



Private Capital Management, Inc.

2600 Eagan Woods Drive

Suite 150

Eagan, MN 55121

651-452-0212

Form ADV Part 2A Date: March 26, 2012

This Brochure provides information about the qualifications and business practices of Private Capital Management, Inc. If you have any questions about the contents of this Brochure, please contact us at 651-452-0212 or email at cal@pcmmgmt.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Private Capital Management, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Item 2 – Material Changes

On July 28, 2010, the SEC published “Amendments to Form ADV” which amends the disclosure document (Brochure) that we provide to clients as required under SEC Rules. This Brochure dated March 26, 2012, is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous Brochure did not contain.

In the future, the section titled, Item 2 – Material Changes, will discuss only specific material changes in the Brochure’s content and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Currently, our Brochure may be requested by contacting Calvin Robertson, Chief Financial Officer, at 651-452-0212 or cal@pcmmgmt.com.

Additional information about Private Capital Management Inc. is also available via the SEC’s web site www.adviserinfo.sec.gov.

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Item 4 – Advisory Business

Private Capital Management (“the Firm”) manages institutional and large individual accounts with assets of \$1 million or more. The Firm may solicit and accept smaller accounts when it believes that the account value could exceed \$1 million in the future. In addition to providing specific advice on individual client portfolios, the Firm also specializes in structuring and selling interests in private equity investments.

The Firm was founded in 1998 and is owned by the three principals who manage the day-to-day business operations of the Firm: William Peterson, Calvin Robertson and Brian Smith.

The Firm offers advice on most types of investment products, however it specializes in:

- Public investment-grade fixed income and fixed-income alternatives, including municipals, corporates, mortgage-backed and asset-backed securities, governments, REITs, and preferred stock.
- Private equity and mezzanine (subordinated) debt with equity enhancement features, emphasizing companies with \$10-to-\$100 million of revenue, established levels of earnings and cash flow, strong market positions, and experienced management.
- Domestic public equities, especially large-cap (generally market capitalization greater than \$5 billion).

The Firm provides accounting and investment advisory services to clients upon request. The Firm also provides trustee services to one client. Trustee services include (1) determination of investment policy and overall asset allocation, (2) coordination of investment manager searches, fee negotiations, custodial agreements, and performance oversight, (3) trust administration such as payment of bills and other disbursements as required, preparation of income tax returns, maintenance of books and records, cash flow analyses and other financial planning, and (5) meetings with beneficiary.

The Firm accepts discretionary accounts. All private equity investments are handled on a non-discretionary basis. The Firm does not participate in wrap fee programs.

As of December 31, 2011, the Firm had \$753.7 million in assets under management.

Item 5 – Fees and Compensation

In managing institutional and individual client assets, the Firm’s basic fee schedule ranges generally from 0.10% to 0.75% per annum of assets under management; however, the fee charged to a particular client may be higher or lower than this range. The fee applicable to each account is

negotiated with the client and varies depending on a number of factors, including the amount of assets under management, the nature of the assets, the investment objectives of the client and the type of securities in the portfolio.

The Firm may from time to time act as a sub-adviser with respect to certain client accounts. In such cases, the Firm may charge a negotiated fee that is less than the basic fee schedule set forth above. This lower fee would reflect the Firm's status as a sub-adviser with respect to such accounts.

If assets in a client account are invested in mutual funds (including money market funds), unit investment trusts, annuities, exchange traded funds or similar investment vehicles, the client's account will bear its proportionate share of the fees and expenses of such investment vehicles, in addition to the investment advisory fees payable by the client to the Firm.

The investment advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees.

Affiliates of the Firm act as Managing Members of limited liability companies which invest in private equity and mezzanine securities. The Managing Members charge a fee of between 1% and 2% per annum of the assets under management to manage these investments to conclusion, or they charge a fee directly to the issuer of the equity or mezzanine securities. The Managing Members also receive a performance-based fee ("carried interest") in such investments. The Firm expects the carried interest of the Managing Members to range from 10% to 20% of capital gains and income earned on the investments. The carried interests comply with Rule 205-3 under the Investment Advisers Act of 1940. In addition, the Firm or affiliates of the Firm may receive an origination fee of approximately 1% to 2% from the issuer of the equity or mezzanine securities, which may be payable in cash or securities of the issuer.

The Firm generally does not charge an investment advisory fee in connection with client assets invested in the limited liability companies managed by affiliates of the Firm. In these cases, the client simply bears its proportionate share of the fees and expenses of the limited liability company. The one exception is with respect to the client to whom the Firm provides trustee services. This client pays a single asset-based fee covering the Firm's services as trustee, including investment advisory services. Since the Firm's fee is for our overall trustee services and is typically at the low end of the Firm's fee range, the client pays the trustee fee with respect to all trust assets, including assets invested in the limited liability companies managed by the Firm's affiliates, in addition to their proportionate share of the fees and expenses of the limited liability company.

Fees for accounting and investment advisory services to insurance companies which are in addition to typical asset management services are negotiated with the client and charged on an hourly basis.

The specific amount and manner in which fees are charged by the Firm is established in the client's written Investment Advisory Agreement (Agreement). The Firm will generally bill its fees on a

monthly or quarterly basis in arrears. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of an account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Item 12 *Brokerage Practices* further describes the factors that the Firm considers in selecting broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

In the case of the limited liability companies (private investments), the Firm charges a performance fee to qualified clients. The Firm structures any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 and the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, the Firm shall include realized and unrealized capital gains and losses.

Performance based fee arrangements may create an incentive for the Firm to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. The Firm has designed and implemented procedures to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients, such as offering private investments on a non-discretionary basis.

Item 7 – Types of Clients

The Firm provides investment management services to high net worth individuals, trusts, and domestic institutional clients (corporations, partnerships or other business entities). Clients investing in the limited liability companies must be accredited investors as that term is defined in Securities Act of 1933.

The Firm accepts accounts with assets of \$1 million or more. The Firm may solicit and accept smaller accounts when it believes that the account value could exceed \$1 million in the future.

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

The Firm's analysis methods include, but are not limited to:

- Charting
- Fundamental
- Technical
- Cyclical

Clients may receive traditional investment management services investing in public markets and securities or clients may invest in private equity opportunities that are managed by an affiliate of the Firm. Clients may elect to retain the Firm for both types of advisory services as well.

All clients are required to execute an Agreement that sets forth the terms and conditions of the investment management services to be rendered. The Agreement grants discretionary authority and includes investment guidelines and restrictions and the fee schedule.

The Firm is an unconstrained investment manager and is free to invest in any instruments or use any strategies, in its sole discretion, unless an instrument or strategy is prohibited under the investment guidelines and restrictions.

Generally, growth of capital is an important consideration for overall asset allocation and security selection. Fixed income portfolios will emphasize safety through high quality debt and diversification both in terms of the number of issuers and product types. The selection of fixed income securities will take taxable equivalent yields and effective maturities into consideration. Portfolios will be highly liquid. The Firm imposes restrictions on the percentage of a portfolio that may be invested in an equity position as well as the percentage of a portfolio that may be invested in securities denominated in foreign currency. Clients may also impose additional investment limitations or restrictions.

Past performance is not a guarantee of future results. The Firm cannot provide assurance that it will achieve its stated investment objective or achieve positive or competitive investment returns. The Firm cannot control market, regulatory, and other factors which may affect the performance of its investments. Clients should be prepared for the risks associated with investing in securities which includes losses of all or a portion of an investment.

Investments in fixed income securities involve risks and considerations not typically associated with equity securities. For example, when interest rates rise, bond prices usually fall; conversely, when interest rates decline, bond prices usually rise. The longer the time until a bond matures, the greater the interest rate risk. Also, there is a possibility that a bond issuer's credit rating will change, or will go into default and be unable to make interest or principal payments.

For investments in private, limited liability companies, clients must meet the criteria for an accredited investor and complete a subscription agreement for each private equity investment.

An investment in the private, limited liability companies is speculative and involves a high degree of risk. While the Firm does conduct due diligence on each private investment, investors are asked to conduct their own due diligence, be able to withstand a complete loss of principal, and exercise their own discretion. In addition, the following risks should be considered:

- Private investments are not liquid. There is no secondary market for the investments and none is expected to develop. Investments are not expected to be registered under the securities law of any jurisdiction and will be subject to strict restrictions on resale and transferability.
- Investments are based on forward-looking statements which may be different from actual results and performance.
- Future performance and profitability are largely dependent upon the business and investment experience of the Firm's principals. Should anything happen to the key personnel at the Firm, the business and its investment results may be adversely affected.
- Investments are not diversified, and may be concentrated within a specific market sector.
- Changes in economic conditions, including, for example, interest rates, inflation rates, currency fluctuations, political and diplomatic events and trends, tax laws and innumerable other factors, can substantially and adversely impact investments in limited liability companies.

Item 9 – Disciplinary Information

As a registered investment adviser, the Firm is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of its management team. The Firm has no applicable information to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

Neither the Firm nor any of its advisory personnel are registered as a:

1. Securities broker dealer
2. Futures commission merchant

3. Commodity pool operator or a commodity trading adviser

The Firm does not have any arrangements material to its advisory business and its clients, other than its affiliates who act as Managing Members for the limited liability companies established for investment purposes. See Item 4 *Advisory Business* and Item 5 *Fees & Compensation* above. As Managing Members, the Firm may be subject to a variety of conflicts of interest in managing the limited liability companies. For example, the Firm's method of allocating investment opportunities to clients could involve conflicts. See Item 12 *Brokerage Practices*.

The Firm does not recommend or select other investment advisors for clients, except in connection with trustee services (Item 4 *Advisory Business*) and investments in instruments such as mutual funds which include investment management services at the instrument level.

Item 11 – Code of Ethics

The Firm has adopted a Code of Ethics for governing directors, officers and employees that requires such persons to adhere to the highest standards of business conduct, fiduciary duty and to comply with all applicable federal securities laws. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of the Firm will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code of Ethics requires directors, officers and employees to effect trades for clients prior to effecting similar trades for their own personal accounts or their family members. To monitor compliance with the Code of Ethics, directors, officers and certain other employees must report transactions in their accounts on a quarterly basis. Directors, officers and employees are also required by the Code of Ethics to provide a list of all their holdings within 10 days of commencement of their employment and thereafter on an annual basis within 45 days after the end of each calendar year. The Chief Compliance Officer must review all quarterly transaction reports and initial and annual holdings reports. Directors, officers and employees must report any violation of the Code of Ethics to the Chief Compliance Officer or Chief Executive Officer.

The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All directors, officers and employees of the Firm must acknowledge the terms of the Code of Ethics annually, or as amended.

Any client or prospective client may request a copy of the Firm's Code of Ethics by calling our office at 651-452-0212, sending an email to cal@pcmmgmt.com or writing us at 2600 Eagan Woods Drive, Suite 150, Eagan, MN 55121.

Item 12 – Brokerage Practices

When selecting broker-dealers to execute securities transactions for client accounts, it is the Firm's policy to seek "best execution". In other words, the Firm desires to obtain the most favorable execution of transactions on behalf of client accounts taking into consideration numerous factors, including: prompt execution and notification; accurate documentation; sophistication of trading personnel and facilities; clearance and settlement capabilities; access to markets; competitiveness of commission rates and any other costs; block trading capability; accuracy and willingness to correct errors; confidentiality; research and related services; size of order; liquidity of the market for the security; security trading characteristics; availability of accurate information regarding the market for the security; and ability to accommodate any special conditions with respect to the order.

Although the Firm's broker selection is under constant review, transactions for client accounts are typically executed through R.W. Baird, Morgan Stanley, or Wells Fargo. The principals of the Firm have long-standing relationships with these broker-dealers and believe those relationships benefit its clients in terms of the quality of execution services received. The Firm's practice of directing securities transactions to R.W. Baird, Morgan Stanley, and Wells Fargo, and not trading with multiple broker-dealers, may mean that clients do not always pay the lowest possible commission or receive the best possible price on each individual transaction. Moreover, clients who maintain their assets with R. W Baird pay an additional \$7.50 custodial fee in connection with each securities transaction. As a result, clients whose assets are held at R.W. Baird will incur higher overall transaction costs in connection with trades than clients whose assets are custodied with broker-dealers who do not charge a similar custodial fee. The impact of the R.W. Baird custodial fee will be proportionately greater on clients in connection with smaller trades.

A registered principal at R.W. Baird, with whom the Firm and its principals have long-standing business and personal relationships, regularly purchases interests in the private equity investments in which principals of the Firm, through its affiliates, act as Managing Members. See the response to Item 4 *Advisory Business*. The R.W. Baird registered principal purchases these interests on the same basis as the other investors.

In the case of securities traded over-the-counter (OTC), if the broker-dealer to whom the Firm directs the trade does not make a market in the security, the broker-dealer will route the order to another market maker. In these limited circumstances, a client account may pay two layers of execution costs, namely a commission to the broker-dealer to whom the Firm directs the trade and a mark-up or mark-down to the market maker. In addition, clients should note that trading with a broker-dealer because that broker-dealer has custody of client assets, may limit the Firm's ability to obtain the best execution price on transactions in OTC securities.

R. W. Baird, Morgan Stanley, and Wells Fargo furnish research and research-related services to the Firm designed to augment the Firm's internal research and investment strategy capabilities. The Firm does not pay for the research it receives; instead the research is paid for by commissions

generated as the result of transactions directed to the particular broker by the Firm. Such research services include a wide variety of written reports on individual companies and industries of particular interest to the Firm; general economic conditions; federal and state legislative developments and changes in accounting practices. Research services may also include direct access by telephone or meetings with leading research analysts, corporate management personnel, industry experts and leading economists. Other research services include comparative performance evaluation and technical measurement services; quotation services; and services from recognized experts on investment matters of particular interest to the Firm. The research and research-related services furnished to the Firm by R.W. Baird, Morgan Stanley, and Wells Fargo are used in the investment management and servicing of all client accounts.

The Firm may pay R.W. Baird, Morgan Stanley, and Wells Fargo higher commissions than another broker might charge for effecting the same transaction in recognition of the value of the brokerage and research services provided by the broker to the Firm. In other words, the Firm may “pay up” using client commissions or “soft dollars” to obtain research or brokerage services that benefit the Firm as well as client accounts. Because the use of client commissions to pay for research or brokerage services for which the Firm would otherwise have to pay presents a conflict of interest, the Firm has adopted policies and procedures concerning soft dollars that address all aspects of its use of client commissions. The Firm’s policies and procedures require that the use of soft dollars be consistent with applicable SEC rules and provide lawful and appropriate assistance to the Firm in the investment decision-making process. In addition, the Firm periodically makes a determination that the value of the research or brokerage service obtained be reasonable in relation to the commissions paid.

The Firm believes that most of the research services it receives generally benefit several or all of the accounts it manages as opposed to solely benefiting one specific client. However, not all services may be used by the Firm in connection with the accounts that paid commissions to the broker-dealer providing the services.

Some clients may request or instruct the Firm to direct a portion of the securities transactions for their account(s) to a specified broker-dealer. In such cases, the Firm will treat this as a decision by the client to retain (to the extent of the request or instruction) the discretion that the Firm would otherwise have to select broker-dealers and negotiate commissions. The Firm will attempt to effect such transactions in a manner consistent with its policy of seeking best execution. However, there may be occasions where it is unable to do so. In those instances, the Firm will continue to comply with the client’s request or instruction. The client should consider whether the services received from the broker-dealer and costs associated with those services are justifiable. A client making such a brokerage direction should understand that it may lose the possible advantage derived from the aggregation of orders for several clients as a single transaction for the purchase or sale of a particular security.

The Firm will frequently aggregate multiple client purchase or sell orders into a block order for execution. These block orders also include personal trades of the Firm’s principals. The Firm can ordinarily obtain lower commissions on aggregated orders. All client accounts that participate in

an aggregated order receive the average share price of the transaction. This may be higher or lower than the actual price that a client would otherwise pay absent the aggregation of orders. All participating client accounts will share proportionally in commissions incurred in the aggregate trade. If the Firm is not able to fill the entire order, the Firm allocates securities first to client accounts, and only then to principals' accounts. After eliminating orders for principals' accounts, the Firm allocates partial fills based upon a ratio of the clients' original order participation divided by the total amount of the block trade, after deducting the amounts originally targeted for principals' accounts. However, the Firm typically will not allocate fewer than 50 shares of an equity trade to a client's account. Certain larger clients have requested a minimum allocation target in excess of 50 shares.

Item 13 – Review of Accounts

The portfolio manager generally reviews the investment advisory accounts on a daily basis for purposes of making investment decisions and overall asset allocation.

Custodian brokers or banks regularly furnish the client with account statements on a monthly or quarterly basis, depending upon the activity level in the particular account. A trade confirmation containing the name of the executing broker-dealer, the account name, the name of the security, the trade date and settlement date, the amount of any transaction charges such as commissions, taxes, SEC fees, and the market where the order was executed is sent by the executing broker-dealer to the client or the qualified custodian maintaining the account after each execution of a transaction.

The Firm reconciles cash, income, par value and equity values between its investment accounting system and clients' custodial statements on a monthly basis. Any differences are investigated and resolved. Effective maturities and quality ratings are reviewed and updated quarterly for fixed-income investments. Portfolio statistics and sector classifications are reviewed and updated quarterly for equity investments. Performance calculations are performed and compared to the investment accounting system on a quarterly basis. Each client receives a quarterly performance statement that includes a comparison of the current portfolio to the typical asset allocation for the account.

The Firm reconciles income to Form 1099s and provides clients with an annual tax report.

Special reports may be developed which are tailored to meet specific client requirements.

Item 14 – Client Referrals and Other Compensation

The Firm does not have any oral or written arrangements to receive cash or any economic benefit (including commissions, equipment or non-research) from a non-client in connection with giving

advice to clients. In addition, the Firm does not have any arrangements to directly or indirectly compensate any person for client referrals.

Item 15 – Custody

Clients receive statements on a monthly or quarterly basis, depending upon the activity level in the particular account from the broker dealer, bank or other qualified custodian that holds and maintains the client's investment assets. The Firm urges clients to carefully review such statements and compare the official custodial records to the account statements received from the Firm. The Firm's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Annual GAAP audits are performed on private equity limited liability companies and distributed to clients within 120 days of each company's year-end.

The Firm engages a PCAOB independent public accounting firm to conduct an annual surprise audit to verify client assets for those accounts over which the Firm has check writing capability.

Item 16 – Investment Discretion

The Firm obtains authority to manage accounts on a discretionary basis which means the Firm makes investment decisions without consultation with the client. This involves deciding which securities are bought and sold, the amount of the securities bought and sold, the broker-dealers with or through whom orders are placed for execution, the price per share and the commission rates and other transaction costs associated with the securities transactions. The Firm receives discretionary authority from the client at the outset of an advisory relationship.

When selecting securities and determining amounts to be purchased or sold, the only qualifications to the Firm's authority to make investment decisions without client consent are those contained in the specific guidelines or restrictions imposed by the client relating to investments or brokers or dealers that the Firm agrees to follow. These client guidelines, restrictions or limitations could have the effect of limiting the selection of brokers or dealers or of limiting or otherwise affecting the types and amounts of particular securities to be bought or sold for the client's account or the prices at which such securities are bought or sold. Investment guidelines and restrictions must be provided by the client to the Firm in writing.

The Firm does not have authority to make investment decisions for purchases of private equity investments. Clients choose to invest in private equity investments by reviewing materials supplied by the Firm, conducting their own due diligence, and, finally, by completing a subscription agreement indicating the amount to be purchased and signing a member control agreement.

Item 17 – Voting Proxies on Client Securities

The Firm typically accepts authority to vote proxies on shares owned by clients and casts proxy votes in accordance with its Proxy Voting Policies and Procedures. The general principle of the Proxy Voting Policies is to vote in the best interest of clients. In applying this general principle, the Proxy Voting Policies classify proxy vote issues into two categories: routine proposals and non-routine or controversial proposals. Once each matter is identified as belonging to a particular category, a vote is cast according to the philosophy and decision guidelines developed for that category. For routine proposals, the Firm is generally willing to vote with management. Examples of matters in this category include election of directors and related compensation issues, appointment of independent auditors, new employee incentive plans or amendments to existing incentive plans involving the issuance of common shares representing less than 10% of the then number of common shares outstanding, stock splits or dividends and requests to increase the number of authorized but unissued common shares outstanding, and a variety of proposals involving such issues as charitable contributions, cumulative voting, employment, and political activities. With respect to non-routine or controversial proposals, the Firm considers the voting decision on a case-by-case basis. The CEO will review such proposals and determine how the Firm will vote.

In situations where the Firm has identified a material conflict of interest involving a proxy voting matter, the Firm may disclose the conflict to the relevant client(s) and obtain their consent before voting; defer to the voting recommendation of the client(s) or an independent third party provider, send the proxy directly to the client(s) for a voting decision; vote the proxy based on the voting guidelines set forth in the Proxy Voting Policies and Procedures; or take such other action in good faith (after consultation with counsel) which would protect the interests of the client(s). The Firm is not currently aware of any material conflicts of interest that may affect its proxy voting authority.

A copy of the complete Proxy Voting Policies and Procedures is available to clients upon request. Clients may also obtain information from about how the Firm voted any proxies on behalf of their account(s) by calling our office at 651-452-0212, sending an email to cal@pcmmgmt.com or writing us at 2600 Eagan Woods Drive, Suite 150, Eagan, MN 55121.

Item 18 – Financial Information

As a registered investment adviser, the Firm is required to provide you with certain information or disclosures about its financial condition. The Firm has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.