

FIRM BROCHURE

STONE HOUSE CAPITAL MANAGEMENT, LLC

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This brochure provides information about the qualifications and business practices of Stone House Capital Management, LLC. If you have any questions about the information contained in this brochure, please contact us at (212) 543-1500. 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.

This brochure does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Such an offer may only be made to eligible persons by means of delivery of offering, governing and/or account documents that contain a description of the material terms relating to such investment, products or services.

Additional information about Stone House Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

March 11, 2013

Item 2: Material Changes

Since this is our initial firm brochure, there are no material changes to report in response to this item. If we make any material changes to our firm brochure in the future, we will revise this item to include a summary of any such changes to the extent required by the instructions to Part 2A of Form ADV.

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Item 4: Advisory Business

FIRM DESCRIPTION

Stone House Capital Management, LLC, a Delaware limited liability company and private investment advisory firm, was formed in January 2010. We provide investment advisory services to private pooled investment vehicles that are offered to investors on a confidential, private placement basis and other clients on a managed account basis. In connection with providing these investment advisory services, we serve as investment adviser with discretionary trading authorization. Our investment advisory services are provided in accordance with the investment objectives and guidelines set forth in the applicable offering, governing and/or account documents, and the information set forth in this brochure is qualified in its entirety by such documents.

PRINCIPAL OWNERS

We are wholly owned and controlled by Mark A. Cohen and Richard M. Cohen, our sole members.

TYPES OF ADVISORY SERVICES

Funds

Our private investment fund clients include SH Capital Partners, L.P., a Delaware limited partnership (the “Onshore Fund”), and SH Capital Offshore, LTD, a Cayman Islands exempted company (the “Offshore Fund” and together with the Onshore Fund, the “Funds”). The Offshore Fund invests substantially all of its assets in, and conducts its investment activities indirectly through, the Onshore Fund, pursuant to a mini-master feeder structure.

We provide investment management services to the Funds primarily with respect to investments in publicly-traded equity securities. We generally are responsible for investing and re-investing the assets of the Funds in accordance with the investment objectives, policies and guidelines set forth in their offering and governing documents.

Information about each Fund is set forth in its confidential memorandum and applicable governing documents. Investment in a Fund does not, in and of itself, create an advisory relationship between an investor in such Fund and us. **See Item 8 below.**

Advisory Account

We also provide investment advisory services on a managed account basis primarily with respect to investments in publicly-traded equity securities. Upon the inception of an advisory account client relationship, we and the client will agree upon an investment objective and strategy, which may or may not be similar to the investment objectives and strategies of the Funds.

We currently provide investment advisory services to one separately managed account (the “Advisory Account”). The Advisory Account is managed in accordance with the terms, conditions, guidelines and limitations set forth in the investment management agreement between us and the Advisory Account client. **See Item 8 below.**

INVESTMENT RESTRICTIONS

Funds

We provide investment advice to the Funds in accordance with the investment objectives, policies and guidelines set forth in the applicable offering and governing documents, and not in accordance with the individual needs or objectives of any particular investor in the Funds. Investors generally are not permitted to impose restrictions or limitations on the management of the Funds. Notwithstanding the foregoing, we may enter into side letter agreements with one or more investors in a Fund that alter, modify or change the terms of the interests held by those investors.

Advisory Account

We provide and tailor our investment advice with respect to the Advisory Account based on the investment guidelines and objectives of the client and the terms and conditions set forth in the investment management agreement. Subject to our approval, the Advisory Account client may impose reasonable restrictions and

limitations on the management of the Advisory Account.

ASSETS UNDER MANAGEMENT

As of January 31, 2013, we had approximately \$33.6 million in regulatory assets under management. All of these assets were managed on a discretionary basis.

Item 5: Fees and Compensation

DESCRIPTION OF COMPENSATION AND FEE SCHEDULE

In consideration of our advisory services, we receive management fees and we or one of our affiliates may be entitled to receive performance-based fees or allocations with respect to our clients. While fees and allocations are described in detail in the applicable governing, account and/or offering documents, a brief summary of our advisory fees is set forth below.

Onshore Fund

With respect to the Onshore Fund, we generally are entitled to receive an asset-based management fee, payable at the beginning of each calendar quarter in advance, equal to (i) one-fourth (1/4) of two percent (2%) of the capital account balance of each Class A limited partner, (ii) one-fourth (1/4) of two percent (2%) of the capital account balance of each Class B limited partner and (iii) one-fourth (1/4) of one and one-half percent (1.5%) of the capital account balance of each Class C limited partner.

Subject to certain limitations (including the high water mark described below), at the end of each fiscal year, one of our affiliates may be entitled to receive a performance allocation equal to (i) 20% of each Class A limited partner's allocable share of net profits for the applicable fiscal year, (ii) 20% of each Class B limited partner's allocable share of net profits for the applicable fiscal year and (iii) 15% of each Class C limited partner's allocable share of net profits for the applicable fiscal year.

The performance allocation is subject to a "high water mark" limitation. As a result, after the first fiscal period in which a performance allocation is earned, the performance allocation for subsequent periods applies only to the extent that a limited partner's *pro rata* share of net profits measured on a cumulative basis, net of any losses, for all periods since admission exceeds the highest level of such cumulative net profits achieved through the close of any prior year since admission.

Offshore Fund

The Offshore Fund invests substantially all of its assets in, and conducts its investment activities indirectly through, the Onshore Fund, pursuant to a mini-master feeder structure, and the management fee and performance allocation with respect to the Offshore Fund is calculated at the Onshore Fund level. In order to track the management fee and performance allocation attributable to each investor in the Offshore Fund, the Onshore Fund establishes a separate account within the capital accounts of the Onshore Fund which corresponds to each shareholder in the Offshore Fund.

With respect to the Offshore Fund, we generally are entitled to receive an asset-based management fee, payable at the beginning of each calendar quarter in advance, equal to (i) one-fourth (1/4) of two percent (2%) of the net asset value of the separate account attributable to each Class A shareholder and (ii) one-fourth (1/4) of one and one-half percent (1.5%) of the net asset value of the separate account attributable to each Class B shareholder.

Subject to certain limitations (including the high water mark described below), at the end of each fiscal year, one of our affiliates may be entitled to receive a performance allocation equal to (i) one-fourth (1/4) of two percent (2%) of the net asset value of the separate account attributable to each Class A shareholder and (ii) one-fourth (1/4) of one and one-half percent (1.5%) of the net asset value of the separate account attributable to each Class B shareholder.

The performance allocation is subject to a "high water mark" limitation. As a result, after the first fiscal period in which a performance allocation is earned, the performance allocation for subsequent periods applies only to the extent that a shareholder's *pro rata* share of net profits measured on a cumulative basis, net of any losses, for all periods since admission exceeds the highest level of such cumulative net profits achieved through the close of any prior year since it purchased shares.

Funds

Each investor in a Fund generally is required to represent that it is a "qualified client" as such term is defined in

Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”); *provided* that our affiliate may waive the performance allocation with respect to any investor that does not qualify as a “qualified client.”

Our advisory fees with respect to the Funds and each investor generally are not negotiable. However, we may enter into side letters or similar arrangements with certain investors that grant different terms (including the reduction or elimination of fees) to such investors than the terms generally applicable to other investors.

Advisory Account

We generally are entitled to receive a performance fee equal to a percentage of the Advisory Account’s net profits with respect to each calendar year, which percentage increases incrementally as the Advisory Account’s returns increase.

PAYMENT OF FEES

Onshore Fund

Management fees are payable by limited partners quarterly, in advance, as of the beginning of each calendar quarter. Management fees are deducted directly from the capital account(s) of each limited partner. In the event that the Onshore Fund is dissolved, a limited partner withdraws or our advisory services are terminated prior to the end of any calendar quarter, then an amount equal to a *pro rata* portion of the management fee, based on the actual number of days remaining in such quarter, will be refunded to the applicable limited partner(s). Management fees are also prorated with respect to capital contributions made by limited partners during a calendar quarter.

Performance allocations are calculated and re-allocated from each capital account of a limited partner to our affiliate as of the end of each fiscal year (and at such other times as set forth in the partnership agreement). Performance allocations are allocated directly from each capital account of a limited partner to one of our affiliates.

Offshore Fund

Management fees are payable by shareholders quarterly, in advance, as of the beginning of each calendar quarter. Management fees are deducted directly from the separate account(s) of each shareholder. In the event that the Offshore Fund is dissolved, a shareholder redeems its shares or our advisory services are terminated prior to the end of any calendar quarter, then an amount equal to a *pro rata* portion of the management fee, based on the actual number of days remaining in such quarter, will be refunded to the applicable shareholder(s). Management fees are also prorated with respect to capital contributions made by shareholders during a calendar quarter.

Performance allocations are calculated and re-allocated from each separate account of a shareholder to our affiliate as of the end of each fiscal year (and at such other times as set forth in the Offshore Fund’s offering documents). Performance allocations are allocated directly from each separate account of a limited partner to one of our affiliates.

Advisory Account

Performance fees generally are calculated and billed to the Advisory Account client annually and are payable within thirty days of the Advisory Account client’s receipt of an invoice from us.

OTHER FEES AND EXPENSES

In addition to management fees and performance fees and/or allocations, each client generally bears all costs and expenses relating to its operations and/or activities, including but not limited to organizational expenses, legal, auditing and accounting expenses (including the maintenance of books and records), costs for the preparation of financial statements, tax returns and Schedule K-1, if applicable, expenses of the meetings of the investors, if any, and other expenses associated with the acquisition, holding and disposition of investments, as well as extraordinary expenses, such as litigation. Clients generally are responsible for and pay all brokerage and custodial fees. **See Item 12 below.**

TERMINATION OF ADVISORY SERVICES

Pursuant to the investment management agreement between us and the client, the Advisory Account client generally may terminate such agreement upon five (5) days written notice and may withdraw all funds that are invested at our direction at the time of that termination.

COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS

Neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products.

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

PERFORMANCE-BASED FEES

As noted under Item 5 above, we or our affiliate may receive performance-based allocations or fees from our clients. Performance-based allocations or fees could motivate us to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. In addition, because performance-based allocations or fees with respect to the Funds may be calculated on a basis that includes both realized and unrealized appreciation in portfolios based upon values assigned by us or administrators under our control, we face a conflict of interest in valuing those portfolios. Certain of our individual employees and affiliates who are compensated to some extent based upon investment profits for which they are responsible face the same potential conflicts.

We have adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including those with different management and performance-based fee terms, and the allocation of investment opportunities. We review investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. **For more information regarding our investment allocation policy, please see Item 12 below.**

Item 7: Types of Clients

TYPES OF CLIENTS AND INVESTORS

As described above, we currently provide investment advisory services to the Funds and the Advisory Account. Investors in the Funds and advisory account clients may include high net worth individuals, banks and thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

ACCOUNT REQUIREMENTS

Funds

The minimum initial capital contribution generally required for an investor in the Funds is \$500,000, although capital contributions of lesser amounts may be accepted in our discretion (subject to applicable legal requirements).

Each investor in the Funds generally is required to represent that it is, among other things, an “accredited investor,” as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), and a “qualified client,” as such term is defined in Rule 205-3 under the Advisers Act.

Advisory Accounts

Among other things, advisory account clients are required to sign investment management agreements that, among other things, set forth the nature and scope of our investment management authority and the investment objectives, guidelines and restrictions applicable to the management of the advisory accounts. In addition, advisory account clients generally must meet certain net worth, net asset and/or other eligibility requirements imposed by various securities laws.

Each advisory account client generally is required to represent that it is, among other things, a “qualified client,” as such term is defined in Rule 205-3 under the Advisers Act.

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

METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

The descriptions set forth in this brochure of specific advisory services we offer to clients, investment strategies and investments we make on behalf of clients should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this brochure, that we consider appropriate, subject to each client's investment objectives and guidelines.

We are a concentrated, research-intensive, fundamental value investor in the public markets. On behalf of our clients, we seek to achieve capital appreciation commensurate with reasonable risk. We define risk as the probability of permanent loss of capital rather than price volatility. We generally invest client assets and trade through both long and short positions in an extremely broad range of securities and other investments, including, without limitation, common stocks, preferred stocks, limited partnership interests, warrants, equity derivatives, convertible securities, listed and unlisted options, shares of beneficial interest, convertible preferred obligations, and rights, options, puts and calls with respect to any of the foregoing. Clients, however, generally maintain a long-biased portfolio of U.S. common stocks but may complement these investments with a limited number of short positions, options and other investments.

In our value approach to investing, we seek to identify and invest in opportunities where we believe there is a disconnect between current trading prices and the intrinsic business or asset value. We then concentrate our assets in a relatively limited number of investments.

We review large numbers of possible investments and pursue further research on a subset of these investments. Our investment ideas are often found in companies undergoing significant changes in strategy, capital structure, management or financial condition. Once we decide that a potential investment looks sufficiently promising, we deeply analyze its historical record and search for sources of comparable data on both public and private companies.

The investment strategies summarized above are not intended to be comprehensive. For more information regarding the investment strategies of each Fund, please see the applicable governing and/or offering documents of each Fund.

CERTAIN RISK FACTORS

There can be no assurance that clients or investors will achieve their investment objectives or that investments will be successful. Our investment strategies involve a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that our investment strategies are low risk or risk free. Our investment strategies are appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. The various risks outlined below are not the only risks associated with our investment strategies and processes and may not necessarily apply to each client or investor. With respect to the Funds, the following risks are qualified in their entirety by the risks set forth in the applicable offering documents.

General Market Developments. The success of our activities is affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates and economic uncertainty. These and other factors may affect the level and volatility of securities prices and the liquidity of client investments. Volatility or illiquidity (or other dramatic market or economic events) could impair profitability or result in losses. Unpredictable or unstable market conditions may also result in reduced opportunities to locate suitable investment opportunities or make it more difficult to exit and realize value from client investments. From time to time in the past, various markets around the world experienced extreme periods of volatility, illiquidity, correlation with other markets, negative (or positive) performance and other disruptions and conditions that would previously have been viewed as extremely unlikely or even impossible. Such market developments have, in the past, led to large losses and insolvencies at numerous investment funds. There can be no assurance that general market developments in the future will not have a material adverse effect on clients. It is important to understand that

clients could incur material losses even if it reacts quickly to difficult market or economic conditions.

Concentration of Investments and Risk Management Failures. We invest a substantial portion of client assets in a small number of issuers, and clients generally are not diversified. As a result, client investments or portfolio risks generally are concentrated in only a few securities with limited diversification among industry, geography, region, asset type, strategy or other areas of risk, and such concentration of risk increases the risk of losses suffered by our clients. This concentration could expose clients to losses disproportionate to market movements in general. We do not attempt to control such risks by diversifying client portfolios. In addition, many investment funds pursue similar strategies, which creates the risk that many funds would be forced to liquidate positions at the same time, reducing liquidity, increasing volatility and exacerbating losses. Although we attempt to identify, monitor and manage significant risks, these efforts will not take all risks into account and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in our risk management efforts could result in material losses for the Fund.

Regulatory Developments. A number of our businesses and investment strategies are highly regulated, and the regulatory environment may change significantly in the future. Changes in regulations applicable to us, our clients and our respective activities, the markets in which our clients invest or the counterparties with which we do business could have a material adverse impact on our clients, including by limiting the scope of our investment activities, requiring the disclosure of certain confidential information or imposing significant administrative burdens, which divert resources, time and attention.

Potential for Fraud. Recent discoveries of fraud in the banking and financial services industry highlight the seriousness of the issue. The scope and long-term nature of such frauds is a testament to how difficult fraud is to detect and prevent. While we attempt to avoid falling victim to fraud, there can be no assurance that we will be able to prevent all types of fraud by parties with whom we and our clients transact business.

Terrorist Attacks and War. Terrorist activities, anti-terrorist efforts and other armed conflicts involving the United States or its interests abroad may adversely affect the United States, its financial markets and global economies and could prevent clients from meeting their investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, and other acts of war or hostility have created many economic and political uncertainties, which may adversely affect the United States and world financial markets and our clients for the short or long-term in ways that cannot presently be predicted.

Investment Risks in General. All investments risk the loss of capital. No guarantee or representation is made that client investment programs will be successful. Certain investment techniques utilized by us will, in certain circumstances, maximize the impact of adverse market moves to which our clients are or will be subject. The performance of any particular investment is subject to numerous factors that are neither within our control nor predictable by us. Such factors include a wide range of economic, political, competitive and other conditions that may affect investments in general or specific industries or companies. As a result of the nature of investment activities, it is possible that our clients' financial performances may fluctuate substantially from period to period. Clients and investors could lose a substantial portion or all of their investment.

Investment Selection and Market Risk. "Investment selection risk" is defined herein as the risk that we may not select and size positions appropriately within the portfolio. An associated "market risk" arises from the influence of the movements of the overall market or the value of the individual investments in the portfolio. The profitability of a significant portion of client investment programs depends to a great extent upon correctly predicting the future price movements and/or general value of securities and other investments. There can be no assurance that we will be able to accurately predict these price movements or future valuation, nor can assurance be given that a client's investment portfolio will generate any returns or otherwise appreciate in value. With respect to our investment strategy, there is also market risk. For these reasons, the portfolio may also incur losses.

Discretion and Changes in Investment Strategy. We have discretion in choosing client investments and generally have the right to modify the selection criteria or hedging techniques (if any) used without the consent of clients or investors. Any of the investment strategies, analytical models, or trading techniques may have operational or

theoretical shortcomings, which could result in unsuccessful trades and, ultimately, losses to our clients. In addition, any new investment strategy or hedging technique developed may be more speculative than earlier techniques and may increase the risk to clients and investors.

Competition. The markets in which we participate, as well as other markets and strategies, in which we may participate, are extremely competitive. There can be no assurance that we will be able to identify or successfully pursue attractive investment opportunities in this environment. Clients and investors should expect that client investments will involve substantially more company-specific and market risk and associated volatility in the future than in the past, as arbitrage and similar opportunities are further reduced or eliminated. We compete with many firms that have substantially greater financial resources, more favorable financing arrangements, larger research staffs and more securities traders than are available to us.

Risks of Realization on Investments. Given the nature of the investments made by us on behalf of our clients, there is a significant risk that we may be unable to realize client investment objectives by sale or other disposition of client investments at attractive prices or will otherwise be unable to complete a suitable exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the entity in which the investment is made, changes in national or international economic conditions and changes in laws, regulations, fiscal policies or political conditions.

In addition, we generally are not able to sell investments in privately held companies unless their sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In some cases clients and investors may also be prohibited by contract from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate.

Off-Balance Sheet Risk. In the normal course of business, we may invest client assets in financial instruments with off-balance sheet risk. These instruments include forward contracts, swaps and securities and options contracts sold short. An off-balance sheet risk is associated with a financial instrument if such instrument exposes the investor to an accounting and economic loss in excess of the investor's recognized asset carrying value in such financial instrument, if any; or if the ultimate liability associated with the financial instrument has the potential to exceed the amount that the investor recognizes as a liability in the investor's statement of assets and liabilities. Additionally, in the normal course of business, we, on behalf of our clients, may purchase long positions in option contracts that do not have off-balance sheet-risk.

Hedging Risks. We may hedge some of a client's portfolio by taking corresponding long and short positions in related securities. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio's value. Such hedging transactions also may limit the opportunity for gain if the value of the portfolio position should increase. We frequently may decide not to hedge against certain risks, and many risks exist that are not identified or hedged effectively. Furthermore, we may change our hedging strategy at any time, in our sole discretion and without any notice to clients or investors, choosing, for example, not to hedge against risks that it has generally attempted to hedge in the past.

Even when we do attempt to hedge against a particular risk, there can be no guaranty that our hedging strategy will be successful. The success of any hedging transactions is subject to our ability to structure correctly client portfolios. Therefore, while we may enter into hedging transactions to seek to reduce market risk, improper structuring of the portfolios may result in a poorer overall performance for clients than if we had not engaged in such transactions. In addition, the degree of correlation between price movements of the securities used in a hedging strategy may vary. Such imperfect correlation may prevent us from achieving the intended hedge and expose clients to risk of loss.

Short Selling. Our clients may use of short sales. In a short sale, securities are sold that have been borrowed from a third party lender, typically a brokerage firm or other institution. When borrowing securities for short sales, clients are required to pledge deposits of cash, or a combination of cash and securities, equal to or exceeding the market price of the securities borrowed. The amount of such deposits may increase or decrease to reflect the changes in

the market value of the borrowed securities. The securities lender generally has the right to demand the return of the borrowed securities at any time. Selling securities short without first determining that securities are available to borrow is generally a violation of applicable securities laws. A short-seller profits only if it can “repay” the lender of the securities with securities it purchases at a lower price than it received in its short sale. Although short selling permits our clients to profit from declines in the price of securities, clients could experience losses if they are required to replace borrowed securities by purchasing them in the market at a time when the market price has increased over the price received at the time of the short sale. Purchasing securities in the market to close out a short position can itself cause market prices to increase further. As a result, there will be potential for unlimited loss, unless clients are adequately hedged against increases in market price (of which there can be no assurance).

Counterparty Risks. We, on behalf of our clients, enter into many transactions with third parties (*i.e.*, custodians, prime brokers, etc.) in which the failure or delay of the third party to perform its obligations under a contract with the client could have a material adverse effect on the client. We generally do not perform extensive credit analyses on client counterparties.

Client assets may be held in custodial accounts maintained for each client by the client’s custodians. Clients also have substantial exposure to other counterparties in connection with derivatives and other contract-based transactions. There is a risk that any client counterparties could become insolvent. Most of our clients’ counterparties are and will be brokerage firms or commercial banks, which are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. In many cases, however, a client may not be considered a “customer” of these institutions for purposes of such laws and regulations. Further, a substantial portion of the client’s assets held by custodians, prime brokers and other counterparties may not be held in segregated accounts. Client assets are generally held in the name of the prime broker or custodian or its nominee, rather than in the client’s name, which may limit (legally or in practice) the client’s ability to exercise voting rights, pursue legal remedies or dispose of positions. In any event, the practical effect of the applicable contracts, laws and regulations and their application to client assets if a counterparty becomes insolvent is subject to substantial limitations and uncertainties. As an example, firms with exposure to Lehman Brothers arising out of prime brokerage arrangements or derivative transactions are facing limited prospects for recovery as well as substantial uncertainty and delay. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of a counterparty’s insolvency on the client and its assets. Clients and investors should assume that the insolvency of any of a client’s custodians, prime brokers or other counterparties would result in the loss of all or a substantial portion of the client’s assets held by such custodian, prime broker or counterparty.

Risks of Derivatives. Clients may use derivative instruments. In many cases, derivatives provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would. Many derivatives provide exposure to potential gain or loss from a change in the market price of an investment (or a basket or index) or other event or circumstance in a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the derivative contract. Accordingly, relatively small price movements in the underlying investment or other events or circumstances may result in immediate and substantial losses to clients. In some cases, a client’s exposure under a derivative contract will be limited to the amount invested (for example, when a client buys a call option). In other cases, the derivative contract will create an open-ended obligation (for example, when a client writes a call option). Many derivatives, particularly those negotiated over-the-counter, are substantially illiquid or could become illiquid under certain market conditions. As a result, it may be difficult or impossible to determine the fair value of the client’s interest in such contracts. Many derivative contracts involve exposure to the credit risk of the counterparty, because the client acquires no direct interest in the underlying investment, but instead depends on the counterparty’s ability to perform under the contract. Further, if and when the client takes economic exposure through a derivative, it generally does not have any voting rights and may not be able to pursue legal remedies that would be available if it invested directly in the underlying investment.

Many derivatives also involve substantial legal risk and uncertainty, because the terms of the contract may be difficult to draft, apply, interpret and enforce, particularly in the context of unforeseen market conditions or events. In many cases, the counterparty has discretion (either pursuant to the express terms of the contract or in

practice) to interpret the contract, make required calculations and demand or withhold payments in the manner most favorable to the counterparty and most unfavorable to clients. An adverse interpretation or calculation under one derivative contract could trigger cross-defaults with other contracts and could have a materially adverse effect on client liquidity and performance. Any dispute concerning a derivative contract could be expensive and time consuming to resolve, particularly given the potential for complex and novel legal issues and the involvement of multiple legal jurisdictions. Even a favorable resolution could come too late to prevent cross-defaults, trading losses and material liquidity problems.

Borrowing and Leverage. We, on behalf of our clients, have the power to utilize leverage and may borrow funds from brokers, banks, counterparties and other lenders to finance client investment programs. Such leverage is achieved through, among other methods, purchases of securities on margin and the use of options, futures, forward contracts and swaps. The use of leverage involves a substantial degree of risk. In order to secure its various financing arrangements, a client may be required to grant guarantees and pledge or otherwise transfer to lenders any of its assets, including specific assets or pools of assets. Investors in the Funds are equity holders, and their rights are therefore generally junior to and generally subject to the satisfaction of prior claims of all creditors.

The use of leverage results in substantial interest and financing costs to clients and creates additional risks. Specifically, we may use substantially all of a client's capital as margin and collateral deposits. If the value of a client's securities or derivatives positions falls below the margin or collateral levels required by a counterparty, additional margin or collateral deposits would be required. If a client is unable to satisfy any margin or collateral call, then the counterparty could terminate transactions, liquidate the client's positions in some or all the investments that are in the client's margin or collateral account and otherwise cause the client to incur significant losses. The failure to satisfy a margin or collateral call, or the occurrence of other material defaults under margin or other financing agreements, may trigger cross-defaults under the client's agreements with other brokers, lenders, clearing firms or counterparties, multiplying the adverse impact to the client. In addition, because the use of leverage allows us to control positions on behalf of the client worth significantly more than the client's investments in those positions, the amount that the client may lose in the event of adverse price movements will be high in relation to the amount of its investments.

In the event of a sudden drop in the value of the client's assets, the client might not be able to liquidate assets quickly enough to satisfy its margin or collateral requirements or other contractual obligations. In that event, the client may become subject to claims of financial intermediaries that extended margin loans or other types of credit. Such claims could exceed the value of the assets of the client. The banks, dealers and other counterparties that provide financing to the client can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks, dealers and other counterparties in any of the foregoing may result in large margin or collateral calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that we will be able to secure or maintain adequate financing for our clients.

Equity Risks. We invest client assets in equity and equity derivative securities. The value of these securities generally varies with the performance of the issuer and movements in the equity markets generally and for specific sectors. As a result, clients may suffer losses if we invest client assets in equity securities of issuers whose performance falls below market or our expectations or if the equity markets generally or specific sectors decline and we have not adequately hedged against such a decline. Clients are exposed to risks that issuers will not be able to fulfill their contractual obligations, such as delivering marketable common stock upon conversions of convertible securities, registering restricted securities for public resale and maintaining listings on exchanges.

Volatility Risk. Client investment programs may involve the purchase and sale of equity derivatives and other financial instruments that are valued to some extent based on expected, implied or realized volatilities of various securities. Fluctuations or prolonged changes in the volatility of securities, therefore, can materially and adversely affect the value of securities held by client portfolios.

Relative Value and Directional Movements. The success of our clients' investment strategies depends upon our ability to accurately predict future price movements or the convergence of market prices toward the theoretical values expected by us. Any such attempt to predict future price movements is inherently risky and inaccurate. Often, price movements are determined by factors that were not anticipated by us and over which we have no control, and our analysis of known factors may prove to be incorrect, in each case potentially resulting in

substantial losses for our clients.

Risks of Foreign Investments. We may invest client assets in financial instruments of foreign corporations, including those in developing nations and emerging markets. Investing in the financial instruments of companies outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies, including political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; imposition of withholding and other taxes on dividends, interest, capital gains and other income; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict client investment opportunities or their ability to repatriate funds. Such considerations also apply to, and could increase the risks associated with, holding positions in custodian accounts located in or governed by the laws of other countries. In addition, accounting and financial reporting standards that prevail outside of the United States generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the United States than for those located in the United States. Financial instruments traded on foreign exchanges and the foreign nationals or entities that trade these instruments are generally not subject to the jurisdiction of the SEC or other securities laws and regulations of the United States. Accordingly, the protections accorded to clients under such laws and regulations may be unavailable for transactions on foreign exchanges and with foreign counterparties.

Portfolio Turnover. We generally are not restricted in effecting client transactions by any specific limitations with regard to their portfolio turnover rate. Although not anticipated, client investment policies might result in substantial portfolio turnover. Investments may be sold for a variety of reasons, such as a more favorable investment opportunity or other circumstances bearing on the desirability of a continued position in such investments.

THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS ASSOCIATED WITH OUR INVESTMENT STRATEGIES. PROSPECTIVE CLIENTS AND INVESTORS SHOULD READ THIS BROCHURE AND ALL OTHER APPLICABLE DISCLOSURE MATERIALS IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS.

Item 9: Disciplinary Information

Neither we nor any of our employees have been involved in any legal or disciplinary events related to past or present investment clients or investors.

Item 10: Other Financial Industry Activities and Affiliations

Not applicable.

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

CODE OF ETHICS

We have adopted and implemented a code of ethics, which sets forth standards of business conduct for our employees. Our code of ethics is primarily designed to educate employees about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to clients, encourage employees to comply with applicable laws, prevent the misuse of material non-public information, the circulation of rumors and other forms of market abuse and address conflicts of interest that arise from personal trading by employees. Among other things, we impose restrictions on access persons relating to the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons. We also maintain certain policies and procedures designed to prevent employees and principals from misusing material non-public information. We will furnish a copy of our code of ethics to clients and investors upon request.

OTHER ACTIVITIES

We and/or our affiliates may acquire the same securities as those owned by our clients. Allowing our affiliates to purchase these securities may motivate those affiliates to engage in “scalping,” which is the practice of attempting to benefit from the increase in price resulting from recommendations to clients. To prevent this practice, we closely monitor the investments made by our affiliates.

We and/or one or more of our affiliates may, directly or indirectly, organize, sponsor and/or manage other limited partnerships or other pooled investment vehicles (each, a “Related Fund”) in the future. No such Related Fund shall be precluded from co-investing with the Funds.

We devote such time to each client’s affairs as we deem consistent with the client’s goal of achieving its investment objectives. Notwithstanding the foregoing, neither we nor any of our affiliates are prohibited from engaging in any activity whatsoever permitted by applicable law. We and our affiliates may engage and hold interests in other business ventures of every kind and description for our own accounts including, without limitation, other investment entities similar to our clients, whether or not such business ventures are in direct or indirect competition with our clients, and whether or not any client or investor also has an interest therein, without having to account to us or any client for any profits or other benefits derived therefrom and without incurring any obligation to offer any interest in any such activity to clients or investors.

Item 12: Brokerage Practices

SELECTING BROKERAGE FIRMS

In general, we have authority to select the brokers and other counterparties to be used for client transactions and negotiate commission rates and other monies paid by clients. We generally select broker-dealers on the basis of obtaining the best overall terms available, which we evaluate based on a variety of factors, including, among other things: the broker's ability to effect the transactions; its facilities, reliability and financial responsibility; and the provision or payment by the broker of the costs of research and research-related services which are of benefit to us and our clients. Because commission rates in the United States as well as other jurisdictions are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

BEST EXECUTION

In placing orders for the purchase and sale of securities, we generally seek best net execution, which includes both commissions and execution prices. Orders are placed with brokers or dealers which we believe to be responsible and provide effective execution of client orders under conditions most favorable to client accounts.

SOFT DOLLAR PRACTICES

We may use soft dollars generated by client accounts to pay for certain research and/or related services provided by brokers described above. The term "soft dollars" refers to the receipt by an investment manager of products and services (including research) provided by brokers without any cash payment by the investment manager, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment manager. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

Using soft dollars to obtain investment research and/or related services creates a conflict of interest between us and our clients. Soft dollars may be used to acquire products and services that are not exclusively for the benefit of clients which paid the commissions and that may primarily or exclusively benefit us. If we are able to acquire these products and services without expending our own resources (including management fees paid by clients), our use of soft dollars would tend to increase our profitability. Furthermore, we may have an incentive to select or recommend brokers based on our interest in receiving research or other products or services, rather than on our clients' interest in receiving most favorable execution. We may cause clients to pay commissions (or markups or markdowns) higher than those charged by other brokers in return for soft dollar benefits.

Soft dollar benefits generally are used to service all of our clients. We seek to allocate soft dollar benefits among client accounts in a fair and equitable manner under the circumstances, but there can be no assurance that we will be successful in this regard.

During the last fiscal year, we did not acquire any soft dollar items.

Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a safe harbor to advisers who use soft dollars generated by client accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to us in the performance of investment decision-making responsibilities. We intend that any soft dollars that we receive in connection with client-related matters would be within the limitations set forth in Section 28(e) of the Exchange Act.

BROKERAGE FOR CLIENT REFERRALS

In selecting or recommending brokers, we generally do not consider whether we or our related persons receive client or investor referrals from such brokers.

DIRECTED BROKERAGE

We do not recommend, request or require clients to direct us to execute transactions through a specified broker-

dealer. We also do not permit a client to direct brokerage for order execution purposes.

ALLOCATION OF INVESTMENT OPPORTUNITIES

We may at times determine that certain securities are suitable for acquisition by one client and by other clients and/or accounts managed by us, including our own accounts or accounts of an affiliate. If that occurs, and we are not able to acquire the desired aggregate amount of such securities on terms and conditions which we deem advisable, we endeavor to allocate in good faith the limited amount of such securities acquired among the various accounts for which we consider them to be suitable. We may make such allocations among the accounts in any manner which we consider to be fair under the circumstances, including, but not limited to, allocations based on relative account sizes, the degree of risk involved in the securities acquired, and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.

ORDER AGGREGATION

We may aggregate purchase and sale orders of investments held by a client with similar orders being made simultaneously for other clients, accounts or entities if, in our reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to the client based on an evaluation that the client will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of investments for a client is affected simultaneously with the purchase or sale of like investments for other clients, accounts or entities. Such transactions may be made at slightly different prices, due to the volume of investments purchased or sold. In such event, at our determination, the average price of all investments purchased or sold in such transactions may be determined, and the client may be charged or credited, as the case may be, with the average transaction price.

Item 13: Review of Accounts

REVIEWS OF ACCOUNTS

Our Chief Compliance Officer reviews all client securities transactions, and Mark A. Cohen, our Managing Member, generally conducts reviews of client accounts, on a daily basis. With respect to accounting matters, we have engaged a nationally-recognized, independent public accounting firm to conduct annual audits of the Funds.

Each client account is reviewed to assess performance to date in light of the client's investment objective, investment activity to date and an evaluation of any appropriate changes in the client's portfolio.

REPORTS TO CLIENTS AND INVESTORS

We provide annual audited financial statements and annual U.S. income tax information to investors in the Funds. We also provide clients and investors with periodic performance reports. All such statements and reports are written. In addition, we may provide additional information to certain clients and/or investors that is not distributed to other clients and/or investors.

Item 14: Client Referrals and Other Compensation

THIRD PARTY COMPENSATION

Except as described in Item 12 above, we currently do not receive any economic benefit from any person who is not a client for providing investment advice or other advisory services to our clients.

REFERRALS

We currently do not compensate any third party for client or investor referrals.

Item 15: Custody

Funds

We may be deemed to have custody of the Funds' cash and securities for purposes of Rule 206(4)-2 under the Advisers Act. In accordance with Rule 206(4)-2, the Funds' cash and securities (except for privately placed securities) generally are held with one or more qualified custodians. We may change the custodians at any time and from time to time without the consent of, or notice to, investors. We have engaged an independent public accounting firm to conduct an annual audit of each Fund, and audited financial statements (prepared in accordance with generally accepted accounting principles) are provided to investors on an annual basis. We attempt to provide such statements to investors within 120 days after the end of each fiscal year, but there can be no assurance that we will be successful in this regard. Qualified custodians do not provide statements directly to investors in the Funds.

Advisory Account

We currently do not have actual or constructive custody of the Advisory Account client's cash or securities. To the extent that we have or are deemed to have custody, we intend to comply with applicable legal and regulatory requirements.

Item 16: Investment Discretion

DISCRETIONARY AUTHORITY

Funds

We have discretionary power and authority over the types of financial instruments to be bought or sold, as well as the amount to be bought or sold on behalf of the Funds. We have authority to determine the broker-dealer or other counterparty to be used for transactions and the negotiation of commission rates and other consideration to be paid by the Funds.

Advisory Account

We generally have full discretionary power and authority to invest and reinvest the funds and assets held in the Advisory Account. Accordingly, we have authority (i) over the types of investments to be bought or sold, as well as the amount to be bought or sold, on behalf of the Advisory Account client; and (ii) to determine the broker-dealer or other counterparty to be used for Advisory Account transactions and the negotiation of commission rates and other consideration to be paid by the Advisory Account client. The Advisory Account client was required to sign an investment management agreement that authorizes us to manage and direct the investment and reinvestment of Advisory Account assets, with full discretion to make investment decisions on the Advisory Account client's behalf and at the Advisory Account client's risk. Our discretionary authority is limited by the terms of the investment management agreement and the investment guidelines, restrictions and limitations imposed on the management of the Advisory Account by the Advisory Account client.

LIMITED POWER OF ATTORNEY

Funds

Each investor in the Funds generally grants us a limited power of attorney to enable us to take certain actions with respect to the Funds.

Advisory Account

The Advisory Account client has granted us a limited power of attorney to enable us to conduct authorized trading on its behalf.

Item 17: Voting Client Securities

Funds

We have the authority to vote proxies with respect to securities owned by the Funds and have adopted proxy voting policies and procedures in our compliance manual. In general, our policy is to vote proxy proposals, amendments, consents or resolutions in a manner that serves the best interests of the Funds, as determined in our discretion, and our proxy voting policy. We may determine not to vote proxies in respect of securities of any issuer if we determine it would be in the Funds' overall best interests not to vote. Investors generally may not direct or otherwise influence our vote with respect to any particular proxy solicitation.

Investors may obtain copies of our proxy voting policy, together with information regarding how we have voted past proxies, by contacting us.

Advisory Account

We generally have the authority to vote securities held by or on behalf of the Advisory Account client. We vote proxy proposals, amendments, consents or resolutions in a manner that serves the best interests of the Advisory Account client, as determined in our discretion, and in accordance with our proxy voting policy. We may determine not to vote proxies in respect of securities of any issuer if we determine it would be in the Advisory Account client's overall best interests not to vote. The Advisory Account client generally may not direct or otherwise influence our vote with respect to any particular proxy solicitation.

The Advisory Account client may obtain copies of our proxy voting policy, together with information regarding how we have voted past proxies, by contacting us.

Item 18: Financial Information

Not applicable.