

Exhibit 1

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
LIQUIDATION BASIS
YEAR ENDED DECEMBER 31, 2011

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statement of Net Assets - Liquidation Basis	2
Statement of Operations - Liquidation Basis	3
Statement of Changes in Net Assets - Liquidation Basis	4
Statement of Cash Flows - Liquidation Basis	5
Notes to Financial Statements - Liquidation Basis	6 - 16
Supplementary Information	
Independent Auditors' Report on Supplementary Information	17
Schedule I - Member's Capital Account	18



CITRINCOOPERMAN

Attest & Assurance | Tax Compliance & Research | Specialty & Consulting

INDEPENDENT AUDITORS' REPORT

To the Members
Beacon Associates LLC I

We have audited the accompanying statement of net assets - liquidation basis, of Beacon Associates LLC I (a limited liability company) (the "Company") as of December 31, 2011, and the related statements of operations - liquidation basis, changes in net assets - liquidation basis, and cash flows - liquidation basis, for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the Company's policy is to prepare its financial statements on the liquidation basis of accounting.

As described in Note 12 to the financial statements, the Company has not recorded all costs related to the liquidation of the Company, including certain litigation costs and clawback claims. In our opinion, these costs should be recorded in order to conform with accounting principles generally accepted in the United States of America. The effects on the financial statement of the preceding sentence is an understatement of liabilities, an overstatement of net assets in liquidation, and an overstatement of net increase in net assets in liquidation of approximately 4,134,000.

In our opinion, except for the effects of the matter described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, the statement of net assets - liquidation basis, of the Company as of December 31, 2011, and the results of its operations - liquidation basis, its changes in net assets - liquidation basis, and its cash flows - liquidation basis, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

March 8, 2013

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
STATEMENT OF NET ASSETS
LIQUIDATION BASIS
DECEMBER 31, 2011

Assets:

Investment in private investment funds, at fair value	\$ 223,433
Treasury bills, at fair value	20,200,000
Cash	8,191,266
Receivable from private investment funds	486,842
Receivable from affiliate	11,483
Prepaid legal expenses	<u>3,407,149</u>
Total assets	<u>32,520,173</u>

Liabilities:

Other liabilities	54,442
Withdrawal payable	43,627
Reserve for clawback claims	18,864,075
Reserve for liquidation costs	<u>3,555,322</u>
Total liabilities	<u>22,517,466</u>

Commitments and contingencies (Notes 11, 12, 13, 14 and 15)

NET ASSETS IN LIQUIDATION \$ 10,002,707

See accompanying notes to financial statements.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
STATEMENT OF OPERATIONS
LIQUIDATION BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Investment income:	
Interest income	\$ 32,075
Net realized and unrealized gain from investments	<u>109,543</u>
NET INCREASE IN NET ASSETS IN LIQUIDATION RESULTING FROM OPERATIONS	\$ <u>141,618</u>

See accompanying notes to financial statements.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
STATEMENT OF CHANGES IN NET ASSETS
LIQUIDATION BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Increase (decrease) in net assets in liquidation:	
Interest income	\$ 32,075
Net realized and unrealized gain on investments	<u>109,543</u>
Net increase in net assets in liquidation resulting from operations	141,618
Net assets in liquidation - beginning of year	<u>9,861,089</u>
NET ASSETS IN LIQUIDATION - END OF YEAR	<u>\$ 10,002,707</u>

See accompanying notes to financial statements.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
STATEMENT OF CASH FLOWS
LIQUIDATION BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating activities:	
Net increase in net assets in liquidation resulting from operations	\$ 141,618
Adjustments to reconcile net increase in net assets in liquidation resulting from operations to net cash provided by operating activities:	
Changes in assets and liabilities:	
Investment in private investment funds	6,785,274
Treasury bills	(9,615)
Receivable from private investment funds	359,567
Receivable from affiliate	65,550
Prepaid legal expenses	(7,606)
Other liabilities	(72,434)
Reserve for liquidation costs	<u>(1,216,501)</u>
Net cash provided by operating activities	<u>6,045,853</u>
Net increase in cash	6,045,853
Cash - beginning	<u>2,145,413</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 8,191,266</u>

See accompanying notes to financial statements.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1. ORGANIZATION

Beacon Associates LLC I (the "Company") is a New York limited liability company formed for the purpose of pooling its members' capital in order to have such capital invested through trading and investment strategies, both directly and indirectly through other private investment funds. Profits and losses are allocated to all members in proportion to their capital balances, except that Beacon Associates Management Corp. (the "Managing Member") is entitled to a 1% allocation of profits, subject to certain minor adjustments (the "Incentive fee") (see Note 6).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Liquidation Basis of Accounting

Under the liquidation basis of accounting, all assets are stated at their net realizable values and liabilities are stated at their estimated settlement amounts, which estimates will be periodically reviewed and adjusted if necessary. A statement of net assets - liquidation basis, a statement of operations - liquidation basis, a statement of changes in net assets - liquidation basis and a statement of cash flows - liquidation basis, are the principal financial statements presented under the liquidation basis of accounting. The valuation of assets at their net realizable value and liabilities at their anticipated settlement amounts represent estimates, based on facts and circumstances of net realizable values of assets and the costs associated with the dissolution of the Company. Actual values received from the sale of the Company's assets and the settlement of liabilities may differ materially from the amounts estimated.

Income Taxes

In accordance with federal income tax regulations, income taxes are the responsibility of the individual members. Consequently, no provision or liability for income taxes has been reflected in the accompanying financial statements.

The Company recognizes and measures its unrecognized tax benefits in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. Under that guidance, the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change. For the years ended December 31, 2011, no provision for unrecognized tax benefits has been recorded. The Company is no longer subject to income tax examinations by taxing authorities for the years before 2008.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments

The Company records its investment in non-affiliated limited partnerships at fair value, which represents the Company's share in the net assets of each respective limited partnership. Fair values for investment partnerships are determined utilizing net asset value information supplied by each individual investment fund, which includes realized and unrealized gains and losses on investments, as well as management, incentive and administration fees and all other income and expenses.

Investment Transactions and Related Income

The Company records its proportionate share of realized and unrealized appreciation on investments and the interest, dividends, and expenses, from its investment in the private investment funds as reported by the investee hedge funds.

In circumstances where the Company has notified the private investment fund of a withdrawal of funds from the investment at the end of the reporting period, such amounts are recorded as "receivable from private investment funds" in the accompanying statement of net assets in liquidation - at fair market value.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is accrued as earned.

Securities listed on a national exchange or traded over-the-counter are valued at their last sale price or last quoted bid price.

Estimated Costs of Liquidation

The preparation of financial statements in accordance with the liquidation basis of accounting requires the Company to record on the statement of net assets - liquidation basis, all estimated costs through the final liquidation date. Such costs include professional fees (tax, audit, administrative and legal) and costs related to the disposal of the Company's investment portfolio and are reflected as reserve for liquidation costs on the statement of net assets - liquidation basis. The estimated costs of liquidation may differ (by material amounts) from the costs that will be ultimately incurred by the Company in connection with the dissolution.

Management has assessed the reasonableness of the balance of the estimated costs of liquidation as of December 31, 2011, and has not fully recorded all estimated costs through the final liquidation date because management expects the recovery from the Beacon Allowed Claim to exceed these costs. (see Notes 12 and 15).

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Under the new standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events through March 8, 2013, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 3. LIQUIDATION OF THE COMPANY

Prior to December 11, 2008, a significant portion of the Company's assets were held in a custody account with Bernard L. Madoff Investment Securities, LLC ("BLMIS"). On December 11, 2008, management learned of the alleged fraud involving BLMIS. As a result of the loss incurred on its investments with BLMIS, on December 18, 2008, management informed the Company's investors of its decision to liquidate the fund and sent redemption notices to the Company's investment managers. In addition, the Company ceased accepting capital contributions. Accordingly, effective December 18, 2008, the Company has changed its basis of accounting from the going-concern basis to a liquidation basis and is in the process of winding down and liquidating the Company.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

- (a) *Market approach*: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- (b) *Cost approach*: Amount that would be required to replace an asset (replacement cost); and
- (c) *Income approach*: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring basis, categorized by GAAP's valuation hierarchy as of December 31, 2011:

Description	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at December 31, 2011	Valuation Technique
Treasury bills	\$20,200,000	\$ -	\$ -	\$20,200,000	(a)
Investment in private investment funds	-	-	223,433	223,433	(c)
Total	\$20,200,000	\$ -	\$ 223,433	\$20,423,433	

During the year ended December 31, 2011, there were no transfers between levels of the fair value hierarchy.

The recorded values of treasury bills are determined by a computerized pricing service.

The Company's investment in private investment funds represents the net asset value of the Company's proportional share of the private investment funds, as determined by the management of the private investment funds. The Company's proportionate share of dividends, interest, expenses, realized and unrealized gains and losses on securities transactions and fees of the private investment funds are reflected in the accompanying statement of operation - liquidation basis.

The following is a roll-forward (including change in fair value) classified by the Company within level 3 of the fair value hierarchy during the year ended December 31, 2011:

Fair value - beginning of year	\$ 7,008,707
Net realized and unrealized gains included in earnings	69,579
Sold during the period	<u>(6,854,853)</u>
Fair value - end of year	<u>\$ 223,433</u>

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 5. CAPITAL CONTRIBUTIONS, WITHDRAWALS AND DISTRIBUTIONS

In accordance with the Company's operating agreement (the "Operating Agreement"), interest of the Company are issued in two series, Series I and Series II. Each series of ownership is invested in a separate investment portfolio. Otherwise, each series has equal relative rights, powers and duties, pursuant to the terms of the Operating Agreement. The Series I and Series II units participate in all Company investments on a pro-rata basis, except that only the Series I units are permitted to engage in any investment activity involving futures contracts and options thereon. As of December 31, 2011, \$9,835,455 and \$167,252 of the Company's net assets were owned by the Series I and Series II members, respectively.

As noted in Note 3, the Company ceased accepting capital contributions in December 2008, and is in the process of liquidation. In addition, the Managing Member is currently working with investors and legal authorities to distribute the remaining assets of the Company (see Notes 12-15).

NOTE 6. ALLOCATION OF PROFITS, NET LOSSES AND EXPENSES

Net profits and net losses are allocated to the members in the proportion that their capital account bears to all other capital accounts of their series as of the beginning of the year, adjusted for capital contributions and withdrawals during the year. In accordance with the Operating Agreement, 1% of the net profits of each series for the year is allocated to the Managing Member. Notwithstanding the Company's historical policy per its the Operating Agreement, the Managing Member decided to forego its right to 1% of the net profits by virtue of the liquidation basis adopted on December 18, 2008.

The Company is responsible for (i) transaction costs and investment-related expenses incurred in connection with its trading activities, including brokerage, broker-dealer markups, clearing, margin interest, and custodial expenses (both direct and indirect), (ii) routine legal, accounting, auditing, tax preparation, and related fees and expenses, (iii) expenses associated with the continued offering of interests, (iv) extraordinary expenses, (as defined) (e.g., litigation costs and indemnification obligations), if any, (v) the Company's proportionate share of any investment pool in which it invests that are not otherwise enumerated, including advisory fees to the investment pool's managers, (vi) the administrative fee, and (vii) the Managing Member's fees and any other adjustments as determined by the Managing Member.

The Managing Member's fees are accrued monthly for services rendered in an amount equal to .125% of the capital account balance of each member, less any amounts attributable to the Managing Member and any other adjustments as determined by the Managing Member. As of December 31, 2011, the amount due the Managing Member was \$2,806,801. As part of a settlement agreement, (see Note 15) the Managing Member has forfeited the management fee payable and their rights to future management fee amounts. Accordingly, as of December 31, 2011, the management fee payable of \$2,806,801 has been reclassified into the reserve for liquidation costs in the accompanying statement of net assets - liquidation basis.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 6. ALLOCATION OF PROFITS, NET LOSSES AND EXPENSES
(CONTINUED)

The Company also pays for direct and indirect overhead and operating expenses incurred in the Managing Member's operation of the Company in an amount not to exceed 1% per annum of the Company's net worth, as adjusted for withdrawals, new admissions or additional contributions by members. The Managing Member is responsible for all of its overhead and operating costs in excess of 1%. Management's position is that the reimbursement of direct and indirect overhead and operating expenses is not applicable in light of the fact that the Company is in liquidation and is not operating in its normal course of business.

NOTE 7. CONDENSED SCHEDULE OF INVESTMENTS

The condensed schedule of investments in private investment funds (the "Investments") as of December 31, 2011, is as follows:

<u>Investment Strategy</u>	<u>% of Net Assets</u>	<u>Net Asset Value at December 31, 2011</u>	<u>Unfunded Commitments</u>	<u>Redemptions Permitted</u>
Special situations:				
Longacre (LQP) SPV II, LLC (a)	1.47	147,382	none	Quarterly
King Street Capital, L.P. (b)	0.76	76,051	none	Quarterly
Investments, at net asset value	2.23	\$ 223,433		

- (a) This is a special purpose vehicle ("SPV") which represents interest in certain less-liquid assets of Longacre Capital Partners (QP), L.P. ("LPQ"). The SPV balance also represents withdrawal proceeds removed from LPQ which are presently managed by Longacre Fund Management, LLC.
- (b) This fund is global long/short credit and event-driven. Primarily invests in securities of distressed and out-of-favor companies. It may include bankruptcies, restructuring and liquidations.

NOTE 8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company employs trading and investment strategies indirectly through other private investment funds, which trade in financial instruments in connection with their normal proprietary activities. The Company and the private investment funds may fully or partially mitigate the potential off-balance sheet risk associated with such activities by reason of their trading strategies and through the selection of suitable counterparties.

The Company and the investment funds in which the Company invests may utilize option contracts. These contracts are used primarily for managing the risk associated with a portfolio of investments, as well as for trading purposes. The Company's risk is embedded in its own investment portfolio and its investments with each of the investment funds.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 9. FINANCIAL HIGHLIGHTS

The Company's ratio of net income to average net assets was 1.43% for the year ended December 31, 2011.

NOTE 10. LEASE OBLIGATION

Effective July 1, 2002, the Company entered into an assignment and assumption of lease agreement with a related party under which the Company leases office space from the unrelated landlord of the premises and remits rental payments directly to the landlord. The agreement extends to March 31, 2012, at a present annual rate of \$45,000, including certain utilities, with periodic increases over the term of the agreement. However, the Company's office space can be assigned back to the related party, with no further obligation by the Company, upon twelve months' written notice by either party. Effective December 31, 2010, the lease agreement for the office space was assigned back to the related party. The Company continues to occupy the space on a month to month basis. Rent and utilities charged to net assets - liquidation basis, aggregated \$61,237 for the year ended December 31, 2011.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

In 2009, the Company and other defendants (the "Settling Parties") were named in multiple lawsuits related to losses from assets held with BLMIS. On or about November 13, 2012, all plaintiffs of open law suits entered into an agreement (the "Agreement") to settle all asserted claims between the plaintiffs and the Settling Parties (see Note 15). Upon the effective date of the Agreement and approval of the court, the Settling Parties will be released fully, finally and completely from all claims and issues arising between them.

On or about December 8, 2010, Irving H. Picard, in his capacity as the Trustee for the liquidation proceedings under the Securities Investor Protection Act of 1970 ("SIPA"), as amended (the "Trustee") commenced a proceeding (the "Adversary Proceeding") against the Company, the Managing Member, other parties related to the Company and other third parties (the "Settling Defendants"). In the Adversary Proceeding, the Trustee asserted a number of claims against the Settling Defendants. On or about October 12, 2012, the Settling Defendants entered into a settlement agreement with the Trustee (the "Settlement Agreement") (see Note 15).

Legal Costs of Managing Member

During 2009, a lawsuit was filed by certain members of the Company against the Managing Member alleging among other things that the Managing Member and its members were not entitled to be reimbursed by the Company for legal fees incurred for the defense of the Managing Member and its members. As a result of the legal suit, effective February 1, 2010, payment for these costs by the Company was suspended. Prior to the suspension of these payments, the Company had reimbursed the Managing Member approximately \$956,000, for costs incurred by the Managing Member, its members, and their affiliates. Part of these fees were incurred in connection with the defense of the Managing Member as it relates to the BLMIS fraud and lawsuits described above under "Litigation" and a significant portion of these fees were

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal Costs of Managing Member (Continued)

expended on behalf of the Company in determining the appropriate method of calculating members' capital accounts as well as in connection with an investigation by the New York State Attorney General. This investigation culminated in a lawsuit against Ivy Asset Management LLC, and its parent, Bank of New York Mellon and certain other Settling Defendants by the New York State Attorney General. This lawsuit was included in the District Court Actions and was settled as part of the Agreement. In addition, the claims made in 2009 regarding the legal fees incurred by the Company for the defense of the Managing Member and its members, were settled and released as part of the Agreement.

Prepaid Legal Expenses

Amounts advanced to attorneys handling matters with respect to the Managing Member and/or its members amounted to approximately \$4,209,000 in 2009 and 2008. No additional amounts were advanced in fiscal years 2011 or 2010. At December 31, 2011, \$3,290,100 remained in legal escrow accounts established by such attorneys with respect to such matters and is included in "Prepaid legal expenses" in the accompanying statement of net assets - liquidation basis at December 31, 2011. Subsequent to December 31, 2011, the balance of \$3,290,100 as stated above has been returned to the Company by the attorneys.

In fiscal 2009, the Company also advanced \$467,500 to a legal escrow account for expected legal expenses of the Company. There were no such advances made to the legal escrow in fiscal 2011 and 2010. At December 31, 2011, \$117,049 remained in the escrow account and is included in the accompanying statement of net assets - liquidation basis under the caption "Prepaid legal expenses."

Securities Investor Protection Act ("SIPA") Claim

On or about April 3, 2009, the Company filed a customer claim ("Customer Claim") with the Trustee for losses incurred related to its investment in BLMIS. The Customer Claim represented \$163,474,742 was invested and \$25,150,000 was withdrawn from BLMIS during the time the Company was making its investments, resulting in a net loss of \$138,324,742.

SIPA Allowed Claim

In October 2012, the Company signed the Settlement Agreement, which granted the Company an allowed SIPA claim of \$159,867,925 (the "Beacon Allowed Claim"). The Beacon Allowed Claim gives the Company the right to receive a maximum amount of \$159,867,925 from the Trustee, after payment of the clawback claim of \$19,766,425 (see Note 12). The actual amount to be received by the Company will depend on the amount the Trustee is able to recover in the Madoff bankruptcy proceedings (see Note 15).

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 12. RESERVE FOR LIQUIDATION COSTS AND CLAWBACK CLAIMS

Reserve for Liquidation Costs

As explained in Note 3, on December 18, 2008, management informed the Company's investors of its decision to liquidate the fund, and the Company changed its basis of accounting from the going-concern basis to a liquidation basis. In December 2008, the Company established an accrual for estimated costs to liquidate of \$11,201,464 ("Reserve for Liquidation Costs") for ongoing administrative expenses, legal, tax and auditing fees. The Reserve for Liquidation Costs is \$3,555,322 as stated in "Reserve for liquidation costs" in the accompanying statement of net assets - liquidation basis at December 31, 2011. As of December 31, 2011, management estimates the remaining costs of liquidation to be approximately \$6,787,000 for ongoing administrative expenses, legal, tax and auditing fees.

Reserve for Clawback Claims

On May 13, 2010, the Company entered into a "Standstill Agreement" with the Trustee for the liquidation of BLMIS under SIPA. The Trustee sought recovery from the Company, of all monies the Company had withdrawn from its account with BLMIS (the "Clawback Claims"). In accordance with the Standstill Agreement, the Company segregated \$20,000,000 into a separate account, which could not be withdrawn, distributed or otherwise depleted without the prior written notice and agreement of the Trustee. In addition, in 2010, the Trustee made a claim for an additional \$5,150,000 in Clawback Claims from the Company. As a result, during 2010, the Company recorded a liability of \$18,864,075 (75% of the maximum potential "expense" of \$25,150,000), in the statement of net assets - liquidation basis.

In accordance with the Settlement Agreement dated October 12, 2012, the Company is required to pay the Trustee \$19,766,425 related to the Clawback Claims. This amount of 19,766,425, which represents part of the settlement wherein the Company's enhanced claims of \$159,867,925 were allowed, was paid to the Trustee on December, 2012 (see Notes 11 and 15).

Estimated Costs of Liquidation

The Company has not adjusted its Reserves for Liquidation Costs or Clawback Claims as of December 31, 2011, because management expects the recovery from the Beacon Allowed Claim to exceed these costs. As the amount and timing of this recovery cannot be clearly determined at this point in time, no amounts have been recorded in the financial statements related to the Beacon Allowed Claim (see Notes 11 and 15).

The preparation of financial statements in accordance with the liquidation basis of accounting requires the Company to record on the statement of net assets - liquidation basis, all estimated costs to liquidate the Company. If the Company had fully provided for these costs, net assets in liquidation would be decreased by approximately \$4,134,000 and the net increase in net assets in liquidation resulting from operations would be decreased by \$4,134,000 during the year ended December 31, 2011.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 13. CAPITAL DISTRIBUTION

On June 30, 2010, the United States District Court for the Southern District of New York (the "Court") ruled that the Company must distribute the then remaining assets of the Company to its investors using the "valuation method," that is, based on each member's capital account balance as of December 11, 2008, as a percentage of the Company's assets after the write-downs for the BLMIS ponzi scheme losses. In addition, the Court ruled that the Company is ordered to maintain, and not distribute, (1) the prepaid legal expenses, (2) the Clawback Claims, and (3) any money that would otherwise be distributed to the Managing Member. During fiscal 2010, the Company made distributions to investors totaling \$99,840,009, in accordance with the court orders mentioned above. No distributions were made in fiscal 2011.

NOTE 14. RELATED PARTY TRANSACTIONS

The Operating Agreement provides that the Managing Member shall receive monthly, as a basic management fee, .125% of the Company's net worth (as defined) at the end of each month. For the year ended December 31, 2011, the Managing Member waived its rights to the Managing Member fees. As part of the Settlement Agreement (see Note 15), the Managing Member forfeited the management fee payable and their rights to future management fees. In addition, the Managing Member was entitled to an incentive fee. As of the end of fiscal 2009, the Managing Member decided to forego its right to the Incentive fee as a result of the decision to liquidate the Company.

As of December 31, 2011, the capital account balances of the Managing Member and parties related to the Managing Member totaled \$33,508.

NOTE 15. SUBSEQUENT EVENTS

As discussed in Note 11, on or about October 12, 2012, the Company, along with the other Settling Defendants, entered into the Settlement Agreement with the Trustee. The Settlement Agreement became effective in December 2012, upon the approval by the Bankruptcy Court, and on December 20, 2012, the closing took place ("the "Closing").

At the Closing, as required by the Settlement Agreement, the Company made payments to the Trustee of \$19,766,425, related to Clawback Claims (see Note 11). In addition, the Company received \$61,002,403 or 38.16% of the Beacon Allowed Claim, which represents the Company's pro-rata distribution of the Trustee's initial and second allocation of funds, as entered in the SIPA proceedings dated July 12, 2011 and August 22, 2012, respectively. At the Closing, the Company also received \$500,000 from the Securities Investor Protection Corporation ("SIPC") under Section 9 of SIPA. The Company will recognize these transactions in the fiscal year that the funds are received. Any additional amounts to be received will depend on the amount the Trustee is able to recover in the Madoff bankruptcy proceedings.

BEACON ASSOCIATES LLC I
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 15. SUBSEQUENT EVENTS (CONTINUED)

In addition, after extensive negotiations, on November 13, 2012, an agreement was entered into by the settling plaintiffs and the Settling Parties. A satisfactory monetary recovery was agreed upon which constituted a full and complete resolution and release of all claims and issues arising between them ("Released Claims"). Included in the Released Claims is the aforementioned lawsuit regarding legal fees paid by the Company for the defense of the Managing Member (See Note 11). The estimated monetary reward to be allocated to the Company's investors is approximately \$100,000,000. Upon approval by the Court of the Agreement, these funds will be allocated and distributed directly to the Company's investors by an independent administrator. As stated in the Agreement, the allocation methodology will be based on the individual investor's net equity.

SUPPLEMENTARY INFORMATION



CITRINCOOPERMAN

Attest & Assurance | Tax Compliance & Research | Specialty & Consulting

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Members
Beacon Associates LLC I

We have audited the financial statements of Beacon Associates LLC I (a limited liability company) (the "Company") for the year ended December 31, 2011, and our report thereon dated March 8, 2013, which expressed a qualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained in Schedule I on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the information contained in Schedule I of the matter described in paragraph 4 of our report on page 1, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

March 8, 2013