

Leonard Capital Management, Inc.

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This Brochure provides information about the qualifications and business practices of Leonard Capital Management, Inc. (“Leonard Capital”). If you have any questions about the contents of this Brochure, please contact us at (734) 213-1384 or npaolella@ameritch.net. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Leonard Capital also is available on the SEC’s website at www.adviserinfo.sec.gov.

References herein to Leonard Capital as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

Item 2 Material Changes

There have been no material changes made to Leonard Capital's disclosure statement since its initial filing on March 22, 2012.

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Item 4 Advisory Business

- A. Leonard Capital is a corporation formed on April 28, 1993 in the State of Michigan. Leonard Capital is owned by James Leonard, Leonard Capital's President.

B. **ADVISORY SERVICES**

Leonard Capital serves as the General Partner of, and provides discretionary investment management services to, Highwood Partners L.P. and Highwood Partners QP, LP (the "*affiliated private funds*"). The *affiliated private funds* are offered to qualified investors in accordance with the terms and conditions of each *affiliated private funds*' offering documents. Leonard Capital **does not** provide investment supervisory services to individual investors. Rather, Leonard Capital's investment supervisory services are limited to its management of the *affiliated private funds*.

Leonard Capital **does not** provide financial planning, estate planning, insurance planning or any other related or unrelated financial planning or consulting services. Leonard Capital makes the *affiliated private funds* available to investors exclusively through introductions from such investor's investment adviser. As such, other than confirming that the prospective investor qualifies for either of the *affiliated private funds* per the responses set forth on the *affiliated private funds* subscription documents, the individual's investment advisor (**not** Leonard Capital) maintains initial and ongoing responsibility to counsel its investor client as to the suitability of the *affiliated private funds* and any of its underlying investment strategies.

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Affiliated Private Funds. As discussed above, Leonard Capital serves as the General Partner of, and provides discretionary investment management services to, the *affiliated private funds*. The terms and conditions for participation in each of the *affiliated private funds* including management and incentive fees, conflicts of interest, and risk factors, are set forth each *affiliated private fund*'s offering documents.

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each *affiliated private funds*' offering documents, which will be provided to each investor for review and consideration. Unlike liquid investments that an investor may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective investor will be required to complete a Subscription Agreement, pursuant to which the investor shall establish that he/she/it is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Conflict Of Interest. Because Leonard Capital earns compensation from the *affiliated private funds* the recommendation that an individual or institution become an investor in either of the *affiliated private funds* presents a **conflict of interest**. **Leonard Capital's Chief Compliance Officer, Neil Paoletta, remains available to address any questions regarding this conflict of interest.**

Please Also Note: Valuation. In the event that Leonard Capital references private investment funds owned by the investor on any supplemental account reports prepared by Leonard Capital, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price.

Investor Obligations. In performing its services, Leonard Capital shall not be required to verify any information received from an investor or from the investor's other professionals, and is expressly authorized to rely thereon. Moreover, each investor is advised that it remains his/her/its responsibility to promptly notify their investment adviser if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising previous recommendations made by their investment adviser.

Please Note: The investment adviser of each of the participants in the *affiliated private funds* (**not** Leonard Capital) maintains initial and ongoing responsibility to counsel its client as to the suitability of the *affiliated private funds* and any of its underlying investment strategies.

- C. Leonard Capital only provides investment management services to the *affiliated private funds*. To the extent that Leonard Capital provides investment advisory services, those services are specific to the needs of each of the *affiliated private funds*. Leonard Capital shall allocate investment assets consistent with the designated investment objectives of the *affiliated private funds*.
- D. Leonard Capital does not participate in a wrap fee program.
- E. As of February 1, 2012 Leonard Capital had \$255,250,211 in assets under management on a discretionary basis.

Item 5 Fees and Compensation

A. Advisory Services

Leonard Capital **does not** provide investment advisory services to individual investors. Rather, Leonard Capital's investment services are limited to its management of the *affiliated private funds*. As the investment adviser to each of the *affiliated private funds*, Leonard Capital shall receive compensation in the form of a management/administrative fee and/or incentive fees. Leonard Capital's compensation for each of the *affiliated private funds* shall be calculated as follows:

Leonard Capital shall receive, on an annual basis, fifteen percent (15%) of the Net Profits (as defined in each *affiliated private funds'* offering documents) of each *affiliated private fund* as Incentive Compensation (See Item 6 Below). In addition, Leonard Capital shall receive one-quarter of one percent (0.25%) of the Net Asset Value of each affiliated private fund at the end of each fiscal quarter (1.00% per annum) as a management/administrative fee.

Please Note: For further information pertaining to the calculation of Leonard Capital's management/administrative fee and/or any incentive fees please review the *affiliated private funds'* respective subscription documents.

- B. The *affiliated private funds* allow for Leonard Capital to deduct its fees directly from fund assets in compliance with regulatory procedures. In the limited event that Leonard Capital bills the *affiliated private funds* directly, payment is due upon receipt of Leonard Capital's invoice. Leonard Capital shall deduct fees and/or bill the *affiliated private funds* quarterly, in arrears, based upon the Net Asset Value of the underlying assets, as described above in Item 5.A, on the last business day of the quarter.

In the event that the *affiliated private funds* do not have sufficient liquid assets to pay Leonard Capital's fee, the fee shall accrue until such time that the *affiliated private funds* have sufficient liquid assets, at which time Leonard Capital shall collect the full amount of its fee.

- C. Leonard Capital **does not** provide investment supervisory services to individual investors. Rather, Leonard Capital's investment supervisory services are limited to its management of the *affiliated private funds*. As such, Leonard Capital does not select and/or recommend broker-dealers to the *affiliated private funds*.

However, Leonard Capital may determine to allocate each of the *affiliated private funds'* assets among separately managed accounts, and those accounts in turn, may utilize the services of a broker-dealer/custodian for a portion of the *affiliated private funds'* assets. It should be noted that broker-dealers charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Leonard Capital's investment management/administrative fee, brokerage commissions and/or transaction fees, the *affiliated private funds* will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

- D. Leonard Capital's annual investment advisory fee shall be prorated and paid quarterly, in arrears, based upon the Net Asset Value of the underlying assets, as described above in Item 5.A, on the last business day of the quarter. The *Investment Advisory Agreement* between Leonard Capital and the *affiliated private funds* will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, Leonard Capital shall debit the account for the pro-rated portion of the unpaid advanced advisory fee based upon the number of days that services were provided during the billing quarter.
- E. Neither Leonard Capital, nor its representatives, accepts compensation from the sale of securities or other investment products.

Item 6 Performance-Based Fees and Side-by-Side Management

Rule 205-3 of the Investment Advisers Act of 1940 permits a registered investment adviser to enter into a performance fee agreement with certain sophisticated clients who

have the capacity to bear the potential additional risks of such a fee arrangement. An adviser can rely on Rule 205-3 only if the performance fee agreement is with "eligible" clients. Eligible clients are defined in the Rule as natural persons and companies that have *either* at least \$1,000,000 under management with Leonard Capital immediately after entering into a performance fee agreement *or* a net worth at the time the agreement is entered into in excess of \$2,000,000 Million (i.e. a natural person's net worth may include assets held jointly with a spouse).

Consistent with the parameters of Rule 205-3 of the Investment Advisers Act of 1940 (to the extent Rule 205-3 is applicable), Leonard Capital (and/or Leonard Capital's affiliated entities) may also receive, from its *affiliated private investment funds*, incentive or performance fee compensation on a fully disclosed written basis.

Item 7 Types of Clients

Leonard Capital only provides investment management services to the *affiliated private funds*. The minimum initial investment amount that will be accepted from a Limited Partner to invest in the *affiliated private funds* is \$500,000.00. Leonard Capital, in its sole discretion, may reduce and/or waive its minimum asset requirement based upon certain criteria (i.e. anticipated future additional assets, dollar amount of assets to be managed, negotiation, etc.).

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

A. Leonard Capital may utilize the following methods of security analysis:

- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
- Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)
- Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)
- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)

Leonard Capital may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)
- Market Timing (the use of hedging techniques to reduce exposure to the financial markets without selling existing investments owned)

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Leonard Capital) will be profitable or equal any specific performance level(s).

- B. Leonard Capital's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis Leonard Capital must have access to current/new market information. Leonard Capital has no control over the dissemination rate of market information; therefore, unbeknownst to Leonard Capital, certain analyses may be compiled with outdated market information, limiting the value of Leonard Capital's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Leonard Capital's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, Leonard Capital may also implement and/or recommend – short selling, use of margin, options transactions and/or market timing. Each of these strategies has a high level of inherent risk. (*See discussion below*).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by Leonard Capital in the management of the client's investment portfolio, the

market value of the client's account and corresponding fee payable by the client to Leonard Capital may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential ***conflict of interest*** whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to Leonard Capital. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by Leonard Capital shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by Leonard Capital is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct Leonard Capital, in writing, not to employ any or all such strategies for his/her/their/its accounts.

Market timing is used as a risk reduction technique to reduce the effects that market price fluctuations have on the investments held by the *affiliated private funds*. In instances when the manager determines it prudent to diminish or eliminate the effect that market price fluctuations have on the securities held in the *affiliated private funds*, an offsetting hedge position is obtained by selling short various exchange traded funds. A short position in these funds move inverse in value to the underlying long investments owned, thus acting as an offset to market price fluctuations. This reduces the risk that declines in financial markets will erode the Net Asset Value of the *affiliated private funds*, but also can negate increases in the Net Asset Value of the *affiliated private funds* when financial markets are increasing.

- C. Leonard Capital **does not** provide investment supervisory services to individual investors. Rather, Leonard Capital's investment supervisory services are limited to its management of the *affiliated private funds*. Currently, Leonard Capital primarily allocates the *affiliated private funds'* assets among various individual equity (stocks), debt (bonds) and fixed income securities, mutual funds and/or exchange traded funds, on a discretionary basis in accordance with the *affiliated private funds'* designated investment objectives.

Item 9 Disciplinary Information

Leonard Capital has not been the subject of any disciplinary actions.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither Leonard Capital, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither Leonard Capital, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. Leonard Capital has no other relationship or arrangement with a related person that is material to its advisory business.
- D. Leonard Capital does not receive, directly or indirectly, compensation from investment advisers that it recommends or selects for its clients.

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

- A. Leonard Capital maintains an investment policy relative to personal securities transactions. This investment policy is part of Leonard Capital's overall Code of Ethics, which serves to establish a standard of business conduct for all of Leonard Capital's representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, Leonard Capital also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Leonard Capital or any person associated with Leonard Capital.

- B. As disclosed above, Leonard Capital has a financial interest in the *affiliated private funds*. The terms and conditions for participation in the *affiliated private funds*, including management/administrative and incentive fees, conflicts of interest, and risk factors, are set forth each *affiliated private funds'* offering documents.

Leonard Capital's Chief Compliance Officer, Neil Paoletta, remains available to address any questions regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

- C. Leonard Capital and/or representatives of Leonard Capital *may* buy or sell securities that are also purchased or sold on behalf of the *affiliated private funds*. This practice may create a situation where Leonard Capital and/or representatives of Leonard Capital are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if Leonard Capital did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of Leonard Capital's clients) and other potentially abusive practices.

Leonard Capital has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Leonard Capital's "Access Persons". Leonard Capital's securities transaction policy requires that an Access Person of Leonard Capital must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date Leonard Capital selects; provided, however that at any time that Leonard Capital has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. Leonard Capital and/or representatives of Leonard Capital *may* buy or sell securities, at or around the same time as those securities are purchased or sold on behalf of the *affiliated private funds*. This practice creates a situation where Leonard Capital and/or representatives of Leonard Capital are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, Leonard Capital has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Leonard Capital's Access Persons.

Item 12 Brokerage Practices

Leonard Capital **does not** provide investment supervisory services to individual investors. Rather, Leonard Capital's investment supervisory services are limited to its management of the *affiliated private funds*. As such, Leonard Capital does not select and/or recommend broker-dealers to its clients.

However, in return for effecting securities transactions through a designated broker-dealer/custodian, Leonard Capital may receive certain investment research products or services which assist Leonard Capital in its investment decision making process for the client pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as a "soft-dollar" arrangement). Investment research products or services received by Leonard Capital may include, but are not limited to, analyses pertaining to specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications, portfolio management systems, and statistical and pricing services. Although the commissions paid by the *affiliated private funds* shall comply with Leonard Capital's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Leonard Capital determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Leonard Capital will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. With respect to investment research products or services obtained by Leonard Capital that have a mixed use of both a research and non-research (i.e., administrative, etc.) function, Leonard Capital shall make a reasonable allocation of the cost of the product or service according

to its use - the percentage of the product or service that provides assistance to Leonard Capital's investment decision-making process will be paid for with soft dollars while that portion which provides administrative or other non-research assistance will be paid for by Leonard Capital with hard dollars. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Leonard Capital's investment management fee.

Item 13 Review of Accounts

Leonard Capital **does not** provide investment supervisory services to individual investors. Rather, Leonard Capital's investment supervisory services are limited to its management of the *affiliated private funds*. An independent public accountant audits the *affiliated private funds* annually and audited financial statements are distributed to the individual investors of the *affiliated private funds*.

Item 14 Client Referrals and Other Compensation

- A. As discussed above in Item 12 A.1, Leonard Capital may receive soft dollar benefits in return for effecting securities transactions through a designated broker/dealer.
- B. If a client is introduced to Leonard Capital by either an unaffiliated or an affiliated solicitor, Leonard Capital *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Leonard Capital's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Leonard Capital by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of Leonard Capital's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Leonard Capital and the solicitor, including the compensation to be received by the solicitor from Leonard Capital.

Item 15 Custody

Leonard Capital shall have the ability to have its management/administrative fee for each of the *affiliated private funds* debited on a quarterly basis. An independent public accountant audits the *affiliated private funds* annually and audited financial statements are distributed to the individual investors of the *affiliated private funds*.

Please Note: Custody Situations: Leonard Capital serves as the investment manager to the *affiliated private funds*. Therefore, Leonard Capital discloses at the Custody section of Part 1 of Form ADV, that an independent public accountant audits annually the pooled investment vehicle(s) it manages and the audited financial statements are distributed to the investors in the *affiliated private funds*. The Registrant's Chief Compliance Officer, Neil Paoletta remains available to address any questions that a client or prospective client may have regarding custody-related issues

Item 16 Investment Discretion

Leonard Capital provides investment advisory services to the *affiliated private funds* on a discretionary basis. Leonard Capital is the General Partner of both of the *affiliated private funds*. Leonard Capital serves as the attorney and agent in fact for both of the *affiliated private funds*, granting Leonard Capital full authority to buy, sell, or otherwise effect investment transactions involving the assets in the *affiliated private funds'* discretionary account.

Item 17 Voting Client Securities

Leonard Capital is responsible for voting client proxies on behalf of the *affiliated private funds* (**However**, the *affiliated private funds* shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits). Leonard Capital shall vote proxies in accordance with its Proxy Voting Policy, a copy of which is available upon request. Leonard Capital shall monitor corporate actions of individual issuers and investment companies consistent with Leonard Capital's fiduciary duty to vote proxies in the best interests of the *affiliated private funds*. Although the factors which Leonard Capital will consider when determining how it will vote differ on a case by case basis, they may, but are not limited to include the following: (a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation, etc.) With respect to individual issuers, Leonard Capital may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), Leonard Capital may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. Leonard Capital shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act.

Item 18 Financial Information

- A. Leonard Capital does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. Leonard Capital is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. Leonard Capital has not been the subject of a bankruptcy petition.

ANY QUESTIONS: Leonard Capital's Chief Compliance Officer, Neil Paoella, remains available to address any questions regarding the above disclosures and arrangements.