

**Item 1. Cover Page**

**Form ADV Part 2A**

**Brochure of**

**Spitfire Capital LLC**

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This brochure provides information about the qualifications and business practices of Spitfire Capital LLC. If you have any questions about the contents of this brochure, please contact us at (415) 878-1903 or [patrick@spitfirecap.com](mailto:patrick@spitfirecap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

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

Registration with the SEC does not imply a certain level of skill or training.

## **Item 2. Material Changes**

Please note our new address on the cover page.

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#### **Item 4. Advisory Business**

- A. Spitfire Capital LLC (“Spitfire” or “we”) is a Mill Valley-based investment adviser. We are registered with the SEC<sup>1</sup>. We have been in business since July 2007. Mr. Julian Allen is the Founder, Managing Member and sole owner of Spitfire (the “Managing Member”).
- B. Spitfire serves as the exclusive investment adviser to three private investment funds (the “Funds”): The Spitfire Fund L.P., The Spitfire Qualified Fund L.P., each a Delaware limited partnership, and The Spitfire Qualified Fund Ltd. (the “Offshore Fund”), a Cayman Islands exempted company. The Offshore Fund invests the majority of its assets in The Spitfire Qualified Fund L.P. in a master-feeder structure. Spitfire Fund GP LLC, an affiliate of Spitfire, serves as the general partner (the “General Partner”) of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P. Spitfire provides similar services to two separately managed account clients (each a “Separate Account”, collectively the “Separate Accounts” and together with the Funds, the “Clients”) and may in the future provide similar services to additional private investment funds or separate account clients.
- C. Spitfire invests primarily in publicly traded U.S. equities on behalf of its Clients, but is authorized to enter into any type of investment transaction it deems appropriate, pursuant to the terms of the Funds’ partnership agreements and investment management agreements, and the Separate Accounts’ investment advisory agreements. Separate account clients may impose certain restrictions including on investing in certain securities or types of securities.
- D. We do not participate in wrap fee programs.
- E. As of February 28, 2017, Spitfire’s total regulatory assets under management were \$271,045,955. All assets are managed on a discretionary basis.

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<sup>1</sup> Registration with the SEC does not imply a certain level of skill or training.

## Item 5. Fees & Compensation

- A. We generally charge each investor in the Funds a quarterly management fee equal to 0.375% of the balance in the investor's capital account as of the first day of each calendar quarter. This equates to an annual management fee of 1.5%.

The General Partner of the Funds is generally allocated an annual performance fee (the "Special Allocation") equal to 20% of the annual net profits allocated to each investor in the Funds, including both realized and unrealized gains and losses, but only to the extent annual net profits exceed cumulative losses previously allocated to an investor for earlier periods that have not been recovered (the "High Water Mark"). The Special Allocation is made at the end of each calendar year. Please see Item 6 for further discussion of performance fees.

Special Allocations will be made only by investors in the Funds who are "qualified clients" within the meaning of Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The Special Allocation is structured to comply with Rule 205-3 of the Advisers Act.

The Separate Accounts are charged a monthly management fee of 0.125% of the gross value of the respective account as of the start of each calendar month. This equates to an annual management fee of 1.5%. At the end of each calendar year, we also charge an annual performance fee based on the net capital appreciation of each Separate Account for the year then ended, including realized and unrealized gains and losses, subject to each Separate Account's respective High Water Mark. Annual performance fees will be paid only by Clients who are "qualified clients" within the meaning of Rule 205-3 of the Advisers Act. The performance fees are structured to comply with Rule 205-3 of the Advisers Act.

While the fees described above are our standard fees, our fee arrangements may vary among the investors in the Funds and between the Separate Accounts. We believe that our fees are competitive with those charged by other investment advisers for comparable services although other investment advisers may offer comparable services for lower fees.

Investors should refer to the Funds' partnership agreements and investment management agreements, and the Separate Accounts' investment advisory agreements for a full description of costs and expenses that may be borne by the Clients.

- B. We deduct management fees directly from the Funds' accounts in arrears on a quarterly basis at the end of each calendar quarter and invoice the Separate Accounts at the end of each calendar quarter for fees incurred during that quarter.

Special Allocations, if applicable, are automatically allocated from the capital account of each investor in the Funds to the General Partner's capital account at the end of the calendar year. We invoice the Separate Accounts at the start of each calendar year for performance fees earned in the previous year.

Strata Fund Solutions LLC, an independent third party administrator (the "Administrator"), verifies, among other things, that the calculation of the Funds' management and performance fees is mathematically accurate. Please note that we may change the independent third party administrator at any time.

- C. In addition to management and performance fees, Clients pay all brokerage commissions and other trading and transaction costs. The Funds also incur: (a) the cost of an annual audit; (b) the cost of the Administrator's services; (c) fees of the legal counsels used in connection with the organization and ongoing operations of the Funds; (d) annual filing fees; and (e) for the Offshore Fund only, Directors' fees, Registered Office fees, Registrar & Transfer Agent fees and annual Regulatory and License fees. Separate account clients may elect whether or not to have their account audited and whether or not to retain the services of the Administrator or another independent third party administrator.

Clients do not typically pay separate custodial fees. They obtain custodial, clearing and related services through what is known as a "prime brokerage" arrangement. Under this arrangement, a brokerage firm (the "Prime Broker"), among other things: (i) arranges for the receipt and delivery of securities bought, sold, borrowed and lent; (ii) makes and receives payments for securities purchased or sold; (iii) maintains custody of Client's cash and securities; (iv) tenders securities in connection with tender offers, exchange offers, mergers or other corporate reorganizations; and (v) provides detailed portfolio and accounting reports. The Prime Broker allows Spitfire to use other broker-dealers to execute transactions. This permits Spitfire to seek valuable research and to compare execution quality and commission rates from other broker-dealers, while maintaining only one custodial relationship. By using a Prime Broker, Clients avoid paying custodial fees that banks charge other institutional investors. The Prime Broker is compensated through trading commissions, interest on credit and debit balances, stock loan fees and ticket fees all of which are paid by Clients.

Wells Fargo Prime Services, LLC currently serves as the Prime Broker to Clients with its affiliate, Wells Fargo Securities, LLC serving as custodian. We may change Prime Broker, alter the terms of our prime brokerage arrangements with the Prime Broker or make alternative arrangements to receive the services currently provided by the Prime Broker, all in our absolute discretion.

The Prime Broker may provide additional services to Spitfire, or its related persons, distinct from the custodial, lending and related services provided to Clients. These services may include consulting services with respect to various aspects of our business. They may be provided at lower than the market price for

similar services or for no charge. They may include introducing us to prospective investors in the Funds and to other prospective advisory clients. To the extent that we receive services from the Prime Broker at lower than market prices, because we are responsible for selecting the Prime Broker or negotiating the rates of compensation paid to the Prime Broker, conflicts may exist between our interests and those of our Clients. We may have an incentive to cause Clients to accept less favorable pricing for prime brokerage services (including interest and similar charges on margin borrowings and short positions) than might otherwise be available or to continue to use the Prime Broker when the Clients would not otherwise do so. We believe the commissions and fees paid to the Prime Broker are reasonable and competitive with the commissions and fees charged by other prime brokers of similar quality for services of comparable quality.

Please refer to Item 12 for additional discussion of our brokerage arrangements.

- D. Clients do not typically pay our fees in advance. If an advisory contract is terminated before the end of a billing period, we will refund any pre-paid but unearned advisory fees pro-rata based on the number of business days in the billing period.
- E. Neither we, nor any of our supervised persons, accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

As discussed in Item 5, in addition to management fees, the General Partner receives a Special Allocation equal to a percentage of the net profit allocated to each investor in the Funds at the end of each calendar year, subject to each investor's High Water Mark. We also charge the Separate Accounts an annual performance fee based on the net capital appreciation of each account for the year then ended, subject to each Separate Account's respective High Water Mark.

Since our performance-based fees may vary among the investors in the Funds and between Separate Accounts, we may have an incentive to allocate the most attractive investment opportunities to those Funds and Separate Accounts with the highest performance-based fees. We address this potential conflict of interest by allocating all investment opportunities to Clients on a pro-rata basis regardless of each Client's fees, subject to each Client's respective investment parameters, liquidity requirements, eligibility for participating in new issues and other restrictions. Investors in the Funds participate in the Funds' investments on a pro-rata basis, subject only to restrictions on participating in new issues or special investments, regardless of differences, if any, in their respective fee arrangements.

## **Item 7. Types of Clients**

We serve as the exclusive investment adviser to three private investment funds (the “Funds”): The Spitfire Fund L.P., The Spitfire Qualified Fund L.P., each a Delaware limited partnership, and The Spitfire Qualified Fund Ltd., a Cayman Islands exempted company. Spitfire Fund GP LLC, an affiliate of Spitfire, serves as the General Partner of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P.

Spitfire provides similar services to two separately managed account clients that are organized as limited liability companies. We may in the future provide similar services to additional private investment funds, separate account clients, individuals, pension and profit sharing plans, trusts, estates, charitable organizations or corporations.

The Funds are privately-offered investment funds that are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”) because of an exemption under either Section 3(c)(1) or Section 3(c)(7) of that Act.

Each investor in The Spitfire Fund L.P. must qualify as (i) an “accredited investor,” as defined under the Securities Act of 1933, as amended (the “Securities Act”), and (ii) a “qualified client” as defined in Rule 205-3 of the Advisers Act.

Each investor in The Spitfire Qualified Fund L.P. and each US investor in The Spitfire Qualified Fund Ltd. must qualify as (i) an “accredited investor,” as defined under the Securities Act, and (ii) a “qualified purchaser”, as defined in Section 2(a)(51) of the Investment Company Act.

Each Separate Account investor must be eligible to enter into a performance fee arrangement under applicable law.

We generally also require Clients and investors in the Funds to make representations concerning their sophistication as investors and their ability to bear the risk of loss of their entire investment.

We require a minimum investment of \$1,000,000 for the Funds and \$5,000,000 for separate account clients. These minimums may be reduced at our discretion.

## Item 8. Methods of Analysis, Investment Strategies & Risk of Loss

- A. We focus primarily on investing in the equity securities of smaller capitalization public U.S. companies. Our primary method of analysis involves fundamental analysis of a company's financial condition and its future prospects. We rely on annual reports and other company filings with the SEC, company press releases, analyst reports, company visits, meetings with company management and other primary due diligence. We review industry specific publications, general publications including newspapers, as well as financial publications and newsletters, among other information sources.

Our investment strategies may utilize investment techniques including, but not limited to, buying on margin, short sales and options on securities which can, in certain circumstances, increase the adverse impact to which Clients may be subject. Investing in securities involves the risk of loss that Clients and investors in the Funds should be prepared to bear.

- B. An investment in the Funds or in a separate account involves a high degree of risk and an investor should be aware that it may lose all or part of its investment. We believe that our investment strategy and research techniques moderate this risk through careful selection of securities, the use of short positions and other financial instruments. **HOWEVER, NO GUARANTEE OR REPRESENTATION IS MADE THAT THE INVESTMENT PROGRAM WILL BE SUCCESSFUL.**

The following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Funds or in a separate account. Prospective investors and separate account clients should read the Funds' respective Private Placement Memoranda in their entirety and consult with their own professional advisers before deciding to invest in the Funds or in a separate account.

*Broad Discretion.* Although we may generally follow investment guidelines, including position limits and liquidity and diversification requirements, there are no or few restrictions on how we may invest our Clients' assets.

*Limited Liquidity.* An investment in the Funds provides limited liquidity because interests in the Funds are not freely transferable and investors are subject to an initial lock-up and limited withdrawal rights thereafter.

*Limited Diversification.* Although we may from time to time follow guidelines on diversification, there are no limits on our investment discretion. At any given time, it is therefore possible that we may select investments that are concentrated in a particular market or industry or in a limited number or type of securities. This limited diversification could expose investors to losses disproportionate to

market movements in general if there are disproportionately greater adverse price movements in those investments.

*Illiquid Portfolio Securities.* We may invest in securities of private companies and privately issued securities of public companies. We may not be able to readily dispose of such non-publicly traded securities and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

*Disclosure of Positions.* In an effort to protect the confidentiality of its positions, we do not intend to disclose the Funds' positions to investors on an ongoing basis, although we may permit such disclosure on a selective basis to certain investors and certain other parties if we determine that there are sufficient confidentiality agreements and procedures in place. Further, the Funds may not disclose their investment positions in their annual financial statements, if they determine that such confidential treatment is desirable. In certain situations, however, disclosure of Client positions, and changes in those positions, may be required under federal securities laws, including, for example, where Clients accumulate a significant position in a publicly-traded security. Institutional Investment Managers like Spitfire that exercise investment discretion over \$100mm or more in Section 13(f) securities are required to make a quarterly filing of Form 13F pursuant to Section 13(f) of the Securities Exchange Act of 1934 (the "Securities Exchange Act"). Spitfire made its first such filing on February 14, 2014 for Section 13(f) securities owned as of December 31, 2013. The disclosure of Clients' positions could affect our ability to dispose of the positions or the prices at which the positions may be disposed.

*Investing In Small- And Medium-Sized Companies.* We typically invest in the securities of small and medium sized companies. Prices of small-capitalization and medium-capitalization securities tend to be more volatile than prices of large-capitalization securities. Such companies' securities are more likely to trade at prices that reflect incomplete or inaccurate information. During some periods, securities of smaller companies have under-performed the securities of larger companies. Moreover, the risk of bankruptcy or insolvency of many small companies (with the attendant losses to investors) is often higher than for larger, "blue-chip" companies. In addition, due to thin trading in some small-capitalization securities, an investment in such securities may be illiquid and require more time for us to sell such securities.

*Growth Stage Companies.* We may invest in securities of companies that are in the growth stage of their operational history. While investments in growth stage companies can offer the opportunity for significant capital gains, such investments may involve a high degree of business and financial risk that could result in substantial losses. The stock market has, at different times, experienced volatility that has particularly affected the securities of different industries, such

as technology. As a result, Clients' accounts may experience substantial volatility if we invest in companies operating in a particularly volatile industry.

*Investments in Undervalued Securities.* The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that we will be able to successfully recognize or acquire such securities. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from Clients' investments may not adequately compensate for the business and financial risks assumed.

We may make certain speculative investments in securities that we believe to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, Clients may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Clients' capital would be committed to the securities purchased, thus possibly preventing Clients from investing in other opportunities. In addition, Clients may finance such purchases with borrowed funds and thus will have to pay interest on such borrowings during such waiting periods.

*Event Driven Investing.* Event driven investing requires us to make predictions about (i) the likelihood that an event will occur, and (ii) the impact such event will have on the value of a company's securities. Clients can incur losses if the event fails to occur or it does not have the predicted effect. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction or restructuring programs by a company may not be valued as highly by the market as we had anticipated, resulting in Client losses. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors. Because of the inherently speculative nature of event driven investing, our results with respect to any such investments may be expected to fluctuate from period to period and will not necessarily be indicative of results that may be expected in future periods.

*Risks of Owning Significant Positions.* We may acquire positions exceeding 10% of the equity securities of a publicly traded company or may become a member of the board of directors of a portfolio company. In that event, Clients will become subject to Section 16 of the Securities Exchange Act and will be required to report all purchases and sales of such securities, and will be required to disgorge all profits realized by any sale or purchase within six months of another purchase or sale of such securities. To avoid the obligation to disgorge such profits, Clients will be required to hold positions for longer than circumstances may warrant, with

the result that we may be unable to dispose of a position at a propitious time. Our inability to dispose of a position on a timely basis may reduce profits and/or result in losses.

If we have a nominee serving on a company's board of directors, we will likely have access to information about the company that is both material and non-public. Until that information is disclosed to the public or is no longer material, we will be unable to acquire additional securities of the company or dispose of any portion of a Client's position. This situation could make the position illiquid for an indefinite period of time and would likely impair the ability of us to otherwise invest Clients' capital or to meet a withdrawal request.

*Leverage and Financing Risk.* We may utilize leverage in order to achieve a higher rate of return. Accordingly, we will pledge Client securities to the lender in order to borrow additional funds for investment purposes. We may also leverage investment returns with options, commodity futures contracts, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which Clients may have outstanding at any time may be substantial in relation to their respective capital.

While leverage presents opportunities for increasing Clients' total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent the account is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to our investments could result in substantial loss, which would be greater than if the account was not leveraged.

In addition, in the event of a sudden drop in the value of Client securities, we might not be able to liquidate securities quickly enough to satisfy margin requirements.

The financing used to leverage portfolios will be extended by securities brokers in the markets in which we invest. While we will attempt to negotiate the terms of these financing arrangements with such brokers, our ability to do so is limited.

*Distressed Securities.* We may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, or facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. There is no assurance that we will evaluate correctly the value of the assets or securities held by Clients in any such companies or the prospects for a successful reorganization or similar action. Clients may lose their entire investment in any reorganization or liquidation proceeding relating to any such company, or may be required to accept cash or

securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from such investments may not compensate Clients adequately for the risks assumed.

*Futures.* The Funds may trade in futures contracts (and options on futures). Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Under such daily limits, during a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Clients from promptly liquidating unfavorable positions and subject Clients to substantial losses. In addition, Clients may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

*Options.* We may buy or sell call options and put options, and when we sell options we may do so on a “covered” or an “uncovered” basis. Options transactions may be part of a hedging tactic (i.e. offsetting the risk involved in another securities position) or a form of leverage, in which Clients have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

*Short Selling.* Short selling involves selling securities that are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to Clients of buying those securities back to cover the short position. There can be no assurance that Clients will be able to maintain the ability to borrow securities sold short. In such cases, Clients can be “bought in” (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

*Loans of Portfolio Securities.* We may lend securities held by Clients. By doing so, we attempt to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, Clients could

experience delays in recovering the loaned securities. To the extent that the value of the securities lent has increased, Clients could experience a loss if such securities are not recovered.

*Cybersecurity Risks.* The computer systems, networks and devices used by Spitfire and its service providers to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized by Spitfire and its service providers, systems, networks and devices potentially can be breached. Such breaches may cause disruptions and impact business operations, potentially resulting in: financial losses to Clients; interference with Spitfire's ability to calculate the value of an investment in a Client; impediments to trading; the inability of Spitfire to transact business; violations of applicable privacy and other laws; and the inadvertent release of confidential information.

C. See Item 8B above.

**Item 9. Disciplinary Information**

Not applicable.

**Item 10. Other Financial Industry Activities and Affiliations**

- A. Not applicable.
- B. Not applicable.
- C. As noted in Item 4, Spitfire Fund GP LLC, an affiliate of Spitfire, serves as the General Partner of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P. Mr. Julian Allen is the Managing Member and owner of Spitfire and the General Partner. In addition, Mr. Julian Allen serves as a Director of The Spitfire Qualified Fund Ltd.
- D. Not applicable.

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

- A. Spitfire has adopted a Code of Ethics in compliance with Rule 204A-1 under the Advisers Act that establishes standards of conduct for its employees (“Supervised Persons”). Our Code of Ethics includes general requirements that Supervised Persons comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal account trading, insider trading and conflicts of interest. Policies and procedures related to personal account trading are partly intended to prevent Supervised Persons and their related persons from inappropriately benefiting from price movements that may be caused by transactions executed on behalf of Clients. Pursuant to our Code of Ethics, Supervised Persons are generally prohibited from personal account trading in a company’s equity securities, except in limited circumstances and only upon receiving prior written approval from the Chief Compliance Officer (the “Compliance Officer”).

All personal trading accounts of Supervised Persons are monitored by the firm’s Compliance Officer and all Supervised Persons are required to submit to the Compliance Officer quarterly reports regarding personal securities transactions, as well as annual reports regarding personal securities holdings. The Compliance Officer receives and reviews duplicate broker statements for all personal trading accounts of Supervised Persons.

The Code of Ethics also covers the conduct of Outside Business Activities, Political Contributions and Gifts and Business Entertainment.

We will provide a copy of our Code of Ethics to any Client or investor in the Funds or prospective Client or investor in the Funds upon request.

- B. Not applicable.
- C. From time to time, we may cause a Client to invest in a security in which a Supervised Person has an ownership position. A Supervised Person may also receive as a distribution a security that is held in a Client’s account. Supervised Persons holding such a position might have an incentive to recommend such securities for purchase by the Funds or other Client in order to increase the value or liquidity of such position. Given our general prohibition on personal account trading in equity securities, such circumstances are rare.
- D. Not applicable.

## Item 12. Brokerage Practices

- A. Spitfire has complete discretion over the selection of broker-dealers to be used by its Clients and the commission rates or other transaction-related compensation to be paid. We are not required to consider any particular criteria in choosing broker-dealers but we have a duty to obtain “best execution” of securities transactions executed for our Clients. What constitutes “best execution” and determining how to achieve it are inherently uncertain.

We consider a range of factors in evaluating whether a broker-dealer will provide best execution. These include, among others, historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance, settlement and error correction capabilities of the broker-dealer generally and in connection with securities of the type and in the amounts to be bought or sold; the broker-dealer’s willingness to commit capital; the broker-dealer’s reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; the market for the security; and, as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the broker-dealer. We are not required to select the broker-dealer that charges the lowest transaction cost, even if that broker-dealer can provide execution quality comparable to other broker-dealers, and Clients should expect at times to pay more than the lowest transaction cost available in order to obtain services and products other than the execution of securities transactions.

### 1. Research and Soft Dollar Benefits.

We may select broker-dealers for Client transactions that provide various research and brokerage services and products beyond trade execution (“Soft Dollar Benefits”). We may also “mark-up” a broker-dealer’s execution commission in order to pay for research and brokerage services and products provided by third parties. When we use Client commissions (or markups) to obtain research or brokerage services and products from a broker-dealer or third party, we receive a benefit because we do not have to pay for the research, service or product ourselves. In addition, we may have an incentive to select a broker-dealer based on our interest in receiving research or brokerage services and products rather than our Clients’ interests in receiving the lowest execution commission. Section 28(e) of the Securities Exchange Act recognizes this potential conflict of interest but protects investment managers such as Spitfire from claims that the activity involves a breach of fiduciary duty to Clients, even if the brokerage commissions paid are higher than the lowest available, if certain conditions and requirements are met. For these purposes, “research” means services or products used to provide lawful and appropriate assistance to the adviser in making investment decisions for its clients. “Brokerage” services and products are those used to effect

securities transactions for adviser's clients or to assist in effecting those transactions.

To be protected under Section 28(e), we must, among other things, determine that commissions paid are reasonable in light of the value of the "brokerage" and "research" services and products acquired. Section 28(e)'s "safe harbor" protects the use of an account's soft dollars even when we use research and brokerage services and products to benefit Clients other than that account. Notwithstanding this protection, we could be considered to have a conflict of interest when we use soft dollars for research and brokerage services and products because we might otherwise have to pay cash for those services and products and may have an incentive to use broker-dealers who provide those products and services more than we otherwise would.

The types of "research" we expect to acquire include (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services; and other services that may enhance our investment decision making. "Brokerage" services and products (beyond typical execution services) include (but are not limited to): communications services related to the execution, clearing, and settlement of securities used for such things as communicating orders electronically to executing broker-dealers.

In some cases, the commissions charged by a broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research or brokerage services or products might charge. Clients may therefore pay a brokerage commission in excess of that which another broker-dealer might charge for effecting the same transaction in recognition of the value of the brokerage, research and other services and products provided. In such cases, however, we generally determine, considering all appropriate factors, that the commissions paid are reasonable in relation to the value of all the brokerage and research services and products provided by the broker-dealer. In making that determination, we may consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular Client, but also the value of those services to the performance of our overall investment responsibilities to all of our Clients.

In some cases, a Client's transaction may be executed by a broker-dealer in recognition of brokerage and research services and products that are not used in managing that Client's account. These brokerage and research services and products may help us manage portfolios other than the Client's.

We do not use soft dollars to acquire services and products that provide benefits to us that do not qualify as research or brokerage under Section 28(e) nor to pay expenses otherwise payable by us.

Within the last fiscal year, we used client commissions and markups to pay for research reports published by broker-dealers and other parties, company financial data, industry data, economic and market data, access to broker-dealer industry conferences and access to broker-dealer research analysts.

The majority of Client transactions in the last fiscal year were executed with broker-dealers who provide us with soft dollar benefits. We believe these broker-dealers provided a number of valuable research and brokerage services to Clients and that the commissions paid were reasonable in light of the value of these services.

2. Not applicable.
  3. Not applicable.
- B. We generally aggregate orders for the purchase or sale of securities for our various Clients. When we do aggregate orders, we will allocate the transactions (and the related transaction expenses) on an average price basis among Clients. We believe that combining orders in this way will, over time, be advantageous to all Clients. However, the average price could be less advantageous to a Client than if the Client had been the only account effecting the transaction or had completed its transaction before the other participants. There may be circumstances in which we conclude that a Client's transactions may not or should not, under certain laws, regulations and internal policies, be combined with those of other Clients. This may cause that Client to obtain less advantageous execution than other Clients whose transactions are aggregated.

### **Item 13. Review of Accounts**

- A. The Managing Member reviews every Client account daily. Particular attention is paid to the current earnings, future prospects, industry outlook and stock price of the individual securities held by each Client. At a Client level, factors such as the percentage of assets invested in each security, industry concentration and cash position are also considered. Client accounts are also reviewed regularly to ensure compliance with the governing documents of the accounts and any restrictions on individual securities and portfolio construction imposed by the Separate Account Clients, if any.
- B. Not applicable.
- C. All investors in the Funds receive a monthly account statement from the Administrator and monthly performance summary from Spitfire. Investors in the Funds also receive a quarterly letter from Spitfire describing performance for the preceding quarter and our investment outlook. On an annual basis, all investors in the Funds are provided with a copy of the relevant Fund's audited financial statements.

Separate Account Clients receive monthly financial statements prepared by the Administrator or Spitfire and an account statement prepared by the Prime Broker. They also receive the monthly performance summaries and quarterly letters provided by Spitfire.

**Item 14. Client Referrals and Other Compensation**

- A. Spitfire does not receive any economic benefit, directly or indirectly from any third party for advice rendered to Clients.
- B. Currently, neither Spitfire nor its related persons directly or indirectly compensates any person who is not a supervised person for Client referrals. If in the future Spitfire enters into such arrangements, this Brochure will be appropriately amended.

**Item 15. Custody**

All Client assets are held in custody by Qualified Custodians unaffiliated to Spitfire. However, because Spitfire is an affiliate of the General Partner of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P., Spitfire is deemed to have custody of these two Funds' assets within the meaning of the Advisers Act. These Funds are audited annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and are delivered to each investor in the Funds within 120 days of the Funds' fiscal year end. KPMG LLP currently serves as the Funds' auditor. Wells Fargo Securities LLC and First Republic Bank currently serve as Qualified Custodians.

## **Item 16. Investment Discretion**

We provide investment advisory services on a fully discretionary basis to Clients. Separate Account Clients may impose restrictions on investing in certain securities or types of securities or other restrictions as agreed with Spitfire.

Prior to assuming full discretion in managing a Client's assets, we enter into an investment management agreement or other agreement that sets forth the scope of our discretion and typically includes a limited power of attorney. We generally have the authority to determine, among other things: (i) the securities to be purchased and sold for the Client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines); (ii) the amount of securities to be purchased or sold for the Client account; and (iii) the broker-dealers to be used for the purchase or sale of Client securities and the commission rates to be paid. Because of the differences in Client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Clients in invested positions and securities held.

We may consider the following factors, among others, in allocating securities among Clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is our general policy to allocate investment opportunities to eligible Client accounts on a pro-rata basis (based on the value of the assets of each participating account relative to the value of the assets of all participating accounts), these factors may lead us to allocate securities to Client accounts in varying amounts. Even Client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g. equities) divided by the total assets of all accounts eligible to invest in the particular investment.

We may from time to time effect cross transactions between Client accounts, except as otherwise noted below. Cross transactions enable us to effect a trade between two Clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and avoiding commission costs for both Clients. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed Client accounts remain substantially similar. We have a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

**Item 17. Voting Client Securities**

- A. We have the authority to vote Client securities and have adopted written proxy voting policies and procedures in accordance with Rule 206(4)-6 of the Advisers Act. In voting Client proxies, we are guided by general fiduciary principles. Our goal is to act prudently and in the best interest of Clients, and accordingly, of investors in the Funds. We seek to consider all positive and negative consequences our vote could have on the value of the investment. When we vote proxies, we will do so in a manner that we believe will be consistent with efforts to maximize the value of Clients' accounts. At our discretion, we may choose not to vote on a particular proxy.

Clients may obtain a copy of our proxy voting policies and procedures and information about how we voted a particular Client's proxies by contacting Patrick Ryan at [patrick@spitfirecap.com](mailto:patrick@spitfirecap.com) or (415) 878-1903.

- B. Not applicable.

**Item 18. Financial Information**

- A. Not applicable.
- B. Spitfire has discretionary authority over Clients' assets. At this time, we do not have any financial conditions that are reasonably likely to impair our ability to meet contractual commitments to Clients.
- C. Not applicable.