

Phineus Partners, L.P. Part 2A of Form ADV The Brochure

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Updated: March 2012

This brochure provides information about the qualifications and business practices of Phineus Partners, L.P. (“Phineus”). Phineus is registered with the United States Securities and Exchange Commission (“SEC”) as an investment adviser. That registration does not imply a certain level of skill and training. The information in this brochure has not been approved or verified by the SEC or by any state securities authority. If you have any questions about the contents of this brochure, please contact us at 415.677.0722.

Additional information about Phineus is also available on the SEC’s website at:
www.adviserinfo.sec.gov.

Item 2 - Material Changes

In 2010 the SEC required significant changes to the content and format of Part 2 of Form ADV. The March 2011 brochure, which reflects those changes, was materially different from brochures used by Phineus in prior years. This brochure does not have material changes to the March 2011 brochure.

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Item 4 - Advisory Business

Phineus was formed as a Delaware limited partnership in 2002 by its founding partners Michael Grant, Annemarie Redmond and Martino Borelli. Ms. Redmond has left Phineus on January 1, 2011. Mr. Grant is the sole member of Jason, LLC, the general partner of Phineus.

Phineus primarily provides discretionary advisory services to U.S. investment limited partnerships, offshore investment funds and other pooled investment vehicles, as well as a separately-managed account, that have been organized for the purpose of investing in securities and other financial instruments and assets with the goal of achieving capital appreciation while managing risk.

Phineus tailors its advisory services to meet the needs of the Funds and the separate account that it manages by constructing portfolios in a manner that seek to meet the investment objectives, guidelines and other terms of the particular Fund and the separate account. Phineus seeks to provide superior absolute returns for its clients through the implementation of a fundamental and disciplined investment approach primarily in the areas of long/short equity strategies.

Phineus serves as the general partner to two Delaware investment limited partnerships (Phineus Voyager L.P., and Arkana Fund L.P. (each, a “US Fund” and collectively, “US Funds”)) and as the investment manager to non-U.S. investment companies or “Offshore Funds” with the same or similar investment strategies as the US Funds (US Funds and Offshore Funds are collectively referred to as “Funds”). Phineus may, in the future, act as general partner and/or investment manager to additional or other investment limited partnerships, offshore funds and separately managed accounts.

Phineus is a sub-adviser to Hatteras Alternative Mutual Funds, LLC, a Delaware limited liability company and manages a portion of a series of Hatteras Mutual Funds (the “separate account”) with a hedged strategy similar to the Funds.’

The Funds may impose limits on or expand the universe of securities or other instruments in which they may invest. Investors have no authority to influence or change a Fund’s investment objectives or limitations. Phineus has complete control of the business of the Funds, and investors have no power to take part in the management of the Fund. Investors have no right to remove or replace Phineus. Phineus manages the separate account in accordance with its mandated guidelines as described in the applicable mutual fund prospectus.

See “Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss” below for more detail.

Phineus does not participate in wrap fee programs.

As of December 31, 2011, Phineus manages \$128,130,349 of client assets on a discretionary basis. Phineus does not provide non-discretionary investment advice.

Item 5 - Fees and Compensation

Phineus generally receives an annual asset based “management” fee from each Fund it manages (generally 1-2% per annum of the value of the Fund’s assets under management). In addition, Phineus is entitled to a performance based fee that is a percentage of net profits experienced by investors in Offshore Funds (an “incentive fee”), and a similar percentage of special allocation of net profits experienced by the investors in the US Funds (an “incentive allocation”). The incentive fee and allocation are calculated and paid annually, generally in an amount equal to 20% of the net profits (realized and unrealized), if any, from the performance of the Funds. Payment of the incentive fee and allocation is subject to a “high water mark” (paid only after losses, if any, have been recovered). As a general matter, fees and other compensation are negotiable in certain circumstances, and arrangements with particular investors may vary.

The separate account pays a management fee as described above. See “Item 6 - Performance Based Fees and Side-by-Side Management” below for the conflicts of interest involved in managing both performance fee-paying accounts and management fee-only accounts.

Management fees are typically deducted from the Funds’ accounts on a quarterly basis and incentive fees/allocations, if any, are deducted on an annual basis and upon an investor’s withdrawal or redemption from a Fund. Phineus receives its separate account fees in accordance with the specific arrangement with the client.

With respect to the Funds, in addition to Phineus’ investment management fees and incentive allocations, Funds also bear all expenses incurred in connection with their operation and administration, including expenses associated with any master fund in which the Fund may be invested. These expenses include, among other things, fees of the administrator; legal, accounting and audit fees and expenses; governmental fees and taxes; bookkeeping and other professional fees; directors’ fees; costs of investor meetings and other communications with investors; and all other reasonable costs related to the management and operation of the Funds.

Please see “Item 12 - Brokerage Practices” in this brochure for further information on brokerage practices.

Funds may pay management fees in advance (i.e., based on assets at the beginning of the monthly or quarterly period for advisory services rendered during that period). Since investors generally are not permitted to redeem from a Fund intra-month (or intra-quarter, as the case may be), there is no mechanism for receiving a refund of any pre-paid management fees.

Neither Phineus nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

As discussed above under “Item 5 - Fees and Compensation,” in connection with the Funds that it manages, Phineus generally has the right to receive an incentive fee or allocation based on the performance of the Fund, in addition to a management fee. The separate account, however, pays only a management fee and no performance-based fee. As a result, Phineus may face a potential

conflict of interest in managing both the Funds and the separate account at the same time because Phineus may have an incentive to favor the Funds for which it receives an incentive fee/allocation. Phineus seeks to address this conflict of interest through its trade allocation policies and procedures. Those policies generally require portfolio managers and traders to allocate investment opportunities among Funds and other clients in the fairest way possible while giving due consideration to the relevant Fund's and client's investment strategies and guidelines.

Item 7 - Types of Clients

Phineus' clients are the Funds and the separate account. See "Item 4 - Advisory Business" above. Potential Fund investors may read the eligibility criteria and minimum investment requirements specific to each Fund in the relevant Fund's confidential offering memorandum and subscription application. Phineus negotiates the requirements for opening a separate account on a case by case basis.

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

Phineus' core strategy seeks high absolute returns regardless of the direction of equity markets, with an equal concern for preservation of capital. Phineus attempts to achieve this goal by implementing a variable long/short global equity strategy that invests primarily in the technology, communications and media industries. Phineus will also consider investing in other industries and sectors if, in its opinion, a particular stock has the potential of contributing value to the Fund. Phineus combines a fundamental, global approach with a multi-factor set of portfolio and risk management disciplines. This approach applies to all client accounts, although certain Funds and the separate account may differ in their industry and/or sector bias, and geographic focus or concentration.

Phineus' approach encompasses a distinct philosophy and analytical edge in processing publicly available information across the global equity universe. It believes its advantage is based upon how companies are analyzed, a fully inclusive approach to assessing sources of stock volatility, and the flexible management of style factors. Phineus' investment process generally involves three central activities: (i) gathering information; (ii) processing that information and developing investment convictions; and (iii) translating those convictions into a proper risk-adjusted portfolio.

Phineus' approach is flexible in that it considers all investment styles depending upon a company's business model, prevailing market conditions and the economic cycle. Stocks with common style characteristics often behave similarly, mostly in response to the economic cycle. These characteristics are an additional source of return that should be understood and managed, just as one might manage exposures across stocks, sectors or countries. With a holistic perspective of "what drives share prices," Phineus aims to understand all sources of potential return.

The exposure and leverage guidelines Phineus uses reflect Phineus' sense of the best positioning through a particular financial cycle. The aim is to perform through a variety of conditions. Phineus intends its approach to be a nimble, highly informed and intelligent approach that can adapt to changes in the environment.

All investing involves a risk of loss and separate account clients and Fund investors should be prepared to bear losses in their accounts or on their Fund investments. Past results are not necessarily indicative of future results. Funds and separate accounts may produce gains and

losses due to broader changes in the financial markets; however, gains and losses are also based on the Phineus' investment acumen and securities selections, and may be impacted by other factors including market volatility, corporate activity, regulatory oversight, trading volume and money flows. The Funds have significant fees and expenses that will reduce returns. Phineus may implement a variety of investment strategies and techniques, in addition to those described above, and the Funds may invest in a wide array of investments, each of which may have diverse associated risks, including counterparty risk, credit risk and liquidity risk. The Funds may be leveraged, which increases the risk of investment loss, and their performance may be volatile. The Funds are not subject to the same regulatory and reporting requirements as SEC registered funds (e.g., mutual funds).

The risks described above are not a complete list of risks involved with investing in a Fund – specific risks and conflicts of interest associated with an investment in a Fund are described in detail in the relevant Fund's confidential offering memorandum. Investors and prospective investors in a Fund should carefully review the relevant Fund's confidential offering memorandum for further information.

Item 9 - Disciplinary Information

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

Item 10 - Other Financial Industry Activities and Affiliations

Phineus and its employees are not registered (and do not have any application pending to register) as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of any of the foregoing entities. In addition, Phineus and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest. Finally, Phineus does not recommend or select for its clients, or have other business relationships with, other investment advisers.

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

Phineus has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires that Phineus and its employees act in clients' best interests, abide by all applicable regulations, not engage in insider trading, and pre-clear and report on many types of personal securities transactions. Phineus' restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. All employees are required to report all brokerage accounts in which they have a beneficial interest, as well as their securities holdings. Phineus monitors all employees' securities transactions: employees must arrange for duplicate copies of their brokerage statements and trade confirmations to be sent to the Chief Compliance Officer or his delegate. A copy of Phineus' code of ethics is available to any client or Fund investor, or prospective client or Fund investor, upon request.

Phineus has a financial interest in the Funds (through the management fee and incentive fee described under "Fees and Compensation" above, as well as by way of an investment in the Fund)

and, therefore, Phineus has an incentive to recommend that investors, prospective investors and clients invest in the Funds.

Item 12 - Brokerage Practices

Selection Criteria, Generally. In choosing broker-dealers to execute client transactions, Phineus seeks “best execution.” What constitutes “best execution” and determining how to achieve it are inherently uncertain. In evaluating whether a broker-dealer will provide best execution, Phineus considers a range of factors. These include, among others, historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance and settlement and error correction capabilities of the broker-dealer generally and in connection with securities of the type and in the amounts to be bought or sold; the broker-dealer’s willingness to commit capital; the broker-dealer’s reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; the nature, quantity and quality of research provided by the broker-dealer; and the market for the security. As discussed below, Phineus is not required to select the broker-dealer that charges the lowest transaction cost, even if that broker-dealer provides execution quality comparable to other broker-dealers, and clients at times will pay more than the lowest transaction cost available in order to obtain services and products other than securities execution.

“Soft Dollars.” Phineus may select broker-dealers in recognition of the value of various services or products, beyond transaction execution, that they provide to Phineus or its clients. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with “soft dollars.” This is common in the professional management of securities portfolios. Phineus acquires services or products with clients’ soft dollars.

A federal statute, Section 28(e) of the Securities Exchange Act of 1934, as amended, recognizes the potential conflict of interest involved in the use by an investment manager (such as Phineus) of soft dollars generated by securities transactions to pay for various expenses but provides a safe harbor from breach of fiduciary duty claims if certain conditions and requirements are met. Under the safe harbor, soft dollars may be used to acquire “research” and “brokerage” services and products for which clients would not otherwise be required to pay. Services or products generally constitute “research” under Section 28(e) if they constitute advice, analyses or reports any of which express reasoning or knowledge as to the value of or investing in or trading securities, or as to issuers, industries, economic factors and trends, portfolio strategy or performance, but only to the extent Phineus uses them for lawful and appropriate assistance in making investment decisions for Phineus’ clients. “Brokerage” services and products are those used to effect portfolio transactions for the Phineus’ clients or for functions that are incidental to effecting those transactions (such as clearance, settlement or short-term custody related to effecting clearing or settling transactions) or regulatorily required in connection with transactions. Using soft dollars to pay for services and products other than research and brokerage is not protected by the safe harbor, but does not necessarily constitute a violation of any law or fiduciary duty. Similarly, use of non-commission soft dollars or otherwise failing to satisfy procedural elements of the Section 28(e) safe harbor are not protected but are not necessarily prohibited. Section 28(e) only protects commissions or commission equivalents on transactions in securities; markups and markdowns on many principal transactions, commissions paid to futures commission merchants on transactions

in futures contracts, and compensation from transactions in swaps or other derivative instruments are not protected.

Because many services and products Phineus may receive from broker-dealers may benefit Phineus, Phineus' interests in allocating clients' securities transactional business may conflict with its clients.' For example, Phineus may have an incentive, in order to induce brokers and dealers to provide it with services or benefits to, among other things, cause its clients to: (i) pay higher commissions and other compensation than it would otherwise pay broker-dealers that do not provide soft dollar services or products; (ii) place more trades than would be optimal for the client's investment strategy; (iii) use broker-dealers that do not obtain for the client the best possible price on portfolio transactions; (iv) agree to adjust negotiated commission rates upward in order to receive additional soft dollar "credits" and (v) use (and pay) broker-dealers in effect to act as intermediaries with other broker-dealers who actually execute transactions. Phineus' agreements with its clients generally authorize Phineus to use the client's soft dollars for a wide range of purposes, notwithstanding the conflicts of interest those uses may involve. The extent of the conflicts of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars. Phineus may or may not use one client's soft dollars to pay for services and products another client pays for and, if it does, that use may not be in proportion to account size, transaction volume, or uses of those services and products. Phineus may use client soft dollars to buy products or services that benefit Phineus and/or other clients of Phineus.

"Research and Brokerage." The types of "research" Phineus may receive from broker-dealers include (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial and industry publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems (to the extent used to assist in making investment decisions), quotation services; and other products or services that may enhance Phineus' investment decision-making. "Brokerage" services and products (beyond typical execution services) include (but are not limited to): computer systems and facilities (including hardware) used for such things as communicating orders and settlement related information electronically to executing broker-dealers and prime brokers, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions. Phineus may use soft dollars for "mixed use" products and services: products and services that are used in part for research or brokerage purposes and in part for other purposes. Even where Phineus' use of soft dollars to acquire research and brokerage services and products is protected by Section 28(e), Phineus will have a conflict of interest in connection with that use because it might otherwise have to pay cash for those services and products and it may have an incentive to use broker-dealers who provide those services and products more than it otherwise would.

Client Expenses. The Funds may use soft dollars to pay accounting and other ongoing expenses and to meet their obligation to reimburse Phineus for expenses Phineus has advanced. The Funds could also use brokerage commissions, markups and markdowns, and other transaction-related compensation (as well as interest the Prime Broker receives on the Funds' cash balances, margin borrowings and borrowings of securities to maintain short positions) to pay the Prime Broker for recordkeeping, custodial and related services provided to the Fund. Under the investment

management or similar agreement of the Funds, the Fund, and not Phineus, would otherwise be obligated to bear all of these expenses. Phineus therefore does not believe it would have a significant conflict of interest in selecting a broker-dealer in recognition of that party's payment of them.

Other Services and Products. Non-research or non-brokerage services that a broker-dealer may provide could potentially include some of Phineus' costs of and equipment used in providing services to the Funds, such as computer and communications equipment Phineus uses in connection with its investment analysis and decision-making, out-of-pocket expenses involved in soliciting prospective investors (including finders' fees or placement agent fees) and in evaluating potential investment opportunities, the costs of computer software and equipment used for Fund reporting and other administrative activities, and other costs that Phineus would otherwise bear. They may even include the compensation of research consultants to Phineus. Phineus may or may not use other clients' soft dollars to pay costs of these types and, if it does, that use may not be directly proportionate to the benefits to each Fund and those other clients. Phineus will have a conflict of interest to the extent these services are paid for by broker-dealers; it will have all the incentives described above (including to use those broker-dealers regardless of whether using them would otherwise be in the Funds' best interests, to pay higher compensation and to effect more transactions than otherwise optimal).

Referrals of Investors and Advisory Clients. In selecting a broker or dealer, Phineus may consider the broker's or dealer's introduction of investors to a Fund, referrals of advisory clients to Phineus, the potential for future referrals and/or the broker's willingness to pay third-party finders' fees for such referrals. The conflict of interest involved in using soft dollars to pay for these types of services and products and to defray these types of expenses is also not protected by the Section 28(e) safe harbor.

Procedures. Brokers and dealers from which Phineus obtains soft dollar services or products generally establish "credits" based on past transactional business (including markups and markdowns on principal transactions, such as transactions with market-makers for Nasdaq securities), which may be used to pay or reimburse Phineus for specified expenses. In some cases the process is less formal; a broker or dealer simply may suggest a level of future business that would fully compensate the broker or dealer for services or products it provides. A client's actual transactional business with a broker or dealer may be less than the suggested level but can—and often will—exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because the client's investment activities generate aggregate commissions in excess of the levels of future business suggested by all brokers and dealers who provide services and products. And it may be in part because those brokers and dealers may also provide superior execution and may therefore be most appropriate for particular transactions. Phineus may ask a broker or dealer who is executing a transaction for several accounts managed by Phineus (see the discussion below regarding aggregation of orders) to "step out" of a portion of the transaction in favor of a broker or dealer who has provided or is willing to provide products or services for soft dollars. That is, the executing broker or dealer will allow a portion of the overall commissions or other compensation to be paid to the soft-dollar broker-dealer. This assists Phineus in acquiring products and services with soft dollars while providing the benefits of aggregated transactions as described below. It may result in a client paying additional commissions or other transaction compensation to the broker or dealer to whom the

client's portion of an aggregated transaction is "stepped out" and therefore incurring higher transaction costs for that transaction than do other clients of Phineus who are buying or selling the same security at the same time.

These procedures are generally consistent with the requirements of Section 28(e) when the products or services acquired constitute research and/or brokerage. However, Section 28(e)'s safe harbor is not available where transactions are effected on a principal basis, as most transactions with market-makers in over-the-counter securities are, with a markup or markdown paid to the broker or dealer. Phineus may nonetheless use such markups and markdowns as soft dollars with which to acquire services and products of the kinds described above.

Aggregation of Orders. Phineus may combine orders on behalf of a client with orders for other clients for which it or its principals have trading authority, or in which it or its principals have an economic interest. In such cases, Phineus will allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. Phineus believes combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to a client than if that client had been the only account effecting the transaction or had completed its transaction before the other participants. Because of Phineus' interests in the Funds, there may be circumstances in which a Fund's transactions may not, under certain laws and regulations, be combined with those of some of Phineus' other clients, and a Fund may obtain less advantageous execution than such other clients.

Item 13 - Review of Accounts

Phineus portfolio managers and the Chief Compliance Officer monitor and review the Funds and separate account that Phineus manages on an ongoing basis for overall adherence to the relevant Fund's or the separate account's investment objective and strategies, as well as any guidelines or restrictions.

Fund investors receive account statements directly from the Funds' third-party administrator on a monthly basis. Separate account investors receive account statements directly from the Hatteras Mutual Funds. Phineus may supplement these statements with reports, letters or other communications. Fund investors also receive annual reports that will include audited financial statements of the Fund as of the end of each fiscal year or a report from an independent accountant regarding the results of its surprise audit of Phineus.

Item 14 - Client Referrals and Other Compensation

An Offshore Fund Phineus manages has agreed to compensate a non-U.S. firm for referral of investors to that fund. The Offshore Fund compensates the solicitor by payment of a portion of the investment management fees it would otherwise pay to Phineus, and Phineus has agreed to waive that portion of its fees. Other than that arrangement and as described under "Brokerage Practices" above, Phineus does not directly or indirectly compensate any other third party for client referrals. Phineus does not receive benefits from third parties other than clients for providing investment advice or other advisory services to its clients.

Item 15 - Custody

All assets of the Funds and the separate account (cash, securities and other assets) are held in the custody of unaffiliated broker-dealers or banks. However, Phineus, as the general partner of the US Funds, which are limited partnerships, is deemed to have custody over the assets of those Funds. That is because the general partner of a partnership has broad authority to take possession of the partnership's assets. Phineus also has the ability to instruct the custodians to deduct fees directly from the US Funds' accounts. The SEC considers that ability also a form of "custody." Phineus employs various safeguards to balance its "custodial" powers. For example, a reputable, PCAOB¹-registered independent accountant performs an annual audit of some of the Funds' financial statements and of Phineus' assets with respect to the Fund that is not audited itself. The Funds employ an independent third-party administrator, which calculates management fees and other compensation, and prepares account statements. Fund investors receive account statements directly from the administrator on a monthly basis or from the custodian quarterly.

Investors should carefully review all account statements, and compare the administrator's statements with the custodian's where applicable.

Separate account assets are custodied by the relevant client's custodian, so Phineus is not deemed to have custody of those assets.

Item 16 - Investment Discretion

Phineus has investment discretion over all client accounts. Clients (Funds and the separate account) grant Phineus trading discretion through the execution of an investment management agreement or similar contract.

Item 17 - Voting Client Securities

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, Phineus has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Phineus receives will be treated in accordance with these policies and procedures.

Phineus seeks to vote client proxies in the best interests of its clients. The portfolio manager for the relevant Fund or separate account, or his delegate, will determine whether to vote in favor, against or to abstain from voting a particular proxy. This determination will be based on the judgment of the portfolio manager, or his delegate, as to the course of action that is in the best interests of the client. Phineus considers a number of factors to determine whether exercising the

¹ PCAOB is the Public Company Accounting Oversight Board, a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

client's voting rights as to its securities is in the relevant client's best interest, such as whether the securities are being held for a short period or a long time.

Phineus attempts to identify conflicts of interest that may arise in the proxy voting process. If a material conflict of interest over proxy voting arises between Phineus and its clients, Phineus will seek to resolve the conflict and vote the proxy in a manner that is in its clients' collective best interests.

A copy of Phineus' proxy voting policies and procedures, as well as specific information about how Phineus has voted in the past, is available upon written request.

Item 18 - Financial Information

Phineus is not aware of any financial condition that could be reasonably likely to impair its ability to meet its contractual commitments to its clients, nor has it been the subject of a bankruptcy petition.