

## ITEM 1 – COVER PAGE



### **Third Security, LLC**

Part 2A of Form ADV

Firm Brochure

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This Brochure provides information about the qualifications and business practices of Third Security, LLC. If you have any questions about the contents of this Brochure, or would like to obtain a free copy of this Brochure, please contact the Chief Compliance Officer at 540-633-7900 or [compliance.officer@thirdsecurity.com](mailto:compliance.officer@thirdsecurity.com).

Third Security, LLC is registered with the U.S. Securities and Exchange Commission ("SEC") as an investment adviser. Third Security, LLC's registration as an investment adviser does not imply any level of skill or training.

The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

**ITEM 2 – MATERIAL CHANGES**

The Material Changes section of this Brochure will be updated annually when material changes occur since our last annual update.

**Material Changes**

Our most recent Brochure was filed on March 28, 2019. Since our most recent Brochure there have been no material changes.

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**ITEM 4 – ADVISORY BUSINESS****Overview**

Third Security, LLC, which we refer to as “Third Security,” is an independent, private venture capital investment firm that began operations in March 1999 to manage investments in public and private companies. Third Security has offices in Radford, Virginia, West Palm Beach, Florida and San Francisco, California. Third Security is led by its Senior Managing and Managing Directors. The Senior Managing Directors have worked together since 2003. Third Security is wholly owned by Randal J. Kirk.

Third Security manages life-science focused venture capital investment funds on behalf of accredited investors and qualified clients. Third Security currently is not managing a fund inside its commitment period. While Third Security has no current intention to do so, Third Security may in the future launch a new fund or funds. The current life-science focused venture capital investment funds managed by Third Security and any potential future funds launched and managed by Third Security, as applicable, are referred to herein as the “Funds.”

Third Security is dedicated to investing in and managing the risks and challenges of high-growth, technology-driven venture capital businesses. Third Security brings focus, experience, vision and unity of purpose—in addition to capital—to the investment management process by making investments in companies across a broad spectrum of developmental and investment stages, from early-round venture capital opportunities to providing expansion capital for revenue-generating businesses.

Third Security invests all Fund assets on a discretionary basis and does not tailor its investments to the individual needs of investors in the Funds, which we refer to as “Fund Investors,” nor may Fund Investors impose restrictions on Third Security’s ability to invest in certain securities or types of securities except as such restrictions may be negotiated in connection with the formation of a new fund.

The advisory services provided by Third Security are tailored to the investment objectives and investment restrictions, if any, as set forth in the respective Fund’s private placement or offering memorandum, limited partnership or operating agreements and other Fund documents (together, the “Fund Documents”).

In addition to managing the Funds, Third Security provides general portfolio management services on a discretionary basis exclusively to (i) Randal J. Kirk, his immediate family members and entities created for their benefit, who we refer to as “Insiders” and (ii) certain employee vehicles including (a) entities created to provide equity incentive to employees of Third Security, and former employees who acquired interests prior to their departure and (b) entities created to provide a side-by-side Fund investment opportunity to employees of Third Security and former employees who made their commitment prior to departure. We refer to these entities as “Insider Funds.” Such portfolio management services include investments in fixed income and public and private equities in addition to making investments in the Funds and other venture capital investment funds. These general portfolio management services are not available to outside investors. Accordingly, the remainder of this Brochure is generally focused on a description of Third Security’s venture capital investing business, which is available only to investors who qualify as “accredited investors” and “qualified clients” and invest in the Funds.

The value of assets managed by Third Security as of December 31, 2019 was approximately \$1.090 billion, all of which is managed on a discretionary basis.

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**ITEM 5 – FEES AND COMPENSATION****General**

The Funds are typically organized as limited partnerships and governed by limited partnership agreements, which we refer to as “LPAs.” As the manager of the Funds, Third Security generally receives a management fee equal to 90% of the management fees earned by the general partners of such Funds, which we refer to as the “General Partners.” The fees earned by the General Partners of each Fund typically range from 2% to 2.25% of the (i) capital committed to a Fund, or (ii) following the expiration of a Fund’s investment commitment period, its net invested capital. Management fees are determined quarterly and paid in advance by deducting the fees from the account of each Fund. Management fees are non-refundable unless the Fund is terminated pursuant to its LPA, in which case the unearned portion of the management fee, determined on a pro rata amount per day, is returned to the Fund and available for distribution to the Fund Investors in connection with the liquidation of the Fund.

Management fees are negotiated at the inception of each Fund. All Fund Investors in each Fund are subject to the same management fee unless agreed to by the General Partner in its sole discretion.

**Incentive Fees (Carried Interest)**

Each General Partner, in addition to the management fee, is entitled to a certain percentage of the Fund’s distributions in excess of limited partner capital contributions and expenses, which is referred to as “carried interest.” The percentage of carried interest earned on a Fund is negotiated with Fund Investors, collectively, at the inception of each Fund. The carried interest ranges from 20% to 30% of the ultimate performance of a Fund; provided, however, that certain Insider Funds are either not subject to a carried interest or are subject to a carried interest at reduced rates ranging from 13% to 17%. The carried interest amount is determined following the realization of a Fund’s investment, including an investment that has been written off, and is calculated on a cumulative basis. Amounts earned by the General Partners as carried interest are paid to the General Partner after the basis of the underlying investment, including any costs and expenses of a Fund allocable to such investment, has first been returned to the Fund Investors.

If, upon the final distribution of the assets of a Fund, the aggregate amount paid to a General Partner as carried interest exceeds the agreed-upon carried interest percentage, the General Partner is obligated to return the excess amount to the Fund, less an amount equal to the tax distributions that were made or would have been permitted to be made pursuant to the LPA to the General Partner. The amount of any carried interest returned by a General Partner to a Fund is available for distribution to the Fund Investors in connection with the liquidation of such Fund in accordance with its terms.

**Other Compensation**

Under the terms of the respective LPAs governing each Fund, Third Security may make loans to a Fund in the event cash is not otherwise available to meet such Fund’s needs. In such case, Third Security earns interest on these loans at an interest rate that generally includes Third Security’s incremental borrowing rate or the applicable rate prescribed by the Internal Revenue Service for the period to be covered by such loan plus 1%.

Third Security or Randal J. Kirk may receive compensation from certain portfolio companies in which the Funds invest, which we refer to as “portfolio companies,” (i) for the service of Third Security’s employees, or Mr. Kirk, on the boards of directors of these portfolio companies, (ii) pursuant to a services agreement entered into between any such portfolio company and Third Security, and (iii) in connection with Randal J. Kirk’s service as an executive officer of any such portfolio company.

Neither Third Security nor any of its employees or supervised persons accepts compensation for the sale of securities or other investment products to the Funds.

**Fees Charged to Insiders and Insider Funds**

Typically, no or nominal management fees are imposed by the General Partner for Insiders or Insider Funds.

**Other Fees and Expenses**

The management fees paid by each Fund include the cost of fund accounting and administration. However, each Fund is responsible for its own fees and expenses incurred in connection with brokerage, legal, audit, tax return preparation, due diligence costs incurred with respect to proposed investments, regulatory filings (if required), custody and any other costs directly attributable to a Fund or its investments. Short-term cash balances held in brokerage accounts of Funds are often invested in money market mutual funds and government bonds. Any fees charged by such mutual funds are paid by the respective Fund. Third Security is reimbursed by the Funds for any of the expenses described above incurred by Third Security directly on behalf of a Fund.

Please see Item 12 - Brokerage Practices for additional information concerning brokerage selection by Third Security.

**Redemptions**

Fund Investors do not have a right of redemption.

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

The Funds are each subject to performance-based fees in the form of carried interest payable to their respective General Partners. Insider Funds are the owners of the General Partners, and therefore are entitled to receive any such carried interest. This performance-based method of compensation may cause the General Partners to engage in a higher risk, more speculative investment strategy than might be the case in the absence of such a compensation arrangement. Third Security manages each Fund in accordance with the investment strategy disclosed in the Fund Documents to help ensure that Fund Investors are aware of the investment strategy and the risks associated with the strategy. Third Security believes the risks associated with this performance-based method of compensation are mitigated by Third Security affiliates investing in a substantial percentage of each Fund as limited partners, the result of which is that these Third Security affiliates bear a significant portion of the risks associated with the Funds' investing activities. In addition, the Funds receive a "first look" at all life-science investment opportunities meeting the investment objectives of the Fund, provided, however, that this "first look" only applies to investments above a minimum threshold with respect to certain Funds. For further discussion of conflicts of interest, see Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

Fund Investors should review the respective Fund Documents for detailed information with respect to performance-based allocations and distributions and the allocation of investment opportunities.



**ITEM 7 – TYPES OF CLIENTS**

Third Security provides investment advice to the Funds.

Generally, only “accredited investors,” as defined under Regulation D of the Securities Act of 1933, and “qualified clients,” as defined under Rule 205-3 of the Investment Advisers Act of 1940, may invest in the Funds. In addition to Insiders and Insider Funds, Fund Investors consist primarily of institutional and high net worth individual investors.

Details concerning applicable fees, minimum investment amounts and suitability criteria are set forth in the respective Fund Documents. These minimum investment amounts range from \$200,000 to \$5,000,000, provided, however, that the General Partner of each Fund typically reserves the right, in its sole discretion, to waive these minimum investment amounts.

At the time a Fund is formed, the Fund Investor irrevocably commits to invest the agreed-upon amount into the Fund over time as Third Security identifies investments and calls upon the Fund Investors to remit their pro rata amount necessary to fund an investment and/or to pay the fees and expenses of the Fund. A Fund Investor is not entitled to withdraw any amount from a Fund and all distributions from a Fund are at the discretion of the General Partner. However, upon receiving the consent of the General Partner, a Fund Investor may sell or transfer its interest in a Fund to another person pursuant to the terms of the LPA.

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

The Third Security management team consists of focused investment professionals dedicated to managing the risks and challenges of high growth, technology-driven businesses in the life-science sector. Third Security brings experience, vision and unity of purpose – in addition to capital – to the investment process. Part of Third Security's value is that we always look at our portfolio companies as business owners, not as passive shareholders. As owners, generally we are actively engaged in the value-creating activities of each company. Third Security leverages the significant strategic, financial, scientific, legal, technical, marketing and operational skills of its professional staff to maximize the potential value of each Fund's investments and to minimize the downside risk of investment. With regular monitoring of progress and, when necessary, more frequent contact with the management teams at our portfolio companies, Third Security identifies opportunities in which we can apply both our capital and domains of expertise. Third Security's investment professionals may assist portfolio companies in many ways, including defining and prioritizing market opportunities, financial modeling and budgeting, establishing pricing models and setting strategy, executive recruitment, identifying opportunities for corporate transactions and collaboration, identifying networking opportunities and board participation. Whenever possible, the Third Security management team looks to maintain collaborative, professional and cordial relationships with the executive teams of portfolio companies. The management team believes that the creation of value, however, must drive its relationships and decisions.

**Investment Strategy**

Historically, Third Security has implemented a strategy of making concentrated investments in a limited number of portfolio companies, which may be held in more than one Fund. In building each Fund's portfolio, Third Security considers each investment opportunity on a stand-alone basis, without regard to existing or future investments or sector weightings. Third Security looks at each opportunity in light of its distinct merits and risks, considering opportunities to improve the value of the asset through direct interaction and/or capital infusion.

**Investment Criteria**

The Funds' current portfolios consist of public and privately held early- and/or growth-stage companies with, or in the process of developing, emerging technologies, products or services that have the potential to generate significant returns. Each portfolio company generally falls into one of the following three categories: (i) possesses a platform technology, (ii) enhances existing investments or (iii) provides an opportunity to develop and commercialize innovations from an existing portfolio company.

In evaluating investment opportunities for each Fund in building its portfolio, Third Security considers many factors, including traditional quantitative and qualitative measures used in evaluating the performance of life-science companies. These include market capitalization, total capitalization, capital structure, the rate at which the company uses cash, the date on which the company's cash will be depleted, time to market and market size and opportunity. With respect to the Funds, Third Security's disciplined and focused investment objectives, however, drive prioritization and selection of individual opportunities based upon a specific set of criteria, including:

- **Platform Investments.** Third Security will seek to find investments with enabling platform technologies. Each Fund will seek to invest in companies developing products that have been, prior to the company's invention, discovery or acquisition, historically impractical or impossible and for which there is a demonstrable demand or need. By focusing on enabling platform technologies, Third Security seeks investments with a "multiple shots on goal" dynamic. Third Security believes the value of such a portfolio company is not driven by binary events leading to total success or failure, as is characteristic of most development stage life-science companies. Multiple paths to revenue generation and profitability help ensure that a portfolio company has the flexibility to overcome many of the technical and scientific challenges that are inherent to biological research and technology commercialization. Platform investments require an especially penetrating diligence in the areas of intellectual property, proof of concept, competitive threats and potential market adoption and impact. Generally, we look for platforms that have clearly discernible utility, multiple sources of validation and a compelling revenue model. Third Security generally looks to find companies in which the required science is well characterized, the underlying technologies are readily available and the risk that remains is execution oriented.
- **Enhancement of Existing Investments.** Third Security believes that follow-on investments in existing portfolio companies often are the most attractive investment opportunities. Third Security's investments often are made in stages as companies achieve milestones, a strategy that Third Security believes mitigates risk to the Funds. In other cases, multiple Funds and Insiders and/or Insider Funds have invested in the same portfolio company at different points in time because we believed that the risk/reward profile warranted such additional investment. Third Security historically has not participated in syndicated investments. In addition, Third Security looks for opportunities to acquire complimentary businesses within existing portfolio companies.
- **Commercialization of Existing Portfolio Company Innovations.** In addition to platform investments and enhancement of existing investments, we may identify an opportunity to develop and commercialize innovations from an existing portfolio company. In connection with and as an investment strategy for a recent Fund, we identified opportunities to finance existing or start-up companies that entered into collaborations with Precigen, Inc. (formerly Intrexon Corporation), a leader in the field of synthetic biology and a company in which Third Security affiliates have a significant interest. During the commitment period of our most recent fund, Precigen's business model generally was not to bring products to market, but rather to collaborate with other companies that possess the requisite knowledge, skill sets and infrastructure for commercialization of products within specific industries or industry segments. In furtherance thereof, we sought to identify (i) companies with technology that could be significantly improved through the application of Precigen's technology and (ii) companies with therapeutic or biological expertise but that required a transformative event to breathe new life into their product pipeline and create value.

While there are many ways in which a company may describe its competitive position, the Fund looks specifically at the following:

- (1) *Strong Intellectual Property.* Third Security seeks to invest in companies that it believes have technologies superior to the technologies of their potential competitors. Third Security performs due diligence to determine whether the intellectual property estates of potential portfolio companies prevent competitors from utilizing the potential portfolio companies' technology. This intellectual property will usually include composition of matter patents or method of use patents, as well as, where applicable, blocking patents that contemplate potential avenues to work around the core intellectual property and secure rights to such avenues for the company or inventor(s) in question. Intellectual property may also exist in the form of trade secrets, usually consisting of processes and methods that provide advantages to the inventor(s) but that are not patentable or for which a patent is undesirable.
- (2) *Exploitation of Market Inefficiencies.* Third Security seeks to invest in companies that recognize market inefficiencies and have a means to exploit these market inefficiencies and/or unrecognized efficiencies. Within many industries, market participants frequently conform to learned patterns of behavior without querying whether such behavior is optimal. Companies that identify patterns of sub-optimal performance compete by creating new and better methods, which can quickly create market-leading positions.
- (3) *Industrial, Governmental and Academic Relationships.* It is possible to secure competitive advantage through relationships with others that possess the power to influence product uptake or that otherwise determine trends and directions within an industry. Third Security may invest in companies that it believes either already possess or have the potential to possess such competitive advantage.
- (4) *Barriers to Entry.* Third Security may invest in companies it believes possess characteristics that result in the creation of barriers to entry for potential competitors, including a first mover advantage, established distribution channels and exclusivity via contract.

### Investment Management

Once qualified investment opportunities are identified and due diligence exercises satisfactorily completed, Third Security seeks to negotiate and structure an investment in each portfolio company (i) at a valuation deemed reasonable in comparison to the potential risk-adjusted return and (ii) that Third Security believes can provide a favorable exit for a Fund within a reasonable period of time. Third Security intends to continue to work within the same investment management framework that has historically proven to be successful. The primary elements of this framework include, but are not limited to:

- **Leveraging our Capital through “Sweat Equity.”** Third Security historically has not participated in syndicated investments. Third Security believes this autonomy allows it to execute a unique collaborative investment strategy, employing a far more hands-on and involved approach than is standard for venture capital firms. Third Security looks for opportunities where it can add more value than simply providing necessary capital. Toward this end, Third Security generally makes available a wide variety of resources in support of its portfolio companies, depending on

the individual needs of each company. This support can include legal, accounting, human resources, research, mergers and acquisitions, due diligence support, strategic relationship and business development, as well as strategic direction and management resources. Third Security takes this approach whether the investment in question is a publicly traded company or a start-up enterprise. Third Security generally will not make investments in companies where these non-financial resources cannot be effectively deployed.

- **Influence.** Third Security seeks to identify opportunities to influence positively the odds of success of the target company. Third Security prefers to build its Funds' investment portfolios by making large, controlling or control-like investments in public and private companies where it has clearly defined the opportunities, value drivers and risks to success. Third Security's management team will enter a relationship with the company, its management and its board of directors such that they can contribute suggestions and advice for the development of the company. Third Security's efforts could also include helping to build out a portfolio company management team through recruitment and coaching, replacing an ineffectual manager, restructuring a company's balance sheet, providing introductions and identifying corporate opportunities, refining business plans and models and rolling-up technology and miscellaneous assets to create a more valuable enterprise. Third Security seeks to make significant investments in equity or equity-linked securities in each portfolio company. Third Security seeks to negotiate rights with respect to board representation and/or consent rights with respect to certain decisions made outside the ordinary course of business. In certain cases, where the other investors in a company are known to Third Security, we may accept less direct involvement in the company's management and at the board level if, in our opinion, the other investors are guiding the company toward success in the same manner that we would seek were we in a position of influence. In the case of companies that in-license technology from Precigen, Inc., we permitted Precigen to assume the lead role in interfacing with the company that took the license.

### **Portfolio Characteristics and Investment Selection**

Third Security may make investments across all stages of development, from founding capital to expansion capital and bridge financing. Investments may take the form of preferred stock, common stock, equity-linked instruments such as warrants and options, convertible debt or other convertible instruments. Third Security anticipates that most and potentially all investments made through a Fund will be in the life-science sector, but portions of a Fund may be invested in other high-growth opportunities in ancillary industries.

Generally, Third Security has acted as the primary investor in each portfolio company in which it has invested. In those investments in which it was not the primary investor, the investment was made on the open market or alongside an existing investor. In every case, Third Security's investment process involves deal sourcing, due diligence and planning how to apply resources to create value in the investment. Third Security's activities also include negotiation and strategic guidance and support to the company for the duration of the investment. With respect to companies in which a Fund establishes a large position, Third Security may seek representation on the board of directors.

Third Security depends on a wide variety of sources for its proprietary deal flow. Third Security does not typically compete for "shopped deals" or participate in traditional auction processes. Consequently, it is

necessary for the members of the Third Security management team to leverage their extensive personal networks, which serve as the primary source of deal flow. The management team's relationships extend throughout the life-science sector, including contacts at research institutes, universities and life-science companies. The Third Security management team also maintains an extensive network of contacts at investment banking, private equity and venture capital firms and law firms. The firm also uses traditional stock screens, reads analyst reports and market research, monitors trade publications and scientific literature and participates in venture capital and life-science conferences to identify new investment opportunities. The result of these activities is a substantial body of proprietary investment opportunities. In addition to new investment opportunities, this screening process often yields acquisition, divestiture or partnering opportunities for existing Third Security portfolio companies.

When a company has met the requirements for initial consideration, a carefully managed diligence process begins. Primary responsibility for each investment opportunity resides with a Senior Managing Director or Managing Director who serves as the deal lead. A full diligence team, chosen based on the requirements of the proposed transaction, supports the deal lead. Third Security may engage outside consultants as part of the diligence process to help evaluate technology, clinical trial design, clinical endpoints, manufacturing and regulatory issues. Due diligence involves management meetings and presentations, site visits, modeling, market research, competitive analysis, background checks, reference calls and more. The list of documents and materials requested from each company is comprehensive.

### **Risk of Loss**

An investment in a Fund entails a significant degree of risk and, therefore, should be undertaken only by investors capable of evaluating the risks and bearing the risks it represents. **In particular, investing in securities, including interests in the Funds, involves risk of loss that Fund Investors should be able to bear.** These investments typically remain in a Fund's portfolio for a number of years and are not liquid. Accordingly, Fund Investors may experience a greater degree of risk than investors in other asset classes.

The following is a summary of some of the material risks associated with the primary strategies implemented by the Funds. This summary does not attempt to describe all of the risks associated with an investment in a Fund, or even all risks associated with a Fund's strategy. Although no summary can fully describe all of the risks associated with an investment in a Fund, the Fund Documents for each Fund contain a more complete description of the risks associated with an investment in such Fund.

Third Security has no current intention to, but may in the future, launch a new Fund. In the event that Third Security launches a new Fund, prospective investors should carefully consider the following factors in connection with investing in a Fund.

### **Risks Related to a Fund's Investments**

***Nature of Fund Investments in General.*** A Fund's investments, by their nature, will involve business, financial, market and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that can result in substantial losses. There can be no assurance that Third Security will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments may be volatile, and a variety of other factors that are

inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of a Fund's activities. As a result, a Fund's performance over a particular period may not necessarily be indicative of the results that may be expected in future periods. Past investment history is not necessarily indicative of future performance.

A Fund's investments may also take the form of minority investments in companies in which it may have limited or no influence. Such a company may have economic or business interests or goals that are inconsistent with those of Third Security, and Third Security may not be in a position to limit or otherwise protect the value of an investment in the company, although as a condition of making such investments, it is expected that appropriate equity or debt holder rights generally will be sought to protect a Fund's investments. Third Security's control over the investment policies of the company may also be limited. A Fund may co-invest in a company with financial, strategic or other third-party investors. These investments will involve additional risks not present in investments where a third party is not involved, including the possibility that the co-investor may have interests or objectives that are inconsistent with those of Third Security or may be in a position to take action contrary to Third Security's investment objectives. In addition, a Fund may in certain circumstances be liable for actions of its third-party co-venturers or co-investors.

A significant portion of a Fund's investments may involve private securities. In connection with the disposition of an investment in private securities, a Fund may be required to make representations about the business and financial affairs of the company typical of those made in connection with the sale of a business. A Fund also may be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate. These arrangements may incur contingent liabilities that ultimately might yield funding obligations that must be satisfied by a Fund Investor to the extent of its commitments and certain prior distributions.

***Risk of Venture Capital Investments Generally.*** While venture capital investments offer the opportunity for significant gains, such investments also involve a high degree of business and financial risk and can result in substantial losses. Among these risks are the general risks associated with investing in companies at an early stage of development or with little or no operating history, companies operating at a loss or with substantial variations in operating results from period to period, and companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position. These companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and service capabilities, and a larger number of qualified managerial and technical personnel.

In addition, unlike other types of securities investments, many of a Fund's investments will be privately negotiated by Third Security and, accordingly, may involve higher transaction costs (including legal fees and expenses) than comparably sized investments in publicly traded securities purchased over-the-counter or through the facilities of a securities exchange. To the extent such costs are not paid by the portfolio company, they will be borne by the Fund making the investment.

***Difficulty of Locating Suitable Investments.*** There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable a Fund to invest all of its committed capital in opportunities that satisfy such Fund's investment objectives, or that such investment opportunities will lead to completed investments by the Fund. Identification of attractive investment opportunities is difficult and involves a high

degree of uncertainty. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Competition for such opportunities is expected to be substantial.

In addition, there can be no assurance that a Fund will be able to fully invest its capital on attractive terms. This could result from several factors, including without limitation, competition from other investors, demands from potential portfolio companies not acceptable to Third Security and other business, technical and economic factors.

***Portfolio Concentration and Non-Diversification.*** Diversification is not an objective of Third Security. A Fund's portfolio may include large positions in a small number of portfolio companies. While it is generally the intention of a General Partner and its affiliates not to invest more than 35% of a Fund's capital in any one issuer, there is no assurance that sufficient diversification of investments can be properly achieved. Poor performance by one or more investments could severely affect the total performance of a Fund. Moreover, a Fund may be substantially concentrated in the life-science sector and this may represent a significant risk for some investors.

***Limited History of Product Development.*** A Fund may invest in companies that have no products approved for sale. The potential products of such a company could require significant additional development and testing, as well as regulatory approval. There can be no assurance that such a company will be able to manage successfully the development process for a new product, especially, as may be the case, if the management of such a company does not have significant experience in developing a product. In addition, there can be no assurance that any such potential products will prove to be safe or function as planned, meet applicable regulatory standards, be capable of being produced in commercial quantities at acceptable costs or be successfully marketed.

***Future Capital Needs and Commitments; Uncertainty of Additional Funding.*** The investment by a Fund may not satisfy the long-term funding needs of a company and, as a result, a portfolio company may require substantial additional funds to develop and market its products. A Fund may be called upon to provide follow-on funding for its portfolio companies or have the opportunity to increase its investment in such portfolio company. There can be no assurance that Third Security will wish to make follow-on investments or that a Fund will have sufficient capital to do so. Any decision by Third Security not to make follow-on investments or a Fund's inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or, if such funding is provided by a third party, may diminish Third Security's ability to influence the portfolio company's future development. Furthermore, there can be no assurance that such additional financing will be available on acceptable terms, if at all from other parties. If adequate funds are not available, a portfolio company may be required to: (i) delay, reduce the scope of or eliminate one or more of its development programs or forfeit its rights to licensed products or technologies; (ii) obtain funds through arrangements with collaborative partners or others that may require the company to relinquish rights to certain of its technologies or products that the company would otherwise seek to develop or commercialize itself; or (iii) license the rights to such products on terms that are less favorable to the company than might otherwise be available.



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**Risks Associated with Investments in Life-Science Companies**

Most, if not all, of a Fund's investments may be in the life-science sector. The following summarizes certain significant risks associated with investments in companies in the life-science sector. While not an exhaustive list, set forth below are certain particular risks related to life-science companies, any of which could negatively impact the value of an investment by a Fund.

***Limited History of Product Development.*** Third Security anticipates that it may invest in companies that have no products approved for sale. The potential products of such a company could require significant additional development and preclinical and clinical testing, as well as, in all cases, regulatory approval. There can be no assurance that the management of such a company will be able to manage successfully the development process for a new product, especially, as may be the case, if the management of such a company does not have significant experience in developing a product. In addition, there can be no assurance that any such potential products will prove to be safe and efficacious in clinical trials, meet applicable regulatory standards, be capable of being produced in commercial quantities at acceptable costs or be successfully marketed.

***Dependence on Single Products.*** Companies in which Third Security invests may only have one product under development. There can be no assurance that the product will be approved for marketing by the U.S. Food and Drug Administration, generally referred to as the "FDA," or any foreign regulatory agency. Further, competition to the product may develop from other new and existing products. In either case, if a company is dependent on that one product, the consequences of such failure could be devastating to the prospects of such company.

***Technological Changes May Adversely Affect Portfolio Companies.*** The markets in which anticipated portfolio companies operate are characterized by rapid change, frequent new product and service introductions and evolving industry standards. Significant technological changes could render their technology or other products and services obsolete. Certain markets' growth and intense competition exacerbate these conditions. In addition, there are many competitors in the healthcare sector that have already been funded that will force a Fund's portfolio companies to compete with more established companies and to compete for financing. If portfolio companies are unable to respond successfully to these developments or do not respond in a cost-effective manner, a Fund's business, financial condition and operating results will be adversely affected. To be successful, portfolio companies must adapt to their rapidly changing markets by continually improving the responsiveness, services and features of their products and services and by developing new features to meet the needs of their customers. There can be no assurance that portfolio companies will be able to meet these competitive requirements, and failure to do so could result in a significantly adverse effect on a Fund's investments.

***Uncertainties Related to Clinical Trials.*** Before obtaining regulatory approval for the commercial sale of its products and their respective indications, a life-science company is required to demonstrate through preclinical studies and clinical trials that the products are safe and effective for use in each target usage. The results from preclinical studies and early clinical trials may not predict the results that will be obtained in large-scale testing, and there can be no assurance that the clinical trials conducted by a company or its partners will demonstrate sufficient safety and efficacy to obtain required regulatory approvals or will result in marketable products. A number of companies in the life-science sector have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials. There is the possibility that unacceptable side effects

will be discovered during preclinical or clinical testing of a company's products. Even after approval for marketing, a product may later be shown to be ineffective or to have unacceptable side effects not discovered during testing, requiring limitations on its use or withdrawal from the market.

***Volatile Marketplace; Risk of Absence of Exit.*** The public market for life-science companies continues to be volatile. The state of the market may adversely affect the development of portfolio companies, the ability of a Fund to dispose of investments, and the value of investment securities on the date of sale or distribution by a Fund.

***Uncertainty of Government Regulatory Requirements; Lengthy Approval Process.*** The research, development, preclinical and clinical trials, manufacturing, labeling, and marketing related to a life-science company's products are subject to an extensive regulatory approval process by the FDA and other regulatory agencies in the United States and abroad. The process of obtaining FDA and other required regulatory approvals for drug and biologic products, including required preclinical and clinical testing, is lengthy, expensive and uncertain. There can be no assurance that, even after such time and expenditures, a company would be able to obtain necessary regulatory approvals for clinical testing or for the manufacturing or marketing of any products or that the approved labeling will be sufficient for favorable marketing and promotional activities.

***Uncertain Ability to Protect Proprietary Technology.*** The life-science sector places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. A portfolio company's success will depend, in part, on its ability to obtain patent protection for its products, preserve its trade secrets and operate without infringing upon the proprietary rights of others. There can be no assurance of a company's success or timeliness in obtaining any patents, or of the breadth or degree of protection that any such patents will afford a company. Failure to adequately protect a trade secret could have a material adverse impact on a portfolio company.

***Uncertainty Related to Healthcare Reimbursement and Reform Measures.*** In both the United States and foreign markets, sales of a life-science company's products and its success will depend in part on the availability of reimbursement from third-party payors such as government health administration authorities, private health insurers and other organizations. The levels of revenues and profitability of pharmaceutical companies may be affected by the continuing efforts of governmental and third-party payors to contain or reduce the costs of healthcare. Significant uncertainty exists as to the reimbursement status of newly approved pharmaceutical, medical device and biotechnology products. There can be no assurance that a company's proposed products will be considered cost-effective or that adequate third-party reimbursement will be available to enable a company to maintain price levels sufficient to realize an appropriate return on its investment in product development.

**ITEM 9 – DISCIPLINARY INFORMATION**

None of Third Security, its Senior Managing Directors, Managing Directors or any of Third Security's affiliates has been the subject of any legal or disciplinary events since their inception and through the date of this Brochure that are material to an investor's or prospective investor's evaluation of Third Security's business or integrity.

**ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Third Security acts as manager to the Funds. As discussed throughout this Brochure, the investment services of Third Security are only available to the Funds, the Insider Funds and the Insiders.

The Insider Funds own the General Partners of the Funds.

Third Security is not involved in any other financial industry activities other than those discussed in this Brochure. Further, Third Security does not maintain any material relationship with another person involved in other financial industry activities. Third Security does not recommend or select other investment advisers for its clients nor does Third Security pay others for clients referred to Third Security.

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

As an SEC-registered adviser, Third Security has adopted a Code of Ethics pursuant to the SEC's Rule 204A-1. The Code of Ethics includes a Personal Investment and Trading Policy and a Statement on Insider Trading. The Code of Ethics covers Third Security's policies as they relate to:

- Standards of business conduct required of Third Security personnel consistent with Third Security's fiduciary obligations to the Funds it manages;
- Requirements for Third Security personnel to comply with applicable federal securities laws;
- Policies for the periodic review of Third Security personnel's personal securities transactions and holdings;
- Procedures requiring Third Security employees to report violations of the Code of Ethics to the Chief Compliance Officer; and
- Requirements for Third Security personnel to review and acknowledge receipt of the Code of Ethics.

The Code of Ethics defines material and nonpublic information and the restrictions on trading on any material and nonpublic knowledge and sets forth the responsibilities of all supervised persons relative to insider trading. The Code of Ethics includes policies and procedures on issues of security as they relate to sensitive and confidential materials.

All principals and employees of Third Security must acknowledge understanding and agree to comply with the Code of Ethics initially upon employment and must certify on an annual basis that they have read and understand the Code of Ethics and have complied with it.

Various potential and actual conflicts of interest may arise from the overall investment activities of Third Security and its affiliates. The following disclosure briefly summarizes some of these conflicts, but is not intended to be an exclusive list of all such conflicts. Investors are advised to review the applicable offering materials and the risks set forth in Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for a more extensive description of the risks of investing in the Funds.

Certain conflicts of interest may arise due to the activities in which Third Security and its affiliates may engage. Third Security has engaged and is expected to continue to engage in a broad spectrum of activities, which include making direct investments with its own capital, sponsoring and managing private investment funds, providing private investment services and conducting other business activities. In the ordinary course of its business, Third Security may engage in activities as to which Third Security's interests may conflict with the interests of the Funds and, therefore, the Fund Investors, notwithstanding Third Security's or any of its affiliates' participation as Fund Investors. Third Security and its affiliates will not be restricted from engaging in such activities or their performance in any such activities.

Certain inherent conflicts of interest arise from the fact that Third Security and its affiliates carry on investment activities for various outside clients as well as for their own account. Third Security may give advice and recommend certain investments to a particular client, which advice or investments may be identical to, or differ from, advice given to, or investments recommended or bought or sold for, another client, even though their investment objectives may be the same or similar. The portfolio strategies employed by Third Security with respect to certain clients could conflict with the transactions and strategies employed for other clients. Conversely, participation in specific investment opportunities may be appropriate, at times, for multiple clients. In such cases, the opportunities will be allocated in a fair and equitable manner among the clients over time in view of the different investment mandates and risk parameters of the clients. Such opportunities are generally allocated on the basis of capital available for such investments and other relevant factors particular to the accounts, which may include the different liquidity positions and requirements of the participating clients, tax considerations, regulatory considerations, the relative capitalization and cash availability of the participating clients, the relative risk and value-at-risk profiles of the participating clients, the different strategies employed, portfolio concentration considerations, informal diversification requirements, and the investment time horizon, among others.

Historically, Third Security generally has not launched a new Fund until an existing Fund has invested or committed for investment at least 75% of its capital commitments. In order to reduce internal competition for allocation of venture capital investment opportunities among competing clients in the life-science sector, the Funds have received the “first look” at life-science investment opportunities. This allocation policy has historically been Third Security’s practice with respect to the Funds and in 2009 was added as a provision in the LPA for each new Fund. This provision requires Third Security to allocate to the Fund all life-science investment opportunities that meet the investment objectives of the Fund during the commitment period.

The General Partners receive incentive compensation. See Item 6 – Performance-Based Fees and Side-by-Side Management for discussion of the risks associated with this incentive compensation.

The General Partners have engaged Third Security as the investment manager for each Fund and may engage Third Security or its affiliates on an arm’s-length basis to perform other services for the Fund or entities in which the Fund invests. Compensation for such services could include customary third party financial advisory fees or fees in connection with advice on valuing, structuring, negotiating or restructuring transactions. Any such fees or compensation, other than customary fees paid in the ordinary course of business, must be approved by the advisory board for the particular Fund. The Funds will not be entitled to any portion of any such fee or compensation or have the management fee waived or reduced as a result thereof.

Third Security and its affiliates and employees will not be required to devote any specified amount of time to managing the portfolio of any particular client. Employees of Third Security and its affiliates will continue to provide other services resulting in involvement with portfolio companies and will participate in other activities of Third Security and its affiliates.

Because Third Security typically employs a long-term investment approach and investments in portfolio companies are typically held for a number of years, there are often “follow-on” type investments in portfolio companies where prior Funds and affiliates already have made significant investments. Third Security believes that follow-on investments in existing portfolio companies often are the most attractive investment opportunities. Follow-on investments involve a conflict between Third Security’s duty to the Funds

considering the investment and its duty to Funds that already have an interest in the company in question, or the interest of Third Security or an affiliate in preserving or enhancing the value of its investment, if applicable. Third Security's investments often are made in stages as companies achieve milestones, a strategy that Third Security believes mitigates risk to the Funds. Third Security attempts to mitigate the effects of such conflicts by:

- considering each investment opportunity on a stand-alone basis, without regard to existing or future portfolio construction;
- looking at each opportunity in light of its distinct merits and risks, considering opportunities to improve the value of the asset through direct interaction and capital infusion;
- seeking to negotiate and structure an investment in each portfolio company (i) at a valuation deemed reasonable in comparison to the potential risk-adjusted return and (ii) that Third Security believes can provide a favorable exit for a Fund within a reasonable period of time; and
- viewing such an investment as a related party transaction subject to approval by the Fund's advisory board.

Third Security's Code of Ethics is available to investors and potential investors upon request made to the Chief Compliance Officer.

Third Security's related persons may from time to time have bought or sold, or may subsequently buy or sell, for their personal accounts, securities that may also be purchased or sold on behalf of the Funds and other clients. Third Security's personnel are subject to guidelines governing the ability to trade in personal accounts. The guidelines generally require that certain securities transactions receive pre-clearance from the Chief Compliance Officer. In addition, such personnel are required to submit brokerage statements, or otherwise certify to the Chief Compliance Officer all trades made from their personal trading accounts to allow for more complete monitoring of personal trading.

A Fund may also purchase investments directly or indirectly from Third Security or its affiliates including investments acquired as the result of the divestiture, private offering or public offering of some or all of the shares by a portfolio company of one or more other Funds managed by Third Security or other clients. In the event such transaction involves a Fund, such investments will be viewed as related party transactions subject to approval by the Fund's advisory board.

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**ITEM 12 – BROKERAGE PRACTICES**

Third Security typically does not utilize broker-dealers to effect venture capital investments. However, from time-to-time, the Funds may receive portfolio company shares as part of a portfolio company's general distribution or Third Security may buy or sell publicly traded securities. In these instances, Third Security may utilize a broker-dealer to effect these transactions.

Generally, Third Security selects broker-dealers through which to effect transactions on the basis of best execution. "Best execution" does not necessarily mean effecting transactions at the lowest possible commission rate, transaction costs and best price, but includes the consideration of a number of factors.

Third Security seeks to effect transactions at a price, commission and transaction cost (e.g., mark-up or mark-down) that provides the most favorable total cost or proceeds reasonably attainable under the circumstances. Third Security may consider various factors when selecting broker-dealers including, but not limited to, the nature of the portfolio transaction, the size of the transaction, the broker's trading expertise, reliability, responsiveness, reputation, execution, clearance, settlement, willingness to commit capital, access to a particular trading market, and security conditions (e.g., liquidity, volatility, etc.). Other factors that may be considered include whether the broker-dealer is also the client's custodian, whether the clients' custodian distributes custodial statements to Fund Investors and the experience of the broker-dealer in making distributions from venture capital funds. Generally, Third Security seeks to obtain best execution by effecting transactions with limit orders.

Third Security has discretion to determine, without obtaining prior consent from the Funds, the broker-dealer to execute transactions and the commission rates or commission equivalents charged for effecting transactions.

*Research and Other Soft Dollar Benefits*

Third Security does not, but in the future may, obtain research services or products with the Funds' commissions, which we refer to as "Soft Dollars." In the event that Third Security uses Soft Dollars to obtain products or services, clients whose Soft Dollars are used to pay for these products or services may not necessarily receive the direct benefit of this research service or product while clients who do not pay for these research services or products may receive the benefit. Further, in such event commission rates, mark-ups or mark-downs may be higher than might be otherwise available to execute the transaction.

Research services or products furnished by brokers may include written information and analyses concerning specific securities, companies or sectors, market, financial and economic studies and forecasts, statistics and pricing or appraisal services, and access to research analysts and company executives. Information received is in addition to and not in lieu of services required to be performed by Third Security and the firm's management fees are not reduced as a consequence of the receipt of such supplemental research information.

Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" to investment managers who use Soft Dollars generated by their advised accounts to obtain investment research and brokerage services from companies that provide lawful and appropriate assistance to the manager in the performance of investment decision making responsibilities. Third Security will not knowingly accept Soft Dollar services that fall outside the safe harbor of Section 28(e).



*Brokerage for Client Referrals*

Employees of Third Security occasionally speak at conferences and programs sponsored by brokerage firms, futures commission merchants or trading counterparties for investors interested in hedge funds and alternative investments. These conferences and programs can provide participating advisers with an introduction to potential investors. Third Security generally does not compensate brokers for providing access to “capital introduction” opportunities. However, when deciding which brokers to use among brokers that provide its clients with the same approximate quality of services and pricing, Third Security may take into account access to capital introduction opportunities and other services that such brokers offer, including, but not limited to, consulting services such as information technology consulting and business development and human resources advice.

*Directed Brokerage*

Third Security does not accept instructions to effect Fund transactions with certain broker-dealers.

*Aggregation and Allocation*

Generally, aggregation of the purchase and sale of securities for clients does not apply as investments are typically purchased specifically for one account. However, when circumstances require the aggregation of trades, Third Security will generally aggregate the purchase or sale of shares of the security and allocate the purchase or sale of such shares on a pro rata basis, with an average price and commission among the clients participating in the transaction based upon the number of shares intended to be purchased or sold in the aggregate. In the event of an aggregate purchase of bonds, a similar approach is taken with respect to the units. See Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

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**ITEM 13 – REVIEW OF ACCOUNTS***Account Reviews*

All client accounts are reviewed on a periodic basis by Third Security's finance and accounting team. On a weekly basis, client accounts are reviewed to ensure all account activity with respect to each client has been executed properly by the broker and settled properly by the custodian. On a monthly basis, Third Security's accounting and tax professionals review client accounts to ensure proper accounting and tax treatment.

*Investor Reports*

On a routine basis, but at least quarterly, Third Security's investment professionals monitor material activity of each portfolio company. In monitoring the activities of each portfolio company, Third Security Senior Managing and Managing Directors may perform some or all of the following: receive regular updates from management, including through representatives on the Boards of Directors of the portfolio companies, participate on company conference calls, attend investor presentations made by the company, and review press releases and other public filings. Third Security prepares and provides written reports quarterly, which we refer to as "Investor Reports," to Fund Investors, except for investors in the Insider Funds. The Investor Reports provide Fund Investors with information concerning the progress of each portfolio company held by a Fund. The Investor Reports generally include, among other matters, information concerning a Fund's investment activities and reports to Fund Investors material events affecting portfolio companies.

Financial information, primarily a summary balance sheet and summary statement of operations, for a Fund and each of its portfolio companies is generally included with each Investor Report, except for financial information for any public portfolio company whose information is available in the public domain. Each Fund Investor also receives a capital account reconciliation with the Investor Report.

Annually, each Fund Investor is provided with a written report including a copy of the relevant Fund's audited financial statements (or unaudited financial statements for any Fund for which such audit requirement has been waived in accordance with such Fund's LPA), Schedule K-1 income tax reporting form, and an audited financial statement for each portfolio company, except for any portfolio company that is (i) an early stage investment or (ii) a public company whose audited financial information is available in the public domain.

When an event or transaction affecting a portfolio company occurs that Third Security considers material, a special written report may be prepared discussing the event or transaction and will be sent to the limited partners invested in the Fund(s) affected by such event or transaction.

**ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

Third Security does not make client referrals to others, nor does Third Security compensate others for client referrals.

**ITEM 15 – CUSTODY**

Fund assets are physically held by a qualified custodian. Because Third Security or an affiliate serves as manager or general partner of each Fund, Third Security or such affiliate is deemed to have custody of these assets. Third Security reviews statements received from the Funds' and Insider Funds' qualified custodian against its records to ensure that assets are accurately reflected in the qualified custodian's statements.

Fund Investors and investors in the Insider Funds receive statements directly from the qualified custodian. Fund Investors and investors in the Insider Funds should carefully review custodian statements against transactions disclosed in the Investor Reports provided by Third Security. In the event there are material discrepancies, investors should contact Third Security's Chief Compliance Officer.

Third Security's policy is to be subject to a surprise examination of the Funds and Insider Funds as required by Rule 206(4)-2 under the Investment Advisers Act.

Upon final liquidation of a Fund, Third Security will obtain a final audit (income tax basis), unless such audit has been waived as permitted pursuant to the terms of a Fund's LPA, and distribute such financial statements to investors in the liquidated Fund promptly.

**ITEM 16 – INVESTMENT DISCRETION**

Third Security, or its affiliates, is granted the discretionary authority to make investments on behalf of the Funds.

Third Security invests on a discretionary basis for the Funds and does not tailor its investments to the individual needs of Fund Investors, nor may Fund Investors impose restrictions on Third Security's ability to invest in certain securities or types of securities except as such restrictions may be negotiated in connection with the formation of a Fund. Any such limitations will be included in the LPA that governs the operations of a Fund. Limitations typical of recent Funds are a requirement that the General Partner obtain (i) the approval of an advisory board consisting of individuals associated with unaffiliated limited partners with respect to conflicts of interest transactions and principal transactions; (ii) advisory board approval to allow the Fund to invest more than a certain limited percentage of the Fund in non-life-science investments; and (iii) advisory board approval to allow the Fund to invest more than a certain limited percentage of the Fund in a single portfolio company.

**ITEM 17 – VOTING CLIENT SECURITIES**

Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended, requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. Third Security has complete discretion concerning voting securities on behalf of the Funds. Because (i) the investments made by a Fund individually, or collectively with other Funds, may represent positions of control of portfolio companies or (ii) Third Security represents its Funds on the board of directors of a portfolio company, Third Security may be directly involved in establishing the agenda and matters to be voted upon by shareholders. Accordingly, in these situations, Third Security typically will vote with management. Third Security exercises its discretion with respect to the voting of proxies in a manner that is intended to serve the best interests of its affected clients, as determined by Third Security in its sole discretion.

Fund Investors may obtain a copy of Third Security's proxy voting policies and procedures, as well as relevant proxy voting records, upon written request to the Chief Compliance Officer.

**ITEM 18 – FINANCIAL INFORMATION**

Third Security is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.