

# Leeds Equity Advisors, Inc.

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Form ADV Part 2A: Firm Brochure  
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This brochure provides information about the qualifications and business practices of Leeds Equity Advisors, Inc. If you have any questions about the content of this brochure, please contact Peter Lyons at (212) 835-2052. 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.

Additional information about Leeds Equity Advisors, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply any level of skill or training.

## **Item 2 – Material Changes**

Not applicable.

### Item 3 – Table of Contents

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#### **Item 4 – Advisory Business**

Leeds Equity Advisors, Inc. (“Leeds,” “Leeds Equity” or the “Firm”) is a Delaware S-Corporation owned by Jeffrey T. Leeds and Robert A. Bernstein. The Firm provides investment advisory services to pooled investment vehicles (the “Leeds Equity Funds”) that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). Leeds Equity, along with the general partner of each of the Leeds Equity Funds (the “General Partners”) (i) originate, recommend, structure and identify sources of capital for investment opportunities to the Leeds Equity Funds, (ii) monitor, evaluate and make recommendations regarding the timing and manners of disposition of portfolio company investments and (iii) provide such other services related thereto for the Leeds Equity Funds.

Leeds Equity provides investment advisory services to each of the Leeds Equity Funds pursuant to separate investment advisory agreements (each, an “Advisory Agreement”). The investment advice provided to each Leeds Equity Fund is subject to the direction and control of the affiliated General Partner of each such Leeds Equity Fund.

Any restrictions on investments in certain types of securities are established by the General Partner of the applicable Leeds Equity Fund and as set forth in the partnership documentation received by each investor prior to investment in such Leeds Equity Fund. Once invested in a Leeds Equity Fund, investors cannot impose restrictions on the types of securities in which such Leeds Equity Fund may invest.

Since inception, the primary focus of Leeds Equity’s investment advisory activity has been on recommending and making investments in equity and equity-related securities in the education, training and information and business services industries (the “Knowledge Industries”). The Knowledge Industries includes businesses offering products, services and solutions that enable individuals and enterprises to be more effective in an increasingly global, hyper-competitive, information-intensive and fast changing marketplace.

Leeds Equity has been providing investment advisory services since 1999 and had \$821,267,130 in regulatory assets under management as of December 31, 2012, all of which is managed on a discretionary basis.

#### **Item 5 – Fees and Compensation**

As compensation for investment advisory services provided under the advisory agreements with each Leeds Equity Fund, Leeds Equity receives an annual management fee payable quarterly in advance. Upon termination of an advisory agreement, appropriate treatment will be given to all management fees collected in advance. As described below, management fees may be reduced or waived in connection with the receipt by Leeds Equity or its related persons of various fees paid by actual or prospective portfolio companies. The management fee is generally subject to waiver or reduction by Leeds Equity in its sole discretion, including in connection with investments made by the General Partners or its related persons. Leeds Equity’s compensation is generally defined in the organizational documents of the applicable Leeds Equity Fund (a “Partnership Agreement”) or in the Advisory Agreement between Leeds Equity and such Leeds Equity Fund, or both. The terms of the management fees are generally negotiated with investors in the Leeds Equity Funds (whose investors are usually highly sophisticated and represented by knowledgeable counsel). Leeds Equity provides investment advisory services to an executive fund whose beneficial owners are primarily

comprised of Leeds Equity employees, former employees, members of clients' Advisory Board and executives from Leeds Equity Fund portfolio companies. Leeds Equity does not charge this executive fund management fees.

Leeds Equity and its related persons will typically perform transactional and financial advisory services ("Other Services") for, and will be compensated from, actual or prospective portfolio companies or other transaction related investment vehicles of the Leeds Equity Funds, including such fees in connection with mergers, acquisitions, refinancings, add-on acquisitions, public offerings, dispositions and other transactions.

While fees for Other Services are in addition to the management fees paid by the Leeds Equity Funds, future management fees are typically reduced by a percentage of fees for Other Services received by Leeds Equity that relate to services performed for actual or prospective portfolio companies of a specific Leeds Equity Fund. The calculation of such reduction varies from fund to fund and is described in the applicable fund documents. If the reduction in any quarterly period would reduce the management fee for that period below zero, any excess is carried forward and used to reduce the management fee for the next quarterly period.

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

A portion of each Leeds Equity Fund's net investment profit is allocated to the capital account of its General Partner as "carried interest," subject to the Fund achieving certain performance thresholds. Co-investment funds established by Leeds Equity may be charged a performance-based fee, but are typically at a lower rate than the Funds with which they co-invest. Each General Partner of a Leeds Equity Fund is a related person of Leeds Equity.

Performance-based fee arrangements may create an incentive to favor higher fee paying Leeds Equity Funds over other Leeds Equity Funds in the allocation of investment opportunities. Leeds Equity has procedures designed to prevent this conflict from influencing the allocation of investment opportunities among the Leeds Equity Funds.

#### **Item 7 – Types of Clients**

Leeds Equity provides investment advisory services to the Leeds Equity Funds. The limited partners of such Leeds Equity Fund have no control or discretion over Fund investments.

Interests in Leeds Equity Funds are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Limited Partners of Leeds Equity Funds include a broad range of institutions, including public and private pension plans, endowments, foundations, corporations, financial institutions, fund of funds, family offices and high net worth individuals.

Minimum investment commitments are typically established for limited partners in Leeds Equity Funds, although the General Partner of each Fund, in its sole discretion, may permit investments of less than the required minimum investment commitment as set forth in the applicable Fund documents of each Fund.

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

### **Methods of Analysis**

Leeds Equity conducts a thorough review of each prospective investment before recommending the investment to one or more of the Leeds Equity Funds. It is Leeds' policy to ensure that the investment professionals assigned to each prospective investment have completed a regimented due diligence process, specifically addressing key characteristics the Firm believes indicate an attractive investment. Some of these company specific characteristics include an excellent value proposition for the customer or client, proprietary products or processes, key competitive advantages, meaningful barriers to entry, a history of positive, predictable cash flows, sustainable growth and a strong executive team, among others.

### **Sourcing**

Leeds Equity has a history of originating proprietary investment opportunities and has built relationships with numerous management teams and companies resulting from over a decade of focus within the Knowledge Industries. The Firm believes these relationships are critical to identifying future investment opportunities.

### **Due Diligence**

Leeds Equity is rigorous in its due diligence and review of opportunities to ensure that all potential investments satisfy the necessary criteria to invest. The formal due diligence process typically includes a detailed analysis of the market and current and future competitive environment, meetings with company management, site visits, a thorough financial review including projection models, customer interviews, reviews by qualified outside consultants including one or more of an accounting, legal, insurance, regulatory, human capital or environmental review and background checks on key personnel. The diligence process is summarized into a formal investment memorandum which is reviewed by the Investment Committee. An integral component of this analysis is the development of a five year operating plan that, if the investment is approved, will form the basis for the portfolio company's operating targets.

### **Investment Committee**

Investment decisions are made by the Investment Committee acting on behalf of the General Partner of the applicable Fund. The Investment Committee reviews each investment opportunity in a formal meeting prior to investment. All Leeds investment professionals are members of the Firm's Investment Committee, allowing each individual to have a voice in addressing the opportunities and risks of each potential investment.

Topics covered in the meeting include a discussion of all diligence completed to date, including an analysis of the target market, the customer/client, market share, pricing, management team and corporate structure, a detailed discussion of the financial projections including time spent discussing assumptions and growth opportunities, among others.

While Leeds' culture is grounded less in a formal approval system and more in a deliberate, collegial and thoughtful diligence process in which everyone contributes and participates, no investment is completed without the affirmative consent of a majority of the deal team's Managing Directors and the unanimous consent of Jeffrey Leeds and Robert Bernstein.

## **Active Management**

Once a Leeds Equity Fund invests in a particular company, Leeds actively partners with management teams to drive value by implementing a comprehensive set of strategic, operational and financial initiatives over the life of the investment. The Firm also leads acquisition and divestiture opportunities on behalf of each portfolio company.

## **Harvesting Analysis**

Prior to making an investment, Leeds Equity performs a detailed analysis of options for future liquidity with discounts being applied to valuations of businesses with more limited liquidity options. Through its sector focus, the Firm is typically intimately familiar with potential strategic acquirers for each investment, and can effectively communicate the transaction's value-add for a particular organization at the time of sale.

## **Material Risks & Risk of Loss**

Investments by Leeds Equity Funds in portfolio companies involve material risks and a risk of loss that investors should be prepared to bear. A Leeds Equity Fund may lose all or a substantial portion of its invested capital. In addition, some of the material risks relating to the investment strategies and to the types of securities typically purchased by a Leeds Equity Fund in connection with those strategies are set forth below. A more detailed description of such risks is included in the private placement memorandum of each Leeds Equity Fund:

*Competition for Investments.* Leeds Equity Funds encounter competition from other entities with similar investment objectives. Potential competitors include other investment partnerships and corporations, business development companies, strategic industry acquirers and other financial investors. Further, over the past several years, an ever-increasing number of private equity funds have been formed (and many such existing funds have grown in size). Some of these competitors may have more relevant experience, greater financial resources and more personnel than Leeds Equity Funds. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to Leeds Equity Funds and adversely affecting the terms upon which investments can be made. To the extent that Leeds Equity Funds encounter competition for investments, returns to limited partners may decrease.

*Investments in the Knowledge Industries.* Companies within the Knowledge Industries may be subject to extensive and varied government regulation, licensing and accreditation requirements at the federal, state and local level. Companies in these sectors also face significant competition in the often fragmental markets in which they operate. The consumer market for Knowledge Industries products and services is characterized by rapid changes in technology and customer requirements that may render a company's products or services obsolete. To the extent that portfolio companies become subject to increasing regulation or competition, returns to limited partners may decrease.

*Use of Leverage.* While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. Leeds Equity Funds' investments may involve varying degrees of leverage, as a result of which, recessions, operating problems and other general business and economic risks (as well as particular risks associated with the Knowledge Industries) may have a more pronounced effect on the profitability or survival of such companies. Furthermore, rising interest rates may significantly increase portfolio companies' interest expense, causing losses and/or the inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet its debt obligations, a Leeds

Equity Fund may suffer a partial or total loss of capital invested. The inability to obtain debt or to obtain enough debt on terms deemed appropriate by the general partner could materially and negatively impact Leeds Equity Funds ability to implement their strategies and seek their targeted returns. To the extent that economic forces negatively impact portfolio companies and potential investments, returns to limited partners may decrease.

*Financial Market Fluctuations.* General fluctuations in the market prices of securities may affect the value of the investments held by Leeds Equity Funds. Instability in securities markets may also increase the risks inherent in the investments. The ability of portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise. To the extent that fluctuations in financial market negatively affect market prices and the portfolio companies abilities to tap capital markets, returns to limited partners may decrease.

*Illiquid and Long-Term Investments.* Leeds Equity Funds' investments generally take three to five years from the date of initial investment to reach a state of maturity where realization of the investment can be achieved. Transaction structures typically will not provide liquidity of an investment prior to that time. Generally, there will be no readily available market for investments made by Leeds Equity Funds. Disposition of such investments require a lengthy time period or may result in distributions in-kind to investors. Leeds Equity Funds may invest in investments which may not be advantageously disposed of prior to the date that that such Leeds Equity Fund will be dissolved, either by expiration of the fund's term or otherwise. A Leeds Equity Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. To the extent that illiquidity of investments and the finite life of a fund have a negative impact on realized value of portfolio companies, returns to limited partners may decrease.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events which would be material to a client's evaluation of the investment adviser or the integrity or its management. No material items exist at this time.

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

### **Other Financial Industry Activities**

A registered investment adviser is required to disclose whether it or any of its management team is registered, or has an application pending to register as a (a) broker-dealer or a registered representative of a broker-dealer, or (b) futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of the foregoing entities. Neither Leeds Equity nor any of its management team is registered as such or have any such application pending.



## **Related General Partners**

Various limited partnerships and limited liability companies serve as General Partners of the Leeds Equity Funds. Leeds Equity has Advisory Agreements with these entities and the Leeds Equity Funds under which Leeds Equity provides investment advice to the Leeds Equity Funds.

## **Conflicts of Interest**

Leeds Equity has enacted policies and procedures created specifically to address conflicts and potential conflicts of interest that may arise in the conduct of Leeds' business. Leeds investment professionals are encouraged to seek clarification of, and discuss questions about potential conflicts of interest by bringing them to the attention of the Chief Compliance Officer. Each employee is expected to adhere to the highest standard of professional and ethical conduct and be sensitive to situations that may give rise to an actual conflict or the appearance of a conflict with the Leeds Equity Funds' interests or have the potential to cause damage to Leeds' reputation.

Potential conflicts of interest include:

*Performance Allocation.* The existence of the General Partners' carried interest may create an incentive for a General Partner to make more speculative investments on behalf of Leeds Equity Funds than it would otherwise make in the absence of such performance-based compensation, although numerous factors built into each Fund's Partnership Agreement should tend to reduce this incentive.

*Investment Allocation.* In addition to the investment allocation policies and procedures established by Leeds Equity, the Partnership Agreement of each Leeds Equity Fund includes requirements and limitations relating to the other activities at Leeds Equity and certain of its affiliates, including those related to varying successor or competing funds, to principal transactions, to co-investments by Leeds Equity and its affiliates, to making portfolio investments outside of the particular Leeds Equity Funds and to transactions with affiliated parties generally.

*Other Activities and Relationships.* Certain Leeds investment professionals have made time commitments to other investment funds advised by Leeds Equity and projects in accordance with relevant provisions in each fund's Partnership Agreement. Such investment professionals may work on other projects, including prior funds and their investments, successor funds, other vehicles and Leeds' other investments and business activities. The investment professionals may also serve as members of the boards of directors of various companies. Conflicts may arise as a result of such other activities. The possibility exists that the companies with which one or more of the investment professionals is involved could engage in transactions which would be suitable for a Leeds Equity Fund, but in which such Leeds Equity Fund might be unable to invest.

*Material, Non-Public Information.* By reason of their responsibilities in connection with their other activities, certain investment professionals may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. Leeds Equity Funds will not be free to act upon any such information. Due to these restrictions, Leeds Equity Funds may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

*Diverse Limited Partner Group.* Limited partners may have conflicting investment, tax and other interest with respect to their investments in a Leeds Equity Fund. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of investments made by the fund, the structuring

or acquisition of investments and the timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with the decisions made by the General Partner, including with respect to the nature or structuring of investments that may be more beneficial for one investor than for another, especially with respect to investors' individual tax situations. In selecting and structuring appropriate investments, Leeds Equity and its affiliated General Partners will consider the investment and tax objectives of a Leeds Equity Fund and its limited partners as a whole, not the investment, tax or any limited partner individually.

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

Leeds Equity has established a Code of Ethics policy for its employees in accordance with Rule 204A-1 under the Investment Advisors Act of 1940. The Policy sets the standard of conduct and fiduciary duty of its employees and sets forth limits on personal trading by employees and their immediate family/household members. An Insider Trading Policy has been adopted in an effort to prevent the misuse of material, nonpublic information by Leeds employees.

Leeds Equity's Code of Ethics also contains provisions related to the reporting and enforcing of potential violations of the Code of Ethics. Each Leeds Equity employee is required to acknowledge that he or she received, read and understands the Code of Ethics. Leeds Equity's clients or prospective clients may request a copy of the Code of Ethics by contacting the Leeds Equity Partners Compliance department.

Leeds Equity may establish co-investment funds to co-invest in the same investments that are made by Leeds Equity Funds. The amounts and terms of such co-investments are typically agreed to with the limited partners of such Fund and are described in the Partnership Agreement of such Funds. Negotiating the co-investment terms with limited partners serve to minimize the potential for conflicts in connection with co-investment funds.

#### **Item 12 – Brokerage Practices**

As Leeds Equity primarily invests in private companies, the Firm does not generally use the services of broker-dealers for transaction related services. In the event that Leeds employs a broker-dealer, Leeds Equity selects brokers based on a number of factors, including but not limited to, the size and type of transaction, the markets for securities to be purchased or sold, execution, efficiency, settlement capability, financial condition or the broker-dealer, the quality of the broker-dealer's portfolio execution on a continuing basis and the reasonableness of commissions.

Leeds will always attempt to achieve best execution for its Funds, and will evaluate each transaction to ensure that the execution price is in line with, or exceeds that of the current market. The lowest possible commission cost is not necessarily sought in that it may not result in the best quality execution of transactions effected for the Funds.

It is Leeds' policy to not enter into any soft dollar arrangements. Leeds may, however, receive proprietary research and certain other limited benefits from broker-dealers as an incident of doing business with such broker-dealers, but only where (i) there is no arrangement to direct a specific amount of Leeds' commission business to such broker-dealers in exchange for such items and (ii) Leeds does not "pay up" for such items in

the form of higher commissions on client trades. Leeds does not have any formal or informal soft dollar arrangements by which it received research or brokerage products or services.

### **Item 13 – Review of Accounts**

#### **Oversight and Monitoring**

The portfolio investments of each Leeds Equity Fund are monitored continuously by deal teams which consist of a number of senior and junior level Leeds investment professionals (who are active throughout the investment lifecycle from sourcing through exit). Leeds engages in ongoing dialogues with key management level employees of each portfolio company to discuss ongoing performance as well as address any performance issues or concerns. In addition, Leeds Equity Fund portfolio companies prepare detailed monthly financial statements and reports which include covenant and performance vs. budget calculations, among others.

#### **Reporting**

Limited partners in Leeds Equity Funds receive a copy of audited financial statements of the relevant Leeds Equity Fund within 120 days of such Fund's fiscal year end. Additionally, limited partners receive quarterly unaudited financial statements as well as high-level information on each portfolio company including cost, fair value, ownership percentage and capital account statements, among others, following the end of each quarter, as agreed to in each Fund's Partnership Agreement. Investors also receive reporting updates through letters, scheduled individual meetings, annual meetings and other materials.

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

Not applicable.

### **Item 15 – Custody**

Leeds Equity's compliance with the Advisers Act Rule 206(4)-2 (or "Custody Rule") is dependent upon (i) distributing an independent audit of each Fund on a timely basis each year (except where unforeseeable circumstances hinder such distribution) and (ii) causing each Fund's assets to be maintained by a qualified custodian (subject to limited exceptions).

### **Item 16 – Investment Discretion**

Pursuant to its Advisory Agreement with each Fund, Leeds Equity generally has full discretion in making all investment decisions for the Leeds Equity Funds, subject to all applicable investment criteria or other restrictions and limitations set forth in the Partnership Agreements or other organizational documents of the Funds. Such agreements and documents are presented to all investors prior to investment in a Leeds Equity Fund.

### **Item 17 – Voting Client Securities**

Leeds' Proxy Voting Policy is designed to ensure that Leeds votes proxies and shareholder consents in the best interest of the Leeds Equity Funds for which it has voting authority and describes how Leeds addresses material conflicts between its interest and those of its funds. Leeds aims to be an active investor on behalf of the Leeds Equity Funds, which are typically represented on the boards of portfolio companies. Because of this active role, it is Leeds' practice to review and vote on proxy and shareholder consent matters on a case-by-case basis.

Specifically, it is Leeds' policy to (i) stay apprised of developments that affect the portfolio companies in which the Funds invest, (ii) carefully review matters submitted to the Funds for a vote as holders of portfolio company securities and (iii) vote on those matters on a case-by-case basis on a manner that Leeds believes is in the best interest of the applicable Funds.

In the case of a potential conflict of interest, the Managing Director responsible for that particular investment will inform and seek the guidance of the Chief Compliance Officer. In the rare instance where a conflict of interest exists and is not able to be resolved by the responsible Managing Director, Leeds may abstain from voting that particular proxy or shareholder consent.

A detailed summary of Leeds Equity's proxy voting policies and procedures are available to limited partners and prospective limited partners during the investment due diligence process, a copy of which may be obtained by contacting Leeds Equity's Compliance Department. Upon request, existing clients may obtain copies of relevant proxy logs as well as information on how proxies were voted in connection with a Leeds Equity Fund.

### **Item 18 – Financial Information**

Not applicable.