

Form ADV Part 2A: Firm Brochure

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Aristeia Capital, L.L.C. is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Aristeia Capital, L.L.C. If you have any questions about the contents of this brochure, please contact us at (212) 842-8900. 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 Aristeia Capital, L.L.C. also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

Section 1: Advisory Business

The amount of client assets that we manage on a discretionary basis has been updated to \$1,759,853,457.00 as of August 1, 2011.

Section 4: Types of Clients

We have updated the investment requirements for Aristeia Partners, L.P. and Aristeia International Limited to reflect a minimum investment amount of \$5,000,000 and to reflect regulatory changes in the definition of the term “qualified client”.

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1. Advisory Business

Aristeia Capital, L.L.C. (also referred to as Aristeia Capital), founded in 1997, is an investment services firm specializing in investment management for private investment funds. All of our clients are private investment funds. The principal owner of Aristeia Capital is Aristeia Holdings, L.P. Anthony M. Frascella, Robert H. Lynch, Jr., William R. Techar, Kevin C. Toner and Aristeia Holdings GP LLC own Aristeia Holdings, L.P.

Aristeia Capital specializes in offering investment advisory services to private investment funds. In providing our advisory services, we focus on convertible arbitrage opportunities and distressed debt investments. We invest on a bottom up, value oriented basis and seek to reduce the correlation of our investment returns to those of the overall equity and fixed income markets through investment selection and hedging techniques. We use a combination of mathematical and statistical modeling and fundamental research to determine our target investments. In selecting investments for our clients, we also target undervalued securities and generally focus on specific securities or companies rather than industries or the economy as a whole.

Our firm tailors our advisory services to the individual needs of our clients. Our portfolio managers adhere to the investment strategy set forth in each client's Private Placement Memorandum. Our clients' Private Placement Memoranda allow for investing in a broad array of securities and financial instruments to the end of achieving their investment objectives.

We do not participate in wrap fee programs.

The amount of client assets that we manage on a discretionary basis, as of August 1, 2011, is \$1,759,853,457.00. We do not manage any client assets on a non-discretionary basis.

2. Fees and Compensation

Our firm, or an affiliate of our firm, typically receives compensation from each of our clients based on both the percentage of assets we manage and on performance achieved for each client's account. Generally, each year, we charge clients 1% of their assets that we manage and 20% of their profits. We typically structure our performance-based compensation as profit-sharing allocations through general partner interests that our affiliates hold in our client funds. Our fees are generally not negotiable.

Asset-Based Fees

The asset-based fees we charge our clients are:

Aristeia Partners, L.P.: 1% of the net asset value of the master fund into which Aristeia Partners, L.P. invests substantially all of its assets (Aristeia Master, L.P.) indirectly attributable to each investor's capital account. Certain employee and affiliate investors do not pay any asset-based fees.

Aristeia International Limited: 1% of the net asset value of the master fund into which Aristeia International Limited invests substantially all of its assets (Aristeia Master, L.P.) indirectly attributable to the value of each investor's shares. Certain share classes, owned only by certain of our employees and affiliates, do not pay any asset-based fees.

Aristeia Master, L.P.: This client pays no additional fees other than those paid by the investors in its feeder funds, Aristeia Partners, L.P. and Aristeia International Limited, as described immediately above.

Aristeia Special Investments, L.P., Aristeia Special Investments, Ltd., Aristeia Special Investments Master, L.P.: This group of funds is currently in liquidation and cannot accept further investment. Through their final liquidation, the investors in Aristeia Special Investments, L.P. and Aristeia Special Investments, Ltd. bear fees equal to 1% annually of each fund's net asset value. Aristeia Special Investments Master, L.P. pays no additional fees other than those paid by the investors in its feeder funds, Aristeia Special Investments, L.P. and Aristeia Special Investments, Ltd.

Performance-Based Compensation

The performance-based compensation we charge our clients is:

Aristeia Partners, L.P.: 20% annually of the profits of the master fund into which Aristeia Partners, L.P. invests substantially all of its assets (Aristeia Master, L.P.) indirectly attributable to each investor's capital account, subject to a cumulative loss carryforward restriction. Certain employee and affiliate investors do not pay any performance-based compensation. A loss carryforward limitation ensures that we only receive performance compensation when an investor's account value for the year has recovered any losses from prior years (reduced *pro rata* by withdrawals of capital).

Aristeia International Limited: 20% annually of the profits of the master fund into which Aristeia International Limited invests substantially all of its assets (Aristeia Master, L.P.) indirectly attributable to the value of each investor's shares, subject to a cumulative loss carryforward restriction. Certain share classes, owned only by certain of our employees and affiliates, do not pay any performance-based compensation.

Aristeia Master, L.P.: This client pays us no additional compensation other than that paid by the investors in its feeder funds, Aristeia Partners, L.P. and Aristeia International Limited, as described immediately above.

Aristeia Special Investments, L.P., Aristeia Special Investments, Ltd., Aristeia Special Investments Master, L.P.: Because these funds are currently in liquidation, they no longer pay any performance-based compensation.

We deduct the asset-based fee described above from investors' accounts at the end of each quarter. We deduct the 20% performance-based compensation described above from the accounts of our clients, as applicable, at the end of each year or whenever an investor in a client is making a withdrawal, but only on the withdrawn amount.

None of our clients or investors in our clients pay any fees in advance.

In connection with our advisory services, clients, and indirectly, investors in our clients, bear all of their own ordinary expenses, including those of each client's respective master

fund. The enumerated list below is detailed but does not contemplate every possible expense a client may incur.

Aristeia Partners, L.P. and Aristeia International Limited each pay for their share of the following expenses that they and their master fund, Aristeia Master, L.P., incur:

- expenses related to researching and executing investment transactions and positions, including brokerage commissions and custody charges, interest and commitment fees on loans and debit balances,
- costs of borrowing securities to be sold short,
- travel expenses related to research,
- research fees and materials (including online news and quotation services),
- trade processing,
- costs of any outside appraisers, accountants, attorneys or other experts or consultants that we or an affiliates of ours may engage in connection with specific transactions,
- bank charges,
- insurance costs,
- any legal fees and costs (including settlement costs) arising in connection with any litigation or regulatory investigation instituted against Aristeia Partners, L.P., Aristeia International Limited and/or Aristeia Master, L.P., as applicable, Aristeia Capital, or an affiliate of ours in connection with the affairs of Aristeia Partners, L.P., Aristeia International Limited and/or Aristeia Master, L.P., as applicable,
- any withholding or transfer taxes imposed on Aristeia Partners, L.P., Aristeia International Limited and/or Aristeia Master, L.P., as applicable, as a result of their earnings, investments or withdrawals or redemptions,
- government charges and professional fees and expenses incurred in connection with the preparation of any offering documents, governing documents and agreements and any other fund documents,
- costs of accounting, including the audit of Aristeia Partners, L.P.'s, Aristeia International Limited's and/or Aristeia Master, L.P.'s annual financial statements and the preparation of their tax reports and returns,
- an allocated portion of our firm's cost of (i) accounting related software and (ii) except to the extent limited by the Employee Retirement Income Security Act of 1974, compensation (including salary, bonus and other benefits) of our

accounting, tax and operations personnel providing services to Aristeia Partners, L.P., Aristeia International Limited and Aristeia Master, L.P.,

- the fees and expenses of legal counsel in connection with advice directly relating to Aristeia Partners, L.P.'s, Aristeia International Limited's and/or Aristeia Master, L.P.'s legal affairs,
- costs of an administrator,
- costs of preparing and mailing reports to investors and
- other ordinary miscellaneous operating and out-of-pocket expenses of Aristeia Partners, L.P., Aristeia International Limited and/or Aristeia Master, L.P.

During their liquidation, investors in Aristeia Special Investments, L.P. and Aristeia Special Investments, Ltd. continue to bear some expenses similar to those listed above. Our firm may, from time to time, choose to bear Aristeia Special Investments, L.P.'s, Aristeia Special Investments, Ltd.'s and Aristeia Special Investments Master, L.P.'s expenses.

For more information on brokerage transactions and costs, please see Section 9: Brokerage Practices.

Neither our firm nor any of our principals or employees receives any transaction-based compensation for the sale of securities or other investment products.

3. Performance-Based Fees and Side-By-Side Management

Aristeia Capital (or one of our affiliates) receives performance-based compensation from our clients' investors of 20% of net profits each year (subject to certain adjustments described in Section 2). We do not manage any client accounts that do not pay performance-based compensation, with the exception of the Aristeia Special Investment funds (discussed in Section 2) that are currently in liquidation.

4. Types of Clients

We provide investment advice solely to our private fund clients. Investors in our client funds include individuals, pension and profit sharing plans, trusts, estates or charitable organizations, corporations or other institutional investors, and funds of funds. In addition, our firm's owners and employees together comprise the largest investor in our client funds.

Investment Requirements

Although we have the discretion to, and on occasion may, accept subscriptions for a lesser amount, the stated minimum investment commitments for each of our funds currently accepting new investment are:

- Aristeia Partners, L.P.: \$5,000,000
- Aristeia International Limited: \$5,000,000

Investors in Aristeia Partners, L.P. and Aristeia International Limited may satisfy our minimum investment requirement through investments in one or both of the funds.

To comply with Securities and Exchange Commission regulation, we require that U.S. investors in Aristeia Partners, L.P. and Aristeia International Limited qualify as accredited investors and qualified clients. Accredited investors are generally (i) individuals with \$1,000,000 of net worth (excluding their primary residence) or who have made \$200,000 in each of the two previous years (or \$300,000 joint income with one's spouse) or (ii) entities with assets totaling over \$5,000,000. Qualified clients are individuals or entities with over \$2,000,000 of net worth or over \$1,000,000 invested with us. Our non-U.S. investors are not subject to any particular wealth requirements.

This firm brochure is not an offer to invest in our funds.

5. Method of Analysis, Investment Strategies and Risk of Loss

In managing our clients' accounts, we use quantitative, or mathematical, models to value and analyze derivative securities. We also utilize quantitative methods to identify relative value opportunities between different assets that have a common risk. Essentially, relative value is the attractiveness of opportunities measured in terms of risk, liquidity and return of one security relative to another. In addition, we make research-driven investments based upon our extensive research and knowledge of issuers and their instruments.

Before making an investment, we evaluate each potential investment opportunity based on one, and typically several, of the following analyses. There can be no assurance that any of the following analyses will direct us to make profitable investment decisions, and each is subject to risk.

- *Instrument Relative Value Analysis:* As described above, relative value is the attractiveness of opportunities measured in terms of risk, liquidity and return of one security relative to another.
- *Scenario Analysis:* We consider various price and corporate event scenarios for the target investment and its related hedge (if any) and how each scenario would affect the profitability of the potential investment.

- *Management Meetings:* We may meet with management representatives of issuers, in compliance with applicable securities laws, to obtain their perspective on their company's performance and capitalization requirements.
- *Financial Statement Analysis and Forecasting:* We review issuers' financial statements and may attempt to forecast future results based upon our review and financial and economic models and assumptions.
- *Capital Structure Review:* We review the capital structures of issuers in an effort to determine whether they may be more or less likely to raise additional capital or restructure outstanding securities in a mutually-beneficial manner.
- *Liquidity Forecasts:* We estimate an issuer's future cash flow and seek to predict the likely impact on the issuer's operations.
- *Enterprise Valuation:* We calculate an enterprise's value as market capitalization (share price multiplied by the number of shares outstanding) plus debt, minority interest and preferred shares, minus total cash and cash equivalents, seeking to arrive at what we believe the "true" valuation is.
- *Industry/Comparable Company Analysis:* We review and analyze an issuer's position within the context of the general economic environment and relevant industry cycles, industry size and growth rates, the competitiveness of the industry's landscape, barriers to entry and potential new entrants to the industry, product position and defensibility of market share, any technological, regulatory and similar threats and pricing power and cost considerations.
- *Review of Instrument Legal Rights:* We review the legal terms applicable to certain securities in which we invest to confirm that rights and entitlements beneficial to the holders of the securities are respected.
- *Catalyst Identification:* We identify potential events that might narrow the difference between a security's market price and our determination of its value. Catalysts may include changes in the regulatory environment, changes in a company's management or merger and acquisition activity.
- *Litigation Analysis:* We seek to determine whether adversarial proceedings or bankruptcy or reorganization proceedings may create attractive investment opportunities.
- *Price History Analysis:* We review the price history of securities in which we may invest and of assets whose prices may be related to the price history of securities in which we may invest.

Despite our models and methodologies, there is always the possibility that we may not correctly predict or evaluate the future performance of certain securities. Investing in any

securities involves a risk of loss that any of our clients or any of the investors in our clients must be prepared to bear.

Certain risks associated with an investment in any client we advise include:

- *Investment Judgment and Market Risk:* The success of our investment programs depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Quantitative Models:* Quantitative models are programmed to identify investment opportunities based on the occurrence of specified events and/or situations and are dependent upon historical data. Should these events and/or situations fail to occur or should the historical data inadequately address current market conditions, the models may not generate any investment opportunities and/or profits. Furthermore, securities selected using quantitative methods may perform differently from the market as a whole for many reasons, including the factors used in building the quantitative analytical framework, the weights placed on each factor and changing sources of market returns, among others.
- *Financial Markets and Regulatory Change:* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of private investment funds. Laws and regulations applicable to our clients, especially those involving taxation, investment and trading, can change quickly and unpredictably in a manner adverse to our clients' interests.

Below we describe some of the most significant and prevalent strategies that we utilize in advising our clients and some important risks associated with those strategies. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in each strategy mentioned below.

For a complete explanation of all relevant investment strategies and their associated risks, investors in our clients should also review each applicable client's private placement memorandum, which may contain additional explanations of strategies, risks and other related details not discussed below.

- *Relative Value and Convertible Arbitrage:* When we engage in relative value arbitrage, we seek to take advantage of relative pricing discrepancies between various instruments, including equities, debt, options, swaps and futures. The risk exists that the price differential we attempt to exploit could change unfavorably, causing a loss.
- *Convertible Securities:* Changes in interest rates, credit risk premiums, an issuer's stock price or an issuer's credit standing may affect the value of the convertible securities our clients hold. Our clients' abilities to achieve their

investment objectives may be adversely affected if they hold convertible securities and other holders need to liquidate the same or similar securities.

- *Special Situations:* We invest in companies involved in acquisitions, tender offers, exchange offers, restructurings, work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions on behalf of our clients. In any investment opportunity involving any type of special situation, the risk exists that the contemplated transaction either will be unsuccessful, will not occur, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than we anticipated.
- *High Yield, Investment Grade or Unrated Securities:* Debt securities (including bonds) and preferred stock in which we invest on behalf of our clients may or may not be rated by credit rating agencies. If they are rated, this rating may range from the very highest to the very lowest. The lower-rated categories include debt securities that are in default and debt securities of insolvent issuers. The values of lower-rated securities (including unrated securities of comparable quality) fluctuate more than those of higher-rated securities and may be affected by the inability (or perceived inability) of issuers to make timely payment of interest and principal. In general, the market for lower-rated or unrated securities is smaller and less active than that for higher-rated securities, which can adversely affect our ability to sell these securities at favorable prices. We will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase.
- *Distressed Securities:* Distressed securities refer to securities and other obligations issued by a company that is undergoing significant distress, such as bankruptcy or reorganization, or is likely to do so in the near future. The securities of distressed corporations are often overly discounted by the market, creating attractive opportunities for our clients. A significant risk of investing in distressed debt and securities is that the subject company's projected performance may not meet our forecasts. We may not always correctly identify and evaluate the nature and magnitude of the many factors that affect the probability of a successful reorganization or distribution of value in a reorganization.
- *Post-Reorganization Securities:* Our investments in companies that have just experienced a reorganization or restructuring may experience losses if our expected outcome proves incorrect. Post-reorganization securities may be illiquid, subject to heavy selling and/or downward pricing pressure after completing a reorganization or restructuring.
- *Equity Securities:* We buy equity securities on behalf of our clients, seeking to profit from both security selection and thematic sector or market timing decisions. Our clients may suffer losses if we invest in equity instruments of issuers whose performance diverges from our expectations or if equity markets generally move in a single direction and we have not hedged against this type of move (see below for an explanation of hedging).

- *Fixed-Income Securities:* Fixed-income securities provide periodic returns and the eventual return of the principal at the end of the term. The value of fixed-income securities changes in response to interest rate fluctuations and market perception of the issuer's ability to pay off its obligations. The risk exists that an issuer may be unable to make interest or principal payments on its obligations.
- *Private Debt and Equity Securities:* Investments in privately held, early-stage companies are inherently fragile and easily affected by both internal and external forces. On the other hand, immature businesses can gain suddenly in value in response to an internal or external positive development. Significantly, typically little publicly available information exists concerning newer, private companies. In addition, private companies' securities typically are not traded in the volumes typical for larger companies, and it may take longer to sell private securities or we may have to accept potentially less favorable prices if selling a position.
- *Short Selling:* In effecting a convertible arbitrage strategy, we typically hedge against clients' long positions in convertible securities by selling short the convertible security's underlying security. Whereas when we buy securities long our clients' risk of loss is limited to the cost of the securities, there is no limit to losses in a short sale because there is no cap on the price our clients may have to pay to buy the securities sold short. Short selling may be adversely affected by regulatory restrictions or an increased cost and/or diminished availability of borrowing the security sold short.
- *Borrowing/Leverage:* We may borrow against the assets of our clients when we believe that the returns from investing the proceeds will exceed the interest paid on the borrowing. Borrowing involves risk to our clients because the interest on the borrowed amount may be greater than the income from or increase in the value of the securities purchased with the borrowed amount and the value of the securities purchased with the borrowed amount can decline below the amount borrowed.
- *Margin Transactions:* To increase our clients' buying power, sometimes we engage in margin transactions in which our clients borrow from a broker to purchase more securities than they otherwise would be able to with their initial cash investment. Trading on margin is risky because it not only can increase gains, but also can amplify losses to the point where a client may lose more than its initial investment.
- *Hedging Transactions:* Hedging generally is an essential component of our convertible arbitrage strategy. Hedging entails determining certain risks in one's portfolio and making trades seeking to offset those risks. The success of a client's hedging strategy is subject to our ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. We may not always choose the right variable to hedge against, or might choose

not to hedge against or might not anticipate certain risks. Our clients' portfolios will always be exposed to certain risks that cannot be hedged.

Many other investment strategies we employ can be used as hedging techniques, such as options, futures, forwards, swaps and short selling.

- *Swaps, Futures and Other Derivatives:* At times, we may invest in swaps, futures and other forms of derivative contracts, which are contracts between two parties, the value of which is linked to another security or commodity, or an "underlying asset." Most of the derivatives in which we may trade are over-the-counter, meaning they are privately negotiated between two parties, as opposed to being traded on an exchange. Over-the-counter transactions typically involve significant transaction costs and a greater risk of nonperformance by opposing parties. Also, many of the protections afforded to participants in a regulated environment may not be available in connection with over-the-counter derivative transactions.

Derivative contracts expose our clients to potential gain or loss from a change in the price of an underlying asset in an amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. Finally, derivative contracts are risky because, ultimately, their success depends in part on the counterparty's ability to turn over the cash flow it promised.

A discussion of some of the particular types of swaps and derivative contracts in which we invest follows below.

- *Total Return Swaps:* A total return swap is a contract between two parties under which one party makes payments based on a set rate, while the other party makes payments based on an underlying asset's return. The underlying asset is usually a publicly-traded security, but may also be an index or a loan or bond. Risks associated with total return swaps include the risk that the obligor of the underlying asset will default on its obligations and any risks associated with owning the underlying asset.
- *Credit Default Swaps:* A credit default swap is a contract between two parties under which they both agree to isolate and separately trade the credit risk of at least one third-party entity. Our clients may use credit default swaps to hedge a portion of the default risk on a single corporate bond or portfolio of bonds. They also may use credit default swaps to implement a portfolio manager's theory that a particular credit or group of credits will experience credit improvement or credit deterioration. The market for credit default swaps is currently unregulated, but, beginning July 16, 2011, credit default swaps will frequently be required to be centrally cleared due to new legislation. The leverage involved in many credit default swap transactions, and the possibility that a widespread downturn in the market could cause massive defaults, both add to the uncertainty of an investment in these instruments.

- *Futures:* A future is a contractual agreement to buy or sell a particular commodity or financial instrument at a pre-determined price in the future. At times, futures may be illiquid investments because certain commodity exchanges limit fluctuations in particular futures contract prices during a single day. Once the price of a futures contract has increased or decreased by an amount equal to the daily limit, that contract cannot be traded unless traders are willing to trade it within that limit which could prevent us from promptly selling unfavorable contracts. Sometimes, we may ultimately settle the differences in a futures contract for cash, rather than delivering or receiving the underlying commodity or financial instrument.
- *Forwards:* A forward is a privately-negotiated contract between two parties to buy or sell an asset at a specified future date at a price agreed upon at the time the contract is made. Because there is not a big secondary market for forwards, they may be difficult to sell should they become unfavorable for our clients.
- *Options:* On behalf of our clients, we may invest in call and/or put options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. An option's value may decline because of passage of time, the value of its underlying asset may change, changes in the market's perception as to the underlying asset's future price behavior or any combination of these factors.
- *Option Writing:* Our clients may write (essentially, sell) call and put options on securities. The applicable client receives a premium from writing a call or put option, which increases the client's return if the option expires unexercised or is exercised at a net profit. When a client writes a call option, it must be prepared to deliver the security regardless of its market price; when it writes a put option, the client takes the risk that it will be required to purchase a security from the option holder at a price above the current market price of the security.
- *Warrants:* Warrants are derivative instruments that entitle the holder to buy the underlying stock of the issuing company at a fixed exercise price until an expiration date. The values of warrants do not necessarily change with the values of the underlying stock and warrants cease to have value if they are not exercised prior to their expiration dates.
- *Undervalued Assets:* On behalf of our clients, we often invest in assets that we believe are undervalued. Identifying investment opportunities in undervalued assets is difficult and we cannot assure any clients that we will be able to recognize or acquire undervalued assets. While investments in undervalued assets offer our clients the opportunity for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses.

- *Capital Structure Arbitrage:* We may engage in capital structure arbitrage on our clients' behalf. This investment strategy seeks to identify and exploit the relationships between price movements in different securities and instruments within a single issuer's capital structure (for example, between senior debt and common stock or between subordinated debt and preferred stock). The ultimate goal is for the market values of the different securities to converge. If, instead, they go in opposite directions, our clients may incur substantial losses.
- *Foreign Securities:* While investing in foreign securities is not a principal focus of our investment strategies, we occasionally buy and sell foreign securities for our clients' accounts. Investing in foreign securities involves certain risk factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates, the costs of converting from one currency to another, greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our clients' income. In addition, there may not be much information available regarding foreign securities because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. Finally, some non-U.S. markets have difficulty keeping pace with large volumes of transactions which can lead to substantial delays and settlement failures that could adversely affect our clients' performance.
- *Investing in Emerging Markets:* We may, occasionally, invest in securities of issuers located in countries that are less developed than the United States but whose social and economic activity is in the process of reform and is experiencing rapid growth and industrialization. Risks associated with investing in some emerging markets include less publicly available information, less strict securities market regulation, less efficiency, less favorable tax provisions, a greater likelihood of severe inflation, unstable currency and war.
- *Illiquid Investments:* Illiquid investments are (1) investments that are not heavily traded and cannot easily be converted to cash or (2) investments that we believe our clients must hold for several years to reach their potential value. If our clients require cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them.
- *Lack of Investment Diversification:* Although we typically spread our clients' capital among many investments, there are times when we may determine that any of our clients should hold a few, relatively large investments in relation to a client's capital. Consequently, the success of each of those clients could be substantially adversely affected by the unfavorable performance of a single investment.

We do not recommend primarily any single type of security. Our clients' investments are rather diversified, yet we still encourage investors in our clients to consider all of the risk

factors we have explained, as any investment can be risky and investors must be prepared to assume any potential loss.

6. Disciplinary Information

On May 2, 2011, our firm voluntarily agreed, without admitting or denying any allegations, to a settlement with the SEC relating to Rule 105 of Regulation M under the Securities and Exchange Act of 1934. Rule 105 of Regulation M generally prohibits buying an equity security in a secondary public offering if the buyer sold short the same security during a restricted period (generally five business days before the pricing of the offering). This prohibition contained in Rule 105 of Regulation M applies regardless of whether any intent to violate the rule existed.

This settlement relates to our purchases of securities, on behalf of our investment fund clients, in four secondary public offerings between January and June of 2008. Our settlement included a censure, a cease and desist order under which we agreed not to violate Rule 105 of Regulation M in the future and a payment to the United States Treasury consisting of a disgorgement of profits associated with the transactions at issue in the amount of \$1,221,571, interest on that amount equal to \$141,205 and a civil penalty of \$400,000. Aristeia Capital fulfilled this payment obligation on May 5, 2011; our clients did not bear any portion of this obligation or any costs related to our resolution of this matter.

Neither our firm, nor any of our directors, officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court.

Neither our firm, nor any of our directors, officers or principals has been found to have caused an investment-related business to lose its authorization to do business.

Neither our firm, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings.

7. Other Financial Industry Activities and Affiliates

Neither our firm, nor any of our directors, officers or principals is registered as a broker-dealer or a representative of a broker-dealer or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

Affiliations With Pooled Investment Vehicles

Our firm and our affiliate, Aristeia Advisors, L.L.C., have sponsored a number of private investment funds that we manage. Aristeia Advisors, L.L.C. serves as the general partner

to some of our fund clients. Our clients do not have independent management, and we selected the initial directors for our offshore funds that are structured as corporations (although none of the directors is or has been an Aristeia Capital employee). Although this arrangement may give us heightened control and discretion over our clients, we manage any potential conflicts of interest by adhering to the investment strategy and investment allocation policy discussed in their Private Placement Memoranda.

We do not recommend or select other investment advisers for our clients.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a Code of Ethics in accordance with Securities and Exchange Commission requirements. Our Code of Ethics works to ensure that our employees' actions, including their personal securities transactions, are consistent with our firm's fiduciary duty to our clients and to ensure compliance with legal and regulatory requirements. It focuses on specific areas where employee conduct has the potential to affect clients' or investors' interests adversely, such as personal securities trading, outside activities, gifts, borrowing and lending, and the influence of personal relationships and charitable contributions. Our Code of Ethics requires employees to submit monthly statements to our Chief Compliance Officer for any account holding securities in which an employee or certain family members have an interest. Most employee trades in which an employee or certain family members have an interest must be reviewed and pre-approved by our Chief Compliance Officer or his designee. We provide a copy of our Code of Ethics to any client or any investor in our clients, or any prospective client or prospective investor, that requests one.

Currently, our firm, our affiliates or employees of our firm do not buy or sell for client accounts securities in which they have a material financial interest. As of the date of this brochure, we conduct substantially all of our trading through a single entity, Aristeia Master, L.P., and do not anticipate engaging in cross trades. We may, in the future, choose to engage in cross trades in accordance with our cross trading policy described below.

Specifically, our portfolio managers may occasionally determine that it is in line with certain clients' investment strategy and in the best interest of our clients to have one client purchase a security from another client that is selling the same security, otherwise known as a "cross trade." There may be a conflict of interest because a cross trade is not independently negotiated. We do not take any commissions or fees in connection with effecting cross trades between our clients. In fact, we may coordinate cross trades between clients in an attempt to reduce or eliminate transaction costs. When coordinating any cross trades between clients, we must follow our written procedures for cross trading in order to reduce the potential for conflicts of interest. Our cross trading procedures require, among other things, that the selling client receive only cash for the trade, the trade be effected at an independent current market price, the only fees that the clients are

allowed to pay are customary transfer fees and the trade must be consistent with each participating client's investment policy.

Generally, our firm, our affiliates or employees of our firm may not buy or sell for themselves securities, or securities related to those, we also recommend to clients. We may permit exceptions to this rule when, for example, an employee arrives at Aristeia Capital owning securities of an issuer in which our clients have invested. We would permit this employee to sell his or her position if our clients are not actively trading that particular security and if doing so would not adversely affect our clients in any way.

We have a variety of procedures in place to ensure that we address any potential conflicts that may arise between our employees and our clients, especially in order to prevent our employees from buying or selling the same or similar securities in which we trade for our client contemporaneously for their personal accounts.

As mentioned above, not only must our Chief Compliance Officer or his designee review and pre-approve most types of employee personal securities trades, but also our Chief Compliance Officer may order that any personal transaction be reversed or modified by the end of the day. Upon receiving a request for pre-approval of a trade, our Chief Compliance Officer consults with our trading desk to determine whether the transaction would violate our prohibitions on personal trading (described immediately below). If the Chief Compliance Officer determines that a personal transaction would breach our policies, the Chief Compliance Officer will deny approval of the trade. In addition, the Chief Compliance Officer's approval of a trade is only valid on the business day on which it is given.

Generally, we do not permit employees or certain family members to trade in the following securities:

- securities that any of our clients currently hold,
- securities of an issuer that currently has a convertible security outstanding (for example, a bond that can be converted into common stock),
- securities that we are currently reviewing and/or considering purchasing or selling for a client,
- securities issued by a company with which we have executed a non-disclosure or similar agreement,
- securities issued by a company of which we are reviewing potentially material, non-public information and
- securities that are convertible, exchangeable or exercisable into any of the previously mentioned categories of securities.

We also prohibit employees and certain family members from placing more than six trades per month. However, our Chief Compliance Officer may waive our restrictions under certain circumstances.

Also, as previously mentioned, we require employees to submit monthly statements to our Chief Compliance Officer for any account holding certain securities in which an employee or certain family members have an interest. Employees must report transactions in any holdings not reflected in their monthly statements, such as securities acquired in private placements, to our Chief Compliance Officer within 30 days after the end of every quarter. Our Chief Compliance Officer regularly compares these monthly statements and quarterly reports with employees' approved personal trading requests to ensure compliance with our personal trading policies.

9. Brokerage Practices

In selecting broker-dealers and determining the reasonableness of their commissions for our clients' transactions, we strive to achieve "best execution," by taking into account any combination of the following factors:

- commission costs,
- capital adequacy, meaning that a broker-dealer has sufficient capital to correspond to its risk,
- ability and willingness to commit capital,
- confidentiality,
- the nature and quality of research products and services offered,
- market expertise and
- execution ability, which includes:
 - the minimization of total trading costs, errors, incomplete trades and market impact,
 - the speed at which a broker-dealer can effect a transaction,
 - a broker-dealer's use of advanced technology and infrastructure and
 - the maximization of price improvement.

In addition, our employees occasionally participate in "capital introduction" events sponsored by broker-dealers. Capital introduction events are events designed to bring asset managers together with investors in one forum. While we do not commit to allocate certain brokerage business or otherwise compensate broker-dealers for organizing these

events or for any successful investor relationships we make at these events, we may consider potential invitations to capital introduction events when selecting broker-dealers to execute our clients' trades, subject to our duty to seek best execution.

Significantly, many of our trades are over-the-counter transactions, in which the most important consideration in choosing a broker-dealer is the price we can negotiate on our clients' behalf.

At times, we may execute trades through broker-dealers that employ family members of our employees. These family members' compensation may be directly or indirectly affected by our trading. In order to ensure that we select broker-dealers objectively and that our selection is not influenced by potential benefits to family members, we adhere to our policy of considering the relevant factors listed above when choosing broker-dealers for our clients' trades.

We Utilize Research and Other "Soft Dollar" Benefits. At times, our firm may pay higher prices to buy securities from, or accept lower prices for the sale of securities to, brokerage firms that provide us with investment and research information. This investment and research information is often referred to as one type of "soft dollar" benefit, and may also be referred to as "full-service brokerage." The research services that broker-dealers might provide us with include:

- written information and analyses concerning specific securities, companies or sectors,
- market, financial and economic studies and forecasts,
- statistics and pricing or appraisal services,
- discussions with research personnel and
- invitations to attend conferences or meetings with management or industry consultants.

We can use these research services and products in connection with our advisory services for any of our accounts, not necessarily for only the account that "paid" for them. For example, we might utilize research services that a broker-dealer provides for one of our funds in connection with our advisory services for other accounts and vice versa. As of the date of this brochure, we do not believe this is an issue since we conduct substantially all of our trading activity through only one entity. Should we trade for multiple client accounts, we will aim to allocate soft dollar benefits in a fair and equitable manner, but may not necessarily allocate soft dollar benefits to each of our client accounts in proportion to the soft dollar credits that each client generates.

We note that another type of soft dollar relationship exists, in which a broker-dealer pays the expenses and costs of third parties that provide an investment adviser with benefits. We do not engage in any of these "third party soft dollar" relationships.

We Intend for our Use of Soft Dollar Benefits to Fall Within the Safe Harbor. The Securities and Exchange Commission has created a safe harbor that protects financial advisers from liability for a possible breach of fiduciary duty to their clients for engaging in soft dollar arrangements for certain services at other than the lowest transaction costs if they make a good faith determination that the amount of the commission was reasonable in relation to the value of the research services received. We intend that our soft dollar arrangements will fall within this safe harbor.

The Use of Soft Dollars Can Create a Conflict of Interest. Although our policies require us to always obtain the best execution for our clients by taking into account all applicable factors, using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. When we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to produce or pay for the research products and services. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients' interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

The use of soft dollars to obtain research services creates a conflict of interest between our firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of our firm or other clients. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

We Use Particular Procedures to Direct Transactions in Return for Soft Dollars. We direct our clients' transactions to broker-dealers based on overall best execution, as explained above. Our Brokerage Committee periodically reviews our brokerage practices and procedures to ensure that we are achieving best execution on all trades for our clients.

We Do Not Consider Referrals in Selecting or Recommending Broker-Dealers. At times, we may have an incentive to select a broker-dealer based on our interest in receiving referrals, rather than on our clients' interest in receiving most favorable trade execution. Specifically, on behalf of our clients, we accept investments from full-service financial firms investing on their own behalf or on behalf of their clients. These financial firms may have related broker-dealers and we may utilize their broker-dealers only if, without taking into account the business they give us, we believe that they provide "best execution" for our clients, based on any of the factors enumerated at the beginning of this section.

Our Clients Do Not Direct Brokerage. As all of our clients are private investment funds that we manage, we select all broker-dealers for our clients.

Trade Aggregation and Allocation

Sometimes we decide that some or all of our clients should participate in the same investment opportunity. While we typically effect multiple clients' participation in a single investment opportunity by trading through a master fund, there may be times when we decide to place the same trade for both of our master fund clients or separately for multiple client accounts. In this case, we aggregate the purchase or sale of the securities for the various client accounts so long as doing so is consistent with receiving the best possible execution and reducing brokerage commissions. Generally, when we aggregate a trade for multiple clients, our trading and risk management system automatically allocates the trade order among the participating clients on a *pro rata* basis in proportion to each participating client's available capital. Occasionally, we may instruct our trading and risk management system to consider additional factors when allocating an order, such as:

- tax or regulatory considerations,
- adjusting risk exposures,
- avoiding undesirably large or small allocations to a client's account or
- the need to rebalance a client's account to ensure consistency with its strategy.

If an order cannot be fully executed under current market conditions, we allocate the executed portion of the trade among the participating client accounts using the same system we use to allocate fully executed orders, explained immediately above. Ultimately, clients benefit when we aggregate trades because they receive volume discounts on execution costs.

10. Review of Accounts

On a daily basis, our firm's Trading Desk Manager, or his designee, reviews all trading activity that our portfolio managers conduct for our clients' accounts. Our Trading Desk Manager, or his designee, examines our trading activity specifically for trades that may violate our firm's internal policies or any applicable laws or regulations and reports any violations to our Chief Compliance Officer.

The Trading Desk Manager periodically reviews and monitors our clients' portfolios to ensure that we are complying with each client's risk parameters. In addition, the Trading Desk Manager periodically reviews our clients' trading records to verify that we are complying with our trade aggregation and allocation policy, as described in Section 9: Brokerage Practices.

We provide investors in our clients with written quarterly reports that contain performance information about the fund in which they have invested for the previous quarter. Our administrator also provides investors in our clients with individual monthly capital account statements, generally via email. In addition, we provide investors in our

clients with written annual reports that contain audited financial statements and tax information.

11. Client Referrals and Other Compensation

Our firm does not, nor do any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients.

As previously explained in Section 9: Brokerage Practices, on behalf of our clients, we may accept investments from full-service financial firms investing on their own behalf or on behalf of their clients. These financial firms may have related broker-dealers which we may indirectly compensate with brokerage commissions only if, without taking into account the business they give us, we believe that they provide “best execution” for our clients.

12. Custody

While it is our firm’s practice not to accept or maintain physical possession of any of our clients’ assets, we are deemed to have custody of their assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, because we have the authority to access clients’ funds and deduct fees and expenses from clients’ accounts.

In order to comply with Rule 206(4)-2, we utilize the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all of our clients’ assets. We also ensure that the qualified custodian maintains these funds in accounts that contain only clients’ funds and securities. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit our clients at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with United States generally accepted accounting principles to all investors in our clients within 120 days after the end of the fiscal year.

13. Investment Discretion

Scope of Authority

Our firm accepts discretionary authority to manage our clients’ securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients’ Private Placement Memorandum.

Procedures for Assuming Authority

Before accepting their subscriptions for interests, we provide all investors in our clients with a Private Placement Memorandum that sets forth, in detail, the relevant client’s

investment strategy and program. By completing our subscription documents to acquire an interest in one of our client funds, investors give us complete authority to manage their investments in our client funds in accordance with the Private Placement Memorandum they each received.

14. Voting Client Securities

Proxy Voting Policies and Procedures

It is our firm's policy that we must vote all client proxies solely in the best interests of our clients. We generally believe that voting in the best interest of our clients entails voting in a manner that will maximize the value of the security.

Although each proxy vote is different, we typically believe that we will best serve our client funds' interests by voting in the following manner:

- "for" management proposals,
- "against" shareholder proposals and
- "abstain" from all other proposals.

Our firm uses an electronic proxy voting service to manage the process for voting our clients' proxies, which we have programmed to vote each proxy according to these proxy voting policies. However, when we believe that it would best serve a client's interest to vote differently than outlined above, we will override the automatic vote. Any employee who overrides an automatic vote must note his or her decision for the override in the record relating to that particular proxy vote.

Potential Conflicts of Interest

If any employee responsible for voting proxies identifies any potential conflicts of interest between our firm or any of our employees and the relevant client in connection with voting a client proxy, he or she must notify our Chief Compliance Officer. If we do determine that a conflict exists, (1) we will ensure that any conflicted employee cannot participate in or have any influence over our evaluation of the proxy vote or (2) our Chief Compliance Officer will obtain the recommendation of an independent third-party proxy voting specialist and cast the vote in accordance with its recommendation.

Recordkeeping

Our firm maintains the following records relating to proxy voting:

- Proxy statements received for client securities.
- Records of proxy votes cast on behalf of our clients.

- Records of written requests from investors in our client funds for proxy voting information and our written responses to any written or oral requests.
- Any documents relating to the identification and resolution of any conflict of interest relating to our voting of client proxies.
- Copies of all communication we receive and any internal documents we create that are material to any proxy voting decisions we make on behalf of our clients.

Upon request, any of our clients or any of the investors in our clients can obtain (1) a copy of our proxy voting policies and procedures and (2) information concerning proxy votes on its behalf.

Neither our clients, nor investors in our clients, can direct us to vote client proxies in a certain manner.

We have the authority to vote all of our clients' proxies and receive all of their proxies and similar solicitations.

15. Financial Information

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.