

Part 2A of Form ADV: Firm *Brochure*

Item 1 - Cover Page

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This brochure provides information about the qualifications and business practices of Flatbush Watermill Management, L.L.C. If you have any questions about the contents of this brochure, please contact us at (212) 763-8483. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Flatbush Watermill Management, L.L.C. also is available on the SEC's website at www.adviserinfo.sec.gov.

Flatbush Watermill Management, L.L.C. is an investment adviser registered with United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Item 2 - Material Changes

Not applicable.

Item 3 - Table of Contents

Contents

Item 1 - Cover Page.....	1
Item 2 - Material Changes	2
Item 3 - Table of Contents	3
Item 4 - Advisory Business.....	4
Item 5 - Fees and Compensation	5
Item 6 - <i>Performance-Based Fees</i> and Side-By-Side Management	8
Item 7 - Types of <i>Clients</i>	9
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss	10
Item 9 - Disciplinary Information.....	14
Item 10 - Other Financial Industry Activities and Affiliations	15
Item 11 - Code of Ethics, Participation or Interest in <i>Client</i> Transactions and Personal Trading	16
Item 12 - Brokerage Practices.....	18
Item 13 - Review of Accounts	19
Item 14 - <i>Client</i> Referrals and Other Compensation	20
Item 15 - <i>Custody</i>	21
Item 16 - Investment Discretion	22
Item 17 - Voting <i>Client</i> Securities	23
Item 18 - Financial Information.....	24
Item 19 - Requirements for State-Registered Advisers	25

Item 4 - Advisory Business

We are a registered investment adviser based in New York, New York. We are organized as a limited liability company under the laws of the State of Delaware and we have been providing investment advisory services to private investment funds since 2002. Joshua Schwartz is our principal owner.

We act as the investment adviser for privately offered investment funds (“**FW Funds**”). The FW Funds invest in a wide variety of US and foreign stock and other securities and instruments through public and private market transactions. Our investment advisory services to the FW Funds consist of identifying and evaluating investment opportunities, negotiating and making investments, managing and monitoring investments and achieving dispositions for such investments. Our advisory services for the FW Funds are detailed in the applicable private placement memorandum and the applicable limited partnership agreement of the FW Fund and are also described below under “Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.”

The limited partners (the “**Limited Partners**”) of the our private investment funds (“**FW Funds**”) participate in all investments made by the FW Fund in which they invest, except where restricted from investing in a particular investment due to certain legal or regulatory constraints. Flatbush Watermill, LLC, our affiliate, is the general partner of each FW Fund (“**General Partner**”). The General Partner and certain of the FW Funds have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights under or altering or supplementing the applicable FW Fund’s partnership agreement.

As of May 31, 2013, we managed approximately \$177.4 million in private fund assets on a discretionary basis and no assets on a non-discretionary basis.

Item 5 - Fees and Compensation

The General Partner receives an incentive allocation (i.e., a performance-based partnership allocation) and we receive a Management Fee (as defined below) in connection with advisory services.

Management Fee

Each FW Fund pays us an annual management fee (the "**Management Fee**") equal to one percent of the net asset value of each Limited Partner's capital in the FW Fund. The Management Fee is payable quarterly in advance as of the first business day of each calendar quarter. Advisory Fees are prorated for investments made after the first day of each calendar quarter.

Incentive Allocation

The General Partner receives an incentive allocation from each FW Fund equal to a percentage ("**Specified Percentage**") that ranges from 0% to 20% of all realized and unrealized net profits ("**Net Profits**") of each Limited Partner for each incentive allocation period. An incentive allocation period is generally a calendar year but may be a period shorter than a year where a Limited Partner contributes capital to or withdraws capital from an FW Fund, makes a transfer of an interest in an FW Fund or a general partner ceases to be general partner or the FW Fund dissolves or winds up.

Receipt of an incentive allocation is subject to a high water mark, so that if losses are incurred by a Limited Partner subsequent to making a prior incentive allocation (or if there has been no allocation of an incentive allocation and only losses have been incurred since the Limited Partner contributed capital), no incentive allocation will be made from such Limited Partner's Net Profits until such losses have been recouped by the Limited Partner (i.e., the Limited Partner's capital has increased to the amount at which the prior incentive allocation was taken or the amount of its original contribution, as applicable).

The Specified Percentage of the incentive allocation depends upon the percentage that a Limited Partner's Net Profits for an incentive allocation period represents in relation to the amount of its capital at the start of the incentive allocation period ("**Investment Return**"). Set forth below are the ranges of Investment Return and the corresponding Specified Percentages:

<u>Investment Return</u>	<u>Specified Percentage</u>
From 0% through and including 6%	0%
In excess of 6% through and including 13 ½%	(i) 20% of (ii) the Investment Return less 6% per annum divided by (iii) the Investment Return
In excess of 13 ½% through and including 15%	(i) the Investment Return less twelve percent (12%) per annum divided by (ii) the Investment Return;
In excess of 15%	20%

Under the terms of the limited partnership agreement of FW3, LP, an institutional investor-only private fund, the Management Fee is calculated as set forth above, except that it may be reduced or an amount may be paid to an investor in FW3, LP based upon the amount of capital raised by us, all as more particularly described therein. In addition, the Specified Percentages are calculated in a different manner, resulting in a smaller incentive allocation for Investment Returns in excess of 6% through and including 15%.

All Investors

It is important that prospective investors refer to the relevant FW Fund's memorandum and limited partnership agreement for a complete understanding of how the General Partner and we are compensated for our advisory services. The information contained in this Item 5 is a summary only and is qualified in its entirety by the relevant FW Fund's memorandum and limited partnership agreement.

As permitted by the FW Funds' limited partnership agreements, we deduct management fees from each Limited Partner's capital in the FW Fund and the General Partner receives an incentive allocation from the Net Profits of Limited Partners in the FW Funds. We and the General Partner do not bill clients for fees incurred and we and the General Partner do not offer clients the option of selecting that method of paying fees.

Each FW Fund is responsible for paying certain of its organizational costs, and all other ordinary and necessary expenses of its operation including, without limitation, brokerage commissions, legal, accounting, auditing, tax preparation, and other professional expenses, consultant and other service provider expenses, compliance services, investment expenses such as commissions, custodial fees, and other reasonable expenses related to the purchase, sale or transmittal of partnership assets as shall be determined by the General Partner in its sole discretion. The General Partner is responsible for paying all ordinary office overhead expenses of the General

Partner, which may include rent, supplies, secretarial assistance, stationary, charges for fixtures, furnishings and travel, and compensation for security analysts and other personnel.

In addition, we are reimbursed by each FW Fund for all reasonable out-of-pocket expenses incurred on behalf of such FW Fund. We are not reimbursed for any expense attributable to our ordinary office overhead expenses, including rent, supplies, secretarial assistance, stationary, charges for fixtures, furnishings and travel, and compensation for security analysts and other personnel.

Each partner in each FW Fund will incur a portion of such fund's total expenses in the same proportion as its capital bears to the capital of all partners in the FW Fund. This amount will be deducted from the partner's capital in the Fund.

See "Item 12 – Brokerage Practices" for a discussion of our brokerage practices.

As discussed above, the Management Fee for each FW Fund is paid quarterly in advance on the first business day of each quarter. Withdrawals by Limited Partners are only permitted as of the last day of each calendar quarter. Although the General Partner does not anticipate permitting withdrawals other than as of the last day of a calendar quarter, if it does it has committed itself in writing to rebate, at the same time that it pays the initial withdrawal proceeds, the pro rata portion of any Management Fee charged for the period commencing on the date of early withdrawal and ending on the last day of the calendar quarter.

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

As described under “Item 5 - Fees and Compensation,” the General Partner receives an incentive allocation of a portion of the Net Profits in the applicable FW Fund. We do not advise any private fund not subject to an incentive allocation.

Since our affiliate, the General Partner, will receive an incentive allocation of up to 20% of Net Profits attributable to the investment of each Limited Partner, we may have an incentive to cause the FW Funds to make investments are riskier or more speculative than would be the case in the absence of this incentive allocation. Moreover, because the percentage of Net Profit allocated increases with greater returns to Limited Partners, there may be an incentive for us to cause the FW Funds to make investments that are riskier or more speculative than would be the case in the absence of tiered percentages of investment allocation.

Item 7 - Types of *Clients*

We provide investment advice to the FW Funds, each a private investment fund formed under the laws of the State of Delaware and operated as an exempt investment pool under the Investment Company Act of 1940, as amended. The types of Limited Partners participating in the FW Funds currently include fund of funds and high net worth individuals, and may include, directly or indirectly, our principal or other employees and employees of our affiliates.

The FW Funds generally have minimum investment amounts for third-party investors, and the respective partnership interests are offered and sold solely to accredited investors who are also qualified clients or qualified purchasers. Any such minimum investment amount may be waived by the General Partner.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Our process focuses on the following methods in order to discover what we believe will be appealing investments opportunities.

High Return Businesses Within Strategically Selected Industries.

We focus only on generally profitable industries - defined by returns on capital - in which it is possible to build sustainable cost and/or differentiation advantages. We try to delineate between high returns caused by bubbles/booms versus high returns resulting from sustainable competitive dynamics in order to avoid loss from short-lived, fleeting demand. We seek businesses that can consistently generate high unlevered returns on capital that result from competitive advantage. We try to understand the nature and derivation of competitive advantage which enables us to more easily predict and evaluate a company's economic performance and iteratively refine our range-based estimate of value. To make an investment we must be able to develop profound, valuable insight about a company's customer base and the sources of its competitive advantage that are not widely held.

Competitively Advantaged Companies with Large Scale Growth Potential.

We want to identify companies whose earnings are very likely to be materially larger in the future than they are today. Price aside, we believe that the best business to own is one that can deploy large amounts of incremental capital over extended periods of time at very high, unlevered rates of return.

Screening/Monitoring Companies.

We screen a database in order to flag industries that appear to exhibit evidence of competitively advantaged companies. We also screen based on logic stemming from proprietary qualitative models we have developed across strategically selected industries such as software, restaurants and consumer goods.

Leverage Our Competence Derived From Investing Entrepreneurially.

We try to work in ways that maximize the returns generated from our deep understanding of specific industries. We operate as informed businesspeople with strongly-held opinions of what industries we'd like to invest in and not as stock market participants trying to build "diversified portfolios" of securities. We seek to invest in specific competitively advantaged business models we have outlined over time within strategically selected industries in order to leverage our acumen to evaluate opportunities we believe will exist for years to come.

Increasingly, we are trying to utilize our growing capital base to proactively create opportunity rather than be forced to solely wait for market prices to change as we have done in the past. Certain opportunities are identifiable only with sufficient competence and we believe that often the most significant growth potential is not widely recognized. We would like to increasingly

seek to orchestrate the development of stronger competitive advantage and larger growth potential by building an ownership stake in a strategically well-positioned company and aligning key resources. Our long-term orientation and considered approach make our partnerships exceptional partners for entrepreneurs who want to build great businesses.

Risk of Loss

Past performance of the FW Funds is no guarantee of future performance of any FW Fund. There is no assurance the strategies described herein will result in attractive returns or will be profitable. Given the factors described below, there exists a possibility an investor could suffer a substantial loss as a result of an investment in an FW Fund.

All of our decisions with respect to the investment of the FW Fund's assets rely on the services of our principal, Joshua Schwartz. Should Mr. Schwartz terminate his relationship with us, die, or become otherwise incapacitated for any period of time, profitability of the FW Funds may suffer. In addition, the success of the FW Funds depends upon Mr. Schwartz's ability to execute the investment process outlined above. His failure to properly analyze industries and companies could result in substantial losses for the FW Funds.

The FW Funds are not limited in the amount of capital that may be committed to any one investment. It is our intention to concentrate the FW Fund's capital in a relatively small number of investments. Accordingly, the FW Funds will hold a few, relatively large (as a percentage of its total capital) positions, with the result that a loss in any such position could have a material adverse impact on its capital. As a result of concentration, it is anticipated that the movement in price of a single entity would affect the quoted market price of the FW Fund's assets more significantly than it would a more diversified portfolio.

We will not attempt to predict the short-term movement in stock prices. We believe that even if we are able to make investments in companies at prices we deem are attractive, we will take at least three to five years to realize the appreciation from such investments. Accordingly, investors should only invest funds in the FW Funds that they will not need for at least three to five years.

There is no limitation on the size or operating experience of the companies in which the FW Funds may invest. Some small companies in which a fund may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

From time to time, the FW Funds may invest in securities and other instruments of non-U.S. companies. Investing in securities of non-U.S. companies, generally denominated in non-U.S. currency, involves certain risks not usually associated with investing in securities of United

States companies. These risks include among other things, changes in exchange rates; political, social and economic instability, expropriation, nationalization; imposition of non-U.S. taxes, less liquid markets and less available information than is generally available in the United States; higher transaction costs, less supervision of exchanges, brokers, and issuers, difficulty in enforcing obligations, and lack of uniform accounting and auditing standards. The realization of any of these risks may materially and adversely impact the value of securities owned by the FW Funds and the value of interests in the funds to its investors.

We select investments on the basis of information and data filed by the issuers of such securities with the SEC or made directly available to us by the issuers of the securities and other instruments or through sources other than the issuers. Although we evaluate all such information and data and seek independent corroboration when we consider it appropriate and when it is reasonably available, we are not in a position to confirm the completeness, genuineness or accuracy of such information and data.

The success of any investment activity is influenced by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Unexpectedly poor economic conditions may cause the FW Funds to incur losses.

We may invest in initial public offerings if we believe such investments offer the opportunity for significant appreciation. Participating in initial public offerings may be deemed to be speculative and to involve a high degree of risk. Because many newly public companies fail, investing in initial public offerings may be deemed to carry substantially greater risks than investing in the stock market as a whole.

Although we do not regularly intend to do so, the FW Funds may sell short securities of an issuer in the expectation of covering the short sale with securities purchased in the open market at a price lower than that received in the short sale. Selling securities short, while often utilized to hedge investments, carries a greater potential for loss than does a cash investment in the security; the loss on the former may be unlimited, whereas the loss on the latter can only equal the total amount of the cash investment. There also can be no assurance that securities necessary to cover a short position will be available for purchase.

We may invest in U.S. and foreign debt securities of corporate issuers as well as in debt securities of the U.S. government. Certain of these securities may be below "investment grade" ("High Yield") and face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. Companies that issue High Yield securities often are highly leveraged and may not have available to them more traditional methods of financing. Any economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Although we may invest in secured and senior obligations, distressed securities purchased by the FW Funds will be subject to certain additional risks to the extent that such securities may be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant

portion of which may be secured. Moreover, such securities may not be protected by financial covenants or limitations upon additional indebtedness. Accordingly, such securities have a greater risk of loss of principal and interest than do secured and senior securities.

We may utilize options for risk management purposes. Hedging involves special risks including the possible default by the other party to the transaction, illiquidity and, to the extent our assessment of certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if hedging had not been used.

Item 9 - Disciplinary Information

Not applicable.

Item 10 - Other Financial Industry Activities and Affiliations

Not applicable.

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

High ethical standards are essential for our success and to maintain the confidence of our clients. Our long-term business interest is best served by adherence to the principle that the interests of our clients come first. Potential conflicts of interest may arise in connection with the personal trading activities of Access Persons. “Access Persons” means, generally, our officers, directors and employees who have access to nonpublic information regarding our clients' purchase or sale of securities, or who are involved in making securities recommendations to clients, or who have access to such recommendations that are nonpublic. In recognition of our fiduciary obligations to our clients and our desire to maintain high ethical standards, we have adopted a Code of Ethics containing provisions designed to: (i) prevent improper personal trading by Access Persons; (ii) prevent improper use of material, non-public information about securities recommendations made by us or securities holdings of our clients; (iii) identify conflicts of interest; and (iv) provide a means to resolve any actual or potential conflict in favor of our client.

Additionally, each of our employees is required to comply with all applicable Federal securities laws. Compliance with such laws is a basic condition of employment. Violations of such laws by any Access Person will not be tolerated, and will lead to dismissal, in addition to any civil or criminal liability. Any questions regarding the applicability or interpretation of such laws should be brought to the immediate attention of the Chief Compliance Officer (“CCO”).

One goal is to allow our employees to engage in personal securities transactions while protecting our clients, our firm and its employees from the conflicts that could result from a violation of the securities laws or from real or apparent conflicts of interests. While it is impossible to define all situations that might pose such a risk, our Code of Ethics is designed to address those circumstances where such risks are likely to arise. Adherence to our Code of Ethics and the related restrictions on personal investing is considered a basic condition of employment for our employees. If there is any doubt as to the propriety of any activity, employees should consult with the Chief Compliance Officer, who is charged with the administration of this Code of Ethics, has general compliance responsibility for our firm and may offer guidance on securities laws and acceptable practices, as the same may change from time to time. Our employees are required to report violations of the Code of Ethics to the Chief Compliance Officer. The Chief Compliance Officer may rely upon the advice of outside legal counsel or outside compliance consultants.

The CCO is required to provide each of our employees with a copy of this Code of Ethics and any amendments. Each of our employees is required to provide a written acknowledgement of their receipt of the Code of Ethics and any amendments. We will provide a copy of our code of ethics to any client or prospective client upon request. Please contact us at (212) 763-8483 or jschwartz@flatbushwatermill.com.

The General Partner, our affiliate, is general partner of each FW Fund. It receives the incentive allocation described in “Item 5 - Fees and Compensation” and is subject to the conflict of interest described in “Item 6 - Performance-Based Fees and Side-By-Side Management.”

Our employees may invest in the same securities or securities related to those that an FW Fund invests in. In order to mitigate conflicts of interest, employees may purchase or sell such securities only after the FW Funds have completed purchasing or selling such securities and at a time when we do not anticipate purchasing or selling such securities again in the immediate future. In addition, our principal holds an indirect interest in such securities through his ownership of the General Partner.

Item 12 - Brokerage Practices

When selecting an appropriate broker-dealer or counterparty to execute a trade, we seek to obtain best execution. Pursuant to SEC guidance, we may take into consideration the price of a security/asset offered by the broker-dealer, as well as a broker-dealer's full range and quality of its services including, among other things, the ability of the broker-dealer to execute the transaction, the broker-dealer's facilities, reliability and financial responsibility, commission rates, and willingness to commit capital to transactions. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost.

We do not engage in soft dollar arrangements.

The FW Funds split all trades between the funds in proportion to the ratios of the net assets in each fund. However, due to the different objectives of the funds, to which Limited Partners agree upon subscribing to an FW Fund, the weightings of securities might differ between funds. In such a case, all trades will be split as stated above, but once an FW Fund has reached its full weighting of a security, any remaining trades will be allocated pro rata to funds seeking to build larger weightings for such security.

Item 13 - Review of Accounts

The investments made by the FW Funds are generally long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, we closely monitor companies in which an FW Fund invests, and our Chief Compliance Officer periodically, no less frequently than quarterly, checks to confirm that each FW Fund is maintained in accordance with its stated objectives.

Each FW Fund will provide to its Limited Partners in writing (i) annual financial statements audited in accordance with GAAP, (ii) annual tax information necessary for each Limited Partner's tax return, (iii) a quarterly statement of valuation and (iv) an annual report providing a narrative summary of the status of each portfolio company.

Item 14 - *Client* Referrals and Other Compensation

Not applicable.

Item 15 - Custody

We currently maintain custody of the FW Funds' assets in accounts in their own names with the following qualified custodian(s): Goldman Sachs Execution and Clearing, L.P.

Although neither we, nor our affiliate, the General Partner, has possession of the FW Funds' assets, the General Partner is generally deemed to have custody of each FW Fund's assets under Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended. We comply with that Rule by providing that each of the FW Funds is subject to an annual and liquidating audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), and the audited financial statements are distributed to each investor within 120 days of the end of each FW Fund's fiscal year.

Item 16 - Investment Discretion

We provide discretionary investment advisory services to the FW Funds. We neither tailor our advisory services to the individual needs of Limited Partners nor accept investment restrictions imposed by Limited Partners. For an investor investing substantial funds, we have and may again set up a special purpose fund for such investor with objectives tailored to its needs. Prospective Limited Partners are provided with offering documents prior to their investment and are encouraged to carefully review the offering documents and to be sure that the proposed FW Fund investment is consistent with their investment goals and tolerance for risk. Prospective Limited Partners must also execute a subscription agreement, in which they make various representations, including representations regarding their eligibility and suitability to invest in a private investment fund. Prospective Limited Partners also must execute a limited partnership agreement.

Item 17 - Voting *Client* Securities

We have adopted the Flatbush Watermill Management Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how we will vote proxies for the FW Funds portfolio investments. The Proxy Policy seeks to ensure that we vote proxies (or similar instruments) in the interests of our clients, including where there may be material conflicts of interest in voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that we may address the conflict using several alternatives or through other alternatives set forth in the Proxy Policy. We do not consider service on portfolio company boards by our personnel or our receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by us when voting proxies on behalf of clients. If you would like a copy of our complete Proxy Policy or information regarding how we voted proxies for particular portfolio companies, please contact our Chief Compliance Officer at (212) 763-8483 and it will be provided to you at no charge.

Our policy is generally to vote against any management proposals that we believe could prevent companies from realizing their maximum market value, or would insulate companies and/or management, from accountability to shareholders or prudent regulatory compliance. For example, we will generally vote against any proposal that attempts to limit shareholder democracy, such as increased indemnification protections for directors or officers, or unequal voting rights, in a way that could restrict the ability of the shareholders to realize the value of their investment. We will generally support proposals aimed at effectuating standard and necessary aspects of business operations, which will not typically have a significant effect on the value of the investment, such as name changes and election of audit firms.

Item 18 - Financial Information

We have never filed for bankruptcy and are not aware of any financial condition that is reasonably likely to affect our ability to manage client accounts.

Item 19 - Requirements for State-Registered Advisers

Not applicable.