

Part 2A of Form ADV: Firm Brochure

March 15, 2012

Item 1 Cover Page

Harbert Fund Advisors, Inc.
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This Firm Brochure provides information about the qualifications and business practices of Harbert Fund Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 205-987-5500. 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.

Additional information about Harbert Fund Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Harbert Fund Advisors, Inc. is an investment adviser registered with the SEC. Our status as a registered investment adviser, however, does not imply that the SEC approves of our ability or expertise in managing client funds or securities. This brochure, along with the additional information available on the website above, provides information that is important to your decision of whether to conduct business with us.

Item 2 Material Changes

This version of our ADV Part 2A, March 15, 2012, includes no material changes from the previous version, which was completed January 31, 2011.

Item 3 Table of Contents

Item 1	Cover Page	1
Item 2	Material Changes	1
Item 3	Table of Contents	2
Item 4	Advisory Business	4
Item 5	Fees and Compensation	4
	Fund Fees and Expenses	4
	Separate Account Fees and Expenses	5
	Compensation for the Sale of Securities	6
Item 6	Performance-Based Fees and Side-By-Side Management	6
Item 7	Types of Clients	6
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	6
	Private Capital and Real Estate Funds	7
	Hedge Funds	7
	Risk of Loss	7
Item 9	Disciplinary Information	7
Item 10	Other Financial Industry Activities and Affiliations	8
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	8
	Code of Ethics	8
	Personal Trading	8
	Participation or Interest in Client Transactions	9
	“Warehoused” Principal Trades	9
	Agency Cross Trades	9
	Conflicts of Interest	9
Item 12	Brokerage Practices	10
	Best Execution and Broker Selection Process	10
	Allocation of Investment Opportunities and Aggregated Trades	10
	Securities Law Reporting Requirements and Short-Swing Profits	11
Item 13	Review of Accounts	11
	Account Review	11
	Content and Frequency of Reports	11
Item 14	Client Referrals and Other Compensation	11

<i>Item 15 Custody</i>	<i>12</i>
<i>Item 16 Investment Discretion</i>	<i>12</i>
<i>Item 17 Voting Client Securities</i>	<i>12</i>
<i>Item 18 Financial Information</i>	<i>13</i>

Item 4 Advisory Business

Harbert Fund Advisors, Inc. ("HFA", and collectively with our affiliates "we", "our" or "us") was formed in 1993 and registered with the SEC in October 1998. Our parent company Harbert Management Corporation ("HMC") sponsors alternative investment funds and is privately owned by a group of its officers and managers. HMC currently sponsors a number of private capital funds and hedge funds ("Fund", or collectively "Funds") in the following asset classes: United States and European real estate, venture capital, power generation and power related facilities, United States and Australian private equity, mezzanine loans and hedge funds.

The Funds are organized as limited partnerships, limited liability companies or other business entities and we serve as investment adviser to the Funds. We provide advice and assistance to each Fund regarding the acquisition, management and disposition of Fund investments and also provide general back-office support. We are headquartered in Birmingham, Alabama and have investment teams in Birmingham and in offices in New York, New York; London, England; Madrid, Spain; Paris, France; Melbourne, Australia; Richmond, Virginia; Nashville, Tennessee; and San Francisco, California. Legal, accounting, compliance and risk management teams are located in Birmingham. As of March 15, 2012, we, together with affiliates, have approximately 200 employees.

Certain Funds (i.e., the private capital and real estate asset classes) raise specific capital commitments that are called over a limited investment period. The hedge funds we advise raise capital as conditions and investment opportunities warrant, and their capital is typically contributed in full at subscription and is subject to "lock-up" provisions. Each Fund, or group of related Funds, has its own dedicated management professionals.

On occasion, we may also provide investment advice to institutional and high net worth investors on a separate account basis. Each separate account client negotiates the fees and scope of services that we will provide. Generally, separate account clients want their capital to be invested and managed with the same focus as a particular Fund. But separate account clients can place investment restrictions on their capital or make other specific requests of us.

As of January 31, 2012, our discretionary AUM was \$2,134,631,000.

Item 5 Fees and Compensation

We receive a quarterly management fee for our services. The typical range for Fund management fees is 1% to 2.5% per year, depending on the particular Fund, and management fees for separate accounts are negotiated by each client.

Certain Funds we advise also offer options regarding fee and lock-up structures. For applicable Funds, investors may select share classes that offer lower management fees but increased lock-up periods. These fee and lockup structures are fully detailed in each applicable Fund's offering memorandum.

Fund Fees and Expenses

Fund management fees are payable quarterly in advance and are generally based on: 1) total Fund assets; 2) committed capital, during an acquisition period; or, 3) called capital, during the investment period. Management fees are normally prorated for the number of days in a period, with adjustments

typically being made at the end of a quarter as necessary. The amount of each Fund's management fee is set forth in each Fund's advisory agreement with us and also in each Fund's offering memorandum.

The General Partner, Managing Member or Manager of each Fund (depending on how the Fund is organized) is an affiliate of ours and they are entitled to receive a performance-based fee. The performance fee generally is 20% of each Fund's yearly net profit or the net appreciation of each investor's capital account, depending on the type of Fund. For some Fund clients the performance fee is not payable until investors receive a preferred return, and this is fully described in the particular Fund's governing documents. Additionally, certain Funds charge a redemption fee (generally 3%) if an investor withdraws capital prior to the expiration of a lock-up period.

We may waive, reduce or rebate management or performance fees with respect to certain investors in the Funds. In addition, we may grant rights to certain investors in the Funds including, but not limited to, key man redemption rights, most-favored nation provisions, capacity assurances, in-kind distribution provisions, reduced lock-up periods and additional reports.

Each Fund's offering memorandum also details how Fund-related expenses (e.g.: brokerage, custody, administration) are allocated. We are allocated general "overhead expenses" of each Fund: office rent and utilities; furniture and fixtures; computer equipment and services; stationery; secretarial/administrative services; salaries; entertainment expenses; employee insurance and payroll taxes.

All other expenses are generally paid by the Fund and include: third party legal, audit, tax and accounting (including outsourced accounting) fees and expenses; third party administrator fees and expenses; Fund-related insurance expenses (including the portion, if any, of the expense of insurance coverage purchased jointly for a Fund and affiliates that is fairly allocable to a Fund); expenses related to any alternative investment vehicles in which a Fund may invest as part of its investment strategy; organizational expenses (including expenses of certain outside professionals related to the offer and sale of Fund interests); investment expenses such as commissions, research fees and expenses including research-related travel (see also Item 12 below discussing HFA's brokerage practices); interest on margin accounts and other indebtedness, if any; borrowing charges on securities sold short; custodial fees; and any other expenses reasonably related to the purchase, sale or transmittal of Fund assets.

Separate Account Fees and Expenses

As mentioned in Item 4 above, we also occasionally provide investment advice to institutional and high net worth investors on a separate account basis. Included in our negotiation of the scope of services to be provided is a negotiation of the account's expenses including, brokerage and general securities transaction costs, prime broker and administrator services, custody arrangements and margin interest expenses.

Management fees for separate accounts are typically deducted quarterly in arrears and normally will be prorated for the number of days in a period, with adjustments typically being made at the end of a quarter as necessary.

Compensation for the Sale of Securities

Not applicable. We and our supervised persons are compensated by management and performance fees and we do not receive compensation attributable to the sale of a security or other investment product such as a brokerage commission or other transaction-related fee.

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

Funds and separate accounts that we advise are generally subject to a performance fee of 20% of each Fund's or separate account's yearly net profit or net appreciation. Fund performance fees are typically payable to an affiliate of ours (i.e.: general partner, managing member or manager) and separate account performance fees are typically payable to us.

Performance fees may create an incentive to make investments that are riskier or more speculative than would be the case if a performance fee was not charged. An investment adviser, therefore, may be incentivized to favor accounts subject to a performance fee over accounts that pay hourly or flat fees. We do not currently advise accounts charged hourly or flat fees, however, and, as previously stated, separate account clients generally want their account to be invested and managed with the same focus as a particular Fund. We have, therefore, developed policies and procedures designed to ensure that separate accounts managed similarly to a Fund receive investment allocations on a pro-rata basis, subject to any client-mandated investment restrictions.

Other risks of performance fees include an investment adviser overstating the value of illiquid or hard-to-value investments as well as the fact that performance fees are calculated on a basis that includes unrealized appreciation of assets as well as realized gains. We monitor these potential conflicts through Risk Management and Compliance procedures. It is also worth noting that our direct and indirect owners, and many of our supervised persons, invest in the Funds on the same terms and conditions as outside investors.

Item 7 Types of Clients

We provide investment advice to private capital funds and hedge funds that are organized as limited partnerships, limited liability companies or other business entities, as well as institutional and high net worth investors.

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

Fund assets may include common and preferred equities, corporate or government debt, high-yield fixed income securities, distressed debt and equities, convertible securities, currencies, interest rate positions, options, futures, swaps, derivatives, synthetic instruments, repurchase agreements, loan participations, over-the-counter transactions, restricted securities and securities issued by privately held companies or other entities. We also provide advice relating to private equity, venture capital and mezzanine lending investments and power generation facilities.

Each Fund is uniquely managed by the Fund's investment team and each Fund's investment strategy and methodology is detailed in the Fund's offering memorandum. Generally though, an investment team may rely on certain information derived from the team's operational and investment experience in

specific industries, the team's own independent research and other third party sources. In addition, on some occasions issuers of securities are interviewed to gather additional information about particular securities.

Private Capital and Real Estate Funds

Although each private capital and real estate fund has its own evaluation methodology for Fund investments, the process generally includes an examination of the market for specific assets to determine the feasibility of selling an asset at a profit and the holding period required before the asset would become profitable.

Hedge Funds

Investment strategies for the hedge funds include shorting stock, utilizing leverage, control positions, capital structure and convertible arbitrage, merger arbitrage and investing in foreign, including emerging markets, securities. Certain Funds may also utilize side pockets, which subjects applicable investments to additional withdrawal restrictions. The investment strategy of Fund clients is typically implemented through a master-feeder structure.

Risk of Loss

Funds we advise are often viewed as highly speculative investments and are not intended to be a complete investment program. The Funds are designed only for sophisticated persons who are able to bear the economic risk of the loss of all or a portion of their investment and who have limited need for liquidity. The risks of investing in a Fund should be carefully evaluated before making an investment and all investors should carefully review the "Risk Factors" and "Potential Conflicts of Interest" sections of a Fund's offering memorandum before investing, including the transfer and/or redemption restrictions applicable to interests in the Fund.

There can be no assurance that the Funds will achieve their investment objectives and performance may be volatile. Each Fund's performance depends to a great extent upon correctly assessing the future course of price movements of specific securities or the future value of an investment. All Fund investments and strategies are subject to market risk that cannot be predicted with certainty. Funds may be subject to increased volatility because they may be concentrated in a limited number of investments. The Funds may invest in swaps and derivatives that involve considerable risk, including credit default swaps, and the Funds use leverage. Both the use of leverage and investments in derivatives may cause volatility in Fund performance. Please review the discussion of these and other risks in the applicable Fund's offering memorandum.

Item 9 Disciplinary Information

We have no disciplinary information to report. As of January 31, 2012, there is no current, pending, anticipated or threatened criminal, or material civil or administrative proceedings ("Litigation") against us, any Fund or affiliates related to relationships with Fund investors. Additionally, we, including affiliates, have not been parties to any Litigation related to the conduct of our business regarding investors or laws or regulations applicable to the conduct of our business with investors. We note, however, that certain Funds have been involved in Litigation related to transactions, or the protection and advancement of their investments, such as Litigation over satisfaction of closing conditions or

release of escrowed funds or Litigation related to proxy contests and tender offers. Certain affiliates of ours have also been involved in other corporate Litigation not related to Fund investors.

Item 10 Other Financial Industry Activities and Affiliations

In addition to our relationship with HMC, as detailed in Item 4 above, we have material business relationships with the following entities under common control of HMC.

- HMC Investments, Inc. – Birmingham, Alabama (member FINRA & SIPC; serves as placement agent for the Funds in the United States)
- The Harbinger Group JV – Birmingham, Alabama (an SEC registered investment adviser)
- HMC – Birmingham, Alabama (Headquarters; Investment teams for Private Equity, U.S. Real Estate, Value Fund (Hedge Fund) and Venture Capital)
- Harbert Power LLC – Birmingham, Alabama (Power Asset and Power Funds Management)
- HMC - New York, Inc. – New York, NY (Investment teams for Hedge Funds)
- HMC Virginia, Inc. – Richmond, Virginia (Investment team for Venture Capital)
- Harbert Management CA, Inc. – San Francisco, CA (Investment team for U.S. Real Estate)
- Harbert European Fund Advisors, Ltd. – London, United Kingdom (UK FSA Registered firm)
- Harbert Management Corporation (Europe), LLC – London, United Kingdom (European Real Estate investment team); Madrid, Spain (European Real Estate); and Paris, France (European Real Estate)
- Harbert Fund Advisors (Australia) Pty Ltd. – Melbourne, Australia (Investment team for Australian Private Equity)
- Harbert Realty Services, Inc. – Birmingham, Alabama (Registered real estate broker, Commercial Real Estate Services and Development)
- Harbert Realty Services, Inc. – Dallas, Texas (Commercial Real Estate Services and Development)
- Harbert Realty Services, Inc. – Nashville, Tennessee (Commercial Real Estate Services and Development)
- Harbert Realty Services, Inc. – Maitland, Florida. (Commercial Real Estate Services and Development)

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

Code of Ethics

Our Code of Ethics sets forth certain standards of business conduct expected of our employees and covers a number of business-related areas including: 1) employee personal trading, including pre-clearance requirements, a restricted trading list, black-out periods and employee reporting requirements; 2) the giving and receiving of gifts and gratuities; and 3) a prohibition on insider trading. A copy of HFA's Code of Ethics is available upon request.

Personal Trading

Our Code of Ethics permits employees and "employee associated accounts" to trade for their own accounts subject to certain restrictions, including pre-clearance of personal trades, blackout periods and monitoring of trades (including a comparison analysis of trades occurring both 10 days before and after each Fund or account trade). We also employ a "restricted list" precluding personal trading in certain designated securities unless approved by Compliance. The Compliance Department utilizes an

automated electronic solution to monitor personal securities trading and employees are required to submit brokerage statements and confirmations from their personal trading accounts to allow for more complete monitoring of personal trading activities to eliminate or manage conflicts of interest.

Participation or Interest in Client Transactions

Our supervised persons do provide marketing services to the Funds, where other supervised persons serve in management or other leadership roles. Many of our supervised persons, however, also invest in the Funds on the same terms and conditions as non-affiliated Fund investors, both to align our interests with Fund investors and as an expression of confidence in our portfolio management efforts.

“Warehoused” Principal Trades

On occasion, an investment team will identify what it believes will be an attractive investment for a private capital or real estate Fund before the Fund’s initial closing or before the investment could be acquired by the Fund. Under these circumstances, an affiliate of ours – typically a company established specifically to hold such an investment – will acquire the investment and “inventory” or “warehouse” it until the Fund’s initial closing is complete or until the Fund may acquire the investment in accordance with ERISA or other regulatory requirements. Following the closing, the related holding company will transfer the investment to the Fund at cost plus transaction expenses, plus interest. All warehoused investments are disclosed to potential investors before the Fund’s closing in the Fund’s offering memoranda or supplements to its offering memoranda. Any warehoused transaction not disclosed to investors prior to investment would require consent by unaffiliated investors or by a representative advisory board.

We do not anticipate making any principal trades between and among the hedge funds or separate accounts. If such a situation arises, we will provide all necessary disclosures.

Cross Trades

From time to time we may recommend that one Fund or account buy a security from, or sell a security to, another Fund or account, when such a trade is consistent with the investment objectives and strategies of both Funds or accounts. When we execute cross trades, we will not receive any compensation from the transaction and we will attempt to locate an independent broker-dealer to execute the cross trade.

Conflicts of Interest

Potential conflicts of interest are addressed through a variety of methods. In addition to the Code of Ethics discussed above, our compliance program includes regular audits by both compliance personnel and internal auditors, regular training sessions, periodic certifications, various committee and other meetings to review performance and processes, etc. Additionally, our President & COO and Board also oversee and monitor, in a Board of Directors capacity, our compliance programs and processes.

Item 12 Brokerage Practices**Best Execution and Broker Selection Process**

We or an affiliate are typically authorized to determine the brokers or dealers that Funds and accounts use to execute securities transactions. We strive for total execution costs and proceeds that are the most favorable under the circumstances ("best execution"). In seeking best execution, consideration will be given to a broker's full range of services, including execution quality, commission rate, responsiveness, the value of any research provided, and financial responsibility. While competitive spreads or commissions will be sought, the lowest spread or commission available will not necessarily be obtained.

Funds or accounts we advise currently do not utilize any formal soft-dollar arrangements or maintain commitments with any broker-dealers to obtain any research or research-related services or products on a soft-dollar basis. Funds or accounts may, however, receive research or brokerage services that are incidental to their trading activities.

We have adopted policies and procedures designed to ensure that our clients achieve best execution and that brokers utilized have been selected based on the client's best interest. Our Pricing & Brokerage Committee monitors compliance with these policies and procedures and the Committee's responsibilities include: reviewing brokers utilized and evaluating for conflicts of interest; evaluating the quality of execution services; and reviewing any proposed soft-dollar arrangements. The Committee meets at least quarterly, and its members include the President & Chief Operating Officer, Chief Administrative Officer, Director of Hedge Fund Administration and Director of Risk Management. The Chief Compliance Officer also attends the Committee's meetings.

Allocation of Investment Opportunities and Aggregated Trades

Because the Funds and accounts we advise vary in size, investment objectives, acceptable risk levels, asset mix, preferred asset classes and liquidity requirements, Funds and accounts do not normally invest together or aggregate their investment transactions. In some cases, however, certain investment opportunities may be appropriate for more than one Fund or account. When the amount of the investment available to the Funds or accounts is less than the aggregate amount that is desired to be purchased, investment opportunities will be allocated among eligible Funds or accounts in a manner that is fair and equitable. Generally, aggregated trades will be allocated pro rata among the Funds and accounts, unless the Funds and accounts have differing investment strategies that require a different allocation or we determine in good faith that a different allocation is appropriate.

Additionally, the private capital funds (call funds) we advise typically offer successor Funds (e.g.: US Real Estate III, US Real Estate IV . . .). Even though successor Funds typically do not begin investing until the predecessor Fund has substantially completed its investment activities, opportunities for co-investments by two Funds may sometimes exist. The process for determining whether a predecessor or successor Fund will be granted co-investment opportunities will be detailed in the Funds' organizational documents or if not addressed in the organization documents, other appropriate steps will be taken, such as seeking consent from the predecessor Fund's Advisory Board.

Securities Law Reporting Requirements and Short-Swing Profits

Applicable securities law may, in certain circumstances, require us to aggregate the securities held by all Funds and accounts we advise for purposes of determining whether certain securities laws and regulations apply, including without limitation, certain reporting requirements and regulations applicable to the disgorgement of short-swing profits. As a result of such required aggregation, a Fund or account may be subject to reporting requirements or requirements for the disgorgement of certain profits, even though that Fund or account standing alone holds less than the applicable percentage of the issuer's securities.

We have adopted certain procedures for the allocation of responsibility of disgorgement of short-swing profits. These procedures, in some cases, may allocate disgorgement responsibility differently than the allocation that would result from an allocation under applicable securities laws in the absence of such procedure. The aggregation mentioned above, if required, and the procedures we adopted may, in certain circumstances, preclude a Fund or account from trading in an issuer's securities when it otherwise would be able to do so.

Item 13 Review of Accounts

Account Review

Each Fund invests in accordance with the investment objectives and strategies described in the Fund's offering memorandum. But each Fund has flexibility with regard to its investment strategies and approaches to investments. Teams of investment professionals are responsible for daily portfolio management of the Funds. Each team is composed of professionals with varying levels of experience in the specific asset class in which each Fund invests. On a daily basis, the team members supervise and monitor the Fund's portfolio and trades for which they are responsible. Separate accounts we advise are reviewed with the same frequency as the Funds that invest in the same asset class. Our Risk Management group also monitors the portfolio positions of Funds that primarily invest in publicly traded securities on a daily basis for compliance with each Fund's investment objectives, as stated in the particular Fund's offering memorandum, as well as applicable regulatory thresholds. Each Fund that primarily invests in private market securities is overseen by an investment committee. Each Fund's investment committee includes senior officers and members of the Fund's investment management team. These investment committees meet regularly to review the Fund's investment strategies and portfolio, and approve all investments and dispositions.

Content and Frequency of Reports

Investors in each of the Funds receive periodic reports, as more fully described in each Fund's offering memorandum. Generally, investors receive quarterly unaudited financial performance reports, the Fund's annually audited financial statements and information necessary for each investor to complete annual federal income tax returns. Clients maintaining separate accounts receive similar reports.

Item 14 Client Referrals and Other Compensation

We have several referral arrangements with various individuals or entities (*i.e.*, solicitors) pursuant to which investors are referred to us for purposes of investing in one or more Funds. Any payments made to solicitors under these arrangements are paid by us, not from Fund assets.

From time to time our representatives may speak at conferences and programs that are sponsored by one or more of the Funds' prime brokers for investors interested in investing in hedge funds. These conferences and programs may provide opportunities for us to be introduced to potential investors for Funds or account we advise. Generally, the prime brokers are not compensated by us, the Funds, or potential investors for providing such "capital introduction" opportunities. Prime brokers may, however, provide financing and other services to us or the Funds, and such additional services provided by a prime broker, including the opportunity to attend capital introduction events, may influence the decision on whether to use the services of a prime broker in connection with Fund activities.

Item 15 Custody

In most cases, we will be deemed to have custody of Fund or account assets because (a) in the case of a Fund, we (or an affiliate) is a general partner of the limited partnership, or the managing member of the limited liability company, which is the Fund, and (b) we calculate the advisory fee, bill the custodian and the custodian automatically deducts the fees from the account.

Assets held by Funds and accounts we advise are held by qualified custodians (i.e.: Synovus Trust N.A. or the Funds' prime brokers) that are not related to us. Also, because the Funds are audited annually, by an independent public accountant, in accordance with GAAP and the financial statements are distributed within 120 days of fiscal year end, we are not required to undergo an annual surprise accounting audit and the Fund's qualified custodians are not required to deliver quarterly statements.

Item 16 Investment Discretion

See Item 4 Advisory Business for more detailed information. We manage assets on a discretionary basis and in accordance with each fund's investment objectives, strategies and restrictions and not tailored to the individualized needs of any particular investor in a fund. Furthermore, each separate account client typically grants us investment discretion to manage its account with the same focus as a particular fund.

Item 17 Voting Client Securities

We seek to vote client proxies in a manner that, in our judgment, is most likely to maximize total return to the client. We have established written proxy voting policies and procedures and have also established a Proxy Voting Committee to oversee the process by which we vote client proxies.

We retain an independent proxy voting service ("voting agent") to assist in analyzing proxies received, make proxy voting recommendations, handle the mechanical aspects of casting votes and to maintain our voting record.

In general, we expect to rely on the analysis and recommendations of our voting agent in voting client securities. However, voting matters might arise in which our voting agent will not offer recommendations, and at other times, we might vote contrary to a recommendation of our voting agent. In these instances, we will conduct a conflict of interest review prior to voting client securities. The Conflict of Interest Review process is fully described in our Proxy Voting Policies and Procedures. Also, we may refrain from voting client securities in certain situations (such as when a client holds a de minimis amount of an issuer's securities).

Client and investor requests for information as to how we voted securities, as well as a copy of our Proxy Voting Policies and Procedures including our Voting Guidelines, is available by contacting our Compliance Department via mail at 2100 Third Avenue North, Suite 600 Birmingham, AL, 35203, or by phone at (205) 987-5500.

Item 18 Financial Information

SEC instructions to the ADV Part 2A require advisers with investment discretion or custody of client assets to disclose any financial condition that is reasonably likely to impair the adviser's ability to meet contractual commitments to clients and to disclose if the adviser has been the subject of a bankruptcy petition at any time during the past ten years and if so, to disclose the date of the petition and its current status.

At this time, we are not aware of any financial condition that would impair our ability to meet our contractual obligations with clients and we have never been the subject of a bankruptcy petition.