

**Form ADV Part 2A: Firm Brochure**

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Pardus Capital Management L.P. is an investment adviser that is registered with the U.S. Securities and Exchange Commission. Registration with the U.S. 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 Pardus Capital Management L.P. If you have any questions about the contents of this brochure, please contact us at (212) 381-7770. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority.**

**Additional information about Pardus Capital Management L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Material Changes**

Because much of the information in this ADV Part 2 is additional information we are providing due to legislative changes and was not previously provided in our ADV Part 2, we recommend that you read this ADV Part 2 in its entirety. Section 5 – Method of Analysis, Investment Strategies and Risk of Loss – has been materially updated since our last filing. We have also updated the amount of client assets we manage in Section 1 - Advisory Business.

## Table of Contents

1.	Advisory Business .....	1
2.	Fees and Compensation .....	2
3.	Performance-Based Fees and Side-By-Side Management .....	4
4.	Types of Clients .....	5
5.	Method of Analysis, Investment Strategies and Risk of Loss .....	6
6.	Disciplinary Information.....	14
7.	Other Financial Industry Activities and Affiliates .....	15
8.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	17
9.	Brokerage Practices .....	19
10.	Review of Accounts .....	21
11.	Client Referrals and Other Compensation .....	22
12.	Custody .....	23
13.	Investment Discretion .....	24
14.	Voting Client Securities .....	25
15.	Financial Information.....	27

**1. Advisory Business**

- A. Pardus Capital Management L.P. (also referred to as Pardus), founded in 2005, is an investment services firm specializing in investment management for hedge funds. The principal owner of our firm is Karim Samii.
- B. Pardus specializes in offering investment management services to hedge funds. In providing our advisory services, we focus on equity and debt special situations, stressed and post-reorganized investments primarily in Western Europe, the United States and Latin America.
- C. Our firm tailors our advisory services to the individual needs and specified investment mandates of our clients. In the case of our hedge fund clients, our portfolio managers adhere to the investment strategy set forth in each client's Private Placement Memorandum and investment management agreement.
- D. We do not participate in wrap fee programs.
- E. The amount of client assets that we manage on a discretionary basis, as of March 26, 2013, is \$28,052,141.
- F. We do not manage any client assets on a non-discretionary basis.

## **2. Fees and Compensation**

- A. 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. The governing documents of our clients permit us to negotiate the fees with investors in these clients in separate side letters and to waive the fees for Pardus-affiliated investors. Each of our clients is a "qualified purchaser", as defined under U.S. securities laws and regulations.

We generally structure our funds in a "master-feeder" structure. We calculate both the asset-based and performance-based fees at the master fund level.

- B. We deduct the asset-based fee described above from clients' accounts quarterly in advance.

Investors in our clients can only make withdrawals on a quarterly basis and have agreed to base the asset-based fees for the full quarter on the opening net asset value for the quarter.

- C. Pardus Special Opportunities Fund L.P. and Pardus Special Opportunities Fund Ltd., are responsible for the following expenses:

- expenses of the organization of the fund and the offering of interests or shares, as applicable, to investors,
- legal, audit, administration and accounting fees,
- fees related to regulatory filings,
- fees related to the custody of their assets,
- brokerage commissions,
- certain insurance premiums,
- research and due diligence fees,
- professional and consulting fees,
- fees related to voting proxies (if any)
- directors' fees,
- certain taxes,
- accounting, audit and legal expenses,

- costs of any litigation or investigation that may arise, and
- costs in connection with providing reports and information to clients and investors.

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**

Pardus (or one of our affiliates) charges performance-based fees to all of our clients.

#### **4. Types of Clients**

All of our clients are private investment funds and similar private investment entities. Investors in our funds include a broad range of U.S. and non-U.S. institutions. We require investors that are U.S. persons to be “accredited investors” and “qualified purchasers” (as defined in applicable federal securities laws and regulations).

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



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

A. In managing our hedge funds, our investment objective is to achieve significant capital appreciation through exposure in one portfolio investment and may, in the future, offer investors the opportunity to participate in other individual investments through the funds.

The funds are capital structure agnostic, investing in special situation equities and stressed and distressed debt – whichever represents the best risk/reward profile. We can act as a catalyst to unlock value in the Portfolio Investments. In addition, the funds may seek to reduce market exposure and hedge other portfolio risks through the use of options, swaps, indices or similar instruments, as well as short sales of securities (including securities within the foregoing investment classes). The funds may make investments through one or more “special purpose vehicles,” *i.e.*, entities formed to invest in specific transactions. We or our designees may in certain instances serve on the board of directors, or similar governing body, of portfolio companies in which the funds invests.

We primarily employ intensive, bottom-up independent research combined with proprietary sourcing capabilities to identify and exploit investment opportunities.

We believe this combination of thorough research, careful investment selection and ability to work through complex processes represents our “edge” and offers investors the opportunity for superior returns.

Despite our investment approach and methodology, 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.

B. Certain risks associated with an investment in any client we advise include, but not limited to,

- *Volatility of Financial Markets; Risks of Certain Investment Strategies*

Market risk is a factor in any investment and, during the last several years, a high level of volatility in the financial markets has increased the risk. Continued volatility could disrupt the investment strategy of the Master Fund, decrease the value of the Master Fund’s Portfolio Investments, and impact its profitability adversely. If the Investment Manager’s evaluation of an investment opportunity should prove incorrect, the funds could experience losses as a result of a decline in the market value of securities in which the Master Fund holds a long position or an increase in the value of securities in which the Master Fund holds a short position. The risk management techniques that may be utilized by the Investment Manager will not provide any assurance that the funds will not be exposed to a risk of significant investment losses. The Master Fund’s investment programs are expected to utilize such investment techniques as margin transactions, short sales and leverage, which practices can, in certain circumstances, increase the adverse impact to which the funds may be subject. In addition, some of the investment strategies

that the Investment Manager intends to employ, such as investments in stressed and distressed debt and equity, are very high-risk strategies. The timing of adverse impacts on the Master Fund cannot be predicted and may result in substantial volatility in the performance of the Master Fund.

- *Non-Segregation of Assets and Cross-Collateralization*

Although the Investment Manager intends to allocate the benefits and burdens attributable to the offshore fund and the onshore fund exclusively to the offshore fund or the onshore fund, as applicable, and to calculate the net asset value of such entity separately on that basis, the Fund entities will, in many circumstances, participate or invest in portfolio investments collectively. Consequently, the assets of one entity may by law be subject to the liabilities of any other, regardless of the intentions of the Investment Manager. In addition, the Investment Manager may utilize one or more special purpose vehicles or holding entities through which any of the Fund entities, and other investment vehicles managed by affiliates of the Investment Manager, may hold assets jointly. Liabilities attributable to any such special purposes vehicle or holding entity could expose the funds to liability that would otherwise be attributable to such other investment vehicles, and impact the funds performance. Similarly, each fund entity may enter into indemnification arrangements or guarantees relating to investments made jointly with other fund entities, other investment vehicles managed by affiliates of the Investment Manager, and other unrelated funds and accounts. Subject to the terms of these arrangements, each Fund entity may be liable for the actions or inactions of such other entities.

- *Foreign Securities*

The Master Fund may acquire securities of non-U.S. issuers as part of its Portfolio Investments. Such investments would involve considerations not typically associated with investing in securities of U.S. companies or of foreign companies listed or traded in the U.S. Investing in such foreign securities, for example, could cause the Master Fund to be affected, favorably or unfavorably, by changes in currency exchange rates and revaluation of currencies. Less information may be available about foreign companies than about U.S. companies, and foreign companies are not generally subject to uniform accounting, auditing and financial reporting standards or to other regulatory practices and requirements comparable to those applicable to U.S. companies. Foreign securities markets may be more volatile than those of the U.S. and the applicable legal standards, including the rights of debt and equity holders and the taxation of investments, may differ substantially from comparable U.S. standards. Furthermore, foreign securities and their markets may not afford the same degree of liquidity as U.S. securities and their markets. Investing in such foreign securities may result in higher expenses than investing in U.S. securities because of the cost of converting foreign currencies to U.S. dollars, expenses relating to foreign custody, the payment of fixed brokerage commissions on foreign exchanges, which generally are higher than commissions on U.S. exchanges, and the imposition of transfer taxes or transaction charges associated with foreign exchanges. In addition, investments in foreign securities may be subject to local economic or political risks, including in some cases government instability, currency blockage, withholding

taxes on dividend or interest payments, restrictions on foreign investment, and possible expropriation, nationalization or confiscatory taxation and limitations on the use or removal of funds.

- *Foreign Currency Exposure*

The Master Fund may invest a portion of its assets in securities denominated in currencies other than U.S. dollars, and in financial instruments, the price of which is determined with reference to such currencies. The funds, however, values its investments and other assets in U.S. dollars. While the Investment Manager expects to hedge some or all of the currency risk associated with non-dollar denominated investments, its hedging techniques may not be successful. To the extent such investments are unhedged or the hedging techniques are unsuccessful, the value of the funds assets will fluctuate with U.S. dollar exchange rates as well as with changes in the prices of investments in the various local currencies.

- *Distressed Debt Risk; Financially Distressed Companies*

The Master Fund may invest in securities and other obligations of companies that are experiencing significant financial or business distress, in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy, or other reorganization and liquidation proceedings. Acquired investments may include senior or subordinated debt securities, convertible debt, preferred stock and other equity securities, bank loans, promissory notes and other evidences of indebtedness, as well as payables to trade creditors. Although such purchases may result in significant returns to the Master Fund, they involve a substantial degree of risk, may involve substantial financial and business risks that can result in substantial, or at times even total, losses and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid while the company is in bankruptcy and may not ultimately be paid unless and until the company reorganizes and/or emerges from bankruptcy proceedings.

Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. As a result, such securities may have to be held for an extended period of time.

The level of analytical sophistication, both financial and legal, necessary for successful investment across multiple jurisdictions in companies experiencing significant

business and financial distress is high. There is no assurance that the Fund Manager will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Master Fund invests, the Master Fund may lose its entire investment or may be required to accept cash or securities with a value substantially less than the Master Fund's original investment. Under such circumstances, the returns generated from the Master Fund's investments may not compensate the funds adequately for the risks assumed.

The administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors (other than in many cases out of assets or proceeds thereof that are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high. All of these factors make returns to the funds, if any, uncertain.

- *Low-Rated and Unrated Debt Securities*

The Master Fund may from time to time invest in debt securities, classified as low-rated or unrated by Moody's and Standard & Poor. Low-rated and unrated debt securities generally offer higher current yields than higher rated securities, but involve greater volatility of price and risk of non-payment of principal and income, including the possibility of default by, or bankruptcy of, the issuers of the securities. In addition, the markets in which low-rated and unrated securities are traded are generally more limited than those in which higher-rated securities are traded. The existence of limited markets for any particular debt securities in which the Master Fund invests may diminish the Master Fund's ability to sell such securities at fair market value.

- *Small and Medium Capitalization Companies*

The Master Fund may invest a substantial portion of its assets in the securities of medium-cap and small-cap companies in the emerging growth sector and in emerging markets (e.g., companies with market capitalizations of less than \$1.5 billion). While the Fund Manager believes that such companies often provide significant potential for appreciation, investments in their stocks involve higher risks in some respects than do investments in stocks of larger companies. As a result, the value of the Master Fund's investments may also be subject to rapid and significant price changes that impact the value of the Master Fund's limited partnership interests. Issuers of medium-cap and small-cap stocks also tend to have a relatively short earnings history, highly competitive conditions, and a reliance on a limited number of products.

- *Private Companies*

The Master Fund may invest in securities and other instruments of private companies. Such companies may employ substantial leverage and there may not be an active market for such investments. The source of any such investment may include public companies in which the Master Fund or one or more other entities that is advised by the Investment Manager or one of its affiliates has an investment that is thereafter taken private, including, without limitation, in a transaction initiated by the Investment Manager or one or more of its affiliates or in which the Master Fund or one or more of its affiliates participates.

- *Short Sales*

A short sale involves the sale of a security that is not owned in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the short seller must borrow the security, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the short seller. When the Master Fund makes a short sale in the U.S., it must leave the proceeds thereof with the broker and it also must deposit with the broker an amount of cash or U.S. government securities or other securities sufficient under current margin regulations to collateralize the obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions are governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security and the possibility of incurring a substantial loss in covering the short sale. In addition, short sellers are subject to the risk of a “short squeeze.” A short squeeze is a situation in which the short seller is prematurely forced out of a short position. The lender of a security used to cover a short generally has the right to demand the return of the stock that has been loaned at any time. In such event, the Master Fund would be required to replace the borrowed securities by borrowing the securities from another lender. It generally is more difficult to find securities that can be borrowed in the case of small-cap and mid-cap issuers than large-cap issuers. If the Master Fund were unable to replace the borrowed securities, it would be required to close out the short sale by buying the security in the market in order to make delivery. In such event, the Master Fund could incur a loss if the security sold short had increased in value. In addition, the Master Fund also could be forced to close out a short sale prematurely as a result of an increase in margin requirements, coupled with an inability to provide the required additional margin on short notice. Finally, new rules may be implemented that may restrict the timing of short sales which may prevent the Master Fund from selling securities short at planned times or prices or may require the Master Fund to make public disclosure about its short sale positions that could adversely impact the Master Fund’s investment strategy.

- *Hedging Transactions*

The Investment Manager may use certain transactions as hedges against adverse market and other fluctuations. Hedging does not prevent losses, but it is designed to reduce them. At the same time, hedging may reduce the opportunity for gain because an offsetting position may generate a loss, though the portfolio generated a gain.

- *Unmarketable Instruments*

The Master Fund and the feeder funds are subject to the additional risks associated with investing in unmarketable instruments. Many of the instruments in which the funds invests may be illiquid or unmarketable. There are several risks inherent in such investments. Such investments may be difficult to value and are subject to investment specific price fluctuations as well as market conditions. Moreover, the funds may have only a limited ability to vary or dispose of their Portfolio Investments in response to changing economic, financial and investment conditions, so there can be no assurance that the Master Fund will be able to sell any such illiquid or unmarketable securities at the time of any redemptions by investors in the Master Fund. No assurance can be given as to when or whether adverse events might occur which could cause significant loss in value of the funds portfolios.

- *Leverage*

The Master Fund may, in the sole discretion of the Investment Manager, leverage its Portfolio Investments by borrowing funds from securities broker-dealers, banks or others to the maximum extent permitted by applicable law. Such leverage increases both the possibility for profit and the risk of loss. The Master Fund's securities and other assets typically will be used to secure loans. Under certain circumstances, a lender may demand an increase in the collateral that secures the Master Fund's obligations, and if the Master Fund is unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy the Master Fund's obligations. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the Master Fund's borrowing and the interest rates on that borrowing, both of which will fluctuate, may have an effect on the Master Fund's profitability.

- *Discretion and Changes in Investment Strategy*

The Fund Manager acting through the Investment Manager has absolute discretion in choosing the securities that will be acquired. They use and plan to continue using a range of strategies and have the unlimited right to vary the strategies and to modify the selection criteria or hedging techniques used by the Master Fund without the consent of any investor. In addition, any new investment strategy or hedging technique developed may be more speculative than techniques used earlier and may increase the risk of an investment in the funds.

- *Dependence on Occurrence of Events*

The ability to realize a profit on many of the investments made by the Master Fund may depend upon the occurrence of certain events, including for example, the sale, merger or successful reorganization of a company. If the event that the Investment Manager is expecting to occur does not occur, the Master Fund may sustain a significant loss. In many circumstances, the Investment Manager seeks to influence the outcome of restructurings or other events, including by negotiating with management and other stakeholders or by taking activist positions. There can be no assurance that the efforts of

the Investment Manager to influence such events, including by the investment of substantial time and other resources, will be successful. The combination of dependence of the investment thesis on specific events, the activist approach and the focus on companies that may require significant restructurings may result in a longer holding period for investments of the funds to realize their full potential, if in fact they do. There can be no assurance that the Master Fund will maintain the funds under management necessary to retain such investments through their intended holding period, and, as a result, investments may need to be sold at a loss.

- *Limited Diversification Risk*

The Master Fund generally will hold concentrated positions (both long and short) at any given time. As a result of this lack of diversification, a significant loss in any one position may have a material adverse effect on the value of the funds and the funds rate of return. Moreover, a significant loss in any sector may have a material adverse effect on the value of the funds and the funds rate of return.

- *Risk of Operations/Liquidity Risks*

While some of the securities that the Master Fund may acquire will be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it difficult or impossible for the Master Fund to liquidate its positions and would thereby expose it to losses. In addition, some of the securities in which the Master Fund may invest may be thinly traded, restricted or not traded in a public market, potentially making it difficult for the Master Fund to dispose of a position at the time or price desired. Moreover, in periods of extreme market volatility, the bid/ask spreads for some securities that ordinarily are liquid may widen, making it difficult or undesirable to sell the securities. Moreover, there is a possibility that the institutions, including brokerage firms and banks, with which the Master Fund will do business or with which securities may be entrusted for custodial purposes, will encounter financial difficulties that may impair the operational capabilities or the capital position of the Master Fund. The Master Fund will seek to mitigate this risk by selecting financially responsible brokers, clearing firms, and counterparties with which to do business. Furthermore, if investors elected to redeem a substantial amount from their Capital Accounts, the Master Fund might be forced to close out existing positions at a time when it was disadvantageous to do so. There can be no assurance that the trading markets will remain liquid enough for management to close out existing positions at any time there is a need to do so. The Master Fund intends to hold certain highly illiquid securities in “side pockets”, and securities representing the side pockets and other securities that cannot be liquidated in a timely manner may be distributed in kind to redeeming investors, in the sole discretion of the General Partner for the Domestic feeder and Board of Directors for the Offshore feeder.

- *Portfolio Turnover*

The Master Fund will hold securities for varying lengths of time, and may engage in opportunistic short-term trading in times of market uncertainty and volatility. A

change in the securities held by the Master Fund is known as “portfolio turnover.” Portfolio turnover generally involves a number of direct and indirect costs and expenses to the funds, including, for example, brokerage commissions, dealer mark-ups and bid/asked spreads, and transaction costs on the sale of securities and reinvestment in other securities. Such short-term sales may also result in realization of taxable capital gains including short-term capital gains, which, for U.S. taxpayers that are not corporations, are generally taxed to such investors at tax rates higher than long-term capital rates.

- *Bankruptcy of Broker-Dealers*

Any cash and securities maintained by the Master Fund at accounts at U.S. broker-dealers registered with the SEC and the Financial Industry Regulatory Authority are protected to a limited degree by the U.S. Securities Investor Protection Corporation (the “SIPC”). In the event of the bankruptcy of a broker-dealer, if sufficient funds are not available in the broker-dealer’s customer accounts to satisfy claims, the reserve funds of the SIPC will be used to supplement the distribution, up to a ceiling of \$500,000 per customer, including a maximum of \$250,000 for cash claims. Therefore, the Master Fund could be at risk of loss for any amounts in excess of the SIPC limit. In addition, bankruptcy law applicable to all U.S. futures commission merchants (each, an “FCM”) requires that, in the event of the bankruptcy of such a FCM, all property held by the FCM, including certain property specifically traceable to a customer, will be returned, transferred or distributed to the FCM’s customers only to the extent of each customer’s pro rata share of all property available for distribution to customers. If any FCM holding any of the Master Fund’s assets were to become bankrupt, it is possible that the Master Fund would be able to recover none or only a portion of its assets held by such FCM. Furthermore, in the event of an insolvency of an FCM or other counterparty which is not regulated by the CFTC, the CFTC’s segregation protections would not be available to the Master Fund. Other custodians and counterparties may have similar types of risks. Assets held outside the U.S. may be subject to different and/or diminished protection in the event of a counterparty failure located in such jurisdiction.

- *General Economic Conditions*

The success of any investment activity is affected by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets for both equities and interest-sensitive securities. Unexpected volatility or illiquidity in the markets in which the Master Fund (directly or indirectly) holds positions could impair the Master Fund’s ability to carry on its business or cause it to incur losses.

The private placement memorandum for each of our client funds contains a discussion of various risk considerations that is more extensive in scope and depth than the foregoing summary.



**6. Disciplinary Information**

- A. This item is not applicable because neither our firm, nor any of our directors, officers or principals has been involved in any criminal or civil actions in a domestic, foreign or military court.
- B. This item is not applicable because neither our firm, nor any of our directors, officers or principals has been involved in any administrative proceedings before the U.S. Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.
- C. This item is not applicable because 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**

- A. 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.
- B. 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 adviser, or is an associated person of any of the above.
- C.

### Relationships with Pardus and PCM Funds

We or PCM Partners IM L.P. manage the following client funds, which are our related persons:

- Pardus Special Opportunities Fund L.P.
- Pardus Special Opportunities Fund Ltd.
- Pardus Special Opportunities Master Fund L.P.
- PCM Special Opportunities Fund L.P.
- PCM Special Opportunities Fund Ltd.
- PCM Special Opportunities Master Fund L.P.

The advisory services provided to PCM Special Opportunities Fund L.P., PCM Special Opportunities Offshore Fund Ltd. and PCM Special Opportunities Master Fund L.P. are provided pursuant to an investment management agreement between those funds and PCM Partners IM L.P.

Pardus Capital Partners L.P. and PCM Partners GP LLC, each of which is under common ownership and control, act as the general partners of the Pardus funds and PCM funds named above, respectively. None of the compensation, liquidity or other terms of our client funds are negotiated at arm's-length. However, we disclose to prospective investors the terms of all of our fees and performance-based compensation, as well as the other terms of an investment, in detail in the Private Placement Memorandum relating to each client fund.

The potential to earn performance-based compensation could give us an incentive to invest client assets in an aggressive or speculative manner. We seek to minimize this conflict by taking a disciplined approach to portfolio risk management. Finally,

performance allocations are based in part on unrealized gains and losses, so we may have an incentive to inflate the value of client assets through fair valuation determinations. Despite the presence of these conflicts of interest, we seek to act fairly when we allocate investment opportunities and value client assets. Our firm has adopted written policies and procedures that are designed to ensure fair allocations and valuations.

Affiliated Investment Adviser

We are affiliated with PCM IM Partners L.P. (discussed above), which is our related person.

Our investment professionals participate in managing the portfolios of more than one client and may work simultaneously for Pardus and PCM IM Partners L.P. As a result, they do not devote their exclusive attention to any single client.

D. 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**

- A. We have adopted a Code of Ethics in accordance with the U.S. Securities and Exchange Commission requirements. Our Code of Ethics works to better ensure that our employees' securities transactions are consistent with our firm's fiduciary duty to our clients and to ensure compliance with legal requirements and our firm's business conduct standards. It focuses on specific areas where employee conduct has the potential to affect clients' or investors' interests adversely.

Our Code of Ethics requires that each employee or control person must provide, shortly after the start of the individual's employment and annually thereafter, statements that represents each and any of the securities, commodities accounts, investments and private investments held (a) in such employee's name (individually or jointly with another person), and/or (b) in the name(s) of such employee's spouse, children, grandchildren, parents, or other relatives living in the same household as the employee, and/or (c) in the name of an organization which the employee controls. Each employee or control person must also submit to the firm and Steve Lew, the Chief Compliance Officer, monthly statements (or quarterly statements, if monthly statements are not provided) and trade confirmations for all trading activity no later than 30 days after the end of each calendar quarter. Each of our employees must make arrangements for Pardus to receive duplicate account statements by providing the brokerage firm with a copy of the letter requesting such duplicates.

Our employees may not engage in any personal securities transaction for inside accounts or affiliated accounts without obtaining *prior* approval from Steve Lew or Karim Samii. Employees must submit a completed, signed Investment Request Form. Requests and approvals are documented in writing.

Additionally, our Code of Ethics provides for a range of sanctions, both legal and those that our firm may impose as we deem, should anyone violate the Code of Ethics. Such sanctions include, but are not limited to, summary dismissal of the persons involved or suspected to be involved in such violations.

Each employee must annually execute a statement to the effect that he has read and understands, has complied with and will continue to comply with, the procedures set forth in this Code of Ethics.

The paragraphs above only represent a summary of certain provisions in our Code of Ethics. We provide a copy of our Code of Ethics to any client or any investor in our clients that requests one.

- B. Employees of our firm do not recommend to clients, nor do they buy or sell for client accounts, securities in which they have a material financial interest. Our firm, its employees, officers, partners, directors (and any persons performing

similar functions), and persons directly or indirectly controlling our firm, controlled by our firm or under common control with our firm, may not engage in a principal transaction with the firm's clients.

- C. Principals and employees of our firm buy and sell for themselves securities that they also buy and sell for our clients. This could create a conflict of interest if our principals and employees receive more favorable execution prices than do our clients because our principals' and employees' trades might have drive up the market prices of target securities. However, we eliminate this conflict by mandating that principals and employees cannot buy or sell such securities at the same time such securities are being traded on behalf of our clients.
- D. 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. For example, our Chief Compliance Officer considers a number of factors when deciding whether to approve an employee's Investment Request Form, and he may rescind any approval of a proposed transaction under certain circumstances. In addition, all of our employees are required to report regular information concerning their personal accounts and securities transactions, and must arrange for their brokerage firm to send Pardus duplicates of all account statements.

## 9. Brokerage Practices

A. We strive to obtain best overall execution of securities trades for our clients based on the circumstances of each transaction we place. In selecting broker or dealers and determining the reasonableness of their commissions for our clients' transactions, we take into account several factors, including, among others:

- the ability to achieve prompt and reliable executions at favorable prices;
- the operational efficiency with which transactions are effected;
- the financial strength, integrity and stability of the broker;
- the quality, comprehensiveness and frequency of available research and related services or other services or facilities provided by the broker or dealer that we consider to be of value; and
- the competitiveness of commission rates in comparison with other brokers satisfying our clients' overall selection criteria.

Subject to seeking best execution, the Investment Manager also may consider referrals of potential investors to our clients as a factor in the selection of brokers.

1. We May, but Do Not Currently Intend to, Utilize Research and Other Soft Dollar Benefits. Soft dollar benefits include research and related services furnished by brokers including written information and analyses (including specific market, financial and economic studies and forecasts), statistics and pricing services, discussions with research personnel and similar services used in the investment and trading process. The Investment Manager may pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage or research services, or other services or facilities provided by the broker. We do not currently intend to engage in soft dollar transactions. To the extent we determine to enter into soft dollar transactions, we will effect such transactions in compliance with the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Since commission rates in the U.S. as well as in certain other jurisdictions are negotiable, selecting brokers on the basis of considerations that are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

The Use of Soft Dollars Can Create a Conflict of Interest. We do not currently use soft dollars. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between

advisers and their clients. If we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to 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 and to pay for other costs and expenses that our firm might otherwise incur 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. 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.

2. We May Consider Referrals in Selection Brokers and Dealers. At times, we may have an incentive to select a broker 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 brokers and we may utilize their brokers 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.
  3. Our Clients Do Not Direct Brokerage. Our firm does not recommend, request or require that a client, nor do we permit a client to, direct us to execute transactions through a specified broker-dealer. We may, however, engage in soft dollar arrangements with a broker-dealer as described above.
- B. All of our clients within a particular master-feeder structure invest substantially in the same strategy. Our clients' administrator will be responsible for allocating the relative net assets from a master fund to its feeder funds, subject to Pardus's review and final approval.

## **10. Review of Accounts**

A. Portfolio managers will conduct an investment review of our clients' portfolios (generally aggregated in the applicable master fund's portfolio) on an as-needed basis, depending on market circumstances. The purpose of these reviews is to consider whether the portfolios are appropriately designed to achieve the relevant client's goals and balance risk and reward of existing and prospective investments, while also taking the Funds' guidelines into consideration. The portfolio managers will also, as appropriate, review and address matters concerning allocation of securities, if any.

The portfolio managers review all of our client portfolios and analyze their performance, generally on each trading day. The administrator of our funds and Pardus staff also perform a daily review of fund accounts to reconcile trades with respect to our funds' investment positions. The portfolio managers and analysts evaluate our funds' investments based on performance, company fundamentals, news and press releases, analyst reports, general market conditions and other considerations they deem appropriate. Investment professionals and compliance personnel also review each fund's trading parameters and investment strategies, generally on each trading day.

B. Our administrator provides our investors in our clients with written monthly valuation reports that provide monthly capital account balances and account performance statements. Our administrator also provides them 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.

Our firm does not, nor do any principals or employees of our firm, receive any compensation for client referrals.

## 12. Custody

While it is our firm's practice not to accept or maintain physical possession of any of our clients' assets (and our clients' assets are in the custody of one or more prime brokers), we are deemed to have custody of their assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, because, among other reasons, an affiliate of our firm serves as the general partner of fund entities that we advise.

### Pardus Fund Clients

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 assets of our clients. 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 generally accepted accounting principles (GAAP) to all investors in our clients when practicable after the end of the fiscal year. We also receive from our custodian monthly account statements on behalf of our fund clients, which we compare with our own records. While Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to all of its clients whose funds the custodian holds at least quarterly, we are not subject to such requirement because all hedge funds managed by our firm are subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board.

### **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, the broker through which we effect trades, and the commission rates at which we effect trades. We generally adhere to the investment strategy and program set forth in each of our fund's Private Placement Memorandum and investment management agreement.

#### Procedures for Assuming Authority

Before accepting their subscriptions for interests, we provide all investors in our clients with a Private Placement Memorandum and governing documents that set forth, in detail, our investment strategy and program and the terms of investment for investors. By completing our subscription documents to acquire an interest in one of our funds, investors give us complete authority to manage their investments in accordance with the Private Placement Memorandum and governing documents they each received.

## **14. Voting Client Securities**

### Proxy Voting Policies and Procedures

Our firm, in certain circumstances, has the authority to exercise voting discretion over securities or other financial instruments held in our client accounts. The portfolio managers, in consultation with the Chief Compliance Officer, will be responsible for voting proxies, either in writing or via the internet, for such clients. When voting client proxies, our firm is required to vote such proxies in the best interest of its clients. We determine how to vote after studying the proxy material and other materials that may be necessary or beneficial to voting. We vote in a manner that we believe reasonably furthers the best interests of the client and is consistent with the clients investment philosophy as set forth in the relevant investment management documents. However, we may abstain from proxy votes when, in our reasonable opinion, the outcome of the vote has been decided (regardless of how we may vote) or when the subject of the vote is immaterial to the investment or interest of our clients. The portfolio managers shall be responsible for maintaining records of the manner in which each proxy was voted.

The portfolio managers are responsible for monitoring corporate actions and receiving, processing and voting proxies. The portfolio managers and the Chief Compliance Officer will set this voting policy, and will review on a periodic basis new corporate governance issues as they arise and determine how our firm will respond to such issues. They also will take steps to ensure that those who assist in the administration of the voting of proxies perform their responsibilities consistent with these voting policies.

Proxies will be voted (i) on computerized proxy cards, where such cards are used by the security issuer, (ii) by returning the proxy voting card via mail per instructions provided by the security issuer, (iii) via e-mail or fax, or (iv) via the internet, in accordance with the specific procedures of such vote.

When a portfolio manager determines that voting a proxy is in a client's best interest, he or she generally considers relevant factors and information at his or her disposal to determine how to vote in a client's best interest.

Our portfolio managers do not vote on securities that our account custodian has loaned to a third party.

Clients cannot direct our portfolio managers' proxy votes.

### Potential Conflicts of Interest

In certain circumstances, to address a conflict of interest in the context of proxy voting, we may establish policies for proxy voting with respect to certain issues on which we will vote consistently. In other circumstances, where appropriate, to resolve conflicts of interest, we may consult with counsel and/or appoint an independent third party to evaluate and recommend the voting of proxies.

### Recordkeeping

Our firm maintains the following records relating to proxy voting, in an easily accessible place for five years, the first two years at its offices:

Copies of our proxy voting policies and procedures and any amendments.

Proxy statements received for client securities.

Records of proxy votes cast on behalf of our clients.

Records of requests from clients and investors in our funds for proxy voting information and our written responses to any such written or oral requests.

Communications received and internal documents created that were material to voting decisions.

Documentation of exceptions to our proxy voting policies.

Our firm may rely on the U.S. Securities and Exchange Commission's Edgar system for maintaining any proxy statements.

We shall provide a copy of our proxy voting policies and procedures and information regarding any proxies actually voted by a client to any investor in such client upon the request of such investor.

**15. Financial Information**

- A. We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. This item is not applicable because we are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.
- C. Pardus Capital Management L.P. has never been the subject of a bankruptcy petition.