



## **ITEM 1 – COVER PAGE**

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**This Form ADV Part 2A (the “Brochure”) provides information about the qualifications and business practices of Linx Partners, LLC. If you have any questions about the contents of this Brochure, please contact us at (770) 818-0335. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

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

## **ITEM 2 – MATERIAL CHANGES**

Not applicable.

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## **ITEM 4 - ADVISORY BUSINESS**

Linx Partners, LLC (“Linx”) was formed as a Delaware limited liability company in 1999. Linx creates and manages pooled investment vehicles, including four private equity funds and three co-investment funds. Linx’s private equity funds include Linx Partners (Q), L.P., Linx Partners, L.P., Linx Partners II, L.P. and Linx Partners II (A), L.P. (collectively, the “Partnerships”). Its co-invests include Linx-ADS Co-Invest, LLC, Linx-Cimarron Energy Co-Invest, LLC and Linx-Metaltech Co-Invest, LLC (collectively, the “Co-Invests”). The Partnerships and Co-Invests will henceforth be collectively referred to as the “Funds.” Linx’s members include Barbara M. Henagan, Peter J. Hicks and Edward A. Leinss (collectively, the “Members”). Ownership is divided equally between the three Members.

Linx Partners, L.P. and Linx Partners (Q), L.P. (collectively “Linx Fund I”) and Linx Partners II, L.P. and Linx Partners II (A), L.P. (collectively “Linx Fund II”) are parallel investment entities which invest together proportionately in all portfolio investments and dispose of investments at the same time and on the same terms and conditions subject to applicable legal, tax or regulatory considerations. They generally share proportionately in expenses.

Linx Partners II, LLC was formed as a Delaware limited liability company in 2005. Its members and ownership %’s are the same as those of Linx, as referenced above. Linx Partners II, LLC is the general partner or manager of some of the Funds.

### **Types of Advisory Services**

Linx provides investment management and advisory services to the Funds, which may include formation of the Funds, due diligence of potential investments, portfolio management and sales of portfolio companies, among other activities. Investment objectives and strategies of the Funds are typically set forth in documents, including but not limited to, the private placement memorandum and partnership agreement or limited liability company operating agreement (collectively the “Fund Documents”).

The Partnerships are pooled investment vehicles formed for the purpose of achieving capital appreciation primarily through making investments in equity securities issued by middle market companies in the United States and Canada as further described in the Partnerships’ Fund Documents. Linx, or Linx Partners II, LLC, acts as general partner to these Partnerships and also provides a specified percentage of the capital for the formation of such Partnerships.

The Co-Invests are pooled investment vehicles formed solely for the purpose of investing in and managing securities a specific company, and only that company, and are created from funds sourced from individual limited partners in the Partnerships, employees of Linx, as well as, Linx Partners II, L.P. and Linx Partners II (A), L.P. Linx or Linx Partners II, LLC acts as manager to the Co-Invests.

Linx's advisory services consist of acting as general partner or manager to multiple pooled investment vehicles (the Funds) which have been created to invest in middle market companies. Where Linx is the investment adviser to the Funds, the Funds—*not* any individual limited partner or member—is Linx's client. As such, the investment objectives and guidelines of each Partnership are not specifically tailored to the individual needs of the investors in the Partnership.

### **Wrap Fee Programs**

Linx does not participate in wrap fee programs.

### **Assets Under Management**

Linx Partners had \$152.9 million in discretionary assets and \$21.1 in non-discretionary assets under management as of December 31, 2011. Please see Linx's Form ADV Part 1A – Item 5.F for more information.

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedules**

During the commitment period of each Partnership, the Partnership pays Linx, an annual management fee (the "Management Fee") quarterly in advance equal to 2% of the limited partners' committed capital in the Partnership; thereafter, Linx receives an annual Management Fee paid quarterly in advance equal to 2% of the Partnership's total undistributed capital or cost basis of assets remaining in the Partnership. The Management Fee is typically offset by 50% to 100% of any fees received by Linx as described in Item 5, Other Fees and Expenses. Fees for each Fund are described in the Fund Documents. Co-Invests do not pay Management Fees or any other fees to Linx.

Linx reserves the right to waive all or a portion of its management fee as defined in the Fund Documents.

### **Deduction of Fees**

Linx deducts fees from the Partnerships' assets on a quarterly basis.

### **Other Fees and Expenses**

Linx may charge transaction, portfolio company management or similar fees, payable by a portfolio company, in connection with portfolio investments. In addition, Linx may receive break-up or similar fees or awards, if any, in connection with transactions not completed. 50% of break-up, transaction, portfolio company management or similar fees paid to Linx are first used to offset or reimburse Partnership expenses and thereafter to reduce future Management Fee contributions of the limited partners.

The Partnerships bear legal and organizational expenses, including the legal, travel, printing, marketing, accounting, filing, capital, start-up and other organizational expenses of Linx and its agents incurred in the formation and capitalization of the Partnerships up to \$500,000.

The Partnerships also pay all other costs and expenses relating to the Partnerships' ongoing activities (to the extent not reimbursed by a portfolio company), including the Management Fee (as discussed in Item 5), legal, auditing, consulting, financing and accounting expenses; costs for preparation of financial statements, tax returns, and K-1s; expenses of the Partnership' Advisory committees, if applicable, and annual meetings of the limited partners; insurance and other expenses associated with the acquisition, holding and disposition of its investments; all third-party expenses in connection with transactions not consummated; and extraordinary expenses (such as litigation); and any taxes, fees or governmental charges levied against the Partnerships.

### **Prepaid Fees**

Management Fees are typically paid quarterly in advance. Management fees are generally not refundable absent certain circumstances as described in the Fund Documents.

### **Compensation for the Sale of Securities**

Neither Linx, Linx Partners II, LLC, nor any of its owners, staff, or supervised persons accepts compensation, directly or indirectly, from the sale of securities or other investment products.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The General Partners (Linx or Linx Partners II, LLC) of the Partnerships have the right to receive a share of the capital appreciation of the assets of the pooled investment vehicle, referred to as "Carried Interest." The fee is calculated upon a liquidity event from each investment held by the Partnership.

The distributions of proceeds from investments are made by each Partnership according to the Fund Documents which generally provide for distributions to limited partners in proportion to their funded capital commitment until their capital and a certain return hurdle have been returned. Thereafter, distributions are made 80%/20% or 50%/50%, or a combination thereof, to the General Partners and limited partners, respectively.

Because the percentage of profits allocated to Linx exceeds its capital contribution percentage, Linx may have an incentive to make investments that are riskier or more speculative than would be the case in the absence of such compensation arrangement. However, as described in the Fund Documents, upon the liquidation of the Partnerships, the General Partner may be required to restore funds to the extent that limited partners have not received distributions equal to their contributed capital plus the certain return

hurdle related thereto, but in no event shall the General Partner be obligated to restore more than the cumulative distributions received by the General Partner solely in respect of its 20% carried interest (less income taxes thereon).

In addition to the performance-based fees described above, Linx receives a Management Fee based on assets as referenced in Item 5 above.

Unlike the Partnerships, the Co-Invests do not pay Management Fees or Carried Interest. The Co-Invests are allocated investments and invest side by side with the Partnerships which mitigates any conflicts of interest.

## **ITEM 7 - TYPES OF CLIENTS**

Linx's clients are the Funds as described in Item 4 and consist of limited partnerships and limited liability companies.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Linx invests primarily in the middle market. It targets companies in the \$20 to \$150 million annual sales range in both the private and public markets that meet certain business and valuation criteria. Many small companies lack sufficient management depth, operating financial systems or growth strategies to take their performance to the next level. Linx is committed to understanding the specific issues prior to closing and solving them through the efforts of management, Linx and the board of directors.

Below is a list of the attributes that Linx looks for in a new company investment:

- CEO Character
- CEO Chemistry with Linx
- Sales of \$20 to \$150 Million
- Proprietary Products and Services
- Stability and Predictability of Cash Flow (Cash Generation)
- Management Team that is Motivated by Incentives
- Growth Prospects that are Capable of Exceeding Industry Averages
- Stable Customer Base
- New Product or Geographic Opportunities
- Fairly Priced Transaction

The evaluating process requires a thorough due diligence review of the target company and its industry. Linx has had considerable investing and advisory experience in a variety of business niches within the light industrial manufacturing, industrial services and specialty distribution sectors.

Before making an equity investment, Linx relies upon its own industry experience as well

as its advisory board, Linx investors, industry consultants and other executive contacts to gather key competitive insight into a company. This enables Linx to gain a thorough understanding of a company prior to ownership.

In the course of due diligence, Linx spends a great deal of time with key managers or owner/managers of the target portfolio company. During these sessions, Linx works closely with the key managers or owner/managers to obtain an in-depth understanding of the business including its history, cost structure, competitive challenges and financial capacity, as well as make a determination of the “people fit” with Linx. In addition, a business plan is set with detailed financial forecasts. This business plan becomes the basis for establishing an equity incentive structure that aligns the key managers or owner/managers with Linx’s interest. Linx crafts an incentive structure that is both motivating and reflective of the interest of the ownership group.

In examining investments, Linx completes extensive due diligence in the following areas:

- Accounting
- Legal
- Insurance and Employee Benefits
- Environmental
- Machinery and Equipment Appraisal
- Real Estate Appraisal
- Customer Calls
- Site Visits
- General Management Meetings
- Company and Key Executive Background Checks

Linx has considerable experience in financing private investments, utilizing a variety of capital market sources including commercial banks, mezzanine lenders, bridge and seller financings, public debt instruments and co-investment equity sponsors. It is the overall philosophy of Linx that a portfolio company’s financial structure must allow for a company to grow and thus allow management to concentrate on execution of the business plan. As a result, conservative financial leverage is employed by Linx. Linx has often supplied subordinated debt acquisition financing, employing this investment style to distinguish itself from other private equity firms in the marketplace. In most cases, the respective Linx Fund is the controlling shareholder of the portfolio company.

Despite the extensive experience of Linx, acquiring illiquid securities in private companies involves risk of loss that investors in the Funds should be prepared to bear.

## **Material Risks for Significant Investment Strategies**

### **Reliance on Financial Projections**

The capital structure of portfolio companies is generally established by relying on financial projections based primarily on judgments made by management of such



portfolio companies. Such projections are only estimates of future results based upon assumptions made when the projections are developed. Actual results may vary significantly from the projection.

#### Potential Contingent Liabilities

In connection with the disposition of an investment, the Funds may be required to make representations concerning the business, indemnify the purchasers of an investment or may be responsible for the contents of disclosure documents under applicable securities laws. This may result in contingent liabilities, which limited partners or members might have to fund to the extent that they have received prior distributions from the Funds or have undrawn capital commitments.

#### Risks Arising from Managerial Roles

Linx professionals typically serve as portfolio company directors and may take an active role in the management of such portfolio company. This may expose the Funds to claims by a portfolio company, its security holders and its creditors.

#### Protection of Intellectual Property

The success of portfolio companies depends heavily on their ability to establish and protect their proprietary rights through, among other things, patent prosecution. The patent prosecution process is complicated, time-consuming, expensive and uncertain. Accordingly, one or more portfolio companies may be unable to protect its technologies, which would adversely affect the portfolio company, which in turn could negatively impact performance of the Funds. Portfolio companies will not be able to guarantee: (i) their existing patents will not be challenged, or, if challenged, invalidated; (ii) their existing patents will provide sufficient protection against competitors; (iii) competitors will not independently develop similar products or designs around their patents; or (iv) they will be able to obtain future patents necessary to protect their business and/or fully execute their respective business plans. Portfolio companies may also rely on trade secret protection for certain confidential and proprietary information. Despite maintenance of policies designed to protect such trade secrets, a portfolio company may be unable to adequately protect its trade secrets, which could adversely affect such portfolio company, which in turn could negatively impact the performance of the Funds.

#### Focused Investment Strategy – Economic and Market Risks

The Partnerships participate in a limited number of investments and thus may not enjoy the reduced risks of a broadly diversified portfolio. The Co-Invests participate in only one investment. A specific investment focus is inherently more risky and could cause the investments to be more susceptible to particular economic, market, political, regulatory, technological or industry conditions or occurrences compared with a fund, or a portfolio of funds, that is more diversified or that has a broader industry focus.

### No Assurance of Investment Return

The Funds cannot provide assurances that it will be able to choose, make and realize investments in any particular company or portfolio of companies, or that if such investments are made, it will be able to generate returns, if any, for its investors commensurate with the risks of investing in the type of companies and transactions described herein. Investments in the Funds should only be considered by persons who can afford a loss of their entire investment. Past performance of investment entities associated with Linx is not necessarily indicative of future results. There can be no assurance that projected or targeted returns for the Funds will be achieved.

### Leveraged Capital Structures of Portfolio Companies

The leveraged capital structure of the Funds' portfolio companies may increase the exposure to adverse economic factors such as significantly rising interest rates, severe downturns in the economy or deterioration in the condition of the portfolio company or its industry. In the event a portfolio company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the Funds' equity investment in such company could be significantly reduced or even eliminated.

### Illiquid Private Investments

The investments made by the Funds in privately held companies are illiquid and difficult to value. In many cases, investments in privately held companies are long-term in nature and may require many years from the date of initial investment before disposition. Sales of securities of private portfolio companies may not be possible and, if possible, may be made at substantial discounts from costs.

### Need for Follow-On Investments

Following the Funds' initial investment, some portfolio companies may have the need for additional capital to support expansion or to achieve or maintain a competitive position, and there is no assurance that such capital will be available, particularly for private companies. There is no assurance that the Funds will make follow-on investments or that the Funds will have sufficient capital to make all or any of such investments. Any decision by the Funds not to make a follow-on investment or their inability to make such investment may have a substantial negative impact on a portfolio company in need of such investment or may result in a lost opportunity for the Funds to increase their participation in a successful operation. If the Funds do not participate in a follow-on investment opportunity and other investors provide the requested financing, the Funds' investment in the portfolio company may be substantially diluted.

### **Material Risks for Significant Types of Securities**

Not applicable.

## **ITEM 9 - DISCIPLINARY INFORMATION**

Neither Linx nor any management persons has ever been the subject of any disciplinary event or action.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Broker-Dealer Registration**

Neither Linx nor any management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

### **Commodity Pool Operator, Commodity Trading Adviser, Futures Commission Merchant Registration**

Neither Linx nor any management persons is registered or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **Other Material Relationships**

Linx Partners II, LLC was formed as a Delaware limited liability company in 2005. Its members and ownership %'s are the same as those of Linx. Linx Partners II, LLC is the general partner or manager of some of the Funds.

### **Receipt of Compensation from Investment Advisers**

Linx does not recommend or select other investment advisers for its clients or receive compensation, either directly or indirectly from other advisers.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Linx has adopted policies and procedures including a Code of Ethics as set forth in its Compliance Manual. The Code of Ethics addresses personal trade reporting, standards of conduct and limitations and restrictions on gifts and entertainment. All Linx employees must read and adhere to the Code of Ethics and other policies in the Compliance Manual. A copy of the Code of Ethics is available upon request to any current or prospective limited partner or member of the Funds.

### **Participation or Interest in Client Transactions and Personal Trading**

In certain instances, related persons, including Co-Invests and other individuals may invest alongside the Partnerships in the same securities. The timing and terms of these investments are typically identical and therefore present no conflict of interest to the Partnerships.

Instances may arise where the interests of Linx potentially or actually conflict with the interests of the Funds and the limited partners or members. For example, the existence of the Linx carried interest may create an incentive for Linx to make more speculative investments on behalf of the Funds than it would otherwise make in the absence of such performance-based arrangement. In addition, Linx is permitted to devote time and attention to certain investment vehicles in the Funds and its portfolio companies, and conflicts of interest may arise in allocating management time, services or functions between individual Funds.

## **ITEM 12 - BROKERAGE PRACTICES**

As a private equity fund manager, Linx invests client assets primarily in private companies, and therefore, does not have regular interactions with brokers-dealers who execute trades on behalf of Linx's clients. Linx does not receive client referrals from broker-dealers, nor does it receive any "soft dollar" benefits. Additionally, Linx does not have any directed brokerage practices.

### **Aggregation of Trades**

In general, when the Partnerships have investments in the same portfolio company, the purchase and sale of its securities may be aggregated.

## **ITEM 13 - REVIEW OF ACCOUNTS**

Linx performs quarterly valuations on the portfolio companies owned by the Funds and continually monitors these portfolio companies and their respective financial statements. Linx reviews all Funds as it deems appropriate, but not less than quarterly, for appropriateness of holdings and transactions in accordance with the Fund's stated objectives and guidelines. The reviews are conducted by the CFO and the Members.

### **Client Reports**

Each of the Funds furnishes audited financial statements and U.S. income tax information on an annual basis to its limited partners or members. In addition, most of the Funds also provide written quarterly portfolio valuations and unaudited financial statements.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

Not applicable.

## **ITEM 15 - CUSTODY**

Linx (or Linx Partners II, LLC) has custody of Fund assets by virtue of its authority as general partner or manager to access those assets. An independent public accountant performs annual audits of the Funds, and the audited financial statements are distributed to the limited partners or members of the Funds.

#### **ITEM 16 - INVESTMENT DISCRETION**

Linx exercises investment discretion over the Funds to which it provides investment advisory services subject to the investment objectives and guidelines as set forth in the Fund Documents. However, it does not have investment discretion with respect to the Co-Invests, to purchase securities other than those set forth in their operating agreements.

#### **ITEM 17 - VOTING CLIENT SECURITIES**

The Members of Linx, along with certain other employees, will at times hold seats on the boards of portfolio companies. The respective board member will have the responsibility of voting on behalf of the respective Fund that owns the portfolio company.

#### **Proxy Voting Policies**

The Funds do not typically own securities of public companies, and as result, Linx does not receive and vote proxies.

#### **ITEM 18 - FINANCIAL INFORMATION**

Linx has no financial condition that impairs its ability to meet its contractual and fiduciary commitments to its clients. Linx has not been the subject of a bankruptcy proceeding.