

# Diker Management, LLC

## Part 2A of Form ADV

### The Brochure

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Updated: March 2011

This brochure provides information about the qualifications and business practices of Diker Management, LLC (“Diker” or the “Company”). If you have any questions about the contents of this brochure, please contact us at 212-904-0321. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Diker is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

This brochure contains information about the Company and there have been no material changes to the brochure since its adoption.

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## Advisory Business

Diker was founded and registered with the SEC as an investment adviser in 2002 and is principally owned by Charles M. Diker and Mark N. Diker. As of December 31, 2011, Diker managed \$291 million on a discretionary basis on behalf of approximately 142 clients.

Diker serves as an investment manager or adviser to several related collective investment vehicles, including private investment partnerships and foreign investment companies, organized to invest in securities and other financial instruments (collectively “Funds”). Diker also manages separate accounts for individuals, high net worth individuals high net worth individuals and associated trusts, estates, or charitable institutions, and corporations or business entities (“Separate Accounts” and, together with Funds, “Clients”). The Company currently provides advisory services to seven funds, two of which are organized in a master-feeder structure. Diker manages its Separate Accounts’ assets based on the individual needs of each Separate Account. At the onset of a Separate Account relationship, Diker identifies specific investment objectives and/or restrictions. All objectives and restrictions shall be contemplated in the Separate Account’s agreement with the Company. Additionally, investment objectives and restrictions for the Funds are contemplated in the relevant governing documents.

Diker primarily provides investment advice on equity securities of small and micro-cap companies in growing and emerging industries. Each Client's assets will be invested in various securities, which may include bonds according to the Company's investment research and the Client's specific risk profile.

## **Fees and Compensation**

### ***Separate Accounts***

The fees paid by Separate Accounts are negotiable and vary, but typically consist of the following;

- An annual fee of 1%, paid quarterly in arrears, of each Separate Account's total average equity assets.
- An annual fee of 0.40%, paid quarterly in arrears, of each Separate Account's portfolio of average fixed income assets.
- As agreed upon in their respective Investment Advisory Agreement, certain Separate Accounts are charged an annual fee of 1.25%, paid quarterly in arrears of total assets and 20% on net profits that exceed both a hurdle and loss carryforward amount.

The Investment Advisory Agreement signed with each Separate Account provides that the Company is authorized to receive its fee directly from the Client's account.

The Investment Advisory Agreement is terminable by either the Company or the Separate Account at any time upon written notice. If such termination were to occur on any date other than the last day of a calendar quarter, then the advisory fee will be due and payable on such date on a prorated basis as detailed above.

### ***Funds***

The Funds shall pay to the Company on the last day of each fiscal quarter a fee for management services (the "Management Fee") equal to 0.375% of the month-end net asset value of each limited partner's capital account for such fiscal quarter (1.5% per annum).

The feeder fund charges a Management Fee, payable quarterly in arrears, ranging from 0.25% (1.0% annualized) to .375% (1.5% annualized) of each shareholder's net asset value at the end of such quarter.

Diker's affiliate serves as the General Partner to the Funds and receives an annual incentive allocation that is equal to 20% of the net capital appreciation, realized and unrealized, allocated to each limited partner or shareholder in each fund for a fiscal year; provided, however, that an incentive allocation will only be made with respect to the excess of the net capital appreciation after recovery of any prior years' losses attributable to such investor.

In the discretion of the General Partner, the Management Fee and incentive allocation may be waived, reduced, or calculated differently with respect to certain limited partners in each of the Diker Funds.

## **Performance Based Fees and Side-by-Side Management**

As stated in the Fees and Compensation section above, Diker's affiliate charges performance based fees to the Funds which are fees based on a share of capital gains on or capital appreciation of the Funds' assets.

The fact that Diker is compensated based on the trading profits may create an incentive for Diker to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation. Performance based fees may create an incentive for the Company to favor accounts that pay a performance based fee over other accounts that do not pay a performance based fee. In addition, the performance based fee received by Diker is based on realized and unrealized gains and losses. As a result, the performance based fee earned could be based on unrealized gains that the Funds may never realize.

## **Types of Clients**

As discussed in the Advisory Business section, Diker's Separate Accounts generally consist of individuals, high net worth individuals and associated trusts, estates, or charitable institutions, and other corporations or business entities.

Additionally, the Company provides discretionary investment advice to the Funds, which are primarily structured as Delaware limited partnerships except the master and feeder which are set up as Cayman Island exempted companies.

The Company generally requires a minimum of \$5,000,000 to open a Separate Account and \$1,000,000 for an investment in the Funds. However, Diker reserves the right to waive this minimum.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### ***Investment Strategy***

Diker's primary strategy is to seek to find attractive long term investments through intensive primary research of small companies in growing and emerging industries. Diker primarily focuses on the equity securities of small and micro-cap companies.

Diker manages the Funds in three separate strategies. One of the Funds invest primarily in equity securities of small and micro-cap information technology companies and the second Fund in

securities of small and micro-cap companies generally across information technology, consumer, china and segments of health care industries. Finally, the third Fund's investment focus is on diverse micro-cap companies with limited concentrations in any single position.

### ***Research Process***

The Company primarily sources investment opportunities through proprietary research and screening to identify companies that fit a particular Client's investment goals and risk profile. The Company uses database systems provided by third parties and creates proprietary programs to generate potential targets. The Company also maintains contacts in and among the investment adviser community to generate additional investment opportunities and uses such contacts as an additional source of investment information.

Once the Company identifies a particular investment opportunity, the Company screens such information using its own evaluation techniques, which place emphasis on the presence of public information and the Company's own research which can include calls with management, customers, and other industry participants. The Company will only recommend investment ideas to Clients if it can independently confirm that such an investment matches a particular Client's investment goals and risk profile through fundamental research.

### ***Risks***

An investment in the strategies managed by Diker, via a Separate Account or investment in the Funds, entails a certain degree of risk and therefore should be undertaken only by clients and investors capable of evaluating and bearing the risks that are present. Set forth below is a non-exhaustive list of such risks; however, prospective investors are advised to review the applicable Fund governing documents for a more extensive description of the risks of investing in the Funds. Prospective Separate Accounts may request additional details relating to such risks from the Company.

- Investing in securities involves risk of loss that all Clients and investors should be prepared to bear.
- Identifying undervalued securities and other assets is difficult, and there are no assurances that such a strategy will succeed. Furthermore, Clients may be forced to hold such investments for a substantial period of time before realizing any anticipated value.
- The value of small-cap and micro-cap company securities may be subject to wider price fluctuations and may be difficult or impossible to sell. Low trading volume in a company's securities means that Diker may have to sell holdings at a discount from quoted prices or make a series of small sales over an extended period of time. In addition, small-cap and micro-cap companies may generate less information on which to base investment decisions. Small-cap and micro-cap companies are often subject to risks related to lack the management experience, lack of financial resources, reliance on a single product and the inability to compete with better capitalized companies with more experienced managers.

## **Disciplinary Information**

Diker and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

As discussed, the Company provides investment advice to the Funds. The General Partner of the Funds is affiliated with Diker by common ownership. Otherwise, Diker and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

Charles M. Diker and Mark N. Diker serve on the Board of Directors of Cantel Medical Corp. ("Cantel"), a publically traded company that is held by certain Separate Accounts. Diker subjects all transactions in Cantel to black-out periods that apply to Charles and Mark Diker. Charles M. Diker also serves as a member of the Board of Directors of Loews Corporation.

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

To avoid any potential conflicts of interest involving personal trades, the Company has adopted a Code of Ethics, which requires, among other things, that employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of the Company above one's own personal interests;
- Adhere to the fundamental standard that you should not take inappropriate advantage of your position;
- Avoid or disclose any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with this policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on yourself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve your professional competence and strive to maintain and improve the competence of other investment professionals.
- Comply with applicable provisions of the federal securities laws.

The Company's Code of Ethics also requires Employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide the Company with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such Employees have a direct or indirect beneficial interest.

A copy of the Company's Code of Ethics shall be provided to any client, investor, or prospective client or investor upon request.

The Company and its related persons, including its employees, may invest their personal funds in the Funds, and, therefore, such persons may hold the same securities as other investors in the Funds. In addition, Diker and its related persons may own securities in their personal accounts that are also recommended by the Company to its Clients. The Company has adopted certain policies to help assure that such trading by its personnel does not adversely affect the interests of its Clients.

Among other things, Diker's Code of Ethics indicates that employees of the Company may not trade in any securities owned or targeted by Diker as an investment for Clients (other than open-end mutual funds, money market funds, unit trusts, U.S. Government and agency securities or municipal securities for investment purposes) for a proprietary account or for the account of any person (other than a Client), unless such trade had been specifically approved in advance by the Company's Compliance Officer. The Compliance Officer (or his designated substitute) shall not pre-approve transactions in securities for a proprietary account if the Compliance Officer is aware or should be aware that an order for a Client account for the same security remains unexecuted or the Company is considering trades in the security for Client accounts. Transactions in options, derivatives or convertible instruments for a proprietary account which are related to a transaction in an underlying security for a Client account are subject to the same restrictions. An employee will be required to rescind or cancel any trades that violate applicable policies.

Diker will periodically experience additional Fund investments or withdrawals disproportional between another Fund with an identical strategy. In order to treat investors fairly across the identical strategies, Diker will rebalance the portfolio of positions proportional to overall assets between the Funds. Securities that are crossed to other accounts are done so at the publically available price as of the close of the previous business day.

## **Brokerage Practices**

The Company seeks to obtain best execution of securities transactions on behalf of the Clients. In selecting brokers to effect portfolio transactions for the Clients, the Company considers the following factors, among others: the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility, and the brokers' provision or payment (or rebate for payment) of the costs of brokerage or research products or other products or services. Clients may pay, or Diker may authorize the payment and reimbursement of, brokerage commissions that may be in excess of the lowest rates available that are paid to brokers who execute transactions for the Clients and who supply, or pay for the cost of research products or services that are of benefit to the Clients.

The Company limits the use of “soft dollars” to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The research 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 outside research or equipment providing market data). Research services furnished by the brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services, discussion with research personnel, discussions with industry experts, and invitations to attend conferences or meetings with the management of companies representing prospective investment targets or industry consultants (but not travel expenses in connection therewith) and other products and services providing lawful and appropriate assistance to the Company and its affiliates in the performance of its investment decision-making responsibilities. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between the Company and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

In some instances, Diker may receive a product or service that may be used only partially for functions within Section 28(e) (e.g. an order management system, trade analytical software or proxy services). In such instances, the Company will make a good faith effort to determine the relative proportion of the product or service used to assist the Company in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting Diker in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by Client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Company from its own resources.

When Diker uses Client brokerage commissions to obtain research or other products or services, the firm receives a benefit because it does not have to produce or pay for the research, products, or services. Therefore, Diker may have an incentive to select or recommend a broker-dealer based on the interest of receiving research products and services, rather than on the Clients’ interest in receiving the most favorable execution.

The soft dollar research acquired by the Company normally benefits many Clients rather than just the one(s) for which the order is being executed, and not all research may be used by the Company in connection with the Client which paid commissions to the broker providing the research. Typically, the Funds generate the majority, if not all, of the soft dollar credits utilized by Diker to obtain soft dollar products and services.



In addition to using brokers as "agents" and paying commissions, the Company may buy or sell securities directly from or to dealers which are acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

The Company will pay various ticket charges and commissions on stock and option trades for clearing services and related systems provided by its prime broker, including but not limited to the prime brokerage website, order management system, and front-end trading software,.

The Company may, if it believes to be appropriate, bunch or aggregate orders for several Client accounts. Because of prevailing trading activity, it may not be possible to receive the same price or execution on the entire volume of securities purchased or sold in a particular security on a particular day. When this occurs, the various prices may, in the Company's discretion, be averaged and accounts will be charged or credited with the average price. The Company may also open "average price" accounts with broker-dealers. In an "average price" account, purchase and sale orders placed during a trading day on behalf of Clients accounts are combined, and securities bought or sold pursuant to such orders are allocated among such accounts on an average price basis. The effect of such aggregation may operate on some occasions to an account's disadvantage if its price is averaged up on a purchase or down on a sale.

In the event that the Company incurs a trade error, it is to be (i) corrected by the Company as soon as practicable, in a manner such that the Clients incur no loss and (ii) promptly reported to the CCO. Clients may retain any gains resulting from a trade error.

## **Review of Accounts**

All Separate Accounts are managed and reviewed monthly by Charles M. Diker or Mr. Edmund Hajim, as appropriate, or more frequently as deemed necessary by Mr. Charles Diker or Mr. Edmund Hajim. The Funds are managed and reviewed by Mark N. Diker, Charles M. Diker, and Edmund Hajim, all Managing Members of Diker, on a daily basis. Mr. Mark Diker spends over 95% of his time managing the Funds' activities. Cash management, market prospects, client risk tolerance and asset allocation are considered during such reviews.

Each of the Separate Accounts receives a monthly broker statement that shows the most current month end market value of all holdings and all transactions that occurred in the most current month directly from their respective custodian. Separate Accounts can call Diker for updates and additional information on their accounts at anytime. Limited partners in the Funds receive quarterly unaudited capital statements from Diker that include the most current quarter-end market value and year-to-date performance as well as annual audited financial reports certified by independent public accountants within 120 days of the fiscal year end. In addition, the Funds' third-party administrator independently sends quarterly statements to each Limited Partner. Limited Partners can call Diker for updates and additional information on their accounts at any time.

## **Client Referrals and Other Compensation**

The Company and its related persons do not compensate any individual or entity for client referrals. The Company previously entered into written agreements with unaffiliated third parties for soliciting new investors to the Funds. Such third parties are still compensated for these referrals however Diker no longer has active agreements with third parties to solicit new investors to the Funds.

## **Custody**

All client assets are held in custody by unaffiliated broker/dealers or banks; however Diker may have access to the Funds since it or a related person serves as the General Partner to the Funds. Limited partners of the Funds will not receive statements from the custodian. Instead the Funds are subject to an annual audit and the audited financial statements are distributed to each limited partner. The audited financial statements will be prepared in accordance with generally accepted accounting principals and distributed within 120 days of the Funds' respective fiscal year ends.

Additionally, the Company can access the Separate Account funds through its ability to debit advisory fees. For this reason the Company is considered to have custody of certain Separate Account assets. The Separate Account's custodians send statements directly to the account owners on at least a quarterly basis. Separate Accounts should carefully review these statements, and should compare these statements to any account information provided by the Company.

## **Investment Discretion**

Diker has been granted the authority by the Funds and the Separate Accounts to determine, without specific consent, the securities to be bought or sold and the amounts of those securities. Any limitations which might be placed on the Company with respect to security selection are detailed in the Investment Management Agreement for the Separate Accounts or governing documents for the Funds, as applicable.

## **Voting Client Securities**

In compliance with Rule 206(4)-6 under the Investment Advisers Act of 1940, the Company has adopted formal proxy voting policies and procedures (the "Policies"). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, (collectively, "proxies"), in a manner that serves the best interests of the Clients, as determined by the Company in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the effect on liquidity; and (iv) customary industry and business practices. Diker maintains full discretion over all proxy voting decisions involving the Clients. In limited circumstances, the Company may

refrain from voting proxies where the Company believes that voting would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to the Clients

Separate Accounts and investors in the Funds may request a copy of the Policies, as well as applicable proxy voting records, by contacting the Company at (212) 904-0321.

## **Financial Information**

Diker has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.