

# FORM ADV, PART 2A BROCHURE

**Parsow Management LLC**  
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(402) 289-3217

**March 25, 2014**

This brochure provides information about the qualifications and business practices of Parsow Management LLC. If you have any questions about the contents of this brochure, please contact Alan S. Parsow at (402) 289-3217 or ElkhornPartnersLP@gmail.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Parsow Management LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information you may use when determining whether to hire or retain the adviser.

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

## **Item 1 – Cover Page**

Please see previous page.

## **Item 2 – Material Changes**

In this Item 2 relating to material changes, we discuss only specific material changes that are made to our brochure, which was last updated on May 20, 2013.

Item 4 relating to our advisory business was updated to reflect that our assets under management were \$213.8 million as of December 31, 2013.

Item 10 relating to our financial industry activities and affiliations was updated to update disclosures regarding specific potential conflicts of interest.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our fiscal year. We may also provide other ongoing disclosure information about material changes as necessary.

We will provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested by contacting Alan S. Parsow at (402) 289-3217 or [ElkhornPartnersLP@gmail.com](mailto:ElkhornPartnersLP@gmail.com).

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### **Item 3 – Table of Contents**

Item 1 – Cover Page .....	2
Item 2 – Material Changes .....	2
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation.....	4
Item 6 – Performance-Based Fees and Side-By-Side Management.....	5
Item 7 – Types of Clients.....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Item 9 – Disciplinary Information .....	7
Item 10 – Other Financial Industry Activities and Affiliations.....	7
Item 11 – Code of Ethics .....	8
Item 12 – Brokerage Practices .....	8
Item 13 – Review of Accounts .....	9
Item 14 – Client Referrals and Other Compensation .....	9
Item 15 – Custody .....	9
Item 16 – Investment Discretion .....	10
Item 17 – Voting Client Securities .....	10
Item 18 – Financial Information .....	11
Item 19 – Requirements for State-Registered Advisers .....	11
Privacy Policy .....	11

#### **Item 4 – Advisory Business**

Parsow Management LLC was formed as a Nebraska limited liability company in October 2001 to serve as the general partner of Elkhorn Partners Limited Partnership, a private investment fund formed as a Nebraska limited partnership in June 1988. Alan S. Parsow founded us and the Elkhorn Partners fund. We are owned and managed solely by Mr. Parsow. Mr. Parsow makes all investment decisions on behalf of our firm. As of December 31, 2013, we had \$213.8 million in assets under management.

Our only business is to manage the assets of the Elkhorn Partners fund on a discretionary basis. We have full trading authority over the Elkhorn Partners fund's accounts and discretionary authority to buy, sell or otherwise effect investment transactions in stocks, bonds and other investments on behalf of the fund. We may also invest the assets of the Elkhorn Partners fund in short-term liquid securities, including U.S. government securities, commercial paper, bank certificates of deposit or money market funds. We may also buy and sell put and call options on behalf of the Elkhorn Partners fund for hedging purposes. All investments are made in accordance with the investment objectives of the Elkhorn Partners fund and our investment strategies. Investments are not tailored to any particular investor in the Elkhorn Partners fund. The success of the Elkhorn Partners fund in obtaining its investment objectives is dependent solely on the investment abilities of Mr. Parsow.

As used in this brochure, the words "we," "our" and "us" refer to Parsow Management LLC and references to the "Elkhorn Partners fund," the "fund" and "client" refer to Elkhorn Partners Limited Partnership. The words "you" and "your" refer to the Elkhorn Partners fund as our sole client.

#### **Item 5 – Fees and Compensation**

We receive a management fee of 1% of the net asset value of the Elkhorn Partners fund as of each January 1. This compensation is paid in twelve equal monthly installments. The management fee is treated as an expense of the Elkhorn Partners fund, and is paid whether or not the net asset value of the fund increases during the year.

We are not entitled to receive any additional remuneration from the Elkhorn Partners fund, unless the fund realizes specific return standards. If the Elkhorn Partners fund earns in excess of 6% per year, 20% of the excess will be allocated to us and 80% of the excess will be allocated to all partners in the fund. However, if any partner's capital investment does not earn 6% for any particular year, such deficiency will be carried forward and made up with interest before we will be entitled to allocation of any excess earnings for any subsequent year.

A detailed explanation of the performance-based component of our compensation follows. At the beginning and end of each year (a period from January 1 to the following December 31) of the Elkhorn Partners fund, the total value of the capital accounts of the fund, at market value, will be determined and the difference computed. For purposes of determining allocations, an amount equal to 6% of year-beginning market value will first be allocated to the partners and year-ending market value will be reduced by such amount in determining the "difference" in such market values. The "difference" in market value, whether arising through realized or unrealized gains or losses or a combination thereof, will be allocated among the partners' capital accounts as follows:

- (a) If the market value of the Elkhorn Partners fund at the end of the year is less than the market value of the fund at the beginning of the year, such difference will be

allocated among all partners' capital accounts in proportion to their capital accounts, at market value, on the first day of the year.

- (b) If the market value of the Elkhorn Partners fund at the end of the year is greater than the market value of the fund at the beginning of the year, and if no partners' capital investment has been and remains reduced through prior application of paragraph (a) above, the difference will be allocated as follows: 20% to us; and 80% to all partners in proportion to their capital accounts, at market value, on the first day of the year.
- (c) If the market value of the Elkhorn Partners fund at the end of the year is greater than the market value of the fund at the beginning of the year, and if the capital investment of some or all of the partners has been and remains reduced through the prior application of paragraph (a) above, the difference will be allocated among the partners' capital accounts as follows:
  - To those partners, if any, whose capital investment has not been, or does not remain, reduced through prior application of paragraph (a) above, the difference will be allocated under the provisions of paragraph (b) above.
  - To the extent any partner's capital investment has been and remains reduced through prior application of paragraph (a) above, the difference, to the extent available, will be allocated under the provisions of paragraph (a) above and after the reduction, plus interest at the rate of 6% per annum on the amount of the reduction, has been recovered through each allocation, the balance of the difference, if any, will be allocated under the provisions of paragraph (b) above.

In all allocations under paragraph (c) above, realized gain will be allocated first, before allocating any unrealized gain or loss.

The Elkhorn Partners fund is responsible for all expenses of operating the fund, including brokerage and other transaction costs. See "Item 12 - Brokerage Practices."

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

As described in Item 5, we receive performance-based fees from the Elkhorn Partners fund. Certain conflicts of interest exist due to performance-based fee arrangements, which include:

- performance-based fee arrangements may create an incentive for us to make investments that are more risky or more speculative than might be the case in the absence of a fee based on performance;
- we may receive increased compensation with regard to unrealized appreciation as well as realized gains on assets in a client's account; and
- the fees charged by us may be higher or lower than fees charged by other advisers for comparable services.

To address these conflicts, we have adopted certain procedures designed to mitigate the effects of these conflicts. For example, as part of our fiduciary duty to the Elkhorn Partners fund, we will

endeavor at all times to put the interest of the fund first, and investment decisions will only be made to the extent they are reasonably believed to be in the best interests of the fund.

### **Item 7 – Types of Clients**

Our only business is to provide investment management services to a single client. Our only client is the Elkhorn Partners fund and only investors who are (a) “accredited investors,” as defined under Rule 501(a) of the Securities Act of 1933, as amended (the “Securities Act”), and (b) “qualified clients,” as defined under Rule 205-3 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), are offered the opportunity to invest in the fund. The Elkhorn Partners fund has a minimum investment requirement of \$1,000,000, which may be waived by us. We manage the assets of the Elkhorn Partners fund on a discretionary basis.

### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

The investment objectives of the Elkhorn Partners fund are capital appreciation and income. In pursuing this objective on behalf of the Elkhorn Partners fund, we may buy and sell stocks, bonds and other investments for the account of the fund. Investments are not tailored to any particular investor in the Elkhorn Partners fund.

While we will normally invest in common stocks on behalf of the Elkhorn Partners fund, we may from time to time make alternative investments if favorable opportunities exist. Those alternative investment opportunities include, but are not limited to, preferred stocks, bonds and debentures, short-term liquid securities, including U.S. government securities, commercial paper, bank certificates of deposit or money market funds, and put and call options for hedging purposes.

We are value investors, with the objective of looking for investment opportunities that we believe are undervalued relative to their intrinsic value. We are willing to purchase large positions when the investment has significant upside potential. A great deal of our analysis involves looking at both historical financial information and qualitative information, the more the better. Our assessment of a company's balance sheet, cash flow characteristics, profitability, industry position, special strengths, future growth potential and management ability is important to us in helping to determine the feasibility of an investment. Though historical information is not necessarily an indicator of how a business will perform in the future, it provides a guide. We typically ask ourselves what is different today or might be different in the future and whether the competitive landscape has changed for a company. We consider the unique strengths, future growth potential and management capability of a company. When reviewing these factors we consider the margin of safety and how to protect our downside exposure. There may be periods when we believe valuations are generally high and, in those instances, we will allocate some portion of the Elkhorn Partners fund to fixed income securities. However, this strategy will generally be temporary to protect capital while we wait for more favorable market conditions.

The Elkhorn Partners fund may not achieve its investment objectives and there is a risk that the value of its investments will fluctuate as the stock markets fluctuate and that prices overall could decline, perhaps severely, over short- or long-term periods. Investors could lose money by investing in the Elkhorn Partners fund. The success of the Elkhorn Partners fund in obtaining its investment objectives is dependent solely on the investment abilities of Alan S. Parsow, our sole owner and manager. Other risks of investing in the Elkhorn Partners fund are discussed in the offering documents for the fund.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of us or our management. There are no legal or disciplinary events that are material to an evaluation of us or our management.

## **Item 10 – Other Financial Industry Activities and Affiliations**

We are the general partner of the Elkhorn Partners fund and are vested with the full, exclusive and complete discretion in the management and control of the affairs of the fund. We make all investment decisions on behalf of the Elkhorn Partners fund.

We are subject to various conflicts of interest arising out of our relationship with the Elkhorn Partners fund. Because the Elkhorn Partners fund is operated by us, these conflicts will not be resolved through arms-length negotiations but through the exercise of our judgment consistent with our fiduciary responsibility to the partners of the fund and the investment objectives and policies of the fund.

Specific potential conflicts of interest identified by us include:

- Wayne G. Cadwallader, age 57, was hired in July 2010 as Managing Partner - Research of the Elkhorn Partners fund. In this role, Mr. Cadwallader performs research at our direction, and reports to us. Mr. Cadwallader previously served as a Senior Investment Analyst for Hamblin Watsa Investment Counsel Ltd., a subsidiary of Fairfax Financial Ltd., from 2000 to 2010.

Mr. Cadwallader serves on the board of directors of Orbit International Corp. (since February 2013) and Comarco, Inc. (since March 2011). As of March 20, 2014, the Elkhorn Partners fund owned 1,101,000 shares of common stock of Orbit (24.2% of the shares outstanding) and 6,939,872 shares of common stock of Comarco (47.2% of the shares outstanding). The Elkhorn Partners fund has maintained investments in Orbit and Comarco since 2000 and 1990, respectively.

In February 2013, the Elkhorn Partners fund made a \$1.5 million loan to Comarco and purchased 6,250,000 shares of common stock of Comarco for approximately \$1 million. The loan bears interest at 7% for the first 12 months, increasing to 8.5% thereafter until the loan is paid in full. The loan matures on November 30, 2014 and is secured with a first priority security interest in all of the assets of Comarco. In the event the loan is not paid in full by its maturity date, the Elkhorn Partners fund has the option to convert the loan into shares of common stock of Comarco at an exercise price of \$0.25 per share.

Comarco approached us and proposed the foregoing investment by the Elkhorn Partners fund. We assessed and negotiated the investment opportunity and determined that the investment in Comarco was in the best interests of the Elkhorn Partners fund.

- Mr. Parsow served on the board of directors of Penn Treaty American Corporation from May 2008 to September 2012 and serves on the board of trustees of various funds for HSBC Global Asset Management (USA) Inc. However, Mr. Parsow has resigned from the various HSBC boards effective in September 2014.

As of March 20, 2014, the Elkhorn Partners fund owned 428,428 shares of common stock of Penn Treaty (1.8% of the shares outstanding) and did not have any investments in HSBC or any of the funds for which HSBC serves as investment adviser. The Elkhorn Partners fund has maintained an investment in Penn Treaty since 1998.

- Daniel Parsow, age 34, is the son of Alan Parsow and an employee at the Chicago, IL office of Kennedy-Wilson Holdings, Inc. where he works on business development for Kennedy-Wilson's real estate operations in the Chicago area. Daniel Parsow is not a director or officer of Kennedy-Wilson.

As of March 20, 2014, the Elkhorn Partners fund owned 3,706,700 shares of common stock of Kennedy-Wilson (4.0% of the shares outstanding) (the value of which as of December 31, 2013 represented 38.6% of the net assets of the Elkhorn Partners fund). The Elkhorn Partners fund has maintained an investment in Kennedy-Wilson since 1996.

Other potential conflicts of interest may include the fees and compensation the Elkhorn Partners fund pays us, similar investment positions by the fund and us, the formation of additional private investment funds by us and the lack of arms-length negotiation between the fund and us.

## **Item 11 – Code of Ethics**

### **Description of Code of Ethics**

We have adopted a Code of Ethics that complies with Rule 204A-1 under the Advisers Act and sets standards of conduct for us to comply with applicable securities laws. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. We adhere strictly to these guidelines. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material non-public information about the fund and you by our employees. You can obtain a copy of our Code of Ethics by contacting Alan S. Parsow at (402) 289-3217 or ElkhornPartnersLP@gmail.com.

### **Participation or Interest in Client Transactions**

Neither our firm nor any of our employees has any material financial interest in client transactions beyond the provision of investment management services described in this brochure.

### **Personal Trading Practices**

Our firm and our employees may buy or sell the same securities that we buy or sell on behalf of the Elkhorn Partners fund or securities in which the fund is already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of the Elkhorn Partners fund and potentially receive more favorable prices than the fund will receive. To mitigate this conflict of interest, it is our policy that neither our firm nor any of our employees shall have priority over the accounts of the Elkhorn Partners fund in the purchase or sale of securities.

## **Item 12 – Brokerage Practices**

We have sole discretion to determine the securities to be bought or sold, and the amount of securities to be bought or sold, on behalf of the Elkhorn Partners fund. In connection with our management of the assets of the Elkhorn Partners fund, we currently use the brokerage and custodial services of Jefferies & Company, Inc. Jefferies offers services to independent

investment advisers, which include custody of client securities, trade execution, clearance and settlement of transactions, and daily research and investment information. As a result of our relationship with Jefferies, we may receive certain benefits that include financial publications, information about particular companies and industries, and computer software, e.g., customized statements and reporting features. These products and services provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. We believe that Jefferies provides quality execution services at competitive prices. We do not receive client referrals from Jefferies in exchange for cash or other compensation.

In determining which broker or dealer to use in the future, we will endeavor to select a broker or dealer that will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on several factors, including the broker's or dealer's ability to provide professional services, competitive commission rates, volume discounts, execution price negotiations, the broker's or dealer's reputation and experience, the financial stability of the broker or dealer, and the quality of services rendered by the broker or dealer in other transactions. However, it may be the case that the broker or dealer that we use charges a higher fee than another broker or dealer charges for a particular type of service, such as commission rates.

Best execution is not measured solely by reference to commission rates. Paying a broker or dealer a higher commission rate than another broker or dealer might charge is permissible if the difference in cost is reasonably justified by the quality of the services offered. We do not obligate ourselves to seek the lowest transaction charges in all cases except to the extent that it contributes to the overall goal of obtaining the best results for the account of the Elkhorn Partners fund. While we endeavor at all times to put the interests of the Elkhorn Partners fund first as part of our fiduciary duty, you should be aware that the receipt of additional benefits themselves create a potential conflict of interest.

#### **Item 13 – Review of Accounts**

The accounts of the Elkhorn Partners fund are reviewed on a daily basis. Reviews are performed by Alan S. Parsow, our sole owner and manager, to determine suitability and allocation of all funds. Reports are generally provided to investors in the Elkhorn Partners fund on at least a monthly basis.

#### **Item 14 – Client Referrals and Other Compensation**

We have not entered into any referral arrangements or compensation arrangements with any third parties.

#### **Item 15 – Custody**

We may be deemed to have custody of the funds and securities of the Elkhorn Partners fund under Rule 206(4)-2 of the Advisers Act, because we serve as the general partner of the fund. Actual custody of all assets of the Elkhorn Partners fund is provided by qualified custodians independent of us. We comply with Rule 206(4)-2 by ensuring that investors in the Elkhorn Partners fund are sent financial statements, audited by McGladrey LLP in accordance with United States generally accepted accounting principles, within 120 days of the fiscal year end of the fund.

### **Item 16 – Investment Discretion**

The limited partnership agreement of the Elkhorn Partners fund grants us, as the general partner of the fund, discretionary authority to manage the assets of the fund. Accordingly, we are authorized to make the following determinations in accordance with the investment objectives of the Elkhorn Partners fund without consultation or consent before a transaction is effected:

- which securities to buy or sell;
- the total amount of securities to buy or sell;
- the broker or dealer through whom securities are bought or sold;
- the commission rates at which securities transactions are effected; and
- the prices at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

Investments are managed in accordance with the Elkhorn Partners fund's investment objectives and are not tailored to the individualized needs of any particular investor in the fund. Therefore, investors should consider whether or not the Elkhorn Partners fund meets their objectives and risk tolerance prior to investing. Information about the Elkhorn Partners fund can be found in the offering documents for the fund, which will be available to current and prospective investors in the fund only through us.

### **Item 17 – Voting Client Securities**

We have adopted a Proxy Voting Policy that sets standards for the manner in which we vote proxies on behalf of the Elkhorn Partners fund. Under the policy, we vote all proxies on behalf of the Elkhorn Partners fund, over which we have proxy voting authority based upon our position as the general partner of the fund, based on our determination of the best interests of the fund. In determining whether a proposal serves the best interests of the Elkhorn Partners fund, we consider a number of factors, including:

- the proposal's economic effect on shareholder value;
- the threat that the proposal poses to existing rights of shareholders;
- the dilution of existing shares that would result from the proposal;
- the effect of the proposal on management or director accountability to shareholders; and
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

We abstain from voting proxies when we believe that it is appropriate to do so. If a material conflict of interest over proxy voting arises between us and the Elkhorn Partners fund, we will vote all proxies in accordance with the policy described above.

You can obtain a copy of our Proxy Voting Policy and a record of votes cast by us on behalf of the Elkhorn Partners fund by contacting Alan S. Parsow at (402) 289-3217 or ElkhornPartnersLP@gmail.com.

### **Item 18 – Financial Information**

Certain registered investment advisers are required in this Item 18 to provide you with certain financial information or disclosures about their financial condition. We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore are not required to include a balance sheet with this brochure. Furthermore, we have no financial commitments that impair our ability to meet contractual and fiduciary commitments to our client, and have not been the subject of a bankruptcy proceeding.

### **Item 19 – Requirements for State-Registered Advisers**

Not applicable.

### **Privacy Policy**

We and the Elkhorn Partners fund:

- collect non-public personal information about the Elkhorn Partners fund and its investors from the following sources:
  - information received from the Elkhorn Partners fund or its investors on applications or other forms;
  - information about the Elkhorn Partners fund's or its investors' transactions with us or the Elkhorn Partners fund;
- do not disclose any non-public personal information about the Elkhorn Partners fund or its investors or former investors to anyone except as permitted by law;
- restrict access to non-public personal information about the Elkhorn Partners fund and its investors to our employees who need to know that information to provide services to the Elkhorn Partners fund; and
- maintain physical, electronic and procedural safeguards that comply with federal standards to guard the Elkhorn Partners fund's and its investors' personal information.

# **FORM ADV, PART 2B BROCHURE SUPPLEMENT**

**Alan S. Parsow**

**Parsow Management LLC  
2222 Skyline Drive  
Elkhorn, Nebraska 68022-0818  
(402) 289-3217**

**March 25, 2014**

This brochure supplement provides information about Alan S. Parsow that supplements the brochure for Parsow Management LLC. You should have received a copy of that brochure. Please contact Alan S. Parsow at (402) 289-3217 or ElkhornPartnersLP@gmail.com if you did not receive the brochure for Parsow Management LLC or if you have any questions about the contents of this supplement.

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### **Item 1 – Cover Page**

Please see previous page.

### **Item 2 – Educational Background and Business Experience**

Educational Background:

Alan S. Parsow was born on January 16, 1950. Mr. Parsow attended UCLA in 1968 and the University of Nebraska from 1969 through 1972 when he graduated with a B.A.

Business Background:

Alan S. Parsow has been advising private funds on a full-time basis since 1972. Mr. Parsow served on the board of directors of Penn Treaty American Corporation from May 2008 to September 2012 and serves on the board of trustees of various funds for HSBC Global Asset Management (USA) Inc. However, Mr. Parsow has resigned from the various HSBC boards effective September 2014.

### **Item 3 – Disciplinary Information**

There have been no legal or disciplinary events for Alan S. Parsow.

### **Item 4 – Other Business Activities**

Other than as discussed above in Item 2, Alan S. Parsow is not actively engaged in any investment-related business or occupation outside of his role at Parsow Management LLC.

### **Item 5 – Additional Compensation**

Alan S. Parsow does not receive any additional compensation from anyone or any entity, outside of Parsow Management LLC, for providing advisory services. In addition to the salary earned from his employment at Parsow Management LLC, Mr. Parsow, as the sole owner, is entitled to the profits and losses of the firm.

### **Item 6 – Supervision**

Alan S. Parsow, as the sole owner and manager of Parsow Management LLC, does not have a direct supervisor. Mr. Parsow can be contacted at (402) 289-3217 or ElkhornPartnersLP@gmail.com.