticipate engaging in purchases or sales of securities between CDO Clients and the Investment Adviser itself or proprietary accounts of the Investment Adviser or its Principal Owner. On occasion, equity interests will or may be transferred from proprietary accounts of the Investment Adviser or its Principal Owner to CDO Clients for no consideration - such transfers do not involve the purchase or sale of a security and are not principal transactions subject to Section 206 of the Advisers Act. If the Investment Adviser decides to engage in principal transactions in the future, it will abide by all legal requirements and, in accordance with the compliance policies of the Investment Adviser, the appropriate personnel of the Investment Adviser will review and approve procedures governing such transactions prior to implementation.

C. Investing in Securities that the Investment Adviser or a Related Party Recommends to CDO Clients.

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions.

As a result of successful management of a CDO Client by the Investment Adviser, it is possible for such CDO Client to pay off all of its outside investors and thereby become an affiliate of the Investment Adviser. In the past, several companies have become affiliates of the Principal Owner in that manner and some of these have investments in the same companies the CDO Clients currently invest in.

In addition, to maintain its strategy to limit the influence of outside constituencies in the turn around process of Assets, the Investment Adviser, the Principal Owner and their affiliates may make investments in Assets if the Investment Adviser does not believe such investments to be appropriate investments for CDO Clients for various reasons, including the level of risk involved, the investment profile and strategy of a CDO Client, eligibility criteria for investments, regulatory limitations and any other reason deemed appropriate by the Investment Adviser. All such investments will be offered first to CDO Clients.

The Investment Adviser, the Principal Owner, any of their affiliates and employees of any of them may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for CDO Clients.

These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more CDO Clients. Potential conflicts also may arise due to the fact that the Investment Adviser and personnel may have investments in some CDO Clients but not in others or may have different levels of investments in the various CDO Clients.

The Investment Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as CDO Client trades.

D. Conflicts of Interest Created by Contemporaneous Trading.

The Investment Adviser manages investments on behalf of a number of CDO Clients. Certain CDO Clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. Currently, the reinvestment period has expired for all CDO Clients, so that, with the exception of prior commitments already made but not yet settled, the ability of the CDO Clients to make new Investments is strictly limited by their governing documents and there is no need to determine how investment opportunities will be allocated to any particular CDO Client. Nevertheless, in case such need arises in the future, it is the policy of the Investment Adviser to allocate investment opportunities among all CDO Clients in a manner that is fair and equitable to all such CDO Clients over time, in accordance with each CDO Client's applicable investment strategies, over a period of time. The Investment Adviser has no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any CDO Client solely because the Investment Adviser purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any CDO Client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the CDO Client or does not appear to fit within the investment profile or investment strategy of a CDO Client.

Should a need arise in the future to allocate investment opportunities among CDO Clients, all investment opportunities shall generally be offered to all CDO Clients. In those situations where an investment may be appropriate for more than one CDO Client, each such CDO Client has expressed interest in such investment (without regard to the orders placed by any other CDO Client) and the investment opportunity available to the Investment Adviser is not sufficient to satisfy the interest of each such CDO Client, the Investment Adviser will allocate the investment among CDO Clients *pro rata* based on orders placed on behalf of such CDO Clients. While orders are often placed equally among CDO Clients, orders may differ among CDO Clients based on various factors imposed by the structure of such CDO Client, such as concentration and other limits and ratios, and the impact of such investment on the mathematical model used by the Investment Adviser for such CDO Client or the rating of such CDO Client. This general approach, however, will also be subject to change based on a number of factors including legal or regulatory restrictions and the relative risk tolerances of the CDO Clients in the context of their existing investments. A written record will then be created and maintained memorializing the basics for any non-standard allocation of an investment between more than one account.

ITEM 12 BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for CDO Client Transactions.

Because of their investment strategies, at this time, the CDO Clients only occasionally enter into trades of a kind generally executed through a broker-dealer. When they do, these trades often consist of non-par trades in loans and claims, for which the best execution concepts are more difficult to apply and often require a case-by-case analysis. Nevertheless, the Investment Adviser has full discretionary authority to direct CDO Client trades, and the CDO Clients may enter, and have entered, into various types of trades, including sales in the equity markets, such as, for example, a sale of equity obtained as part of a reorganization. As a result, the Investment Adviser is subject to a duty to obtain best execution for CDO Client securities transactions. The SEC has described this requirement generally as a duty to execute securities transactions so that a CDO Client's total costs or proceeds in each transaction are the most favorable under the circumstances. The SEC also has stated that when seeking best execution an adviser should consider the full range and quality of a broker-dealer's services in placing trades. The SEC has added that best execution is not determined by the lowest possible commission costs, but by the best qualitative execution. Finally, the SEC has suggested that to ensure continuing compliance with the best execution duty, advisers should periodically and systematically evaluate the execution performance of broker-dealers executing their transactions.

In placing orders to purchase and sell securities for CDO Clients, the Investment Adviser considers a number of factors in selecting appropriate broker-dealers, including execution capability, commission rates, financial responsibility, the value of research provided, and responsiveness to the Investment Adviser. In order to ensure best execution, the Investment Adviser has established a Brokerage Committee. The Brokerage Committee reviews quarterly trade information (including with respect to trades in the syndicated loan market) and broker information provided by the appropriate personnel of the Investment Adviser and is responsible for developing, evaluating and changing when necessary the Investment Adviser's order execution practices. The Brokerage Committee monitors broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Investment Adviser and the CDO Clients. The Investment Adviser's best execution guidelines are designed to enable the Investment Adviser to fairly evaluate the overall quality and costs of a broker-dealer's execution services, including factors other than prices, commissions and other expenses paid in connection with account transactions.

The Investment Adviser places trades for execution only with approved brokers or dealers. The factors to be considered in selecting and approving brokers-dealers that may be used to execute trades for CDO Client accounts include, but are not limited to:

- Quality of execution - accurate and timely execution, clearance and error/dispute resolution;
- Reputation, financial strength and stability;
- Block trading and block positioning capabilities;
- Willingness to execute difficult transactions;

- Willingness and ability to commit capital;
- Access to underwritten offerings and secondary markets;
- Ongoing reliability;
- Overall costs of a trade (*i.e.*, net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the Investment Adviser's knowledge of negotiated commission rates currently available and other current transaction costs;
- Nature of the security and the available market makers;
- Desired timing of the transaction and size of trade;
- Confidentiality of trading activity;
- Market intelligence regarding trading activity; and
- The receipt of brokerage or research services.

1. Research and Other Soft Dollar Benefits

The Investment Adviser does not use soft dollar arrangements. If it does use soft dollar arrangements in the future, it will abide by all legal requirements and the appropriate personnel of the Investment Adviser will appropriately review and approve any such arrangement prior to implementation.

Soft dollar arrangements generally arise when an investment adviser obtains products and services, other than securities execution, from a broker-dealer in return for directing CDO Client securities transactions to the broker-dealer. Because soft dollar products and services are purchased with brokerage commissions (or mark-ups or mark-downs in the case of permitted riskless principal transactions by dealers), an investment adviser has a fiduciary obligation to ensure that the commissions (or mark-ups and mark-downs) are used for the benefit of its CDO Clients and that its CDO Clients are informed of the adviser's general use of brokerage commissions (or mark-ups or mark-downs) to purchase soft dollar products and services.

2. Brokerage for CDO Client Referrals.

Neither the Investment Adviser nor any related person receives CDO Client referrals from any broker-dealer or third party.

3. Directed Brokerage.

The Investment Adviser does not recommend, request or require that a CDO Client direct the Investment Adviser to execute transactions through a specified broker-dealer.

B. Order Aggregation.

Currently, the reinvestment period has expired for all CDO Clients, so that, with the exception of prior commitments already made but not yet settled, the ability of the CDO Clients to make new Investments is strictly limited by their governing documents and there is no need to determine how investment opportunities will be allocated to any particular CDO Client. In addition, because of their investment strategies, at this time, the CDO Clients only occasionally enter into trades of a kind generally executed through a broker-dealer. In the future, should the Investment Adviser have multiple CDO Clients that could make additional investments and should such CDO Clients desire to make trades of a kind executed through a broker-dealer, then, if the Investment Adviser determines that the purchase or sale of a security is appropriate with regard to multiple CDO Clients, the Investment Adviser will be able to, without being obligated to, purchase or sell such a security on behalf of such CDO Clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same business day, each participating CDO Client will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each CDO Client's participation in the order (or allocation in the event of a partial fill) as determined by the Investment Adviser. In the event of a partial fill, allocations may be modified on a basis that the Investment Adviser deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Investment Adviser. As a result, certain trades in the same security for one CDO Client (including a CDO Client in which the Investment Adviser and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another CDO Client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

ITEM 13
REVIEW OF ACCOUNTS

A. Frequency and Nature of Review of CDO Client Accounts or Financial Plans.

The Investment Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each CDO Client's Investments. Such reviews are conducted by the Investment Adviser's Principal Owner and various other employees of the Investment Adviser.

B. Factors Prompting Review of CDO Client Accounts Other than a Periodic Review.

A review of a CDO Client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to CDO Clients.

The Investment Adviser generally provides periodic trustee reports and other communications regarding the CDO Clients.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to CDO Clients.

Other than the management fees, loan administration and similar fees received by affiliates from companies in which the CDO Clients invest, all as further described in Items 5 and 8 of this Brochure, the Investment Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for CDO Client Referrals.

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for CDO Client referrals.

ITEM 15 CUSTODY

The Investment Adviser does not have custody of CDO Client funds or securities pursuant to Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended.

As described in Items 5 and 8 of this Brochure, for loans originated by CDO Clients, a Related Party of the Investment Adviser often is appointed as agent for lenders, which includes such CDO Clients, either exclusively or, in more rare cases, together with third party lenders. As is typical in a syndicated loan agreement, the borrowers under these loans make payments due under these loans to such Related Party, the agent, which then allocates and forward to each lender the portion that then belong to such lenders. At this time, such payments are received in one bank account in the name of such Related Party. The Investment Adviser believes that the funds in such account do not trigger the custody rule. Nevertheless, the Investment Adviser has determined to voluntarily submit such bank account to surprise custody examinations by independent auditors and to arrange for the bank to forward statements for such bank account to the CDO Clients. The Investment Adviser reserves the right to change this practice in the future.

ITEM 16
INVESTMENT DISCRETION

The Investment Adviser provides discretionary advisory investment advice and/or management services to each CDO Client. The Investment Adviser's investment decisions and advice with respect to each CDO Client are subject to the CDO Client's investment restrictions, as set forth in the governing documents of such CDO Client. As described in Items 5 and 8 of this Brochure, the Investment Adviser entered into a management agreement with each CDO Client, pursuant to which the Investment Adviser provides certain management services to its CDO Clients.

ITEM 17
VOTING CLIENT SECURITIES

A. Policies and Procedures Relating to Voting Securities Held by CDO Clients.

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions relating to the securities of a CDO Client (collectively, “Proposals”) in a manner that serves such CDO Client’s best interests and is in line with the such CDO Client’s investment objectives, each as determined by the Investment Adviser in its discretion.

In making such determination, the Investment Adviser may take into account all relevant factors, including, without limitation, the following:

- the impact on the value of the securities of such CDO Client;
- the anticipated associated costs and benefits associated with the Proposals;
- the effect on liquidity; and
- customary industry and business practices.

For many, although not all, Proposals introduced with respect to private companies, the interests owned by all CDO Clients, when aggregated with the interests owned by all affiliates of the Investment Adviser, constitute a majority of the voting interests of all classes entitled to vote on such Proposal. For such Proposals, the Investment Adviser, on behalf of the CDO Clients, presents its own Proposals as part of its overall strategy to advance the investment objectives of the CDO Clients and, unless it is determined by the Investment Adviser in its discretion that certain CDO Clients have different investment objectives, the Investment Adviser will only vote, on behalf of CDO Clients, for such Proposals and will generally vote all interests of the CDO Clients jointly in support of such Proposals. The remaining policies of the Investments Advisers with respect to Proposals only apply to Proposals where the interests owned by all CDO Clients and by all affiliates of the Investment Adviser do not, in the aggregate, constitute a majority of all classes of interests entitled to vote for such Proposals.

Any voting decisions with respect to other Proposals will be made on a case-by case basis by the Investment Adviser as it determines to be in the best interests of the investing Clients and by placing the interests of the CDO Clients first; provided, that, in the case of Proposals with respect to broadly syndicated loans, for matters determined by the Investment Adviser in its discretion not to have any effect on Investments of the CDO Clients, (a) if a fee is offered to a CDO Client in exchange for voting for such Proposal, the Investment Adviser will vote on behalf of such CDO Client so as to obtain the maximum fee for such CDO Client and (b) if a fee is not offered to a CDO Client, the Investment Adviser will not vote on behalf of such CDO Client.

In limited circumstances, the Investment Adviser may refrain from voting Proposals where the Investment Adviser believes that voting would be inappropriate, taking into consideration the cost of voting for the Proposal and the anticipated benefit to its CDO

Clients. Generally, CDO Clients may not direct the Investment Adviser's vote with respect to a particular Proposal.

Conflicts of interest may arise between the interests of the CDO Clients on the one hand and the Investment Adviser or its affiliates on the other hand. If the Investment Adviser determines that it may have, or is perceived to have, a conflict of interest when voting on behalf of the CDO Clients, the Investment Adviser will vote in accordance with its proxy voting policies and procedures. CDO Clients may obtain a copy of the Investment Adviser's proxy voting policies and its proxy voting record upon request.

ITEM 18
FINANCIAL INFORMATION

The Investment Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.



**ITEM 1
COVER PAGE**

PART 2B OF FORM ADV: FIRM BROCHURE SUPPLEMENT

PATRIARCH PARTNERS XV, LLC

April 2013

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ADVISORY PERSONNEL:
Lynn Tilton

This brochure supplement provides information about Lynn Tilton that supplements the Patriarch Partners XV, LLC brochure. You should have received a copy of that brochure. Please contact us at (212) 825-0550 or Compliance@PatriarchPartners.com if you did not receive Patriarch Partners XV, LLC's brochure or if you have any questions about the contents of this supplement.

ITEM 2

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Lynn Tilton founded Patriarch Partners XV, LLC in 2005, its affiliate Patriarch Partners, LLC in 2000 and its affiliates Patriarch Partners V, LLC, Patriarch Partners VII, LLC, Patriarch Partners VIII, LLC, Patriarch Partners X, LLC and Patriarch Partners XIV, LLC in 2003 (collectively, together with Patriarch Partners XV, LLC, the “Firm”). She is the manager and principal owner of Patriarch Partners XV, LLC. Prior to 2000, Ms. Tilton served as the sole principal of Papillon Partners, LLC, a registered broker dealer, research and bank loan trading firm. Prior to 1998, Ms. Tilton traded bank loans and trade claims at Amroc Investments. Before Amroc Investments, Ms. Tilton held positions at Kidder Peabody, where she was involved in distressed debt research and sales, and proprietary investments in distressed assets and previously spent nine years at various other positions with investment banking firms, including at Goldman Sachs’ corporate finance group and Merrill Lynch’s merchant bank and Morgan Stanley’s mergers and acquisitions group. Lynn Tilton earned an MBA at Columbia Business School (where she graduated in 1986) and, in 1981, she earned a BA with honors from Yale University. Ms. Tilton was born in 1959.

ITEM 3

DISCIPLINARY INFORMATION

Ms. Tilton has not been, and is not, involved in any legal or disciplinary events that would be material to a client’s evaluation of Ms. Tilton or of the Firm.

ITEM 4

OTHER BUSINESS ACTIVITIES

A. Investment-Related Business.

Ms. Tilton does not engage in any investment-related business or occupation, other than the activities of the Firm as discussed in Patriarch Partners XV, LLC’s brochure and this brochure supplement.

B. Other Business.

Ms. Tilton is not actively engaged in any business or occupation that provides her with a substantial source of income or involves a substantial amount of her time, other than her participation in the activities of the Firm as discussed in Patriarch Partners XV, LLC’s brochure and this brochure supplement.

ITEM 5

ADDITIONAL COMPENSATION

Ms. Tilton does not receive any compensation for advisory activities other than those described in this brochure supplement and Patriarch Partners XV, LLC’s brochure.

ITEM 6 SUPERVISION

Ms. Tilton is the Chief Executive Officer of Patriarch Partners, LLC, and as such she is the ultimate supervisor of the Firm. All employees of the Firm, including Lynn Tilton, are subject to Patriarch Partners, LLC's Compliance Manual, including, without limitation, Patriarch Partners, LLC's Code of Ethics. The Compliance Manual and Code of Ethics contain detailed rules concerning a firmwide standard of care, suitability of investments, treatment of confidential and proprietary information, conflicts of interest, supervision, personal securities transactions, gifts, and other outside business activities. Patriarch Partners, LLC's Code of Ethics contains comprehensive personal trading guidelines.